

**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**

HBS

**EIOPA-
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EIOPA would like to thank Academic Community Group; AEIP; Aon Hewitt; Association of British Insurers; Barnett Waddingham LLP; BVPI-ABIP, British Airways Pension Investment Management; Dexia Asset Management; European Private Equity & Venture Capital Association; Federation of the Dutch Pension Funds; Financial Reporting Council; German Institute of Pension Actuaries; Groupe Consultatif Actuariel Européen; Institute and Faculty of Actuaries; Insurance Europe; RWE Pensionsfonds AG; Towers Watson B.V.; and Towers Watson UK.

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

No.	Name	Reference	Comment	Resolution
1.	Financial Reporting Council – staff response	HBS.1.1.	The use of the end of December will show the position at just one date. We would encourage EIOPA to consider the position at other dates. This will indicate how the various amounts calculated change over time and will help IORPs, sponsors, EIOPA and the EC understand the impact of the proposals.	Noted.
2.	Institute and Faculty of Actuaries	HBS.1.1.	No comment	Noted.
3.	Institute and Faculty of Actuaries	HBS.2.1.	We would be concerned if EIOPA limited the segmentation to Member State and scheme type as we consider it imperative to consider the effect on different sectors of the economy.	Noted.
4.	Institute and Faculty of	HBS.2.2.	No comment	Noted.

Resolutions on Comments on EIOPA-CP-12/003 Draft Technical Specifications QIS of EIOPA's Advice on the Review of the IORP Directive: Consultation Paper

	Actuaries			
5.	Institute and Faculty of Actuaries	HBS.2.3.	No comment	Noted.
6.	Institute and Faculty of Actuaries	HBS.2.4.	No comment	Noted.
7.	Institute and Faculty of Actuaries	HBS.2.5.	No comment	Noted.
9.	Belgian Association of Pension Institutions (BVPI-	HBS.2.6.	In Belgium we currently have a clear split between social labour law and prudential legislation. Social labour law has an impact on the plan rules. Prudential legislation do impact the plan funding level in the IORP. Not all social labour law requirements are fully prefunded via the IORP e.g. the social labour minimum guarantee of 3.25% on employer contributions in a defined contribution plan require only external (IORP) funding upon leaving, transfer, death or retirement. As social and labour legislation and not the plan as such is requiring an interest guarantee, is it correct to consider the plan as a pure Defined Contribution (DC) benefit without any guarantee in the IORP	Noted. The segmentation of obligations was changed to make clear that all schemes have to be taken into account which include any guarantees to members and beneficiaries irrespective of how these schemes are so far classified in the different Member States.
10.	Financial Reporting Council – staff response	HBS.2.6.	Should benefits payable on death also be included?	Noted. The segmentation

				of obligations was changed to make clear that all schemes have to be taken into account which include any guarantees to members and beneficiaries irrespective of how these schemes are so far classified in the different Member States.
11.	Groupe Consultatif Actuariel Européen	HBS.2.6.	We understand that the only reason for including pure DC here given its exclusion in I.3.1 is because EIOPA is expecting some IORPs to include both DB and DC elements.	Agreed.
12.	Institute and Faculty of Actuaries	HBS.2.6.	It may be necessary to provide guidance on how « pure » a DC scheme needs to be to be included in this segment. For example is a DC Scheme that provides an insured defined death benefit pure DC or hybrid.	Noted. The segmentation of obligations was changed to make clear that all schemes have to be taken into account which include any

				guarantees to members and beneficiaries irrespective of how these schemes are so far classified in the different Member States.
14.	Barnett Waddingham LLP	HBS.2.7.	EIOPA should clarify whether ancillary pension scheme benefits such as enhanced pensions on ill-health retirement, and contribution waivers in the event of long-term sickness, should be included under the defined benefit or health benefit segments. We believe it would be an appropriate simplification to permit these benefits to be considered as part of the defined benefit segment where they are material.	Noted. The segmentation of obligations was changed to make clear that all schemes have to be taken into account which include any guarantees to members and beneficiaries irrespective of how these schemes are so far classified in the different Member States.
15.	Institute and Faculty of Actuaries	HBS.2.7.	No comment	Noted.

16.	Barnett Waddingham LLP	HBS.2.8.	<p>We assume that this definition means that defined benefit schemes offering a defined contribution underpin should be considered under the defined benefit segment.</p>	<p>Noted. The segmentation of obligations was changed to make clear that all schemes have to be taken into account which include any guarantees to members and beneficiaries irrespective of how these schemes are so far classified in the different Member States.</p>
17.	Institute and Faculty of Actuaries	HBS.2.8.	<p>As noted in our comment on HBS 2.6, there is some uncertainty about the scope of the term Pure Defined Contribution. If it excludes IORPs that cover any kind of biometric or market risk, many UK IORPs that are currently regarded as defined contribution would be categorised as hybrid.</p> <p>It may be better to define as "hybrid" any IORP that is not defined benefit, pure defined contribution or health benefit. As defined in this paragraph it appears to include health benefits.</p>	<p>Noted. The segmentation of obligations was changed to make clear that all schemes have to be taken into account which include any guarantees to</p>

				members and beneficiaries irrespective of how these schemes are so far classified in the different Member States.
18.	Insurance Europe	HBS.2.8.	It is difficult to assess what are hybrids without a clear definition of "defined benefits". In some markets a defined contribution scheme with a minimum guarantee could be considered a "defined benefit scheme" while in other markets it could be considered as a "hybrid". Therefore, Insurance Europe believes that to achieve consistency between the different markets, a definition of what EIOPA assesses to be a "defined benefit" scheme should be included.	Noted. The segmentation of obligations was changed to make clear that all schemes have to be taken into account which include any guarantees to members and beneficiaries irrespective of how these schemes are so far classified in the different Member States.
19.	Academic Community Group	HBS.3.1.	We fully agree.	Noted.

	<input type="checkbox"/> Prof. David Blake (Cit			
21.	Barnett Waddingham LLP	HBS.3.1.	The use of the extrapolation method set out in section 2.8 to derive the risk-free yield curve means that the best estimate will not necessarily be market-consistent, particularly in countries other than the UK where the last liquid point is shorter. The use of a fixed inflation assumption is also not consistent with a market consistent basis.	Noted.
22.	Belgian Association of Pension Institutions (BVPI-	HBS.3.1.	How to understand « own credit standing » ?	Noted.
23.	Institute and Faculty of Actuaries	HBS.3.1.	We do find the term « best estimate » unfortunate in this context as it is a term that is widely used with a very different meaning in the UK. Bearing in mind that those responsible for running UK IORPs are mostly laymen rather than expert professionals, it is important that the jargon employed is not counter-intuitive. It would be better to refer to Level A technical provisions and Level B technical provisions as appropriate. In this context, it will be necessary to be explicit that the Risk Margin (if used) is separate from the Technical Provisions. We find it unhelpful that in some places the term “technical provision” includes the Risk Margin and in others it does not.	Noted. The term best estimate is taken from the Solvency II concept. The risk margin is part of the (level A) technical provisions
24.	Insurance Europe	HBS.3.1.	Insurance Europe stresses that best estimate should be calculated in a transparent manner and in such a way as to ensure that the calculation method and the results that derive from it can be reviewed by EIOPA. This seems to be easiest when showing all the economically significant particularities of IORPs as assets in the HBS.	Noted.
25.	Towers Watson UK	HBS.3.1.	In this context, we find the term “best estimate” unfortunate, It is a term	Noted.

