| Summary of Comments on EIOPA-CP-12/003: Draft Technical Specifications QIS of EIOPA's Advice on the Review of the IORP Directive: Consultation Paper<br><br>Q16 - Q18 | EIOPA-BOS-12-086<br><br>2 October 2012 |
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EIOPA would like to thank OPSG; AbA; AEIP; Aon Hewitt; Association of British Insurers; Association of Consulting Actuaries UK; Association of German Pfandbrief Banks; Balfour Beatty plc; Barnett Waddingham LLP; BASF SE; Bayer AG; Bayerischer Industrieverband Steine und Erden e.V.; BDA; BdS – Bundesverband der Systemgastronomie e.V.; BVPI-ABIP; BlackRock; Bosch Pensionsfonds AG; Bosch-Group; British Airways Pension Investment Management; BT Group plc; BTPS Management Ltd; Italian organisations of actuaries; Deloitte; Deutsche Post DHL; Dexia Asset Management; EPRA, INREV, BPF, ZIA, IPF, Fastighetsagarna, AREF, RICS; EAPSPI; EFRP; Federation of the Dutch Pension Funds; Financial Reporting Council; German Institute of Pension Actuaries; GESAMTMETALL; Groupe Consultatif Actuariel Européen; Hundred Group of Finance Directors; IBM Deutschland Pensionsfonds AG; Institute and Faculty of Actuaries; Insurance Europe; Investment and life Assurance Group Ltd; KPMG LLP (UK); Mercer Ltd; National Association of Pension Funds (NAPF); Pension Protection Fund, UK; Pensions-Sicherungs-Verein VVaG; Punter Southall; Railways Pension Trustee Company Limited (RPTCL); RWE Pensionsfonds AG; Tesco Plc; Towers Watson B.V.; Towers Watson GmbH; Towers Watson UK; Trades Union Congress; Universities Superannuation Scheme Limited; UVB; vbw; VhU; and Zusatzversorgungskasse des Baugewerbes AG.

The numbering of the paragraphs refers to Consultation Paper No. EIOPA-CP-12/003

| No. | Name | Reference | Comment | Resolution |
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| 1. | OPSG | Q16. | It seems as if a significant part of the calculation will be done by the spread sheet to be supplied by EIOPA, so that understanding all of the formulae may not be a requirement, as the correct answer should emerge if the right data is input. This implies that the QIS can be performed by IORPs.<br><br>However, it is still very questionable if IORPs will understand | Noted |

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| | | | what they will be doing and will have a reliable outcome to interpret. In some cases, simplifications are suggested and will probably be used where it seems reasonable to do so. For some Member States, certain elements will be irrelevant. | |
| 2. | aba Arbeitsgemeinschaft für betriebliche Altersver | Q16. | The description of the SCR will not be sufficiently clear and understandable for smaller IORPs, who will not participate in the QIS as a result.<br><br>It seems as if a significant part of the calculation will be done by a spreadsheet to be supplied by EIOPA. It is questionable whether IORPs will have the required input data let alone understand the output to the degree necessary to check plausibility and interpret the results.<br><br>It is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level given that the results will be non-linear.<br><br>It is not clear which assets would fall under the definition of "intangible assets". | Noted<br><br>Noted<br><br>Explanation added<br><br>Noted |
| 3. | AEIP – The European Association of Paritarian Inst | Q16. | No, AEIP does not believe that the description of the SCR is sufficiently clear and understandable, especially to small IORPs.<br><br>The SCR concept and calculations are way too complex and burdensome to be implemented by small IORPs. | Noted |

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| | | | It is assumed that the calculations required to valuate the SCR will be performed by the spreadsheet EIOPA is currently preparing and that will be provided within the QIS package.<br><br>While this would enable IORPs to calculate their SCR, we question whether the proposed spreadsheet will enable participating IORPs to understand and appreciate the calculation behind the results they will receive.<br><br>Finally, we would have preferred the spreadsheet to be provided at this stage. | Noted<br><br>Noted |
| 6. | Aon Hewitt | Q16. | No. The description of the SCR and MCR provided does not appear to be sufficient to carry out calculations without making a significant number of assumptions about EIOPA's intentions. The proposed approach outlined appears to be extremely complex .<br><br>If EIOPA insist on requiring detailed SCR calculations, we suggest that simplified approaches are taken to calculate the impact of loss absorbing mechanisms, intangible asset risk, concentration risk and counterparty default risk. Please see our detailed responses to SCR.2.17, SCR, 4.1, SCR.5.109, and SCR.6.2. | Noted<br><br>Noted, see introduction on proportionality |

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| 7. | Association of British Insurers | Q16. | A first impression is that the general principles seem a "copy and paste" of Solvency II principles, which the European Commission has said is not the intention of the IORP review.<br><br>It is difficult to assess whether the principles would be appropriate for IORPs since it is not defined what would be a result of breach of the SCR and the MCR. | Noted<br><br>Noted |
| 8. | Association of Consulting Actuaries UK | Q16. | We do not believe that the description of the QIS is clear and understandable for most IORPs. The description of the SCR appears to have been largely copied from Solvency II and QIS5 for insurance companies; insufficient effort has been made to tailor the QIS to pension scheme particulars.<br><br>The QIS contains significant amounts of insurance jargon (e.g. 'policyholder' instead of 'member', lapse rates etc..) and concepts which are typically not appropriate for pension schemes (e.g. loss arising to an IORP from deterioration of the public image of the IORP).<br><br>As many IORPs in the UK are very small, we believe that the individual SCR calculations would be disproportionately expensive for them and that the only economicaly efficient approach would be to allow for professional judgement within a broad framework.<br><br>Note also that further clarity on the treatment of "future | Noted<br><br>Noted<br><br>Noted<br><br>Noted |

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| | | | management options" is required. Finally, it is not clear how the sponsor default risk will be calculated for multi-employer schemes. | |
| 9. | Barnett Waddingham LLP | Q16. | Much of this language, and the techniques in this section, appear to be cut-and-paste from Solvency II. As such, and being full of insurance jargon, it will be new to IORPs and EIOPA should revisit this section to couch it in terms more appropriate to pension schemes.<br><br>We believe that while the calculations can be performed, the results of such submissions will be meaningless – particularly where based on aggregate data. | Noted<br><br>Noted |
| 10. | BASF SE | Q16. | Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?<br><br>We are very concerned that the SCR proposals are directly copied from Solvency II technical specifications. Furthermore, as described above we think that risk-based capital requirements according to Solvency II do not fit the business model of IORPs as they rely on short-term market based parameters and are therefore volatile as well as pro-cyclical. This will endanger the stability and long-term sustainability of IORPs. | Noted |
| 11. | Bayer AG | Q16. | The description of the SCR is clear and understandable for us, whereas we feel, that it will turn out, that the majority of IORPs, especially smaller ones, will not be able to perform the concrete | Noted |

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| | | | calculations without undue burden and costs (see above). | |
| 12. | Bayerischer Industrieverband Steine und Erden e.V. | Q16. | The description of the SCR will not be sufficiently clear and understandable for smaller IORPs, who will not participate in the QIS.<br><br>It seems as if a significant part of the calculation will be done by a spreadsheet to be supplied by EIOPA. It is questionable whether IORPs will have the required input data let alone understand the output to the degree necessary to check plausibility and interpret the results. It is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level given that the results will be non-linear. It is not clear which assets would fall under the definition of "intangible assets". | Noted<br><br>Noted<br><br>Noted |
| 13. | BDA Bundesvereinigung der Deutschen Arbeitgeberver | Q16. | The description of the SCR will not be sufficiently clear and understandable for smaller IORPs, who will not participate in the QIS.<br><br>It seems as if a significant part of the calculation will be done by a spreadsheet to be supplied by EIOPA. It is questionable whether IORPs will have the required input data let alone understand the output to the degree necessary to check plausibility and interpret the results. It is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level given that the results will be non-linear. It is not clear which assets would fall under the definition of "intangible assets". | Noted<br><br>Noted<br><br>Noted |

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| 14. | BdS – Bundesverband der Systemgastronomie e.V. | Q16. | The description of the SCR will not be sufficiently clear and understandable for smaller IORPs, who will not participate in the QIS.<br><br>It seems as if a significant part of the calculation will be done by a spreadsheet to be supplied by EIOPA. It is questionable whether IORPs will have the required input data let alone understand the output to the degree necessary to check plausibility and interpret the results. It is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level given that the results will be non-linear. It is not clear which assets would fall under the definition of "intangible assets". | Noted<br><br>Noted<br><br>Noted |
| 15. | Belgian Association of Pension Institutions (BVPI- | Q16. | No.<br><br>We strongly disagree with the principle of the calculation of the SCR. It is too complex and too burdensome.<br><br>Furthermore a lot of calculations are imposed although in the Belgian context those risks are not born by the IORP. Complex SCR calculations while loss absorbing capacities will mostly neutralize them. The costs to make all these type of calculation are not in proportion to size of the Belgian IORPs. This part seems to be a copy paste of Solvency II and does not take into account the specificities of an IORP (long duration of the | Noted<br><br>Noted<br><br>Noted, but disagree that an SCR based on the historical volatility of the funding ratio |

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| | | | liabilities). More simplifications are needed e.g. for the purpose of this QIS an SCR based on the historical volatility of the funding ratio.<br><br>Next to our disagreement with the SCR we consider as stated earlier the calculation of sponsor support in the HBS as extremely costly and burdensome. On top the iterative approach on the loss absorbing elements in the SCR calculation ask for a more pragmatic and simplified approach. The elements about the sponsor convenant and security mechanisms are understudied/underanalysed. | would give enough information for EIOPA in the impact assessment.<br><br>Noted<br><br>Noted |
| 16. | BlackRock | Q16. | Please see our General Comment above. | |
| 17. | British Airways Pension Investment Management Limi | Q16. | Although the description is clear, it is just not a very relevant one when it comes to private equity investments. | Noted |
| 18. | BT Group plc | Q16. | Do stakeholders believe that the description of the SCR in Chapter 3 is<br>sufficiently clear and understandable to enable participants in the QIS to<br>perform the necessary calculations?<br><br>It is unlikely that the Pensions Regulator has sufficient data to provide robust results in this area. The further adjustments made by EIOPA to determine other confidence levels will create further inaccuracy and it is questionable whether these results can be relied upon. | Noted |

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| 19. | BTPS Management Ltd | Q16. | We are unsure how to approach answering this question as we do not know how the SCR will be used and what it represents. Without this clarity we see little benefit or use for the SCR and the detailed calculations which are required in order to develop it.<br><br>We believe that EIOPA needs to accept that the SCR is of at best marginal relevance for many IORPs. Given that many defined benefit IORPs are derisking with many having the intended aim of a buyout, and that the funding level required for this is below that expected under the SCR, it seems likely that many IORPs will never reach the funding level sought as they will agree a buy-out before this occurs. It thus seems to us that including a SCR in the HBS will add no value.<br><br>Regardless of its relevance, the approach to the SCR seems too complicated and makes the assumption that IORPs adopt a mainly fixed-income based asset mix, an approach which may have significant implications for current pension scheme asset allocations – with the potential for this to impact the scope for investment in European growth, as highlighted above under Question 14. One specific issue highlights problems with the overall calculation: a non-zero SCR arising from a fully derisked pension scheme with a sponsor guarantee seems simply incorrect. | Noted<br><br>Noted<br><br>Noted<br><br>Noted |

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| | | | From our specific perspective, we use more bespoke calculations to develop our own assessment of the investment risks faced in our portfolio. Recognising the limitations of a VaR based approach, we supplement this measure of risk by looking at the impact on the scheme's funding position of historical stress tests and forward-looking scenario analyses.<br><br>We are confused as to how EIOPA will be able to calculate meaningfully the 97.5% and 95% security levels based on calculations of 99.5% levels, given that the results are not linear. | Noted, see added explanation |
| 20. | Deloitte Total Reward and Benefits Limited (UK) | Q16. | All the IORP sponsors we have spoken to have commented that the use of complex formulae and new statistical and mathematical concepts means that detailed advice is required on how to interpret the consultation document and the possible impact. IORPs and their sponsors will therefore require a significant amount of time to ensure the detail is understood. Equally, we expect that any simplifications would also require time to consider and a number of iterations may be required to ensure any simplifications are appropriate.<br><br>This is likely to be the area of the QIS which requires the greatest time and cost to complete and where the available data is likely to be insufficient to enable accurate calculation, especially in the case of smaller IORPs. | Noted<br><br>Noted |
| 21. | Deutsche Post DHL | Q16. | No, too complex and detailed. | Noted |

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| 22. | Dexia Asset Management | Q16. | Q16. Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?<br><br>We think a review of the purpose and use of the SCR should be performed before calculations are made. SCR coverage imply sponsors have to finance safety buffers and not only pay pensions. The issue of the claim on this buffer should be treated: is it the IORP or the sponsor who have a claim on this buffer?<br><br>a. EIOPA assumes that the sponsor can recover the surplus (in the case of deterministic valuation at least), but in this case any surplus of assets against level A TP is a liability for the IORP. Thus what will cover safety buffers?<br><br>b. If it were the IORP, it would mean that the sponsor is not longer committed to only pay pensions but rather to capitalize an insurance company. If technical provisions are accurately estimated, the sponsor is paying too much for the pensions. Anyhow, it will cost much more than most sponsors are able or willing to pay and go against the objective of promoting second pillar pensions in Europe.<br><br>We believe the SCR calculations are too complex even though well detailed. Most of IORPs across Europe are not used to Solvency II like exercises. The IORPs who could be able to run these studies are only those with a sufficient financial surface which is likely to provide a wrong image of the actual IORPs landscape. | Noted<br><br>Noted<br><br>Noted<br><br>Noted |

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| 23. | European Association of Public Sector Pension Inst | Q16. | Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and un-derstandable to enable participants in the QIS to perform the necessary calculations?<br><br>EAPSPI finds the structure of the SCR section clear and understandable only for qualified staff. Many IORPs will be overwhelmed by it. Here again, EAPSPI doubts whether the final QIS will reach a representative number of IORPs across Europe and in particular, small IORPs with limited capacities. | Noted |
| 24. | European Federation for Retirement Provision (EFRP | Q16. | Q16. Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?<br><br>General comment<br>The SCR proposals appear to be directly copied from Solvency II.<br><br>Some EFRP Members strongly disagree with the concept of the SCR itself.<br><br>In the UK, the SCR is irrelevant for buy-outs of IORPs by | Noted<br><br>Noted<br><br>Noted |

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| | | | insurance companies since the estimated SCR value will be higher than the estimated buy-out value. IORPs must know the market value of the buy-out through a market consistent valuation.<br><br>Under Belgian Social and Labour Law, the sponsor always carries the final risk, so the IORP itself almost never bears any risk.<br><br>Performing the SCR calculation<br><br>According to our Members, it appears possible for IORPs to perform the necessary calculations. A significant part of the calculation will be done by the spread sheet to be supplied by EIOPA, so that understanding all of the formulae may not be a requirement, since the correct answer should emerge if the right data is put in. It is questionable whether IORPs will have the required input data let alone understand the output to the degree necessary to check plausibility and interpret the results.<br><br>The technical specifications should contain more guidance, especially the way in which the loss-absorbing capacity of adjustment mechanisms and security mechanisms in the calculation of the SCR should be interpreted.<br><br>Some elements are still unclear:<br><br>☐ How the sponsor default risk should be calculated for | Noted<br><br>Noted<br><br>Noted |