			<p>that is widely used with a very different meaning in the UK. Bearing in mind that those responsible for running UK IORPs are mostly laymen rather than expert professionals, it is important that the jargon employed is not counter-intuitive.</p> <p>In our view, it would be better to refer to Level A Technical Provisions and Level B Technical Provisions as appropriate.</p>	
26.	<p>Academic Community Group</p> <p><input type="checkbox"/> Prof. David Blake (Cit</p>	HBS.3.2.	<p>We assume that EIOPA here refers to so-called risk-adjusted or risk-neutral probabilities. If the time-value of money is taken as not to include risk-premiums (which is the usual definition), these probabilities are the only ones that lead to market consistent valuation.</p>	Noted.
27.	Institute and Faculty of Actuaries	HBS.3.2.	No comment	Noted.
28.	Barnett Waddingham LLP	HBS.3.3.	<p>EIOPA should reconsider what it means by « best estimate » in connection with IORPS. We consider that level A technical provisions represent an unduly prudent estimate of future cashflows. Level B would be closer to a « best estimate ».</p>	Noted.
29.	Institute and Faculty of Actuaries	HBS.3.3.	No comment	Noted.
30.	Aon Hewitt	HBS.3.4.	<p>Taking a weighted average of all possible scenarios appears to be an overly complicated approach</p>	Noted.
31.	Belgian Association of Pension Institutions (BVPI-	HBS.3.4.	Please clarify « closed form solutions » ?	Noted.
32.	Institute and Faculty of Actuaries	HBS.3.4.	No comment	Noted.

33.	Institute and Faculty of Actuaries	HBS.3.5.	No comment	Noted.
34.	Institute and Faculty of Actuaries	HBS.3.6.	No comment	Noted.
36.	German Institute of Pension Actuaries	HBS.3.7.	In "QIS 5 Technical Specifications" the same notation fault in the description of SCR Lapsemass (7.54) is made.	Noted.
37.	Institute and Faculty of Actuaries	HBS.3.7.	No comment	Noted.
38.	Insurance Europe	HBS.3.7.	IORPs might use life insurance contracts as investments. It should be clarified that these investments should be treated as normal assets with an appropriate rating. (See also HBS 7.1)	Noted.
39.	Association of British Insurers	HBS.3.8.	Where indexation is linked to inflation with caps and floors, consideration will need to be given to the appropriate allowance for such features given that the market information is not based on a deep and liquid market	Noted.
40.	Institute and Faculty of Actuaries	HBS.3.8.	No comment	Noted.
41.	Barnett Waddingham LLP	HBS.3.9.	It would be useful for IORPs to know what level of detail is required for such a demonstration. We assume that professional advice will suffice.	Noted.
42.	Institute and Faculty of Actuaries	HBS.3.9.	No comment	Noted.
43.	Federation of the Dutch Pension Funds	HBS.3.10.	There is no guidance on the calculation of balance sheet items if there is not a relevant market price.	Noted.
44.	Groupe Consultatif Actuariel Européen	HBS.3.10.	There is no guidance on the calculation of balance sheet items if there is not a relevant market price.	Noted.

45.	Institute and Faculty of Actuaries	HBS.3.10.	No comment	Noted.
46.	Federation of the Dutch Pension Funds	HBS.3.11.	<p>If the IORP has contingent, non-linear cash flows, these assumptions require using a complex option model (risk-neutral valuation) to do the calculations. Not many IORPs will have these models and even not many pension consultants do seem to have the required models and expertise (and therefore possibly local supervisors neither).</p> <p>Experience in the Netherlands has demonstrated that various models can give different results, even if the models are all market consistent and calibrated to market prices. The assumptions required for missing markets – like wage inflation, long dated volatility, the long end of curves – requires many assumptions, leading to (substantial) model risk.</p>	Noted. Please note that simplifications are allowed.
47.	Groupe Consultatif Actuariel Européen	HBS.3.11.	If the IORP has contingent, non-linear cash flows, these assumptions require using a complex option model (risk-neutral valuation) to do the calculations. Not many IORPs will have these models. Moreover, many pension consultants do not seem to have the required models and expertise (and therefore it is possible that this 'lack' extends to local supervisors).	Noted.
48.	Institute and Faculty of Actuaries	HBS.3.11.	No comment	Noted.
49.	Institute and Faculty of Actuaries	HBS.3.12.	In our view objectivity is not always possible. Indeed we believe that there is no uniquely correct methodology: it is only possible to model a complex world approximately and consequently expert judgement and opinion will always represent a key component of the modelling process.	Noted.
50.	Academic Community Group <input type="checkbox"/> Prof. David Blake	HBS.3.13.	<p>We agree with the Deep, Liquid and Transparent principles</p> <p>However, we don't see any link between these principles and the actual choices made (see HBS 8.7.)</p>	Noted.

	(Cit			
51.	Belgian Association of Pension Institutions (BVPI-	HBS.3.13.	How to define a deep, liquid market ? Current definition is not objective – gives room for interpretation – e.g. large number.	Noted.
52.	Institute and Faculty of Actuaries	HBS.3.13.	<p>We consider that EIOPA needs to explain what counts as a « large number ». One of our major concerns about the review of the IORP Directive is that adopting a Solvency II approach is likely to trigger changes to the asset allocations of IORPs that would move market prices. We therefore consider that it is not enough to consider the depth and liquidity of a market by reference to the size of individual IORPs.</p> <p>Similarly we consider it important to consider the impact of Member States reducing their debt burden as planned. Our concern is that the supply of sovereign debt, and the extent to which a Member State’s debt meets the attributes for a risk free investment, may be very different when IORP 2 is finally implemented so that the actual impact is very different from the impact assessed using 31 December 2011 figures.</p>	Noted.
53.	Institute and Faculty of Actuaries	HBS.3.14.	No comment	Noted.
54.	Institute and Faculty of Actuaries	HBS.3.15.	No comment	Noted.
55.	Belgian Association of Pension Institutions (BVPI-	HBS.3.16.	Please clarify the terminology « portfolio ». Is this information linked to the assets, to the underlying liabilities, to both ?	Noted.
56.	Institute and Faculty of Actuaries	HBS.3.16.	No comment	Noted.
57.	Institute and Faculty of Actuaries	HBS.3.17.	The availability and quality of data is potentially a significant source of inconsistency. Indeed there is arguably a case for a QIS looking at the impact of requiring minimum data standards.	Noted.

58.	Barnett Waddingham LLP	HBS.3.18.	Again, it would be useful for IORPs to know what level of detail is required for such demonstrations. For example, it is common practice in the UK to use industry-wide mortality tables developed by the Actuarial Profession, making adjustments for the IORP's known, or perceived, characteristics. For small pension schemes, an investigation into the scheme's mortality experience may not be statistically significant. It should be sufficient for an IORP to rely on a mortality assumption recommended by an adviser without needing to understand the way such a table was constructed or undertake an investigation which would add little value.	Noted.
59.	Institute and Faculty of Actuaries	HBS.3.18.	Whilst we agree that it is desirable that "the IORP is able to demonstrate that the assumptions and methodologies appropriately reflect the characteristics of the portfolio" we anticipate that such a requirement is potentially very onerous.	Noted.
60.	Belgian Association of Pension Institutions (BVPI-	HBS.3.19.		
61.	Institute and Faculty of Actuaries	HBS.3.19.	No comment	Noted.
62.	Aon Hewitt	HBS.3.20.	Varying take up of options to reflect different future financial conditions will be overly complicated. In many case the options might be broadly cost neutral.	Noted.
63.	Belgian Association of Pension Institutions (BVPI-	HBS.3.20.	Include future legislative and other changes,with or without a financial impact. As from when ? (informal meetings, draft documents, draft legislation,, published legislation)	Noted.
64.	Institute and Faculty of Actuaries	HBS.3.20.	No comment	Noted.

65.	Barnett Waddingham LLP	HBS.3.21.	<p>It would be useful to clarify the position where there is little or no past experience of a particular option, i.e. can the likelihood of exercising the option be assumed to be nil – this would fit with HBS.3.19.</p> <p>The definition of « contractual options » needs to be clarified to establish whether this relates to the IORP’s governing documentation or the beneficiary’s employment contract with the sponsor, or both.</p>	Noted.
66.	Institute and Faculty of Actuaries	HBS.3.21.	We consider that there needs to be scope for expert judgement on the likelihood of options being exercised as, for IORPs, this likelihood can be sensitive to changes in employment, social security and tax law (unlike insurance where legislative changes typically only affect new contracts) which means past behaviour may be irrelevant and misleading.	Noted.
67.	Institute and Faculty of Actuaries	HBS.3.22.	No comment	Noted.
68.	Insurance Europe	HBS.3.22.	HBS.3.22 – 3.28: More clarification is necessary about which management actions to consider.	Noted.
69.	Federation of the Dutch Pension Funds	HBS.3.23.	Is this only applicable for conditional elements or also for discretionary elements?	Noted.
70.	Institute and Faculty of Actuaries	HBS.3.23.	We do not consider it reasonable to require objectivity in choosing assumptions about future management actions as there is typically a choice of action available and often the choice made is the outcome of a negotiation and so cannot be anticipated in an objective way. Here again we consider that there is a role for expert judgement.	Noted.
71.	Institute and Faculty of Actuaries	HBS.3.24.	No comment	Noted.

72.	Institute and Faculty of Actuaries	HBS.3.25.	No comment	Noted.
73.	Institute and Faculty of Actuaries	HBS.3.26.	No comment	Noted.
74.	Institute and Faculty of Actuaries	HBS.3.27.	No comment	Noted.
75.	Barnett Waddingham LLP	HBS.3.28.	Again, it would be useful for IORPs to know what level of detail is required for such verification.	Noted.
76.	Institute and Faculty of Actuaries	HBS.3.28.	We do not agree that IORPs should be able to verify assumptions about future management actions by reference to actions actually taken as many of those future actions will have no comparable precedents. For example, for practical purposes it is only possible to close a scheme to future accrual once.	Noted.
77.	Institute and Faculty of Actuaries	HBS.3.29.	We welcome the recognition of the role that expert judgement plays.	Noted.
78.	Aon Hewitt	HBS.4.1.	<p>Many IORPs calculate “best estimate” liabilities for their sponsor’s accounts (e.g. under International, US or local accounting standards). These standards provide well defined methodologies for determining best estimate assumptions and appropriate actuarial assumptions. We are surprised that there is no reference to IAS19 or US GAAP in this section. Please can you confirm if you have considered the wording in IAS19 or US GAAP.</p> <p>To reduce the costs of the QIS, it would be helpful if you could confirm that assumptions and methods used for these accounting standards will be acceptable for the purpose of the QIS. There will of course be some</p>	Noted.

			differences e.g. calculation of the discount rate, salary increases and inflation, but for most other assumptions and methods we see no reasons why the best estimate for the QIS should be different from a best estimate for accounting.	
79.	Barnett Waddingham LLP	HBS.4.1.	If cash-flow projections are to reflect expected realistic future economic developments, we consider that market-consistent inflation assumptions should be made.	Agreed. The assumptions for inflation and salary growth were changed.
80.	Institute and Faculty of Actuaries	HBS.4.1.	We suggest that 'or' should be 'and'.	Noted.
81.	Barnett Waddingham LLP	HBS.4.2.	<p>We believe that the last sentence should end with « ...which are appropriate and proportionate given the nature of the IORP. »</p> <p>EIOPA should note that the frequency of publication and sophistication of mortality tables may be different between countries, and that this may lead to inconsistencies in the reported information.</p>	Partially agreed. The text on the mortality tables to be used was changed.
82.	Institute and Faculty of Actuaries	HBS.4.2.	<p>We consider the reference to the most recent tables to be ambiguous. If it is intended that "recent tables" refers to the most recent calibration of the IORP to standard tables, we support the principle. If, by contrast, it is intended to require IORPs to calibrate their mortality only by reference to the most recent standard tables, we would consider this a retrograde step – IORPs must be allowed to use the standard tables that best fit their demographic profile even if that means calibrating to older tables.</p> <p>For example a DB plan covering manual workers in an old heavy industry may be better matched by an old mortality table.</p>	Partially agreed. The text on the mortality tables to be used was changed.