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| | | | multi-employer funds, undertakings of a multinationals and non-for-profit employers;<br>☐ Which assets would fall under the definition of "intangible assets";it is unclear how to deal with expenses;<br>☐ The definitions to determine in which SCR category a certain asset belong: for example, it is not clear how listed real estate should be treated. | |
| 25. | Federation of the Dutch Pension Funds | Q16. | For IORPs, it seems to be possible to perform the necessary calculations. A significant part of the calculation will be done using the spread sheet that is to be supplied by EIOPA. Thus, understanding all the formulas may not be necessary (these will be in the spread sheet), as the correct answer should emerge if the right data are input. This implies that the QIS can be performed by IORPs.<br><br>However, it is questionable whether the outcome of the calculation is also good and understandable for IORPs and could be interpreted in the right way (completing a spread sheet does not mean that the calculation is understood).<br><br>Especially the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms in the calculation of the SCR should be interpreted needs more guidance in the technical specifications. Furthermore, some elements are still insufficient: it is unclear how the sponsor default risk should be calculated for multi-employer plans. | Noted<br><br>Noted<br><br>Noted |
| 26. | Financial Reporting Council | Q16. | We consider that the proposed SCR construction is more | Noted, see introduction |

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| | – staff response | | complex than is necessary. For example requiring asset data on a security by security basis adds to the work required to calculate the SCR but is unlikely to significantly change the total SCR.<br><br>Worked examples would help participants complete the calculations accurately. | on proportionality<br><br>Noted |
| 27. | German Institute of Pension Actuaries | Q16. | The stress scenarios are the same as for life (re)insurers and therefore technically understandable only for actuarial specialists in this field. The approach is extremely hard to handle in particular for smaller IORPs. We expect that the costs will be not appropriate and this circumstance will reduce the number of participants so that the information value is questionable. | Noted |
| 28. | GESAMTMETALL - Federation of German employer | Q16. | The description of the SCR will not be sufficiently clear and understandable for smaller IORPs, who will not participate in the QIS.<br><br>It seems as if a significant part of the calculation will be done by a spreadsheet to be supplied by EIOPA. It is questionable whether IORPs will have the required input data let alone understand the output to the degree necessary to check plausibility and interpret the results. It is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level given that the results will be non-linear. It is not clear which assets would fall under the definition of "intangible assets". | Noted<br><br>Noted<br><br>Noted |

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| 29. | Groupe Consultatif Actuariel Européen | Q16. | Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?<br><br>We think that it would be helpful for the QIS to explain those parts of the computation that have been lifted from the corresponding Solvency II (insurance) series of QIS and those that are new to this (IORP) QIS.<br><br>Some of the sections are difficult to follow and the calculations are not very clear (e.g. in section SCR 2.15 to 2.27). Not all variables are properly defined. | Noted<br><br>Noted, and sections revised |
| 30. | Hundred Group of Finance Directors | Q16. | Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?<br><br>Very few pension schemes or their sponsoring employers (other than those already familiar with Solvency II as participants in the insurance industry) will be able to understand this consultation.<br><br>It is also entirely unclear what role the SCR and MCR will play in the regulatory framework. | Noted<br><br>Noted |
| 31. | IBM Deutschland | Q16. | The description of the SCR will not be sufficiently clear and | Noted |

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| | Pensionsfonds AG | | understandable for smaller IORPs, who will not participate in the QIS as a result.<br><br>It seems as if a significant part of the calculation will be done by a spreadsheet to be supplied by EIOPA. It is questionable whether IORPs will have the required input data let alone understand the output to the degree necessary to check plausibility and interpret the results.<br><br>It is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level given that the results will be non-linear.<br><br>It is not clear which assets would fall under the definition of "intangible assets". | Noted<br><br>Noted, see added explanation<br><br>Noted |
| 32. | Institute and Faculty of Actuaries | Q16. | Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?<br>We consider that rather less information would be more appropriate. In particular, based on our experience in helping insurers understand and implement the requirements of Solvency II, we believe that the level of asset information is too detailed – for example the provision of asset data on a security-by-security basis, the requirement to apply a 'look-through' approach, exposures aggregated by issuer name, bond information by term and credit rating etc. | Noted, see introduction on proportionality |

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| 33. | Insurance Europe | Q16. | A first impression is that the general principles seems reasonable and are building on Solvency II principles. However, it is difficult to assess whether the principles would be appropriate for IORPs since it is not defined what would be a result of breach of the SCR and the MCR. | Noted |
| 34. | Investment and life Assurance Group Ltd | Q16. | This section will be familiar to participants who are preparing for Solvency II.  If they have completed QIS 4 and QIS 5 then they will have a good understanding of the intention of this section.  For other participants it may be more of a challenge.  The amount of time necessary to complete this QIS should not be underestimated. | Noted |
| 35. | KPMG LLP (UK) | Q16. | Yes, in relation to member state regulators.  Were the QIS process extended to an IORP funding directive, we do not believe that IORP managers would generally be able to understand the process unless they are familiar with insurance capital requirements. | Noted |
| 36. | Mercer Ltd | Q16. | Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?<br><br>The requirements in Chapter 3 draw heavily on those set out in the QIS5 Technical Specifications used for insurance companies apparently ignoring many fundamental differences between IORPs and insurance companies. Although it will be possible to perform the calculations, the detail provided is too prescriptive and so unlikely to result in information that reflects the different structures and risk characteristics of IORPs.  In particular, our view is that a principles based approach, that could potentially | Noted |

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| | | | incorporate existing risk measurement infrastructure, could be employed.<br><br>As outlined earlier, we find the interest rate stress section unsatisfactory, in particular the proposal that a stressed real yield curve is floored at zero percent (given that on December 2011 many real interest rates were negative). Our strong preference would be for separate treatment of nominal interest rates versus inflation. It would be helpful if as part of the documentation provided with the QIS (as was the case with the insurance QIS5), a set of interest rate and stressed interest rate curves is provided.<br><br>Particular elements of the QIS that we think are likely to make the cost of performing the calculations disproportionate, compared to the value of the information provided, include:<br>☐ the requirement to look through into the investments held by managed funds;<br>☐ the expectation that capital requirements in respect of interest rate can be usefully separated into eight different measures;<br>☐ the detailed measurement of, for example, spread risk and counterparty risk.<br>☐ the requirement in the case of the interest rate stress to have a full set of liability cash flows. | Noted, see added option on inflation and real rate<br><br>Agree, will be provided<br><br>Noted, see introduction on proportionality |

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| 37. | National Association of Pension Funds (NAPF) | Q16. | SCR standard formula and MCR<br><br>Do stakeholders believe that the description of the SCR in Chapter 3 is<br>sufficiently clear and understandable to enable participants in the QIS to<br>perform the necessary calculations?<br><br>The description of the SCR is not sufficiently clear and understandable, for a number of reasons.<br><br>☐ More guidance is needed on how loss-absorbing capacity of adjustment mechanisms and security mechanisms will be used in the SCR calculation.<br><br>☐ It is not clear how EIOPA will infer 97.5 and 95% security levels from calculations based on 99.5%, as the results will be non-linear.<br><br>☐ It is unclear how sponsor default risk will be calculated for multi-employer schemes.<br><br>In any case, EIOPA should recognise that the SCR has little relevance for many IORPs. In the UK, many defined benefit | Noted<br><br>Noted<br><br>Noted, see added explanation<br><br>Noted<br><br>Noted |

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| | | | IORPs are on a journey towards buyout. The funding level required for buyout is below that required by an SCR-based system. So these IORPs would be bought out before reaching the funding level that EIOPA is proposing. Once bought out, they would be subject to an SCR anyway, as they would come under the regulatory umbrella of the Solvency II legislation. So there is little to be gained by including a SCR in the Holistic Balance Sheet. | |
| 38. | Pension Protection Fund, UK. | Q16. | As previously noted, the SCR approach is an entirely new concept for UK IORPs and their advisers. We expect that further explanation of the concepts behind the SCR and the appropriateness of applicability to IORPs would be helpful. | Noted |
| 39. | Punter Southall | Q16. | Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?<br><br>We believe that most UK IORPs will have some difficulty understanding the SCR description which has largely been copied from Solvency II. | <br><br>Noted |
| 40. | Railways Pension Trustee Company Limited (RPTCL) | Q16. | The description of the SCR in Chapter 3 may be sufficiently clear and understandable but the overall case for the inclusion and appropriateness of the SCR itself for IORPs has not been well made. | Noted |

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| | | | IORPs do not exist to transact business for profit and, in many cases, as soon as they reach the level of funding at which they could pass their liabilities to the insurance market, they do so. Sponsors are typically funding IORP shortfalls as quickly as they can reasonably afford and the SCR consequently appears to be of only theoretical relevance in many cases.<br><br>Further, in many Member States, pension protection scheme arrangements exist to provide a level of compensation for those cases where the default of the sponsor of the IORP happens at a time when technical provisions are not sufficiently well funded. RPTCL believes that the small increase in member security that may result from any implementation of a requirement for a SCR will be far outweighed by the detrimental impact that the SCR would have on the sustainability of future benefit provision from defined benefit IORPs. | Noted<br><br>Noted |
| 43. | Tesco Plc | Q16. | No. We believe the calculation is too complex and would urge that a simpler approach is considered. | Noted |
| 44. | Towers Watson B.V. | Q16. | Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?<br><br>It is our impression that in some respects the SCR calculations | Noted, see introduction on proportionality |

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| | | | are too detailed. Some elements that may be relevant to insurers but less so for IORPs could be dealt with more pragmaticly or deleted altogether. | |
| 45. | Towers Watson GmbH, Germany | Q16. | Although we recognise that a formulaic approach to all intricate details of the SCR is difficult, we consider that a rather less detailed approach would be more appropriate, in particular, focusing on the simplifications. Based on our experience in helping insurers understand and implement the requirements of Solvency II, we believe that the level of asset information is too detailed. Thus, for example, for the calculation of the Market Spread Risk within the SCR, the relevant information is required on a bond-by-bond basis, something only the largest of funds will have readily available.<br><br>As already mentioned, we believe that worthwhile simplifications could be made in many other areas. | Noted, see introduction on proportionality<br><br>Noted, see introduction on proportionality and revised TS |
| 46. | Towers Watson UK | Q16. | Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?<br><br>It should not be inferred from the technical points that we make about the SCR that we support its application; we are opposed to its use<br><br>Although we recognise that a formulaic approach to all intricate details of the SCR is difficult, we consider that a rather less detailed approach would be more appropriate, in particular, | Noted<br><br>Noted, see introduction |

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| | | | focusing on the simplifications. Based on our experience in helping insurers understand and implement the requirements of Solvency II and in carrying out QIS calculations for a sample of IORPs, we believe that the level of asset information is too detailed – for example the provision of asset data on a security-by-security basis, the requirement to apply a 'look-through' approach, exposures aggregated by issuer name, bond information by term and credit rating etc.<br><br>We also believe that worthwhile simplifications could be made in other areas, for example by combining the mortality and longevity risk modules. There is also a need to simplify the counter-party default risk module to ensure that it can be applied in a practical and cost-effective way. | on proportionality<br><br>Noted, see introduction on proportionality |
| 47. | Trades Union Congress (TUC) | Q16. | There appears, again, to be lack of guidance in this regard, especially on how mechanisms to absorb losses (which we understand to be principally sponsor support and pension protection schemes) will be used to calculate the SCR. We fear SCRs will be used to reinforce the implicit prescription to adjust member benefits down unnecessarily.<br><br>The description of the SCR appears to exhibit a lack of understanding of defined benefit pension scheme design in the UK. Most IORPs are geared towards achieving buyout-level funding, which is below that required by an SCR-based system. And once bought out, schemes would become subject to an SCR at a more appropriate stage as they would come under the regulatory umbrella of the Solvency II insurance regulations.<br>We are entirely unconvinced of the need to alter these | Noted<br><br>Noted<br><br>Noted |

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| | | | arrangements. | |
| 48. | Universities Superannuation Scheme Limited | Q16. | SCR standard formula and MCR<br><br>Do stakeholders believe that the description of the SCR in Chapter 3 is<br>sufficiently clear and understandable to enable participants in the QIS to<br>perform the necessary calculations?<br><br>The description of the SCR is not sufficiently clear and understandable, for a number of reasons.<br><br>☐ More guidance is needed on how loss-absorbing capacity of adjustment mechanisms and security mechanisms will be used in the SCR calculation.<br><br>☐ It is not clear how EIOPA will infer 97.5 and 95% security levels from calculations based on 99.5%, as the results will be non-linear.<br><br>☐ It is unclear how sponsor default risk will be calculated for multi-employer schemes. | Noted<br><br>Noted<br><br>Noted, see added explanation<br><br>Noted |

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| | | | We would repeat here our earlier concerns regarding the appropriateness of an SCR for pension schemes in the UK where there is sponsor support to protect schemes in challenging funding circumstances. | Noted |
| 49. | UVB Vereinigung der Unternehmensverbände in Berlin | Q16. | The description of the SCR will not be sufficiently clear and understandable for smaller IORPs, who will not participate in the QIS.<br><br>It seems as if a significant part of the calculation will be done by a spreadsheet to be supplied by EIOPA. It is questionable whether IORPs will have the required input data let alone understand the output to the degree necessary to check plausibility and interpret the results. It is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level given that the results will be non-linear. It is not clear which assets would fall under the definition of "intangible assets". | Noted<br><br>Noted<br><br>Noted |
| 50. | vbw – Vereinigung der Bayerischen Wirtschaft e. V. | Q16. | The description of the SCR will not be sufficiently clear and understandable for smaller IORPs, who will not participate in the QIS.<br><br>It seems as if a significant part of the calculation will be done by a spreadsheet to be supplied by EIOPA. It is questionable whether IORPs will have the required input data let alone understand the output to the degree necessary to check | Noted<br><br>Noted |

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| | | | plausibility and interpret the results. It is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level given that the results will be non-linear. It is not clear which assets would fall under the definition of "intangible assets". | Noted |
| 51. | Vereinigung der hessischen Unternehmerverbände (Vh | Q16. | The description of the SCR will not be sufficiently clear and understandable for smaller IORPs, who will not participate in the QIS.<br><br>It seems as if a significant part of the calculation will be done by a spreadsheet to be supplied by EIOPA. It is questionable whether IORPs will have the required input data let alone understand the output to the degree necessary to check plausibility and interpret the results. It is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level given that the results will be non-linear. It is not clear which assets would fall under the definition of "intangible assets". | Noted<br><br>Noted<br><br>Noted |
| 52. | Zusatzversorgungskasse des Baugewerbes AG | Q16. | No, ZVK-Bau does not believe that the description of the SCR is sufficiently clear and understandable.<br><br>The SCR concept and calculations are unnecessarily complex. Most of the impact on the SCR stem from a few risks. We invite EIOPA to analyse the sensitivity of the concept and adjust the QIS accordingly by only asking for these parameters and leave | Noted<br><br>Noted, see introduction on proportionality |

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| | | | the others out of the equation for the time being. Therefore we believe that for this QIS, most of the risk modules should not be included in the calculation of the SCR as they are not likely to be material: operational risk, pension revision risk, pension catastrophe risk, health risk, intangible asset risk, pension disability-morbidity risk, counterparty-default risk. | |
| 53. | OPSG | Q17. | Before the question if stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR will be answered, the OPSG would like to mention that it is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level. Due to the (option) valuations of the adjustment and steering mechanisms, other security levels can not be derived from the 99.5% level (since there is no longer a normal distribution). In addition, the calculation of the different risks for the SCR rely very much on the credit rating of a sponsor and investments. This is remarkable since the Commission and MEP's are aiming to reduce over reliance on ratings. According to a recent ECON statement, no EU law will be permitted to refer to credit rating for regulatory purposes. The objective for a MCR within a prudential framework for IORPs is unclear. Therefore, it is not possible to respond to the question if the risks IORPs are facing adequately reflected in the calculation of the MCR.<br><br>SCR Risks<br><br>The OPSG believes that – especially for the purpose of this QIS – some risks should not be included in the calculation of the SCR as they are not likely to be material:<br>• Health risk (in most Member States) | Noted, see added explanation<br><br>Noted<br><br>Noted, see introduction on proportionality |

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| | | | • Operational risk<br>• Intangible asset risk module<br>• Market concentrations risk<br>• Pension disability-morbidity risk<br>• Pension revision risk<br>• Pension catastrophe risk sub-module<br>• Counterparty default risk module - except for sponsor support<br><br>Market risk:<br>☐ The OPSG would like to draw attention to the fact that the capital requirements for equity as proposed will provide a strong incentive for pension funds to change their asset mix into more bonds, which increases risk to inflation<br><br>Pension longevity risk:<br>☐ There is an element of double or even triple counting in the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the technical provisions already includes allows for future improvements in longevity and IORPs possibly have to use a risk margin in the valuation of their technical provisions to provide for uncertainty around the longevity trend included. | Noted<br><br>Noted |

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| | | | Pension disability-morbidity risk:<br>☐ The capital charge for pension disability-morbidity risk could be lower compared to insurers, since IORPs do not have the disadvantage of adverse selection (due to mandatory participation)<br><br>Additional risk categories<br>Inflation risk:<br>☐ This could be material for final salary and revalued career average IORPs, or those which promise or target benefits increases which are inflation linked.<br><br>Regulatory risk:<br>☐ In practice, this has been a major risk for IORPs in some Member States, but it would not be acceptable to require IORPs to hold additional capital against the risk of future regulatory changes. | Noted<br><br><br><br><br>Noted, see added option on inflation and real rate<br><br><br>Noted |
| 54. | aba Arbeitsgemeinschaft für betriebliche Altersver | Q17. | We do not agree with a market consistent valuation of assets and liabilities as we do not believe short-term changes in market prices should drive the management of institutions that cover long-term liabilities and follow long-term investment strategies. Given that members cannot call their benefits before they are due (unlike customers of banks and insurance companies), market risk is a secondary risk to IORPs. The primary risk of changing asset prices is the effect on the portfolio return of reinvestments. This only changes gradually | Noted |

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| | | | over time, however, due to the long duration of the assets in the portfolio. An SCR computed on the basis of a shock in asset prices is therefore completely inappropriate for IORPs.<br><br>The same applies to interest rate risk. Interest rate risk – insofar as it does not represent the reinvestment risk of the portfolio resulting from changes in market interest rates - is only present because the QIS requires assets to be marked to market and liabilities to be discounted with a "market consistent" discount rate. In a sense, EIOPA is introducing pseudo-risks to IORPs. It is the absolute level of interest rates or market returns over time which matter, not intertemporal changes to these variables.<br><br>Pension longevity risk: There is an element of double counting in the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the technical provisions already allows for future improvements in longevity.<br><br>Pension disability-morbidity risk: The capital charge for pension disability-morbidity risk could be lower compared to insurers, since IORPs do not have the disadvantage of adverse selection (due to mandatory participation).<br><br>Sponsor default risk: We are not sure why this is included in SCR as it seems to be double counted. | Noted<br><br>Noted<br><br>Noted<br><br>Noted<br><br>Noted, see introduction |

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| | | | Catastrophe risk: Not relevant for IORPs.<br><br>Lapse risk: Not relevant for IORPs<br><br>Spread risk: Too difficult for IORPs to calculate.<br><br>Benefit option risk: Immaterial or does not cause strain on the fund.<br><br>The calculation of the different risks for the SCR rely very much on the credit rating. This is remarkable given that the European Commission is reviewing the Credit Ratings Directive which will reduce the reliance on ratings in financial regulation. Relying heavily on credit ratings will introduce procyclicality into the solvency assessment of IORPs thereby amplifying risk.<br><br>The objective of an MCR in a system with sponsor support and pension protection scheme is unclear. In our opinion, an MCR is not relevant for IORPs. | on proportionality<br><br>Noted, see introduction on proportionality<br><br>Noted<br><br>Noted, see introduction on proportionality<br><br>Noted<br><br>Noted |
| 55. | AEIP – The European Association of Paritarian Inst | Q17. | No, AEIP does not believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR.<br><br>Indeed, as mentioned in Q2, AEIP believes the security level of | Noted |

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| | | | occupational pension to be specific of the pension scheme and linked to the SLL of each Member State.<br><br>Even though we do reject the need of a SCR for IORPs especially if based on a market consistent regulatory regime, we hereby provide our comments on some of the risk modules detailed in the technical specifications.<br><br>MARKET RISK<br>The proposed framework would provide an incentive to invest mostly in risk-free bonds and reduce the allocation of resources for alternative and equity investments. This is a very sensitive issue, given the current European sovereign debt crisis.<br><br>PENSION LONGEVITY RISK<br>As this risk is embedded in the actuarial valuation of the technical provisions, we do believe this risk does not need to be included in the SCR.<br><br>MARKET PROPERTY RISK<br>We regret that within the draft Technical specifications real estate is valued only as asset for sale. Real estate as long term investment provides duration and anti-inflation effects that support IORPs efforts to close the duration gap between fixed income assets and liabilities. In the framework proposed, a simple downshift of 25% in the value of investments in real | Noted<br><br>Noted<br><br>Noted<br><br>Noted<br><br>Noted |

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| | | | estate together with a fixed correlation of 50% to the interest rate risk part can seriously overestimate the capital requirement of the IORPs in these assets.<br><br>We believe the approach of the calculation of the capital requirement for market property risk to be too simple minded.<br><br>We suggest that the following alternative should be available to the IORPs: If the IORP is able to calculate the market value of investments in real estate via discounted cash flow models, it should also be allowed to use these models in the calculation of the capital requirement for the corresponding risk. The risk should at least be divided in a part arising from the discounting of the cash flows and a part arising from the volatility of the cash flows. The first part should be included in the calculation of the capital requirement for interest rate risk and only the second part should be handled as property risk. Furthermore we believe the general downshift of 25% to be too large. There should at least be different shift-levels for investments in residential real estate and investments in commercial real estates. | |
| | | | AEIP does finally believe that for this QIS, most of the other risk modules should not be included in the calculation of the SCR as they are not likely to be material: operational risk, pension revision risk, pension catastrophe risk, health risk, intangible asset risk, pension disability-morbidity risk, counterparty-default risk. | Noted, see introduction on proportionality |
| | | | Finally AEIP regrets that the proposed formulas heavily rely on | |

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| | | | credit rating agencies opinion. It is quite surprising the EC is willing to build a supervisory regime highly dependent on the opinion of the credit rating agencies when the European Parliament ECON Committee stated that "no EU law will be permitted to refer to credit rating for regulatory purposes". | Noted |
| 58. | Aon Hewitt | Q17. | Our main concern is that the level of detail is excessive, given that many of the calculations rely on major underlying assumptions. The modelling of the key risk, the level of future sponsor support, is based on some particularly heroic assumptions – it is not at all clear how the 50% assumption set out in SCR.6.17 has been derived.<br><br>In addition, the relatively significant inflation and salary growth risks appear to be ignored, which does not appear consistent with the level of detail elsewhere.<br><br>Please also see our comments to SCR.7.51 and SCR.7.71, in relation to specific concerns about the risks included/excluded in the benefits option risk module, and the parameters for the revision risk module. | Noted<br><br>Noted, see added option on inflation and real rate<br><br>Noted |
| 59. | Association of British Insurers | Q17. | As outlined in Q16 it is difficult to comment on the adequacy of the calculation of the MCR and SCR without understanding the regulatory actions that would be triggered if these capital levels were breached. | Noted |

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| 60. | Association of Consulting Actuaries UK | Q17. | It is worth noting that one of the biggest risks that IORPs have experienced in practice in recent years is Regulatory risk. This risk can take a number of forms, for instance:<br><br>- Changes to the social and labour laws applying to IORPs (e.g. in relation to vesting or revaluation/indexation of pensions – note that the attempt to include the indexation risk in SCR 7.70 and following is inadequate)<br>- Changes to regulations which substantively increase the regulatory burden of expenses and compliance (eg Solvency II!)<br>- Changes to taxation (which may alter member behaviour and take-up of options such as cashing out pensions)<br><br>Nothing in the QIS addresses these risks and given they are not capable of being modelled, this thus undermines the validity of the whole process.<br><br>A further gaping hole in the risk assessment is the impact of an EU state default on their debt and the equality of treatment of default risk for all EU states. Once again this means that the calculatons proposed are not "fit for purpose".<br><br>As regards risks that could be excluded there are a number of calculations that appear to be either spuriously accurate or inadequate in their definition – these would include, in our opinion, the revision and catastrophe risk. In the UK, mortality | Noted<br><br>Noted<br><br>Noted, see introduction on proportionality |

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| | | | risk is unlikely to require modeling, given the structure of UK IORP liabilities.<br><br>Also on the SCR, we believe that IORPs should be able to reduce the SCR for the natural hedging benefit between risks that the sponsor is exposed to and IORPs' risks (which is not covered in the sponsor support module). For example, the QIS mentions that the "netting effect provided by the natural hedge" between mortality and longevity risks within the IORP can be allowed for. However it may be the case that a sponsor's profits are exposed to mortality risk (e.g. running a nursing home which is linked to the longevity of the patients) and there is a natural hedge between the income of the underlying sponsor and the longevity risk in the IORP. Insurance companies can reduce one product's SCR to take into account risk exposure from other lines of business so it would make sense for this to be an option for IORPs as well.<br><br>With regard to the MCR, it is not clear what this will be used for and therefore we are not able to comment on whether the minimum (25% of SCR) or maximum (45% of SCR) are appropriate. | <br><br><br>Noted<br><br><br><br><br><br><br><br><br><br><br><br>Noted |
| 61. | Association of German Pfandbrief Banks | Q17. | Review of inherent incentives to invest in particular asset classes: It has to be stressed that the comparative incentives between the various asset classes will change dramatically and will therefore be extremely challenging. | Noted |

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| | | | As a consequence of the new solvency capital requirements institutions for occupational retirement provision (IORP) will regroup their investments in various asset classes. This general overhaul will lead to a shift in investments with a focus on asset classes which result in lower capital requirements.<br><br>Especially the lack of capital requirements for exposures to central governments in the EEA will cause a high concentration in this asset class. In addition the relative benefits with regard to mortgage loan financing will put some pressure on the investments in Pfandbriefe. But Pfandbriefe as long as they are AAA-rated, will benefit when directly compared to unsecured bonds, although we do not know whether this effect can compensate the negative impacts mentioned above. However investments of IORPs in unsecured bonds will become thoroughly unattractive. That is why we anticipate that the funding of credit institutions will become difficult and more expensive. | Noted<br><br>Noted |
| 62. | Barnett Waddingham LLP | Q17. | We are concerned that the operational risk module may apply to pure defined contribution schemes, and yet such schemes are excluded from the QIS.  We are not sure whether the operational risk module is intended to cover regulatory risk. This has been a source of considerably increased costs in the UK in the recent past, and it seems the revised IORP directive itself will add to this. | Noted. Pure defined benefit IORP´s are not asked to participate in The QIS. Operational risk for pure defined benefit schemes that are part of an IORP with other types of schemes will be calculated. However, EIOPA will not use this information as a basis to evaluate how |

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| | | | The expenses, revision and catastrophe modules are likely to be immaterial for most IORPs and should be removed. Consideration should be given to combining the health module with disability and morbidity, and the longevity component with the mortality component as these factors are linked in IORP benefit structures to the extent that considering them separately is likely to give misleading results.<br><br>Inflation risk should be included. This is a large part of pension liability risk in the UK. | appropriate the operational risk module is for pure defined contribution schemes.<br><br>Noted, see introduction on proportionality<br><br>Noted, see added option on inflation and real rate |
| 63. | BASF SE | Q17. | Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br><br>As discussed in the answer to Question 16, we think that risk-based capital requirements according to Solvency II do not fit the business model of IORPs. Additionally, several risks included | <br><br>Noted, see introduction on proportionality |

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| | | | in the SCR are less relevant for IORPs (e.g., catastrophe risk, health risks, lapse risks etc.) and therefore unnecessarily complicate the model. | |
| 64. | Bayer AG | Q17. | As already said, we think, that the whole approach does not fit. Due to the reasons already explained the Risk Margin should be taken out of the model anyhow. | Noted |
| 65. | Bayerischer Industrieverband Steine und Erden e.V. | Q17. | Before the question if stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR will be answered, we would like to mention that it is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level. Due to the (option) valuations of the adjustment and steering mechanisms, other security levels can not be derived from the 99.5% level (since there is no longer a normal distribution). In addition, the calculation of the different risks for the SCR rely very much on the credit rating of a sponsor and investments. This is remarkable since MEP's are aiming to reduce over reliance on ratings. According to a recent ECON vote, no EU law will be permitted to refer to credit rating for regulatory purposes. The objective for a MCR within a prudential framework for IORPs is unclear. Therefore, it is not possible to respond to the question if the risks IORPs are facing adequately reflected in the calculation of the MCR.<br><br>SCR Risks<br>We believe that – especially for the purpose of this QIS – some risks should not be included in the calculation of the SCR as they are not likely to be material:<br>• Health risk (in most Member States) | Noted, see added explanation<br><br>Noted<br><br>Noted, see introduction on proportionality |

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| | | | • Operational risk<br>• Intangible asset risk module<br>• Market risk concentrations<br>• Pension disability-morbidity risk<br>• Pension revision risk<br>• Pension catastrophe risk sub-module<br>• Counterparty default risk module - except for sponsor support<br><br>Market risk:<br>– We would like to ask attention to the fact that the capital requirements for equity as proposed will provide a strong incentive for pension funds to change their asset mix into more bonds and will therefore drop out as investors at the stock market.<br><br>Pension longevity risk:<br>– There is an element of double or even triple counting in the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the technical provisions already includes future improvements in longevity and IORPs possibly have to use a risk margin in the valuation of their technical provisions to provide for insecurity around the longevity trend included. | Noted<br><br>Noted |