			We consider "future trend" to be an unsatisfactory term. However we would support the principle of using mortality tables that included a "best estimate" projection of future mortality improvements.	
83.	Institute and Faculty of Actuaries	HBS.4.3.	Some UK IORPs have as their asset a single contract covering all the members. We assume that this paragraph is intended to result in member-by-member calculations rather than contract-by-contract calculations and would welcome clarification on this point.	Noted.
84.	Institute and Faculty of Actuaries	HBS.4.4.	Potentially the only way of demonstrating that a grouping does not misrepresent the risk or misstate the costs is to do member-by-member calculations as well, which would defeat the purpose of this provision. It is therefore necessary to recognise the possibility that no such demonstration is possible and that expert judgement is required.	Noted
85.	Institute and Faculty of Actuaries	HBS.4.5.	No comment	Noted.
86.	Belgian Association of Pension Institutions (BVPI-	HBS.4.6.	Can we replace future cash flows with a run off/termination value (at age 80) to simplify calculations ?	Noted.
87.	Institute and Faculty of Actuaries	HBS.4.6.	No comment	Noted.
88.	Institute and Faculty of Actuaries	HBS.4.7.	No comment	Noted.
89.	Institute and Faculty of Actuaries	HBS.4.8.	No comment	Noted.
90.	Insurance Europe	HBS.4.8.	Insurance Europe suggests EIOPA to provide advice on which future cash flows to take into account. This should be consistent with the approach taken in Solvency II for group insurance contracts.	Noted.
91.	Institute and Faculty of	HBS.4.9.	No comment	Noted.

	Actuaries			
92.	Insurance Europe	HBS.4.9.	Insurance Europe suggests EIOPA to provide advice on which future cash flows to take into account. This should be consistent with the approach taken in Solvency II for group insurance contracts. HBS 4.12 Clarification about "possibility" (footnote 4) is necessary.	Noted.
93.	Institute and Faculty of Actuaries	HBS.4.10.	No comment	Noted.
94.	Institute and Faculty of Actuaries	HBS.4.11.	No comment	Noted.
96.	Aon Hewitt	HBS.4.12.	We do not agree that any allowance for future service should be included (and indeed it is not a requirement for IAS19 or US GAAP "best estimate" accounting calculations) .This makes sense for insurers where allowance for future "accrual" is balanced by future premiums from the policyholder. It does not make sense for IORPs where the contributions will come largely from the sponsor, and where the sponsor can't be expected to have the cash backing those contributions yet because the employees haven't done the work yet that earns the income to pay for them. If you decide to include the allowance for future service, then expected future contributions to cover future service benefits should also be allowed for when determining sponsor support.	Noted.
97.	Association of British Insurers	HBS.4.12.	This should allow for the possibility of the sponsor changing benefit levels as well as the IORP.	Noted

98.	Belgian Association of Pension Institutions (BVPI-	HBS.4.12.	<p>Under Belgian Social and Labour Law retirement benefit plans can be ended or replaced for future service, but in doing so, a dynamic approach will have to be applied, which means that (only for active members), past service benefits in the former plan are to be revalued to take into account salary increases. Stopping a plan without such revaluation of the past services can only be done under exceptional conditions.</p> <p>Are such revaluations to be considered as “accruing new benefits with respect to the future services” , or not? It seems us that the answer is “not”, because no new benefits are calculated on the future services. We only have a revalorization of the (stopped) past services, only for active people, and not in all circumstances.</p> <p>If you agree that the answer is “not” the Belgian DB would have to be considered as “type 1”. We would have then to apply HBS.4.13 Can we then calculate an ABO or do we have to calculate a PBO ? It seems us that it should be an ABO. If it is a PBO, it would seem us logical to take also account of the contributions corresponding to future salary increases (like in HBS.4.14), but that isn’t foreseen in HBS.4.13.</p>	Noted.
99.	Groupe Consultatif Actuariel Européen	HBS.4.12.	It may be helpful for EIOPA to clarify the definition of the benefits it wants to be valued.	Noted.
100.	Institute and Faculty of Actuaries	HBS.4.12.	No comment	Noted.
101.	Aon Hewitt	HBS.4.13.	In most countries, accrued benefits are regarded as those benefits payable if a member were to leave service at the calculation date. This raises an important policy issue as to whether the accrued benefits should include allowance for future salary increases. In some countries, minimum funding measures do not take account of future salary increases, and Pension Protection Schemes will not link benefits to future salary increases.	Noted.

			Given the importance of this point, please can EIOPA share its thinking on this issue . A lot of thinking has been done on this issue in the past by other organisations, not least the IASB in respect of whether allowance should be made for salary increases when calculating obligations for company accounting purposes.	
102.	Federation of the Dutch Pension Funds	HBS.4.13.	<p>Questions arising:</p> <p><input type="checkbox"/> How should unconditional increases of accrued rights (DB final pay or unconditionally indexed average career pay) be valued?</p> <p><input type="checkbox"/> To what extent do these unconditional rights belong to the accrued rights as quoted in HBS 4.13?</p> <p><input type="checkbox"/> And if these are to be taken into account, should the related corresponding contributions also be valued as an asset?</p>	Noted. The section on inflation and salary growth was changed.
103.	Groupe Consultatif Actuariel Européen	HBS.4.13.	How should unconditional increases of accrued rights (uncapped DB final pay or unconditionally indexed average career pay) be valued? To what extent do these unconditional rights belong to the accrued rights as quoted in HBS 4.13? And if these are to be taken into account, should the related corresponding contributions also be valued as an asset?	Noted.
104.	Institute and Faculty of Actuaries	HBS.4.13.	No comment	Noted.
105.	Institute and Faculty of Actuaries	HBS.4.14.	No comment	Noted.
106.	Institute and Faculty of Actuaries	HBS.4.15.	No comment	Noted.
108.	Association of British	HBS.4.16.	Expenses should include the costs of paying pension protection schemes	Noted. Levies

	Insurers		contributions	to a Pension Protection Schemes do not have to be included in the HBS.
109.	Barnett Waddingham LLP	HBS.4.16.	It is common in the UK for expenses to be accounted for as part of the future contributions due each year, rather than a reserve being held in the technical provisions, or alternatively for the sponsoring employer to meet expense costs entirely outside of the IORP. Where the sponsoring employer meets the costs directly, the IORP may not have sufficient information to estimate the future expenses and may choose not to include them in the HBS, leading to inconsistency between schemes. We note that the International Accounting Standards Board has recently dropped a proposal to include the capitalised value of expenses in pension scheme liabilities and we would encourage EIOPA to reconsider whether this allowance is necessary. Alternatively, EIOPA could include an option to present the HBS net of expenses.	Partially agreed. It has been made clear that expenses borne by the employer can be disregarded.
110.	Belgian Association of Pension Institutions (BVPI-	HBS.4.16.	What are the expenses to consider ? (e.g. cost related to asset management, custodian, etc...) Where to get the information ? Can we simplify the calculation by adjusting the return to allow for this type of costs ?	Noted.
111.	Groupe Consultatif Actuariel Européen	HBS.4.16.	It would be helpful for this to specify whether the value should be gross or net of expenses in cases where expenses are typically met by others, e.g. sponsor.	Noted. It has been made clear that expenses borne by the employer can be disregarded.