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| | | | Pension disability-morbidity risk:<br>– The capital charge for pension disability-morbidity risk could be lower compared to insurers, since IORPs do not have the disadvantage of adverse selection (due to mandatory participation) | Noted |
| 66. | BDA Bundesvereinigung der Deutschen Arbeitgeberver | Q17. | Before the question if stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR will be answered, we would like to mention that it is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level. Due to the (option) valuations of the adjustment and steering mechanisms, other security levels can not be derived from the 99.5% level (since there is no longer a normal distribution). In addition, the calculation of the different risks for the SCR rely very much on the credit rating of a sponsor and investments. This is remarkable since MEP's are aiming to reduce over reliance on ratings. According to a recent ECON vote, no EU law will be permitted to refer to credit rating for regulatory purposes. The objective for a MCR within a prudential framework for IORPs is unclear. Therefore, it is not possible to respond to the question if the risks IORPs are facing adequately reflected in the calculation of the MCR.<br><br>SCR Risks<br>We believe that – especially for the purpose of this QIS – some | Noted, see added explanation<br><br>Noted<br><br>Noted, see introduction |

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| | | | risks should not be included in the calculation of the SCR as they are not likely to be material:<br>• Health risk (in most Member States)<br>• Operational risk<br>• Intangible asset risk module<br>• Market risk concentrations<br>• Pension disability-morbidity risk<br>• Pension revision risk<br>• Pension catastrophe risk sub-module<br>• Counterparty default risk module - except for sponsor support<br><br>Market risk:<br>– We would like to ask attention to the fact that the capital requirements for equity as proposed will provide a strong incentive for pension funds to change their asset mix into more bonds and will therefore drop out as investors at the stock market.<br><br>Pension longevity risk:<br>– There is an element of double or even triple counting in the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the technical provisions already includes future improvements in longevity | on proportionality<br><br>Noted<br><br>Noted |

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| | | | and IORPs possibly have to use a risk margin in the valuation of their technical provisions to provide for insecurity around the longevity trend included.<br><br>Pension disability-morbidity risk:<br>– The capital charge for pension disability-morbidity risk could be lower compared to insurers, since IORPs do not have the disadvantage of adverse selection (due to mandatory participation) | Noted |
| 67. | BdS – Bundesverband der Systemgastronomie e.V. | Q17. | Before the question if stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR will be answered, we would like to mention that it is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level. Due to the (option) valuations of the adjustment and steering mechanisms, other security levels can not be derived from the 99.5% level (since there is no longer a normal distribution). In addition, the calculation of the different risks for the SCR rely very much on the credit rating of a sponsor and investments. This is remarkable since MEP's are aiming to reduce over reliance on ratings. According to a recent ECON vote, no EU law will be permitted to refer to credit rating for regulatory purposes. The objective for a MCR within a prudential framework for IORPs is unclear. Therefore, it is not possible to respond to the question if the risks IORPs are facing adequately reflected in the calculation of the MCR. | Noted, see added explanation<br><br>Noted |

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| | | | SCR Risks<br>We believe that – especially for the purpose of this QIS – some risks should not be included in the calculation of the SCR as they are not likely to be material:<br>• Health risk (in most Member States)<br>• Operational risk<br>• Intangible asset risk module<br>• Market risk concentrations<br>• Pension disability-morbidity risk<br>• Pension revision risk<br>• Pension catastrophe risk sub-module<br>• Counterparty default risk module - except for sponsor support | Noted, see introduction on proportionality |
| | | | Market risk:<br>– We would like to ask attention to the fact that the capital requirements for equity as proposed will provide a strong incentive for pension funds to change their asset mix into more bonds and will therefore drop out as investors at the stock market. | Noted |
| | | | Pension longevity risk:<br>– There is an element of double or even triple counting in | |

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| | | | the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the technical provisions already includes future improvements in longevity and IORPs possibly have to use a risk margin in the valuation of their technical provisions to provide for insecurity around the longevity trend included.<br><br>Pension disability-morbidity risk:<br>– The capital charge for pension disability-morbidity risk could be lower compared to insurers, since IORPs do not have the disadvantage of adverse selection (due to mandatory participation) | Noted<br><br>Noted |
| 68. | Belgian Association of Pension Institutions (BVPI- | Q17. | No.<br><br>It is not totally clear if all IORP related risks are addressed appropriately. We have some doubts about the operational risk, the counterparty risk, the benefit option risk, catastrophe risk. It is not totally clear if the parameters as used in the formulas are appropriate for IORPs. It gives the feeling of a black box. Moreover, the co-existence is rather arbitrary (correlations between risks) making the outcomes rather not very credible.<br><br>What about the inflation risk? | Noted<br><br>Noted<br><br>Noted, see added option on inflation and real rate |

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| | | | IORPs investing in real estate seem to be penalized with the approach for property risk: the combination of a downshift of 25% in the value of investments in real estate combined with a fixed correlation of 50% will overestimate the capital requirements.<br><br>We suggest to split the risk in an interest part (discounting) and a property part (level of cash flow) might bring a solution. A differentiation of the risk level depending on the property nature would be welcomed.<br><br>We regret the proposed framework doesn't taken into account risk mitigating effects of e.g. dynamic portfolio strategies where pension funds might invest in more risk-baring assets when their coverage ratio is good (and less when it is bad). The proposed framework would automatically imply higher Solvency Requirements as soon as the risk-baring assets would grow, even if coverage ratios are excellent …<br><br>In the absence of the trigger points, it is difficult to judge if the MCR requirements are appropriate. | Noted<br><br>Noted<br><br>Noted |
| 69. | BlackRock | Q17. | Please see our General Comment above. | |
| 70. | Bosch Pensionsfonds AG | Q17. | See Q2. | |
| 71. | Bosch-Group | Q17. | See Q2. | |
| 72. | BT Group plc | Q17. | Do stakeholders believe that the risks IORPs are facing are | |

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| | | | adequately<br>reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there<br>in the stakeholders' view any risks being considered that are not material and<br>could be excluded from the technical specifications? Are there other risks that<br>should be considered in the calculation of the SCR?<br><br>It is again difficult to fully comment without details of how the figures will be used.<br><br>The requirements for the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) appear to have been copied from Solvency II with little thought on how relevant these are for IORPS.<br><br>In particular, we do not see why the SCR and MCR are relevant for IORPS. EIOPA need to explain the logic and rationale for these being included in any framework. We have therefore not commented on any of the remaining questions on the technical detail for these points. | <br><br><br><br><br>Noted<br><br>Noted<br><br>Noted |
| 73. | BTPS Management Ltd | Q17. | We are significantly concerned at the complexity of the proposals, and we do believe that many of the risks proposed to | Noted |

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| | | | be considered are far from material from an IORP perspective. We would strongly favour an approach which builds capacity in the sector by encouraging IORPs to build and strengthen their internal models through which they calculate their exposure to market risks rather than have to use a standardised generic 'black box' model. This risks not improving risk management in the sector as a whole because it would not help build skill and judgement; rather the standardised approach at worst would add to systemic risk by encouraging herd-like behaviours in particular circumstances. This cannot be the intention.<br><br>Elements of the SCR proposals appear to be directly copied from Solvency II, and thus include several risks which are in practice immaterial for IORPs. We would argue that these should be excluded. Among them are: catastrophe risk, expense risk, health risk, intangible asset risk, operational risk, pension disability-morbidity risk and pension revision risk.<br><br>Our analysis of the risks to which we believe we are significantly exposed suggests that the approach is otherwise mistaken. The biggest risk we face is inflation risk - something which is ignored in the current proposals. Other risks that we consider include liquidity risk, correlation risk (changes in the correlation between the main asset classes) and country risk.<br><br>We also have concerns with regards to the shock approaches. Having a single interest rate shock covering all currencies seems inappropriate given that they have different interest rate | Noted<br><br>Noted, see added option on inflation and real rate<br><br>Noted |

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| | | | curves and face different market volatilities – all of which are also known and measurable should the calculation genuinely be needed. Similarly, the equity shock embeds an equally large assumption of 30% with no flexibility arising from the specific nature of individual IORP exposures. In practice, the impact of shocks will be very different depending on whether you are holding a specifically defined low volatility portfolio or a concentrated small cap illiquid portfolio. Having an inflexible approach will reduce the incentive for IORPs to manage their risks effectively so that any shocks that do arise have more limited impacts. Again we would note that this cannot be the intention of this process.<br><br>We have specific concerns about the approach to infrastructure. This is an asset class to which we are increasing our exposure as it possesses liability-matching cashflow characteristics. Such investment will be necessary in order to create the growth and jobs which the European economy needs. However, the current treatment of such assets would act as a significant disincentive to such investment. Our target volatility is closer to 10% than the treatment here which places infrastructure assets in the "other" category, implying 40%. We would encourage an approach similar to that proposed for property. Using unrealistic, non-market assumptions for the risks in long term asset classes such as infrastructure will limit any future investment into the area; we would argue strongly for a reassessment of this approach. | Noted |
| 74. | Consiglio Nazionale degli | Q17. | About the risks IORPS adequately reflected in the calculation of | |

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| | Attuari and Ordine Nazio | | the SCR and the MCR:<br><br>The concept of SCR, which allow to cover unpredictable events that could occur during the life of the IORP, needs of long term principles. The Solvency II general framework considers only unpredictable events that could occur during the year.<br><br>For the calculation of SCR for IORPs could be evaluated a proposal with a lower impact into a short period, also taking into account that pension plans are long time horizon investors. Evaluate the effects of stressing risk factors not during one single fiscal year, but taking into account a longer period of time, i.e. 5 years, and the possibility to amortize the risk.<br><br>Moreover, the SCR is balanced in the Solvency II general framework by plan sponsor guarantees. For Italian IORPs such guarantees don't exist in most cases and often it is quite difficult to identify the plan sponsor. So it is likely that in the HBS a deficit will arise: to cover this deficit it is possible to either increase the contributions or, more likely, to reduce the benefits, therefore having an effect contrary to the Solvency II principles. In addition, given the aforementioned special nature of pension funds, it is not clear the rational of putting in place measures with an immediate impact on participants' benefits for events whose impact on the funding of pension funds could be estimated only in the long term. | <br><br>Noted<br><br>Noted<br><br>Noted |
| 75. | Deloitte Total Reward and Benefits Limited (UK) | Q17. | The impact of inflation stresses on liabilities is a key omission from the specification and needs to be appropriately considered and reflected. This will also require due consideration of the baseline inflation/salary increase assumptions (see response to Q15). | Noted, see added option on inflation and real rate |

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| | | | We note that the economic stresses under the SCR are applied only to the pension liability and no allowance is made for any associated impact these stresses may have (positive or negative) on the level of sponsor support. It would, in our view, be excessively onerous to require IORPs to also consider the impact of each stress on the level of sponsor support. However, it would be reasonable to permit IORPs an option to reflect this impact where adequate supporting evidence is available. | Noted |
| 76. | Deutsche Post DHL | Q17. | No, please refer to Q2. and "General Comment". | |
| 77. | Dexia Asset Management | Q17. | Q17. Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br><br>We do not think the risks IORPs are facing are adequately reflected.<br><br>An important macro risk is that IORPs no longer invest in so-called "risky" assets because of capital charges. If long term investors are charged for taking long term risk such as investing in equities or infrastructure, the financing of European economy is at stake. Moreover, if the appreciation of cheapness or expensiveness of assets is decided at regulatory level, market disruption and bubbles will develop. It would definitely go | Noted<br><br>Noted |

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| | | | against regulatory purpose since all the risks can be concentrated on assets not risky from a regulatory standpoint.<br><br>SCR calculation should be simplified for non material items: concentration, disability, catastrophe, operational….<br><br>The SCR for sponsor default (but also in general for credit risk) are strongly affected by the rating. Most of sponsors won't be rated. Anyhow, the ability and willingness to repay liabilities are not always properly assessed by ratings (for sponsor support and bonds). Excessive reliance on ratings should be avoided in any case, but especially for IORPs who are part of social protection. It is also remarkable that sovereign debt is not charged for credit risk under current market environment.<br><br>The use of the MCR is unclear, and its relation to the assets and regulatory actions should be clarified, in the general context of unclear tiering of assets. | Noted, see introduction on proportionality<br><br>Noted<br><br>Noted |
| 78. | EPRA, INREV, BPF, ZIA, IPF, Fastighetsagarna, AREF | Q17. | We do not believe that the risks IORPs are facing are adequately reflected in the calculation of the standard SCR market risk module. As discussed in more detail in our general comments above, applying to IORPs a framework that was designed for insurers (and based on banking regulation) is not suitable given that IORPs have a different business model and pay-out obligations. The obligations of IORPs are stable and | Noted |

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| | | | predictable and therefore do not require large amounts of short-term available capital. Long-term investments like real estate provide the long-term, predictable and relatively stable cash flows that IORPs rely on to match their liabilities.<br><br>For IORPs, rental income generation from real estate investments tends to be more important than short-term returns and rental income flows are managed in even volatile markets by long-term leases with stable tenants and diversified lease expiries. Rather than liquidating assets for liquidity needs, IORPs tend to hold on to assets during market downturns, as was shown in the recent financial crisis.<br><br>We also believe that inflation risk is underestimated in the IORP proposals. Inflation risk could be considered in the calculation of the SCR, especially for unconditional inflation linked pension benefits and final salary plans. In addition, the notion (also a feature of SII) that no capital requirement should apply to borrowings by (or guaranteed by) national government of an EEA state cannot be logically supported in light of the sovereign debt crisis that has been playing out for the last two years.<br><br>SCR.5.55. sets the property solvency capital charge at 25%, which we believe does not adequately reflect the risks IORPs are facing. The property solvency capital charge has been carried over from the currently proposed SII regime for insurers, and research demonstrates that this figure is not an appropriate reflection of the true risk posed by European | <br><br><br><br>Noted<br><br><br><br>Noted, see added option on inflation and real rate<br><br>Noted<br><br><br>Noted |

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| | | | property investments. Applying the same figure to IORPs raises the same arguments, as well as additional concerns specific to IORPs detailed in our general comments, such as the fact that they are not focused on pursuing profit and, due to the very stable and predictable payment obligations and the long-term nature of these obligations, they are able to maintain a countercyclical investment policy and a prudent long-term investment horizon. In turn, IORPs' long-term investment horizon means that any short-term deficits arising from financial turmoil can be recouped in the long run as a result of the long duration of their liabilities, their ability to share risks among generations and through their use of additional risk-mitigating instruments.<br><br>The 25% solvency capital charge does not reflect the entire spectrum of the European property market and ignores diversification benefits. It is therefore wrong to continue to rely on the figure proposed for insurers under SII and extend its application to IORPs. Alternative data sources exist and their validity has been well documented in an industry study conducted by IPD which clearly establishes that an SCR that is truly reflective of European property market volatility should be no greater than 15%. As insurers across Europe develop internal models for real estate in response to Solvency II, their data clearly support the conclusion that there is significantly lower volatility in European real estate markets than the QIS proposes. National regulators will be aware of this fact from their preliminary discussions with insurance companies that are developing internal models under Solvency II. | |