112.	Institute and Faculty of Actuaries	HBS.4.16.	The financing strategy of many UK IORPs is designed to achieve « buy out » within a pre-agreed timeframe. It would be helpful if EIOPA could provide guidance on how such journey plans should be taken into account in determining the best estimate of expenses.	Noted.
113.	Insurance Europe	HBS.4.16.	As indicated in its comments on HBS.4.8 & HBS.4.9, Insurance Europe suggests EIOPA to provide advice on which future cash flows to take into account. This should be consistent with the approach taken in Solvency II for group insurance contracts.	Noted.
114.	Institute and Faculty of Actuaries	HBS.4.17.	No comment	Noted.
115.	Institute and Faculty of Actuaries	HBS.4.18.	No comment	Noted.
116.	Institute and Faculty of Actuaries	HBS.4.19.	No comment	Noted.
117.	Institute and Faculty of Actuaries	HBS.4.20.	No comment	Noted.
118.	Barnett Waddingham LLP	HBS.4.21.	Please clarify whether investment management expenses should be included here.	Noted.
119.	Institute and Faculty of Actuaries	HBS.4.21.	We think that IORPs should only be allowed to assume that they continue to acquire new schemes/contracts if this assumption is realistic. It would not be realistic for most UK (private sector) IORPs.	Noted.
120.	Towers Watson B.V.	HBS.4.21.	The cash flows arising from expenses might need more detail. It is our understanding that future expenses should only be taken into account to the extent that they relate to accrued benefits and assuming no future accrual. Based on this assumption, it should be determined what share of	Noted.

			overhead expenses relates to the accrual of benefits.	
121.	Institute and Faculty of Actuaries	HBS.4.22.	No comment	Noted.
123.	Aon Hewitt	HBS.4.23.	<p>The subject of how to allow for conditional/discretionary benefits is also one that has been considered in detail for company accounting purposes. Under both International and US GAAP accounting requirements, plan sponsors need to include allowance for “constructive benefit obligations”. These are defined under IAS 19 (for example) as follows:</p> <p>“An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity’s informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity’s informal practices would cause unacceptable damage to its relationship with employees.”</p> <p>Given that these benefits are already included in best estimate accounting calculations, EIOPA should state its view on whether it is appropriate to include them in the calculation of the technical provision, and whether they should be regarded as conditional, discretionary or something else.</p>	Noted.
124.	Federation of the Dutch Pension Funds	HBS.4.23.	It is not clear what EIOPA perceives as the difference between conditional benefits (HBS 4.23 and further) and contractual options (HBS 4.51 and further).	Noted.

125.	Groupe Consultatif Actuariel Européen	HBS.4.23.	It is not clear what EIOPA perceives as the difference between conditional benefits (HBS 4.23 and further) and contractual options (HBS 4.51 and further).	Noted.
126.	Institute and Faculty of Actuaries	HBS.4.23.	No comment	Noted.
127.	Insurance Europe	HBS.4.23.	<p>This comment covers HBS 4.23 to HBS 4.44: On discretionary and conditional benefits it should be made clear from the beginning of this section that surplus funds as exempt by Solvency II are not included in the discussions on how to value technical provisions, as such funds should be treated as assets and not liabilities. See in particular HBS 4.44 on valuation, a similar statement should be made earlier in the section on benefits to avoid uncertainty.</p> <p>Even when giving some explanations of the new definitions (unconditional benefits, pure conditional benefits, pure discretionary benefit and mixed benefits) more information or examples should be provided to avoid different interpretations.</p>	Noted.
128.	Institute and Faculty of Actuaries	HBS.4.24.	No comment	Noted.
129.	Aon Hewitt	HBS.4.25.	It is not completely clear how benefits which can be reduced in the event of sponsor default are dealt with under this definition. If the sponsor defaults, there is not likely to be any additional funding so benefits may well be reduced, irrespective of whether the IORP documentation says so or not.	Noted.
130.	Institute and Faculty of	HBS.4.25.	We anticipate that EIOPA will need to provide more guidance on	Noted.

	Actuaries		discretionary and conditional benefits. We suggest EIOPA consider, for example, whether benefits that must be paid out if certain incapacity criteria are met represent conditional benefits or medical benefits.	
131.	Institute and Faculty of Actuaries	HBS.4.26.	No comment	Noted.
132.	Institute and Faculty of Actuaries	HBS.4.27.	No comment	Noted.
133.	Towers Watson B.V.	HBS.4.27.	There appear to be complexities arising as to exactly what benefits constitutes an unconditional, conditional, discretionary or mixed benefit. This inevitably leads to considerable scope for different Member States (or, within an individual country, different IORPs) to make their own judgements.	Noted.
134.	Federation of the Dutch Pension Funds	HBS.4.28.	It is clear that EIOPA members have different views. This makes it possibly difficult for IORPs to have enough guidance. Next to that, it is possible or even likely that various IORPs will use different interpretations, making comparisons between IORPs and/or countries less reliable and useful.	Noted.
135.	Institute and Faculty of Actuaries	HBS.4.28.	No comment	Noted.
136.	Barnett Waddingham LLP	HBS.4.29.	We support this view. The expectation of future benefits that a beneficiary may have, based on past practice, does not invalidate an IORP's discretion to change that policy. It may inform the IORP's decision but there will be many other circumstances which IORPs will need to take into account, not least the funding position of the IORP. We consider that the classification of mixed benefits as either discretionary or conditional should take into account each IORP's likely management actions.	Noted.

137.	Institute and Faculty of Actuaries	HBS.4.29.	No comment	Noted.
138.	Insurance Europe	HBS.4.29.	Insurance Europe agrees that a benefit can only be characterised as a conditional benefit if members and beneficiaries have a legally enforceable expectation about the granting of the benefits along the lines of the (specified or perceived) policy.	Noted.
139.	Institute and Faculty of Actuaries	HBS.4.30.	No comment	Noted.
140.	Insurance Europe	HBS.4.30.	If mixed benefits would be considered as discretionary Insurance Europe believes that they should be taken into account in the technical provision on the basis of their conditional part and the expected managerial actions should be taken into account for the discretionary part.	Noted.
141.	Barnett Waddingham LLP	HBS.4.31.	We believe EIOPA will not have sufficient information to take a position on this item as aggregate data held by supervisors will not include sufficient detail.	Noted.
142.	Institute and Faculty of Actuaries	HBS.4.31.	We note that EIOPA recognises that there is uncertainty and potential subjectivity in determining the different forms of benefit. This is one reason why we favour a 'staged' QIS approach.	Noted.
143.	Institute and Faculty of Actuaries	HBS.4.32.	No comment	Noted.
144.	Insurance Europe	HBS.4.32.	In line with HBS.3.22 where future management actions should be taken into account, Insurance Europe believes that discretionary benefits should be treated similarly.	Noted.