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| | | | As stated in the QIS section HBS.3.14 c) it is difficult to derive property implied volatility in the absence of a property derivatives market, and we agree that the volatility of a property index may be used to calibrate market solvency capital charges. However, the index must be representative of the entire European market. The data used to compute the 25% solvency capital charge cannot be reasonably justified to support the calibration of a representative, EU-wide property risk sub-module as it is based on data from a single country. Such an approach to risk calibration does therefore not accurately reflect the risk posed by real estate investments.<br><br>As noted in our general comments above, a property risk sub-module that overstates the real risk results in side-lining of capital needed to produce stable returns for IORPs and to support real estate-related employment and economic growth. Furthermore, it is market distortive as it reduces incentives to invest in a relatively stable asset class with strong portfolio diversification characteristics.<br><br>Therefore we urge EIOPA to reassess the data used to determine the Value at Risk for property and carry out a new study for setting the standard capital requirement for property that is transparently calculated and based on more representative data series from a broader selection of the EU property investment markets.<br><br>Furthermore, EIOPA suggests in SCR.5.4. that the correlation of | |

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| | | | property to equity is 0.75. We note that property scores computed using IPD data never exceeded a 0.50 correlation for equities, and were more commonly negatively related to interest rates. The IPD study supports this notion. We would therefore welcome further discussion with EIOPA to understand how the correlation has been calculated and what methodology and data have been used.<br><br>Finally, IPD research suggests that a reduction from 99.5% to either 97.5% or 95% in the confidence level used in the SCR calculation would have a very limited effect on 12 month Value at Risk for the European property markets reviewed as part of the study. Only when the confidence level is reduced by 5-10 percentage points is there a noticeable difference. Accordingly, simply reducing the confidence level required by the IORPs proposal should not be seen as an alternative to setting an appropriate SCR for property, which truly reflects European property market volatility. | |
| 79. | European Association of Public Sector Pension Inst | Q17. | Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br><br>EAPSPI does not believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR | Noted |

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| | | | (Chapter 3 and 4). The reflected risks and their assessment are those of insurance undertakings. The risks IORPs are facing and the structural differences of IORPs and insurance undertakings, however, are not regarded. The approach is therefore not adequate as it does not adequately reflect the risks of IORPs. This general problem of pillar one of Solvency II may not be solved by allowing for some adjustments (e.g. the introduction of the matching premium, the counter cyclical premium or the duration-based approach for the equity risk as discussed in Q13) within an inappropriate structure.<br><br>For Solvency II and the IORP QIS, risks are measured and financially valued by the change in "Net Asset Value" when a specific risk occurs. Essentially, the net value of the change in all future cash-flows is calculated and required as solvency capital (SCR.1.7 and 1.8). As a result, an IORP is forced to permanently hold available the full (net) value of all future consequences caused by the risk occurrence although the actual payments fall due only gradually in the future. But even against the Solvency II background of assuring solvency for one year at a 99.5 % security level (non-default probability) IORPs will not need all the capital to cover the risk because of a much longer reaction period. IORPs are nevertheless able to deliver the same security level. This holds true for several of the risk categories, in particular for two of the most relevant risks for IORPs: the interest rate risk and the longevity risk.<br><br>The "change in Net Asset Value"-approach would only make sence if IORP's liabilities were transferred to another | <br><br><br><br><br><br><br><br><br><br>Noted<br><br><br><br><br><br><br><br><br><br><br><br><br><br><br>Noted |

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| | | | undertaking. But EIOPA stated in its Advice to the Commission that the "transfer principle" of Solvency II conceptually is not reasonable for IORPs and therefore will not used as valuation criterion. This decision also implies not to use the "cost of capital" concept to determine the risk margin on top of the best estimate of the technical provisions (HBS.5.1) as this concept also rests on the transfer notion. The risk margin upon the best estimate component for the calculation of technical provisions reflects the additional funds necessary only in case of the disposal and transfer of liabilities of one IORP to another financial institution. However, there  is no market as liabalities of IORPs are not sold. Hence no external capital premium is needed.<br><br>Again, the "change in Net Asset Value"-approach and the "cost of capital"-risk are reasonable for regulating insurance undertakings as their liabilities might fall due very quickly and thus capital has to be available. However, for IORPs there is no need for such short-term cushioning. The stability and long term character of liabilities and thus the investment horizon of IORPs include strong risk mitigating effects. The long term character of the occupational pension business makes these effects hardly measurable and financially quantifiable. The existing security mechanisms for IORPs deliver a high degree of flexibility to account for this indeterminacy that Solvency II does not. The VaR approach developed for measuring short term trading risks and thereupon the calculation of the SCR do not integrate these effects properly. Moreover, they lead to excess and inflexible capital requirements. | Noted |

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| 80. | European Federation for Retirement Provision (EFRP | Q17. | Q17. Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br><br>Market risk & European economy<br><br>Some EFRP Members disagree with the concept of the SCR itself. One reason for this is that this method provides an incentive for IORPs to invest in (risk-free) bonds instead of alternative investments or equity. These investments will require a higher solvency charge. IORPs are important suppliers of capital to listed European companies, small and medium-sized enterprises (SMEs) as well as a great number of innovative start-ups. A SCR regime for IORPs could overly limit their investment opportunities. This will not only result in expected lower returns and, therefore, expected lower pension benefits (or higher contributions), but this outcome would have also a negative impact on growth and employment in the European Union. The proposed IORP revision is not in line with Europe 2020 Strategy and with the aim of having more long-term investments in the European Economy.<br><br>This undesirable incentive will be mitigated by the duration-based approach. The EFRP therefore supports the use of the duration-based approach, but recommends decreasing the prescribed stress level not only for equity investments but also | Noted<br><br>Noted |

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| | | | for the other asset categories.<br><br>Different risk categories<br>We believe that – especially for the purpose of this QIS – some risks should not be included in the calculation of the SCR as they are not likely to be material for IORPs:<br>- Health risk<br>- Intangible asset risk module<br>- Pension disability-morbidity risk<br>- Pension expenses risk<br>- Pension revision risk<br>- Pension catastrophe risk sub-module<br>- Counterparty default risk module | Noted, see introduction on proportionality |
| | | | Furthermore, some parameters of the different assumed risks are overestimated, whereas other risks are underestimated. | Noted |
| | | | Overestimated risks:<br>- Capital charges for market risk (although we realize that these parameters are directly taken from Solvency II)<br>- Pension longevity risk: there is an element of double counting in the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the | |

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| | | | technical provisions already allows for future improvements in longevity<br><br>- Pension disability-morbidity risk: the capital charge for pension disability-morbidity risk could be lower compared to insurers, since IORPs do not have the disadvantage of adverse selection (due to mandatory participation)<br><br>- Operational risk: IORPs are not-for-profit. IORPs do not have the risk of a profit-seeking strategy and that reduces the operational risk.<br><br>- Benefit option risk: A "mass lapse event" would be extremely unlikely to occur in practice and would almost be equivalent to a wind-up situation. It should be remembered that upon termination, members' accrued entitlements often remain in the scheme<br><br>Underestimated risks:<br><br>- Inflation risk is underestimated. Inflation risk could be considered in the calculation of the SCR, especially for unconditional inflation linked pension benefits and final salary plans.<br><br>- Sovereign debt risk: It is remarkable that no capital requirement should apply to borrowings by or demonstrably guaranteed by national government of an EEA state. The recent crisis showed that government bonds are not risk-free.<br><br>Credit rating agencies | See added option on inflation and real rate |

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| | | | The calculation of the different risks for the SCR relies very much on the credit rating of a sponsor and investments. However, the European Commission is reviewing the Credit Ratings Regulation, which will reduce the reliance on ratings in financial regulation. Relying heavily on credit ratings will introduce procyclicality into the solvency assessment of IORPs, thereby amplifying risk.<br><br>SCR and double counting<br><br>With respect to pension liability risks within the SCR, this risk would be double counted if IORPs should incorporate a risk margin into their technical provisions for adverse assumptions. In the Technical Specifications, no attention is paid to this possible double counting.<br><br>We disagree with the proposal of including a risk margin into the technical provisions in order to create a safety net for wrong assumptions. This should be done in the SCR. Including uncertainty into the technical provisions themselves leads to the risk of piling up prudence on prudence.<br><br>Confidence interval<br><br>We would like EIOPA to share the common method to be developed in order to derive results on a 97,5% and 95% security level from results based on a 99,5% security level. In our opinion, this is not possible without recalculating all modules, as the effects of the different steering mechanisms | See added explanation |

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| | | | may not be linear. Given that EIOPA intends to perform only one QIS before the EC presents a proposal for a Directive, we think that explicit calculation of at least the 97,5% and 95% security levels should be included in this QIS and IORPs themselves should have the possibility to calculate these. Without this information, we fear that any EC decision regarding the security level will be biased, because only one set of results will be available at the time. Inclusion of two additional confidence levels will put even greater stress on IORPs to finish the QIS within the given timeframe. This only adds to our remark that the timeframe is too tight for IORPs to properly complete the QIS.<br><br>The EFRP stresses that, in its view, the EC should not choose any harmonized security level, but leave this up to individual IORPs/Member States.<br><br>MCR<br>The use of the MCR under a prudential framework is not clear yet. Therefore, we cannot answer the questions. We would like to ask EIOPA to be vigilant not to bring in any double counting of risks covered by the MCR and the SCR. | Noted<br><br>Noted |
| 81. | Federation of the Dutch Pension Funds | Q17. | As we consider the security level to be part of the specific pension contract we do not think that the risks IORPs are facing are adequately reflected in the proposed calculations.<br><br>Market risk & European economy | Noted |

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| | | | The market risk module provides an incentive for IORPs to invest in (risk-free) bonds instead of alternative investments or in equity. As the crisis has taught us, government bonds are no longer secure. In addition, especially investments in alternative investments, such as infrastructure, will result in a higher required solvency margin. Investments in listed companies, direct investment in SME companies and investments in infrastructure by IORPs contribute to the Europe 2020 agenda and the growth of the entire European economy. This might be hampered due to the proposed higher risk buffers. In order to mitigate this non desirable incentive, we support the duration-based approach. However, we plead to decrease the prescribed stress level not only for equity investments, but also for other asset categories (alternative investments, property).<br><br>Different risk categories<br><br>Furthermore, we believe that – especially for the purpose of this QIS –some risks should not be included in the calculation of the SCR as they are not likely to be material for IORPs: health risk, operational risk, intangible asset risk module, pension disability-morbidity risk, pension revision risk, pension catastrophe risk, sub-module and counterparty default risk module. Inflation risk should be considered in the calculation of the SCR, especially for unconditional inflation linked pension benefits and final salary DB plans.<br><br>The strong reliance on the rating of assets and the capital requirements (for spread risk and (sponsor) default risk is remarkable, since a lot of European policy makers are aiming to reduce over reliance on ratings. According to a recent ECON | Noted<br><br>Noted, see introduction on proportionality<br><br>Noted |

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| | | | statement, no EU law will be permitted to refer to credit rating for regulatory purposes. Furthermore, it is remarkable that no capital requirement should apply to borrowings by or demonstrably guaranteed by national government of an EEA state. The risk of sovereign debt seems to be underestimated according to us.<br><br>The longevity risk on the contrary, seems to be overestimated. With respect to pension liability risks within the SCR, this risk would be counted double if IORPs should incorporate a risk margin into their technical provisions for adverse assumptions. Also risks with respect to pension liabilities will be counted double. In the technical specifications, no attention is paid to this possible double counting. However, we reject the proposal to include a risk margin to the technical provisions in order to create a safety net for wrong assumptions. This should be done at the SCR. Including uncertainty to the technical provisions themselves leads to the risk of piling up prudence on prudence.<br><br>Confidence interval<br><br>We would like EIOPA to share the common method to be developed in order to derive results at a 97.5% and 95% security level from results based on a 99.5% security level. In our opinion, this is not possible without recalculating all modules, as the effects of the different steering and adjustment mechanisms will not be linear. Given that EIOPA intends to perform only one QIS before the EC presents a draft IORP Directive, we think that explicit calculation of at least the 97.5% and 95% security levels should be included in this QIS and asked to be calculated by the IORPs themselves. Without this | Noted<br><br>Noted, see added explanation |

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| | | | information, we fear that in any decision of the EC regarding the security level the EC will be biased because only one set of results will be available at the time. We want to reiterate, however, that we are of the opinion that the E C should not choose any harmonised security level, but leave this up to individual IORPs/Social Partners/Member States. Of course, we are aware that inclusion of two additional confidence levels will put even greater stress upon IORPs to finish the QIS within the given timeframe and, this naturally adds to our remark that we feel that the timeframe is too tight for IORPs to properly complete the QIS.<br><br>MCR<br><br>The use of the MCR under a prudential framework is not clear yet and is not part of the current IORP Directive. Therefore, we cannot answer the questions if the prescribed calculation of a MCR is appropriate. However, the proposed MCR calculation could lead to an increase of the MCR (compared to the current level from IORP I and FTK in the Netherlands). We do not see any valid/ good reason for increasing the current MCR. | Noted |
| 82. | Financial Reporting Council – staff response | Q17. | The majority of the material risks facing IORPs are covered with the exception of inflation risk and possibly legislative and tax risk (which might be considered to be within or alongside operational risk).<br><br>The pension liability risks include several elements which are likely to produce very small SCRs in most cases. For example in many IORPs the mortality risk SCR might be very small. The | Noted, see added option on inflation and real rate<br><br>Noted, see introduction on proportionality |

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| | | | pension liability risk could be split into just three elements – longevity, benefit option and other. This would simplify the calculations. | |
| 83. | German Institute of Pension Actuaries | Q17. | The risks in the specification are the same as for the life insurance industry. But for German IORPs the following risks should not be included in the calculation of the SCR as they are not likely to be so material:<br>• Health risk<br>• Operational risk<br>• Intangible asset risk module<br>• Benefit option risk<br>• Pension revision risk<br>• Pension catastrophe risk sub-module<br>We cannot identify any additional risks that should be considered in the calculation of the SCR.<br><br>The interest rate risk does not reflect the long term nature of pension liabilities and does not resolve the problem that market-based risk free interest rates are quite volatile whilst the liabilities are not. So, using such an interest rate stress sets inconsistent management incentives for a pension fund that should be a steady long-term investor in capital markets.<br><br>The property shock (instantaneous decrease of 25%) is too high and does not reflect the risk of property-investments of German | Noted, see introduction on proportionality<br><br>Noted<br><br>Noted |

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| | | | IORPs.<br><br>Furthermore, there is an element of double counting in the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the technical provisions already includes allows for future improvements in longevity<br><br>The given approach is extremely hard to handle in particular for smaller IORPs. We expect that the costs will be not appropriate and this circumstance will reduce the number of participants so that the information value is questionable. | Noted<br><br>Noted |
| 84. | GESAMTMETALL - Federation of German employer | Q17. | Before the question if stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR will be answered, we would like to mention that it is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level. Due to the (option) valuations of the adjustment and steering mechanisms, other security levels can not be derived from the 99.5% level (since there is no longer a normal distribution). In addition, the calculation of the different risks for the SCR rely very much on the credit rating of a sponsor and investments. This is remarkable since MEP's are aiming to reduce over reliance on ratings. According to a recent ECON vote, no EU law will be permitted to refer to credit rating for regulatory purposes. The objective for a MCR within a prudential framework for IORPs is unclear. Therefore, it is not possible to respond to the question if the risks IORPs are facing adequately reflected in the calculation of the MCR. | Noted, see added explanation<br><br>Noted |

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| | | | SCR Risks<br>We believe that – especially for the purpose of this QIS – some risks should not be included in the calculation of the SCR as they are not likely to be material:<br>• Health risk (in most Member States)<br>• Operational risk<br>• Intangible asset risk module<br>• Market risk concentrations<br>• Pension disability-morbidity risk<br>• Pension revision risk<br>• Pension catastrophe risk sub-module<br>• Counterparty default risk module - except for sponsor support<br><br>Market risk:<br>– We would like to ask attention to the fact that the capital requirements for equity as proposed will provide a strong incentive for pension funds to change their asset mix into more bonds and will therefore drop out as investors at the stock market.<br><br>Pension longevity risk: | Noted, see introduction on proportionality<br><br>Noted |

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| | | | – There is an element of double or even triple counting in the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the technical provisions already includes future improvements in longevity and IORPs possibly have to use a risk margin in the valuation of their technical provisions to provide for insecurity around the longevity trend included.<br><br>Pension disability-morbidity risk:<br>– The capital charge for pension disability-morbidity risk could be lower compared to insurers, since IORPs do not have the disadvantage of adverse selection (due to mandatory participation) | Noted<br><br>Noted |
| 85. | Groupe Consultatif Actuariel Européen | Q17. | Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br>We believe a number of the risk modules may not be material for many IORPs, and it would be appropriate to require calculation of these risk modules only where there is reason to believe there is a material risk exposure for the IORP. We believe this should apply to the Operational Risk, Intangible Asset Risk and Disability-Morbidity Risk. | Noted, see introduction on proportionality |

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| | | | In relation to pension longevity risk, there appears to be an element of double, or even triple, counting. The SCR requires a 20% decrease in mortality rates to be assumed, yet the best estimate used in calculation of the technical provisions already includes allowance for future improvements in longevity. In addition, it seems that IORPs may have to include a risk margin in the valuation of their technical provisions to provide for uncertainty around the longevity trend included.<br><br>We believe also that the capital charge for pension disability-morbidity risk could be lower compared to insurers as IORPs do not have the potential disadvantage of adverse selection.<br><br>We believe that EIOPA might usefully consider additional SCR modules for<br>☐ Consumer price inflation and salary inflation – these may be material risks for some IORPs<br>☐ Sponsor support (separate from any SCR module relating to other counterparty exposure types). | Noted<br><br>Noted<br><br>Noted, see added option on inflation and real rate<br><br>Noted |
| 86. | Hundred Group of Finance Directors | Q17. | Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR? | |

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| | | | Many elements of the proposed calculations are not relevant to UK IORPS e.g. health risk or intangible assets risk.<br><br>The exclusion of inflation risk is surprising. | Noted, see introduction on proportionality<br><br>Noted, see added option on inflation and real rate |
| 87. | IBM Deutschland Pensionsfonds AG | Q17. | We do not agree with a market consistent valuation of assets and liabilities as we do not believe short-term changes in market prices should drive the management of institutions that cover long-term liabilities and follow long-term investment strategies. Given that members cannot call their benefits before they are due (unlike customers of banks and insurance companies), market risk is a secondary risk to IORPs. The primary risk of changing asset prices is the effect on the portfolio return of reinvestments. This only changes gradually over time, however, due to the long duration of the assets in the portfolio. An SCR computed on the basis of a shock in asset prices is therefore completely inappropriate for IORPs.<br><br>The same applies to interest rate risk. Interest rate risk is only present because the QIS requires assets to be marked to market and liabilities to be discounted with a "market consistent" discount rate. In a sense, EIOPA is introducing pseudo-risks to IORPs. It is the absolute level of interest rates or market returns over time which matter, not inter-temporal changes to these variables. | Noted<br><br>Noted |

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| | | | Pension longevity risk: There is an element of double counting in the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the technical provisions already allows for future improvements in longevity. | Noted |
| | | | Pension disability-morbidity risk: The capital charge for pension disability-morbidity risk could be lower compared to insurers, since IORPs do not have the disadvantage of adverse selection (due to mandatory participation). | Noted |
| | | | Sponsor default risk: We are not sure why this is included in SCR as it seems to be double counted. | Noted |
| | | | Catastrophe risk: Not relevant for IORPs. | Noted, see introduction on proportionality |
| | | | Lapse risk: Not relevant for IORPs | Noted, see introduction on proportionality |
| | | | Spread risk: Too difficult for IORPs to calculate. | Noted |
| | | | Benefit option risk: Immaterial or does not cause strain on the fund. | Noted, see introduction on proportionality |
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| | | | The calculation of the different risks for the SCR relies very much on the credit rating. This is remarkable given that the European Commission is reviewing the Credit Ratings Directive which will reduce the reliance on ratings in financial regulation. Relying heavily on credit ratings will introduce pro-cyclicality into the solvency assessment of IORPs thereby amplifying risk. | |
| 88. | Institute and Faculty of Actuaries | Q17. | Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br><br>It is not possible to say with any certainty that the risks are adequately reflected without knowing the regulatory actions that would be driven by the SCR and MCR.<br><br>Whilst we remain to be convinced that the SCR is a useful piece of information in the context of UK IORPs we make the following technical comments:<br><br>☐ If calculating an SCR, we consider it appropriate to include additional shocks – such as those relating to inflation risk (although, within the UK, many IORPs' exposure to inflation risks is 'capped') but to exclude those modules that are expected to be immaterial for most IORPs<br><br>☐ We consider that the value of sponsor support as proposed could be volatile and could be expected to be subject to shock at, at least, the level applicable to equities – possibly an even higher level to recognise the concentration risk. | Noted<br><br>Noted, see added option on inflation and real rate and introduction on proportionality<br><br>Noted |

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| | | | ☐ We consider the proposed longevity shock to be too crude.<br><br>☐ We also consider that the allowance for an equity risk dampener is not statistically robust. Moreover, the dampener as at 31 December 2011 is likely to be lower than the level quoted in the QIS technical specification consultation document (assuming that it is based on the average MSCI Index performance, similar to the approach in QIS5 for Solvency II). This will result in higher equity stresses than the 30% ("global") and 40% ("other") quoted.<br><br>As suggested in our response to question 6, we question whether there should be an explicit Risk Margin or whether it should be incorporated within the SCR. If the option is chosen of a Risk Margin based on explicit provision for adverse deviation, it may not be appropriate to include longevity or mortality stresses within the SCR. We think EIOPA should consider these aspects further – and we would urge a delay in carrying out the QIS to allow sufficient time to do so. | Noted<br><br>Noted<br><br>Noted |
| 89. | Insurance Europe | Q17. | IORPs and insurers providing occupational pension business face similar risks. Therefore similar risks should be considered in the calculation of the SCR. | Noted |
| 90. | KPMG LLP (UK) | Q17. | Following our comments in Q15, we would recommend that inflation risk be modelled consistently with interest rate risk.<br><br>In terms of the MCR, we would also note that without any indication of the MCR's ultimate use, it is not possible to comment on the proposed calculations. | Noted, see added option on inflation and real rate<br><br>Noted |
| 91. | Mercer Ltd | Q17. | Do stakeholders believe that the risks IORPS are facing are | |

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| | | | adequately reflected in the calculation of the SCR and MCR (Chapters 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br><br>We agree that Chapter 3 seems to identify most of the risks faced by IORPs, but we cannot say whether the proposed approach is 'adequate' since there is no information about how the results produced will be used by IORPs or by regulators. Clearly, as noted earlier, changing inflation expectations is a key risk faced by many defined benefit schemes but this is largely ignored in the proposed approach.<br><br>Because IORPs' benefit and legal structures vary, in many cases we expect that many of the risks being captured are unlikely to be material, although in other cases they might be. It is because of these fundamental differences that we consider a more principles based approach would be more appropriate.<br><br>On some of the detailed aspects:<br>☐ without commenting on the appropriateness of the measure chosen, in closed schemes, we expect the mortality 'shock' will be increasingly likely to overstate the relative size of the risk as the population ages;<br>☐ we do not believe that the altered term structure created using the table in SCR5.21 is necessarily appropriate for pension | Noted<br><br>Noted, see introduction on proportionality<br><br>Noted<br><br>Noted |

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| | | | scheme liabilities which are illiquid and long term.<br><br>☐ a blanket stress applied to an asset class may not reflect underlying reality. For example some property and alternative asset classes may have very stable returns and low volatility while others may have precisely the opposite characteristics<br><br>☐ we are uncertain about the derivation of the equity adjustments<br><br>☐ inflation risk, which appears to have been ignored or described as a work in progress, is likely to be material in many schemes but has not been given proper consideration;<br><br>☐ many IORPs give fiduciaries the power to wind up the IORP, which in jurisdictions like the UK could trigger an immediate financial requirement on the sponsor. | Noted<br><br>Noted<br><br>Noted, see added option on inflation and real rate<br><br>Noted |
| 92. | National Association of Pension Funds (NAPF) | Q17. | Do stakeholders believe that the risks IORPs are facing are adequately<br><br>reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there<br><br>in the stakeholders' view any risks being considered that are not material and<br><br>could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br><br>The NAPF is very concerned that the SCR proposals appear to be directly copied from Solvency II. Several of the risks included | Noted, see introduction |

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| | | | in the SCR are far less relevant for UK pension schemes (at least in the U) and should be excluded. These include:<br><br>- catastrophe risk<br>- health risk<br>- operational risk<br>- intangible asset risk<br>- pension disability-morbidity risk<br>- pension revision risk<br><br>Note that pension disability-morbidity risk and pension revision risk are relevant for some other Member States; these should be listed separately.<br><br>Meanwhile, the EIOPA proposals completely overlook some significant risks. For example – especially in the light of events in the Eurozone over the past 12 months – it seems remarkable that no capital requirement should apply to bonds issued by national governments, when the market applies, in some cases, a significant risk premium.<br><br>If a market-consistent approach is inappropriate here, then it is inappropriate in other areas. If, in the light of this comment, EIOPA considers a market-consistent approach should be taken, then we assume that EIOPA would propose that this be | on proportionality<br><br>Noted<br><br>Noted<br><br>Noted |

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| | | | amended within Solvency II for insurers.<br><br>If an SCR calculation is required, it might also be appropriate to include an additional shock relating to inflation risk.<br><br>Again, these complex issues need to be examined in detail in a separate round of QIS. | Noted, see added option on inflation and real rate<br><br>Noted |
| 93. | Pension Protection Fund, UK. | Q17. | As noted in our response to question 15, inflation can have a significant impact on IORPs' costs and therefore represents an important risk. We would therefore suggest that inflation risk should also be considered as part of the calculation of the SCR. | Noted, see added option on inflation and real rate |
| 94. | Punter Southall | Q17. | Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br><br>No, we do not believe that the risks UK IORPs are facing are adequately reflected in the calculations of the SCR and MCR (e.g. inflation risk is not included). In addition, many of the risks included are not relevant to UK IORPs (e.g. intangible assets risk, health risk or catastrophe risk). | Noted, see introduction on proportionality |

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| 95. | Railways Pension Trustee Company Limited (RPTCL) | Q17. | As noted in our response to Q16, we do not consider the inclusion of the SCR to be appropriate. However, if plans for an SCR calculation were to proceed, RPTCL considers that it might be appropriate to include an additional risk relating to inflation.<br><br>With regard to items that should be excluded, we would wish to be assured that there is no double counting of risks relating to sponsor support, given the allowances for sponsor support within the holistic balance sheet calculations.<br><br>On a more general point, we note that the investment related risks have been included as a technical view of short-term asset volatility. However, we are concerned about the overall impact on the potential size of the SCR that may result and the impact there may be on investment strategies and markets, especially when combined with the use of risk-free interest rates within the technical provisions.<br><br>Using our own IORPs as an example, they currently hold around 18 billion euros of return seeking assets but there would appear to be significant disadvantages from holding this type of asset if technical provisions are measured using risk-free rates and they also serve to increase the SCR. The sale of our return seeking assets, together with the sale of return seeking assets by other European pension schemes, could be expected to have a large impact on both European stock markets and the European economy as a whole. In addition, changes in pension schemes' investment strategies would lead to a huge increase in demand | Noted, see added option on inflation and real rate<br><br>Noted<br><br>Noted<br><br>Noted |

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| | | | for gilt-edged securities, causing even more distortion to market yields used as a basis for discounting. | |
| 98. | Tesco Plc | Q17. | As discussed above, the consultation provides no guidance on how these calculations will be used in practice, so we cannot comment on this element. | Noted |
| 99. | Towers Watson B.V. | Q17. | Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br><br>We question whether there should be an explicit Risk Margin or whether it should be incorporated within the SCR. If the option is chosen of a Risk Margin based on explicit provision for adverse deviation, then the existence of this margin should be taken into account when determining the stresses within the SCR.<br><br>Other than the Dutch Required Own Funds calculations (where it is typically considered as non-standard), the SCR currently doesn't take into account inflation risk. | Noted<br><br>Noted, see added option on inflation and real rate |
| 100. | Towers Watson GmbH, Germany | Q17. | As mentioned in our general comments at outset, we consider | Noted |

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| | | | calculating the SCR and MCR to have little benefit and significant cost, particularly as the 'ladder' of intervention' is not specified and a definition of appropriate own funds is not part of the QIS specification (in contrast to QIS5 as part of Solvency II). | |
| 101. | Towers Watson UK | Q17. | Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br><br>As mentioned in our general comments at outset (and repeated at the end of this section), we consider calculating the SCR to have no benefit (and significant cost) for the vast majority of UK IORPs. The remainder of our comments, therefore, are on technical aspects. They are, in no way, intended to intimate that we consider calculation of an SCR to be appropriate.<br><br>If an SCR calculation is to be required, we consider that it might be appropriate to include an additional shock relating to inflation risk (although, within the UK, many IORPs' exposure to inflation risks are 'capped')<br><br>In our response to question 9, we highlighted the need to re-examine the impact of the counterparty default risk module in relation to sponsor support. This is to ensure there is no 'double counting' of risks, taking into account the way in which sponsor support is valued in the HBS.<br><br>As suggested in our response to question 6, we question | Noted<br><br>Noted, see added option on inflation and real rate<br><br>Noted<br><br>Noted |

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| | | | whether there should be an explicit Risk Margin or whether it should be incorporated within the SCR. If the option is chosen of a Risk Margin based on explicit provision for adverse deviation, then the existence of this margin should be taken into account when determining the stresses within the SCR.<br><br>We do not believe that the pension revision risk sub-module is generally appropriate for UK IORPs.<br><br>Comments on (non) relevance of the SCR to UK IORPs<br><br>We cite the SCR as a particular example of an area of the proposals that does not recognise the current situation of UK IORPs. The majority of UK IORPs are 'closed' to new entrants and 'on a journey' to settlement – through the final discharge of their remaining liabilities by buying out with one or more insurers. Unlike insurance companies, UK IORPs do not exist to transact business for profit. As soon as they reach the level of funding at which they could pass their liabilities to the insurance market, they will do so. Sponsors are, in general, funding the shortfalls in their pension plans as quickly as they can reasonably afford. We question, therefore, whether the SCR has more than a theoretical relevance and therefore whether producing the figures required to construct it would be cost-effective. | Noted, see introduction on proportionality<br><br>Noted |
| 102. | Trades Union Congress (TUC) | Q17. | We do not believe that the risks facing IORPs are adequately reflected in the calculation of the SCR and MCR, not least because the risks appear to have been transposed directly from Solvency II legislation. A more comprehensive analysis of the actual risks faced by IORPs is required before the QIS is able to proceed in any meaningful sense. | Noted |