145.	Barnett Waddingham LLP	HBS.4.33.	We believe that aggregate data held by supervisors will not include sufficient detail to calculate these items.	Noted.
146.	Institute and Faculty of Actuaries	HBS.4.33.	No comment	Noted.
147.	Aon Hewitt	HBS.4.34.	We would suggest the question of whether to allow for benefits with an element of discretion should left to the discretion of the body with the discretion. EIOPA should also state its view on whether benefits that give rise to a "constructive obligation" for accounting purposes should be included in the calculation of technical provisions.	Noted.
148.	Barnett Waddingham LLP	HBS.4.34.	We believe that aggregate data held by supervisors will not include sufficient detail to calculate these items.	Noted.
149.	Institute and Faculty of Actuaries	HBS.4.34.	No comment	Noted.
150.	Insurance Europe	HBS.4.34.	<p>Insurance Europe believes that in case discretionary benefits would be excluded from the technical provisions or even mixed benefits, there is a chance that many providers will add a discretionary element or change their pension scheme to avoid the inclusion of them in the calculations of the technical provisions. Insurance Europe would therefore suggest to EIOPA to also assess the qualitative impact of the three options specified by EIOPA.</p> <p>For the purpose of the QIS, Insurance Europe suggests to take option 1. The value of the liabilities under the options 2 and 3 should be calculated separately and shown as potential assets in the HBS. Based on the QIS' results, this will make further discussion easier on which option to</p>	Noted.

			include in the revised directive (or to delegate it to national discretion depending on national social and labour law).	
151.	Institute and Faculty of Actuaries	HBS.4.35.	It may be appropriate to consider separately the drivers for : <input type="checkbox"/> the incidence of non-unconditional benefits <input type="checkbox"/> the amount of such benefits.	Noted.
152.	Federation of the Dutch Pension Funds	HBS.4.36.	Next to calculating an upper limit, it is also sensible to calculate a lower limit, assuming that the non-unconditional benefit is not there.	Noted.
153.	Institute and Faculty of Actuaries	HBS.4.36.	No comment	Noted.
154.	Aon Hewitt	HBS.4.37.	How does the option to use a deterministic approach tie in with the requirement at paragraphs HBS.3.4 and HBS.3.20?	Noted.
155.	Federation of the Dutch Pension Funds	HBS.4.37.	EIOPA is not asking for an indication of the difference between the options in HBS 4.37, i.e. stochastic, deterministic, deterministic + guarantees.	Noted.
156.	Institute and Faculty of Actuaries	HBS.4.37.	We doubt that it will be possible to calibrate a stochastic approach for UK IORPs as the data will not be statistically significant.	Noted.
157.	Towers Watson B.V.	HBS.4.37.	The stochastic valuation of these cash flows (and in particular the non-unconditional ones) will prove complicated and diverse in nature. Furthermore, we question whether the cost of performing calculations for conditional, mixed and discretionary benefits is commensurate with the benefits of doing so.	Noted.
159.	Association of British Insurers	HBS.4.38.	Where the IORP's assets lie between the full value of the benefits and the value of the benefits guaranteed by the pension protection scheme	Noted.

			<p>then the value of the option should be calculated by reference to the value of the scheme assets , as this will define the value of its obligations in the event of sponsor default.</p> <p>Great care will be needed in this area to avoid double counting of default risk and/or non-sensical results. In particular it would not be sensible for the technical provisions to be reduced simply because the sponsor is weak – this is much better included on the asset side of the balance sheet</p>	
160.	Institute and Faculty of Actuaries	HBS.4.38.	No comment	Noted.
161.	Insurance Europe	HBS.4.38.	The incorporation of stochastic elements of non-financial risk-drivers in an exhaustive way is too extensive and not practicable.	Noted.
162.	Institute and Faculty of Actuaries	HBS.4.39.	No comment	Noted.
163.	Institute and Faculty of Actuaries	HBS.4.40.	No comment	Noted.
164.	Institute and Faculty of Actuaries	HBS.4.41.	It will be helpful to say what should be done if the evidence is not deemed representative. We consider that it would be appropriate to rely on expert opinion.	Noted.
165.	Barnett Waddingham LLP	HBS.4.42.	It would be useful for IORPs to know the level of detail required here. Further research at a national level may be required.	Noted.
166.	Institute and Faculty of Actuaries	HBS.4.42.	It would be helpful if EIOPA could illustrate what it meant by « appropriate consideration » with some examples as to how an IORP should take into account the possibility of increasing financial awareness	Noted.

			of options among IORP members.	
167.	Institute and Faculty of Actuaries	HBS.4.43.	No comment	Noted.
168.	Institute and Faculty of Actuaries	HBS.4.44.	No comment	Noted.
169.	Insurance Europe	HBS.4.44.	See comment above on HBS 4.23.	Noted.
170.	Institute and Faculty of Actuaries	HBS.4.45.	It would be helpful if EIOPA made clear that the loss absorbing capacity of discretionary benefits is their value in the stressed conditions.	Noted.
171.	Insurance Europe	HBS.4.45.	Insurance Europe fully agrees that the loss absorbing capacity of pure conditional benefits directly follows from the objective conditions applicable while the loss absorbing capacity of pure discretionary benefits and mixed benefits is equal to their value. This should also be reflected in the SCR calculations.	Noted.
172.	Institute and Faculty of Actuaries	HBS.4.46.	No comment	Noted.
173.	Aon Hewitt	HBS.4.47.	It is not clear what “calculated and shown separately from the rest of the best estimate” means. Is this part of the best estimate or not? Depending on the answer, we also need clarity on whether this is added to the best estimate, deducted from it, or not reflected in it.	Noted.
174.	Institute and Faculty of Actuaries	HBS.4.47.	No comment	Noted.
175.	Aon Hewitt	HBS.4.48.	The approach to a) and b) do not appear to be consistent. Consider a	Noted.

			scenario in which a pension protection scheme provided a very small level of protection. In this case a) and b) should have very similar levels of protection but the values calculated could be significantly different under the proposed approaches.	
176.	Financial Reporting Council – staff response	HBS.4.48.	Should full level of benefits be reduced level of benefits?	Noted.
177.	Institute and Faculty of Actuaries	HBS.4.48.	No comment	Noted.
178.	Insurance Europe	HBS.4.48.	Insurance Europe believes that the value of the option in a) should be between the actual value of the pension protection scheme and the actual value of the sponsor support including default risk.	Noted.
180.	Aon Hewitt	HBS.4.49.	It is not completely clear whether benefits which might be reduced on insolvency are conditional benefits or Ex post benefit reductions. It is also not clear whether the best estimate of technical provisions should reduce to the level of financial assets in those member states where IORPs can withdraw their support from the IROP at any time and effectively walk away from their liabilities; or where there is no legal obligation for plan sponsors to fund the pension plan.	Noted.
181.	Groupe Consultatif Actuariel Européen	HBS.4.49.	This needs clarifying. In general IORPs will not be able to pay more benefits than their asset base permits, if there is no one else available to meet the shortfall. So, in the event of a catastrophic fall in asset values (e.g. due to fraud, an excessive market risk is taken that goes sour etc.) and in the absence of other benefit security mechanisms a 'last resort' benefit reduction will always be triggered. If this power is fully	Noted.