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| 103. | Universities Superannuation Scheme Limited | Q17. | Do stakeholders believe that the risks IORPs are facing are adequately<br>reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there<br>in the stakeholders' view any risks being considered that are not material and<br>could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?<br><br>The NAPF is very concerned that the SCR proposals appear to be directly copied from Solvency II. Several of the risks included in the SCR are far less relevant for pension schemes and should be excluded. These include;<br><br>- catastrophe risk<br>- health risk<br>- operational risk<br>- intangible asset risk<br>- pension disability-morbidity risk<br>- pension revision risk<br>- counterparty default risk. | Noted, see introduction on proportionality |

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| | | | However, the draft specification completely overlook some significant risks. For example it is remarkable that inflation risk has not been included. In addition, it also seems extraordinary that all government fixed income assets should be considered to be of equal risk. | Noted, see added option on inflation and real rate |
| 104. | UVB Vereinigung der Unternehmensverbände in Berlin | Q17. | Before the question if stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR will be answered, we would like to mention that it is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level. Due to the (option) valuations of the adjustment and steering mechanisms, other security levels can not be derived from the 99.5% level (since there is no longer a normal distribution). In addition, the calculation of the different risks for the SCR rely very much on the credit rating of a sponsor and investments. This is remarkable since MEP's are aiming to reduce over reliance on ratings. According to a recent ECON vote, no EU law will be permitted to refer to credit rating for regulatory purposes. The objective for a MCR within a prudential framework for IORPs is unclear. Therefore, it is not possible to respond to the question if the risks IORPs are facing adequately reflected in the calculation of the MCR.<br><br>SCR Risks<br>We believe that – especially for the purpose of this QIS – some risks should not be included in the calculation of the SCR as they are not likely to be material: | Noted, see added explanation<br><br>Noted<br><br>Noted, see introduction on proportionality |

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| | | | • Health risk (in most Member States)<br>• Operational risk<br>• Intangible asset risk module<br>• Market risk concentrations<br>• Pension disability-morbidity risk<br>• Pension revision risk<br>• Pension catastrophe risk sub-module<br>• Counterparty default risk module - except for sponsor support<br><br>Market risk:<br>– We would like to ask attention to the fact that the capital requirements for equity as proposed will provide a strong incentive for pension funds to change their asset mix into more bonds and will therefore drop out as investors at the stock market.<br><br>Pension longevity risk:<br>– There is an element of double or even triple counting in the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the technical provisions already includes future improvements in longevity and IORPs possibly have to use a risk margin in the valuation of their technical provisions to provide for insecurity around the | Noted<br><br>Noted |

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| | | | longevity trend included.<br><br>Pension disability-morbidity risk:<br>– The capital charge for pension disability-morbidity risk could be lower compared to insurers, since IORPs do not have the disadvantage of adverse selection (due to mandatory participation) | Noted |
| 105. | vbw – Vereinigung der Bayerischen Wirtschaft e. V. | Q17. | Before the question if stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR will be answered, we would like to mention that it is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level. Due to the (option) valuations of the adjustment and steering mechanisms, other security levels can not be derived from the 99.5% level (since there is no longer a normal distribution). In addition, the calculation of the different risks for the SCR rely very much on the credit rating of a sponsor and investments. This is remarkable since MEP's are aiming to reduce over reliance on ratings. According to a recent ECON vote, no EU law will be permitted to refer to credit rating for regulatory purposes. The objective for a MCR within a prudential framework for IORPs is unclear. Therefore, it is not possible to respond to the question if the risks IORPs are facing adequately reflected in the calculation of the MCR.<br><br>SCR Risks | Noted, see added explanation<br><br>Noted |

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| | | | We believe that – especially for the purpose of this QIS – some risks should not be included in the calculation of the SCR as they are not likely to be material:<br>• Health risk (in most Member States)<br>• Operational risk<br>• Intangible asset risk module<br>• Market risk concentrations<br>• Pension disability-morbidity risk<br>• Pension revision risk<br>• Pension catastrophe risk sub-module<br>• Counterparty default risk module - except for sponsor support<br><br>Market risk:<br>– We would like to ask attention to the fact that the capital requirements for equity as proposed will provide a strong incentive for pension funds to change their asset mix into more bonds and will therefore drop out as investors at the stock market.<br><br>Pension longevity risk:<br>– There is an element of double or even triple counting in the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the technical | Noted, see introduction on proportionality<br><br>Noted<br><br>Noted |

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| | | | provisions already includes future improvements in longevity and IORPs possibly have to use a risk margin in the valuation of their technical provisions to provide for insecurity around the longevity trend included.<br><br>Pension disability-morbidity risk:<br>– The capital charge for pension disability-morbidity risk could be lower compared to insurers, since IORPs do not have the disadvantage of adverse selection (due to mandatory participation) | Noted |
| 106. | Vereinigung der hessischen Unternehmerverbände (Vh | Q17. | Before the question if stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR will be answered, we would like to mention that it is not clear how EIOPA will infer other security levels from the calculations on a 99.5% level. Due to the (option) valuations of the adjustment and steering mechanisms, other security levels can not be derived from the 99.5% level (since there is no longer a normal distribution). In addition, the calculation of the different risks for the SCR rely very much on the credit rating of a sponsor and investments. This is remarkable since MEP's are aiming to reduce over reliance on ratings. According to a recent ECON vote, no EU law will be permitted to refer to credit rating for regulatory purposes. The objective for a MCR within a prudential framework for IORPs is unclear. Therefore, it is not possible to respond to the question if the risks IORPs are facing adequately reflected in the calculation of the MCR. | Noted, see added explanation<br><br>Noted |

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| | | | SCR Risks<br><br>We believe that – especially for the purpose of this QIS – some risks should not be included in the calculation of the SCR as they are not likely to be material:<br><br>• Health risk (in most Member States)<br>• Operational risk<br>• Intangible asset risk module<br>• Market risk concentrations<br>• Pension disability-morbidity risk<br>• Pension revision risk<br>• Pension catastrophe risk sub-module<br>• Counterparty default risk module - except for sponsor support<br><br>Market risk:<br><br>– We would like to ask attention to the fact that the capital requirements for equity as proposed will provide a strong incentive for pension funds to change their asset mix into more bonds and will therefore drop out as investors at the stock market.<br><br>Pension longevity risk: | Noted, see introduction on proportionality<br><br>Noted |

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| | | | – There is an element of double or even triple counting in the requirement to assume a 20% decrease in mortality rates as the best estimate used in calculation of the technical provisions already includes future improvements in longevity and IORPs possibly have to use a risk margin in the valuation of their technical provisions to provide for insecurity around the longevity trend included.<br><br>Pension disability-morbidity risk:<br>– The capital charge for pension disability-morbidity risk could be lower compared to insurers, since IORPs do not have the disadvantage of adverse selection (due to mandatory participation) | Noted<br><br>Noted |
| 107. | Zusatzversorgungskasse des Baugewerbes AG | Q17. | No, as mentioned extensively throughout the last years and within this consultation ZVK-Bau does not believe that the risks it is facing are adequately reflected in the calculation of the SCR and MCR. We believe that a model which is limited to a market consistent, one year time horizon and value driven approach, which leaves liquidity and liquidity reserves out of the equation will never be able to adequately reflect the risks and risk mitigation techniques of IORPs.<br><br>MARKET RISK<br>The incentive to offset market risk by investing in long lasting | Noted<br><br>Noted |

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| | | | (government) bonds might prove even dangerous by distorting these narrow markets.<br><br>PENSION LONGEVITY RISK<br><br>As this risk is embedded in the actuarial valuation of the technical provisions we do believe this risk does not need to be included in the SCR.<br><br>MARKET PROPERTY RISK<br><br>We regret that within this QIS real estate is valued only as asset for sale. Real estate as long term investment provides duration and anti-inflation effects that support IORPs' efforts to close the duration gap between fixed income assets and liabilities. In the framework proposed, a simple downshift of 25% in the value of investments in real estate together with a fixed correlation of 50% to the interest rate risk part can seriously overestimate the capital requirement of the IORPs in these assets.<br><br>We believe the approach of the calculation of the capital requirement for market property risk to be too simple minded. We suggest that the following alternative should be available to IORPs: If the IORP is able to calculate the market value of investments in real estate via discounted cash flow models, it should also be allowed to use these models in the calculation of the capital requirement for the corresponding risk. The risk should at least be divided in a part arising from the discounting of the cash flows and a part arising from the volatility of the cash flows. The first part should be included in the calculation of the capital requirement for interest rate risk and only the | Noted<br><br>Noted |

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| | | | second part should be handled as property risk. Furthermore we believe the general downshift of 25% to be too large. There should at least be different shift-levels for investments in residential real estate and investments in commercial real estates. | |
| 108. | OPSG | Q18. | The way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is not adequately taken into account in the calculation of the SCR. Specific details on how to calculate the net SCR parts are missing, especially the nBSCR(TP) and nBSCR(SM) and – the simplification of separating the effect of loss absorbing capacity of the technical provisions and of the steering mechanisms is inappropriate for most IORPs in which both depend on a funding ratio. Also, the separation is no simplification as it requires double the calculations and an unclear treatment of interdependent effects.<br><br>In addition, the sequence of calculation is extremely difficult to follow. We propose a method in which not an adjustment (Adj) for the loss absorbing capacity is calculated, but rather a direct calculation of a gross and a net SCR. The detour of any adjustment calculation is considered unnecessary and complex for the purpose of this QIS.<br><br>The OPSG would like to note that under full loss absorbing capacity in case of a complete contract, the change in the funding ratio of the HBS will be always 0, and therefore results in an SCR of 0. | Noted, see revised text<br><br>Noted<br><br>Noted |
| 109. | aba Arbeitsgemeinschaft | Q18. | In principle, the loss absorbing capacity of adjustment | Noted |

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| | für betriebliche Altersver | | mechanisms should be taken into account in assessing the solvency position of an IORP. We believe that EIOPA needs to investigate the various adjustment mechanisms available to IORPs in more detail as the proposed technical specifications are too vague and insufficient. In particular, smaller IORPs will be unable to handle these computations. | |
| 110. | AEIP – The European Association of Paritarian Inst | Q18. | No, AEIP does not believe that the loss-absorbing capacity of the adjustment mechanisms and security mechanisms are adequately taken into account in the SCR calculation.<br><br>First of all we find the formula proposed too difficult and complex for small IORPs to follow.<br><br>Secondly, we also point out that in the technical specifications there seems to be missing parts for this formula, namely the nBSCR(TP) and the nBSCR(SM) elements.<br><br>Thirdly, the formula proposed seems also to be too dependent on the rating of the sponsor (unrated sponsor would have very poor loss absorbing capacity). See also our response to Q17.<br><br>Finally, under full absorbing capacity in case of a complete pension contract, the SCR will equal to 0, making the SCR an element of uncertain use to evaluate the solvency position of IORPs. | Noted<br><br>Noted<br><br>Noted, see revised text<br><br>Noted<br><br>Noted |

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| 112. | Aon Hewitt | Q18. | It is not clear how the SCR is to be presented in the HBS. Do the loss absorbing mechanisms reduce the SCR, with this net amount shown, or are the SCR and the impact of the loss absorbing provisions to be shown gross in the HBS?<br><br>It is also unclear whether the contribution to the SCR arising from the concentration risk and stressed credit risk in respect of the value placed on the sponsor covenant can be offset by an increase in the value placed on the sponsor covenant (subject to not exceeding the maximum sponsor covenant).<br><br>It is not clear how the pension protection scheme would be reflected in the SCR where the it guarantees a lower level of benefit and only where the sponsor is not able to provide additional support. It would appear that the pension protection scheme can only ever fill a proportion of any shortfall in funding ignoring the pension protection scheme.<br><br>Please also see our comments to SCR.2.17. Calculating net Basic Solvency Capital Requirements massively increases the amount of calculations required, and overall complexity of the calculations. Given that no decision has been made on confidence level ,for the purpose of the QIS, why not simply set the adjustment to the maximum amounts defined in SCR.2.20? We note that the net SCR may not reduce to zero (eg counterparty default risk of plan sponsor), so EIOPA could state | Noted<br><br>Noted<br><br>Noted<br><br>Noted |

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| | | | that the minimum value of the net Basic SCR equals the part of the SCR in respect of sponsor default risk. | |
| 113. | Association of British Insurers | Q18. | As outlined in Q16 it is difficult to comment on the adequacy of the calculation of the MCR and SCR without understanding the regulatory actions that would be triggered if these capital levels were breached. | Noted |
| 114. | Association of Consulting Actuaries UK | Q18. | The description of the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is not entirely clear; more detail on how the nBSCR(TP) and the nBSCR(SM) are calculated would be helpful. Further the calculations seem overly complex for the purpose of the QIS and, in any case, are difficult to follow.<br><br>We do not believe that estimating the nBSCR(TP) and the nBSCR(SM) separately would necessarily be a simplification; moreover it seems that if this was adopted as the actual calculation method this could double IORPs' workloads. It is also not clear how interdependent effects should be treated. | Noted<br><br>Noted, see revised text |
| 115. | Balfour Beatty plc | Q18. | Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?<br><br>We are concerned that this approach which requires three | Noted |

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| | | | different SCR calculations is complex and will be expensive. | |
| 116. | Barnett Waddingham LLP | Q18. | The calculations are unclear and may give rise to double-counting. We believe further attention should be given to the interaction of the various factors, for example with regard to IORPs' investment strategies and the need to impose a floor on individual mechanisms. | Noted |
| 117. | BASF SE | Q18. | Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?<br><br>We welcome that EIOPA recognises the loss-absorbing capacity of IORPs' adjustment mechanisms and security mechanisms. However, given the fact that the Holistic Balance Sheet is basically Solvency II with some additional, supplementary adjustments for IORPs, we do not agree with EIOPA's approach to adopt the Holistic Balance Sheet to IORPs. | <br><br><br><br>Noted |
| 118. | Bayer AG | Q18. | No, see previous answers. | Noted |
| 119. | Belgian Association of Pension Institutions (BVPI- | Q18. | No.<br><br>We do strongly disagree to the principle of the calculation of the SCR. It is too complex and too burdensome for the small Belgian IORPs. Furthermore a lot of calculations are imposed although in the Belgian context those risks are not born by the IORP. Complex SCR calculations while loss absorbing capacities will mostly neutralize them. The costs to make all these type of | Noted<br><br>Noted |

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| | | | calculation are not in proportion to size of the Belgian IORPs. This part seems to be a copy paste of Solvency II and does not take into account the specificities of an IORP. More simplifications are needed.<br><br>There seems to be overdependence on the judgment of rating agencies. What for local subsidiaries of multinational groups? Industry-wide plans? Multi-employer plans? (How to determine the rating? The company wealth? Multi-employer with/without solidarity? One or multiple holistic balance sheets? Public sector? Non-profit? Etc…)<br><br>Next to our disagreement to the SCR we consider as stated earlier the calculation of sponsor support in the HBS as extremely costly and burdensome. On top the iterative approach on the loss absorbing elements in the SCR calculation ask for a more pragmatic and simplified approach. | <br><br><br>Noted<br><br><br>Noted |
| 120. | BlackRock | Q18. | Please see our General Comment above. | |
| 121. | BTPS Management Ltd | Q18. | In addition to the specific concerns raised above in our answer to Question 17, we are concerned that the calculation of the SCR will be significantly complex and expensive. There seems to be an implicit assumption that the sponsor support will increase in value to absorb the factor shocks. | Noted |
| 122. | Deloitte Total Reward and Benefits Limited (UK) | Q18. | No.<br>The introduction of the loss absorbing concept adds an | Noted<br>Noted |

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| | | | additional layer of complexity and cost to the calculations and consideration should be given to whether this could be simplified.<br><br>The way in which the loss absorption impact of sponsor support will be reflected for IORPs with multiple sponsors, or for sponsors with multiple IORPs is unclear.<br><br>We believe the timescale for review should be extended to allow all stakeholders (including EIOPA) to fully assess these issues. | Noted<br><br>Noted |
| 123. | Dexia Asset Management | Q18. | Q18. Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?<br><br>We do not believe the loss absorbing capacity is adapted. The proposed calculations are complex, especially for small IORPs.<br><br>There is not enough guidance on how the loss absorbing capacity of technical provisions should be calculated, especially for conditional benefits. Two different calculation methodologies will have very different outcomes.<br><br>The loss absorbing capacity of security mechanisms is clear but computationally intensive. We do not see the benefit of recursive calculations of sponsor support and PPS. It would be much more simple to calculate | Noted<br><br>Noted<br><br>Noted |

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| | | | 1. The fair value of security mechanisms based on the deficit of invested assets against Level A TP.<br><br>2. The prudent value of security mechanisms based on the deficit of invested assets against Level A TP + SCR, which would include the loss absorbing capacity. | |
| 124. | European Association of Public Sector Pension Inst | Q18. | Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate? | |
| | | | EAPSPI does not believe it is adequate. The idea of sponsor support and pension protection schemes is to deliver a flexible financial "back-up facility". This provides for a very flexible risk mitigating mechanism and insolvency protection without necessarily having all potentially needed capital available at all times. These features form the general character of the additional "assets" IORPs dispose of. | Noted |
| | | | This aspect is not included properly in the structure of Solvency II and thus the HBS. The differentiation of the value of the security mechanisms in the HBS in "normal times" and their loss-absorbing capacity "stress situations" in the SCR as laid out in the QIS seems artificial. IORPs are thus able to close their balance sheets in normal times (therefore the first part) and they are able to fulfill the SCR under stress (therefore the | Noted |

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| | | | second part). This dichotomy is necessary only because of conceptualizing sponsor support and pension protection scheme as financial assets that have to fit into the Solvency II structure and once more indicates that this structure is not adequate for the regulation of IORPs. | |
| 125. | European Federation for Retirement Provision (EFRP | Q18. | Q18. Do stakeholders believe that the way the loss_absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?<br><br>Under a full loss-absorbing capacity in case of a complete contract, the HBS funding ratio will always be 100% (like the funding ratio of an individual DC scheme). This is because changes in (market) conditions will impact the value of HBS items, but not the (holistic) funding ratio (and therefore this will lead to an SCR of 0). This implies that the SCR in the HBS context is possibly not a useful instrument in assessing the solvency position of IORPs, but only a very expensive exercise to test if the pension contract is complete.<br><br>In the draft Technical Specifications, the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is not adequately taken into account in the calculation of the SCR. Specific details on how to calculate the net SCR parts are missing, especially the nBSCR(TP) and nBSCR(SM) and – the simplification of separating the effect of loss absorbing capacity of the technical provisions and of the steering mechanisms is | Noted<br><br>Noted, see revised text |

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| | | | inappropriate for most IORPs in which both depend on a funding ratio. The separation is no simplification as it requires double the calculations and an unclear treatment of interdependent effects.<br><br>The EFRP proposes a direct calculation of a gross and a net SCR. It does not propose this for every risk category separately (with, perhaps, an exemption for sponsor default risk). The detour of any adjustment calculation is considered unnecessary and complex for the purpose of this QIS. | Noted |
| 126. | Federation of the Dutch Pension Funds | Q18. | First of all, we would like to note that under full loss absorbing capacity in case of a complete contract, the Holistic Balance Sheet funding ratio will always be 100% (like the funding ratio of an individual DC scheme). This is so, because changes in (market) conditions will have impact on value of HBS items, but not on (holistic) funding ratio (and therefore this will lead to a SCR of 0). This implies that the SCR in the Holistic Balance Sheet context is not a useful instrument in assessing the solvency position of IORPs.<br><br>In the draft technical specifications, the loss-absorbing capacity of adjustment mechanisms and security mechanisms is not adequately taken into account in the calculation of the SCR. Specific details on how to calculate the net SCR parts are missing, especially the nBSCR(TP) and nBSCR(SM). Furthermore the simplification of separating the effects of the loss absorbing capacity of the technical provisions and of the | Noted<br><br>Noted, see revised text |

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| | | | steering mechanisms is inappropriate for most IORPs where both depend on a funding ratio. This separation is no simplification as it requires a doubling of the calculations and will imply an unclear treatment of interdependent effects.<br><br>Moreover, it is not possible to calculate the net SCR relating to benefit and steering mechanisms by assuming that the value of technical provisions has not changed as a result of the scenario: when it comes to the interest rate scenario, if one assumes that the value of the technical provisions does not change, there would be no effect on the funding ratio, and thus no effect on the value of the security mechanisms. This seems to imply that security mechanisms would only be counted in the equity or property scenario and not in the interest rate scenario.<br><br>We propose a method in which not an adjustment (Adj) for the loss absorbing capacity is calculated, but directly a gross and a net SCR. The detour of any adjustment calculation is considered unnecessary and complex for the purpose of this QIS. | Noted<br><br>Noted |
| 127. | Financial Reporting Council – staff response | Q18. | We are unable to comment as we have not analysed the proposals in section 3.2 in sufficient depth given the limited time. | Noted |
| 128. | German Institute of Pension Actuaries | Q18. | We welcome that the loss absorbing capacity of adjustment mechanisms and security mechanisms in principle are taken into account in the calculation of the SCR. But the concrete way in which the loss-absorbing capacity is taken into account is inappropriate. Specific details on how to calculate the net SCR parts are missing. In the case of a material funding deficit, | Noted |

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| | | | many German IORPs are forced at first to reduce future profit participation rates, then to absorb the net worth and finally to call for the security mechanism (all types of sponsor support and pension protection schemes). Therefore it is necessary to consider this sequential order, when calculating the adjustment for loss-absorbency of technical provisions and security mechanisms.<br><br>The given approach is extremely hard to handle in particular for smaller IORPs. We expect that the costs will be not appropriate and this circumstance will reduce the number of participants so that the information value is questionable. | Noted |
| 129. | Groupe Consultatif Actuariel Européen | Q18. | Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?<br>These appear to be very similar to the corresponding modules proposed for Solvency II. However, we believe there are some specific additions that could be made to this section. It may be appropriate for some IORPs for increases in employee contributions to be included as a form of security mechanism. | Noted |
| 130. | Hundred Group of Finance Directors | Q18. | Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is take into account in the calculation of the SCR (Section 3.2) is adequate? | |

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| | | | We do not find this section particularly clear or easy to understand.<br><br>In principle, if an SCR is to be included in the holistic balance sheet (which we do not believe is necessary), then we agree that it should be possible to offset the additional protections available from sponsor covenant and pension protection schemes against the SCR. | Noted<br><br>Noted |
| 131. | IBM Deutschland Pensionsfonds AG | Q18. | In principle, the loss absorbing capacity of adjustment mechanisms should be taken into account in assessing the solvency position of an IORP. We believe that EIOPA needs to investigate the various adjustment mechanisms available to IORPs in more detail as the proposed technical specifications are too vague and insufficient. In particular, smaller IORPs will be unable to handle these computations. | Noted |
| 132. | Institute and Faculty of Actuaries | Q18. | Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?<br><br>Our overarching concern is that there is insufficient time to consider this in detail. That said, experience from implementing Solvency II for insurers leads us to conclude that the modular approach which requires three different SCR calculations (see response to question 1 above) is complex and expensive. Moreover the few sample calculations our members have had | Noted, see revised text |

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| | | | time to perform suggest that the way these mechanisms are taken into account may result in some highly undesirable behaviours. For example, it seems that in some circumstances, the holistic balance sheet position deteriorates if the sponsor makes a payment into the IORP. | |
| 133. | Insurance Europe | Q18. | Theoretically the proposals might be a good starting point to take into account the loss absorbing capacity of different security mechanisms. However, from a practical point of view it is quite unclear how to do the evaluations. Therefore more guidance and pre-settings are required. | Noted |
| 134. | Investment and life Assurance Group Ltd | Q18. | It is stated in SCR2.9 that the gross calculation does not reflect reality. It must therefore be questioned whether it is an appropriate method for avoiding double counting. | Noted |
| 135. | KPMG LLP (UK) | Q18. | We have concerns that the technical application of maximum sponsor support will fail to fully reflect the loss absorbing capabilities of the sponsor, by limiting it to the post shock underfunding correction and then allowing for default risk.<br><br>We do not understand how it is intended that the loss absorbancy of sponsor support is reflected. Firstly, there are no "post shock" asset and liability figures a far as we can see, as the SCR calculation merely outlines the downside impact on net funding. Secondly, our interpretation is that sponsor support is not a component of the SCR modules and hence its impact on the SCR cannot be assessed.<br><br>As mentioned previously, many sponsors will enjoy an increased deferred tax asset following an IORP shock, which does not seem to be covered (deferred tax appears only to be considered | Noted<br><br>Noted<br><br>Noted |

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| | | | within the IORP). As sponsor profitability is not directly linked to a stress in the IORP, unlike the insurance world, this seems inconsistent. | |
| 136. | Mercer Ltd | Q18. | Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?<br><br>The calculation appears to result in three calculations of the SCR – one gross of security mechanisms, one net, and a third adjusted. In the time available we have not been able to consider how this would work, but it seems an extremely laborious process unlikely to produce useful information at a proportionate cost.<br><br>However, it is not possible to answer this question usefully because we do not know how the calculation is to be used and so we cannot say whether it is 'adequate'. | Noted, see revised text<br><br>Noted |
| 137. | National Association of Pension Funds (NAPF) | Q18. | Do stakeholders believe that the way the loss-absorbing capacity of<br>adjustment mechanisms and security mechanisms is taken into account in<br>the calculation of the SCR (Section 3.2) is adequate?<br><br>The modular approach – requiring three different SCR | Noted, see revised text |

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| | | | calculations – is complex and expensive.<br><br>It would be simpler to recognise that, in the case of IORPs, the existence of sponsor support and pension protection schemes obviate the need for the SCR altogether. | Noted |
| 138. | Pensions-Sicherungs-Verein VVaG | Q18. | Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?<br><br>We note with satisfaction that the security mechanisms are taken into account in the calculation of the solvency capital requirement. In our opinion, individual steps in the calculation could be represented more clearly. It is not immediately evident, for example, how the values nBSCR(TP) and nBSCR(SM) are computed.<br><br>We should also note that, in our opinion, the solvency capital requirement for IORPs covered by statutory insolvency protection system in Germany is ordinarily zero, as the PSVaG, as the provider of insolvency protection normally guarantees 100% of the obligation in the case of employer insolvency. | Noted<br><br>Noted |
| 139. | Punter Southall | Q18. | Do stakeholders believe that the way the loss-absorbing | |

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| | | | capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?<br><br>The way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is to be taken into account in the calculations of the SCR requires further explanation and therefore should not be addressed in a single QIS. | Noted |
| 140. | Railways Pension Trustee Company Limited (RPTCL) | Q18. | For the reasons noted in Q16 and Q17, RPTCL does not consider the inclusion of the SCR to be appropriate . We have no additional comments to make on this question. | Noted |
| 141. | RWE Pensionsfonds AG | Q18. | If, from an objective point of view, sponsor support and protection security mechanisms available to the IORP are on a very high level, this should ensure that the net Basic Solvency Capital Requirement (nBSCR) is 0 and as a consequence of this, no additional capital requirements to the IORP should be required. | Noted |
| 142. | Towers Watson B.V. | Q18. | Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?<br><br>Experience from implementing Solvency II for insurers leads us to conclude that the modular approach which requires three | Noted, see revised text |

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| | | | different SCR calculations is complex and expensive. We think it is entirely appropriate that future indexation in the Dutch context (when non-unconditional) has maximum loss absorbing capacity. | Noted |
| 143. | Towers Watson GmbH, Germany | Q18. | As already mentioned, we believe that loss-absorbing capacity can be taken into account much more simply and adequately.<br><br>However, even within the presented framework of the QIS, many questions remain unanswered. In particular, should the existence of a sponsor (with sufficient capacity to pay) and a sufficiently strong pension protection system result in an SCR of zero, as it is indicated in HBS.6.87 (and HBS.6.56)? If this is the case and known a priori is it, in such a situation, still desirable to do tedious calculations at potentially very high costs, just to compute a result that is known in advance? | Noted<br><br>Noted |
| 144. | Towers Watson UK | Q18. | Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?<br><br>It should not be inferred from the technical points that we make about the SCR that we support its application; we are opposed to its use<br><br>Experience from implementing Solvency II for insurers leads us to conclude that the modular approach which requires three different SCR calculations (see response to question 1 above) is | Noted<br><br>Noted, see revised text |

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| | | | complex and expensive.<br><br>Our calculations of actual QIS numbers lead us to consider that this is an aspect that can make a substantial difference to the SCR – in one example different interpretations of the sponsor support calculations coupled with use of the maximum available PPS support to cover the loss-absorbing capacity of sponsor support (SCR.2.21) led to an SCR that could be as low as 5% of the Level A best estimate liabilities plus risk margin, or as high as 22%. In this instance a difference of several €billions.<br><br>As mentioned in our response to question 12 (reproduced below), we have a particular concern about the application of the interest rate stress to the maximum value of sponsor support and urge EIOPA to give this careful thought.<br><br>Extract from response to question 12:<br><br>Furthermore, it is unclear whether the maximum value of sponsor support is intended to change in stress scenarios, for example under the interest rate risk sub-module of the SCR. If so, then the implication is that the maximum value of sponsor support will increase with a downward shock in interest rates. We would question whether this is appropriate. We believe that the maximum value of sponsor support is more likely to be equity-like than bond-like (as the current proposal implies) in its behaviour. | Noted<br><br>Noted<br><br>Noted |
| 145. | Trades Union Congress (TUC) | Q18. | See our answer to question 16. | |
| 146. | Universities | Q18. | Do stakeholders believe that the way the loss-absorbing | |

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| | Superannuation Scheme Limited | | capacity of<br><br>adjustment mechanisms and security mechanisms is taken into account in<br><br>the calculation of the SCR (Section 3.2) is adequate? | |
| 147. | Zusatzversorgungskasse des Baugewerbes AG | Q18. | No, ZVK-Bau does not believe that loss-absorbing capacity of the adjustment mechanisms and security mechanisms are taken into account in the SCR calculation adequately. For details see General Comments, Q1, 2, 5, 6 and 10. | Noted |