			recognised in the HBS balance sheet as is suggested by the current wording then it means that all IORPs are and will always be 'fully' solvent irrespective of their current or future financial health. This doesn't seem likely to be what EIOPA envisages.	
182.	Institute and Faculty of Actuaries	HBS.4.49.	No comment	Noted.
183.	Insurance Europe	HBS.4.49.	Insurance Europe believes that ex-post benefit reductions should be shown as an additional asset and not as a liability reduction in the QIS. Additionally more explanation and examples are appreciated.	Noted.
184.	Federation of the Dutch Pension Funds	HBS.4.50.	It is not very clear what EIOPA perceives as the difference between ex-ante and ex-post benefit reductions. Although there is the option to exclude ex-post benefit reductions from the TP (HBS 4.50), what is the difference if these are to be included?	Noted.
185.	Groupe Consultatif Actuariel Européen	HBS.4.50.	It is not very clear what EIOPA perceives as the difference between ex-ante and ex-post benefit reductions. Although there is the option to exclude ex-post benefit reductions from the TP (HBS 4.50), what is the difference if these are to be included?	Partially agreed. The definition of ex ante benefit adjustment mechanism has been made clearer.
186.	Institute and Faculty of Actuaries	HBS.4.50.	No comment	Noted.
187.	Insurance Europe	HBS.4.50.	Insurance Europe sees no benefit in excluding ex post benefit reductions from the best estimate calculations of the technical provisions. However, Insurance Europe agrees that it is hard to assess the actual value of	Noted.

			these benefit reductions. Therefore, Insurance Europe would suggest including only those benefit reductions of the last resort which are based on legally binding conditions. This would help assessing its value.	
189.	Federation of the Dutch Pension Funds	HBS.4.51.	It is not clear what EIOPA perceives as the difference between conditional benefits (HBS 4.23 and further) and contractual options (HBS 4.51 and further).	Noted.
190.	Institute and Faculty of Actuaries	HBS.4.51.	No comment	Noted.
191.	Institute and Faculty of Actuaries	HBS.4.52.	No comment	Noted.
192.	Institute and Faculty of Actuaries	HBS.4.53.	No comment	Noted.
193.	Institute and Faculty of Actuaries	HBS.4.54.	No comment	Noted.
194.	Institute and Faculty of Actuaries	HBS.4.55.	No comment	Noted.
195.	Institute and Faculty of Actuaries	HBS.4.56.	No comment	Noted.
196.	Aon Hewitt	HBS.4.57.	It is not clear how the deterministic approach ties in with the requirement at paragraphs HBS.3.4 and HBS.3.20	Noted.
197.	Institute and Faculty of Actuaries	HBS.4.57.	No comment	Noted.
198.	Institute and Faculty of Actuaries	HBS.4.58.	No comment	Noted.

199.	Institute and Faculty of Actuaries	HBS.4.59.	No comment	Noted.
200.	Institute and Faculty of Actuaries	HBS.4.60.	No comment	Noted.
201.	Institute and Faculty of Actuaries	HBS.4.61.	No comment	Noted.
202.	Aon Hewitt	HBS.5.1.	Guidance should be given as to what is meant as the “amount that an IORP would be expected to require in order to take over and meet the pension obligation”. We assume this does not mean the amount needed to secure the obligation with an insurance company, but rather the expected amount needed to that there is a reasonable expectation that the sponsor does not need to pay any additional amounts into the IORP (i.e. the IORP can be regarded as “self sufficient”, which is a term frequently used in the UK at least). If it is the latter, EIOPA should comment on what they consider to be a reasonable expectation (e.g. 50% certain, 75% certain, 90% certain etc).	Noted.
203.	Barnett Waddingham LLP	HBS.5.1.	Some of the scenarios considered in previous sections require IORPs to weight probabilities towards adverse scenarios to reflect market pricing for risk. In these cases we do not consider it appropriate for an additional risk margin to be added. EIOPA should clarify what this risk margin represents.	Noted.
204.	Federation of the Dutch Pension Funds	HBS.5.1.	Cost of capital is not a useful concept for IORPs.	Noted.
205.	Institute and Faculty of Actuaries	HBS.5.1.	The cost-of-capital concept has little meaning in the context of UK IORPs. We suggest that EIOPA consider allowing IORPs to set their risk margin equal to BuyOut – Level A Technical Provisions, where BuyOut is an	Noted.

			<p>estimate of the cost of transferring the obligations to an insurer. Our view is that this is a more appropriate way to meet the principle of assessing the costs of transferring liabilities to a third party – at least for UK IORPs.</p> <p>We have also wondered whether the loss absorbency available from sponsor support and pension protection schemes should be available as an offset to the risk margin but the consultation period has proved too short for us to consider the matter further.</p>	
207.	Aon Hewitt	HBS.5.2.	Where has the 8% come from? It is not clear that this is appropriate for IORPs. Please can EIOPA explain its thinking.	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.
208.	Association of British Insurers	HBS.5.2.	The ABI is asking for further clarity on how the 8% of technical provisions figure was determined and whether this is a realistic figure to use.	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.
209.	Barnett Waddingham LLP	HBS.5.2.	We would like to see EIOPA's analysis behind the selection of a simplified	Partially

			risk margin of 8% of best estimate technical provisions.	agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.
210.	Federation of the Dutch Pension Funds	HBS.5.2.	It is unclear what the basis for the assumed parameter of 8% is and whether this is applicable / adequate for IORPs (also see HBS 5.1).	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.
211.	Groupe Consultatif Actuariel Européen	HBS.5.2.	<p>In some member states, e.g. UK, part of the role of the IORP's actuary is to estimate the discontinuance position of the IORP, usually understood to be the probable buy-out cost were the IORP's liabilities transferred to an insurer.</p> <p>(i) It would be helpful for EIOPA to clarify whether these estimates if available and sufficiently reliable could replace the best estimate + risk margin computation, on the grounds that such a value can be viewed as corresponding to the market consistent value of the (accrued wind-up) liabilities.</p>	Noted. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.

			<p>(ii) If these values are not considered appropriate to replace the best estimate + risk margin then it would be helpful to analyse how they typically compare with the proposed best estimate + risk margin approach. If there is a significant difference then the rationale for using a best estimate plus risk margin computation may be weakened.</p> <p>Also, it is not clear what the approximation of 8% is based upon. It would be helpful to receive additional clarification on this.</p>	
212.	Institute and Faculty of Actuaries	HBS.5.2.	<p>Notwithstanding our preference as set out in our response to HBS 5.1, an 8% adjustment is admirably simple. However, we wonder whether a scale based on size of Technical Provisions might be more appropriate. It seems to us prudent to permit individual Member States to determine whether to adopt this simplified formulaic 'adjustment' approach or the alternative we present in response to HBS 5.1.</p>	<p>Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.</p>
213.	Insurance Europe	HBS.5.2.	<p>Insurance Europe is wondering on what basis the percentage applied to the level A best estimate technical provisions was determined at 8% as a proxy for the calculation of the risk margin.</p>	<p>Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin</p>

				was derived.
214.	Aon Hewitt	HBS.5.3.	Please include details on how this can be calculated in accordance to Solvency II so that we have a self-contained document (and do not need to refer to other documents that are written for insurers). Also we do not see how IORPs can judge whether the proposed simplification is appropriate until more specific guidance is provided on what it is supposed to cover. Member states are also likely to need guidance on how to interpret the last requirement (especially to ensure a consistent approach across member states).	Noted.
215.	Institute and Faculty of Actuaries	HBS.5.3.	No comment	Noted.
216.	Institute and Faculty of Actuaries	HBS.5.4.	No comment	Noted.
217.	Institute and Faculty of Actuaries	HBS.5.5.	No comment	Noted.
218.	Belgian Association of Pension Institutions (BVPI-	HBS.6.1.	How to explain « A » – increase in contribution – what is the time horizon ? One year ? Aligned with the horizon of the best estimate ?	Noted. Explained later in the document.
219.	Institute and Faculty of Actuaries	HBS.6.1.	No comment	Noted.
220.	Insurance Europe	HBS.6.1.	Valuation of components beyond the sphere of the IORP itself is a big challenge for IORPs. Data and parameters from sponsors and pension protection schemes might not be publicly available and the IORP should not have the responsibility for completing these missing figures. Therefore EIOPA has to fill these gaps or to delegate the discussion about	Noted.

			<p>the completion of the figures to the national supervisors. The QIS' results should give further insight where IORPs have lack of information and will need more guidance and specifications on methods and parameters.</p> <p>Furthermore, reporting data from the sponsor are usually local GAAP or IFRS figures. However, they are not from an economic balance sheet which uses consistent interest rates for valuation for solvency purposes. If there are no original data on cash-flows or assets of the sponsor available that follow the valuation principles taken for the IORPs. The proposed calculations would therefore require a revaluation which hardly can be performed by the IORP.</p>	
221.	Institute and Faculty of Actuaries	HBS.6.2.	No comment	Noted.
222.	Aon Hewitt	HBS.6.3.	There is no standard nomenclature, definition or valuation methodology for the "wealth of the sponsor" in corporate or actuarial finance.	Noted.
223.	Institute and Faculty of Actuaries	HBS.6.3.	No comment	Noted.
224.	Barnett Waddingham LLP	HBS.6.4.	An additional form of contingent asset is the existence of a parent company or group of companies which, legally or voluntarily, have an obligation to support the scheme, for example in the event of sponsor default.	Noted.
225.	Institute and Faculty of Actuaries	HBS.6.4.	It is possible that the structure of the contingent asset means that it does not form part of the value of sponsor support : for example bank-backed credit letter that belong to the IORP.	Noted, will be further developed at a later stage.

227.	Aon Hewitt	HBS.6.5.	Where a group/parent company guarantee is provided, we think it is more appropriate (and indeed easier) to allow for this when calculating the default probability for the sponsor support item rather than showing this as a separate asset. A large number of IORPS in the UK have parent/group guarantees and, if EIOPA require these be valued as separate contingent assets, will increase the overall complexity of the calculations but with no obvious benefit to be gained by doing so since the guarantees will still be allowed for in the Holistic Balance Sheet asset.	Noted, will be further developed at a later stage.
228.	Institute and Faculty of Actuaries	HBS.6.5.	We agree that contingent assets should not be double-counted but we consider that the value of contingent assets should only be deducted from the value of sponsor support if this is necessary to avoid double-counting.	Noted.
229.	Insurance Europe	HBS.6.5.	More explanations and examples on contingent assets of the sponsor would be appreciated.	Noted.
230.	Belgian Association of Pension Institutions (BVPI-	HBS.6.6.	Please clarify. It is not totally clear what to understand under D in case of discontinuance of the IORP ?	Noted and its use is explained later in the document.
231.	Institute and Faculty of Actuaries	HBS.6.6.	No comment	Noted.
232.	Institute and Faculty of Actuaries	HBS.6.7.	No comment	Noted.
233.	Aon Hewitt	HBS.6.8.	In countries where it is legally possible for sponsors to walk away from	Noted. IORPs

			the IORP pension liabilities, does this mean the support should be valued as zero?	should consult their supervisors for how this applies in different Member States.
234.	Institute and Faculty of Actuaries	HBS.6.8.	No comment	Noted.
235.	Institute and Faculty of Actuaries	HBS.6.9.	We are not persuaded that the draft specification achieves this objective. We believe that the way sponsor support is taken into account needs substantial development. For the purpose of the QIS, we think it would be a useful « sense check » to compare the maximum value of sponsor support item with market capitalisation where this is available.	Noted.
236.	Federation of the Dutch Pension Funds	HBS.6.10.	In some circumstances it is not always clear which part of the sponsor contribution is defined for normal accrual and which part is 'sponsor support' in respect of security mechanisms. More guidance is required in order to get good indication of sponsor support; the reference to 'excess of its regular contribution' in HBS 6.10 is not sufficient as there may be many different definitions in the different Member States.	Noted.
237.	Institute and Faculty of Actuaries	HBS.6.10.	No comment	Noted.
238.	Institute and Faculty of Actuaries	HBS.6.11.	We suspect that the holistic balance sheet is sensitive to the choice of « required level » and suggest that EIOPA investigate this.	Noted and this will be developed further at a later stage.
239.	Institute and Faculty of Actuaries	HBS.6.12.	No comment	Noted.

240.	Institute and Faculty of Actuaries	HBS.6.13.	No comment	Noted.
241.	Aon Hewitt	HBS.6.14.	We are surprised that there are several paragraphs in this section concerning the most appropriate default probabilities (i.e. HBS.7.26 to HBS 7.31) to use, whereas in the section for sponsor support very little explanation is given (cf HBS.6.15), even though we expect default probabilities to be far more material to the calculation of sponsor support.	Noted.
242.	Institute and Faculty of Actuaries	HBS.6.14.	No comment	Noted.
243.	Aon Hewitt	HBS.6.15.	<p>The probabilities of default listed are broadly similar to S&P long term average rates per category (see S&P's 2011 Annual Global Corporate Default Study And Rating Transitions: .http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245330814766 . There are some small differences though, so it would be helpful if EIOPA could provide some information on how they have determined these default probabilities.</p> <p>However, we note in particular that the proposed default rate for CCC or lower rated sponsors is 4.175% whereas the S&P long-term average is 26.82%. Although a lower assumption will increase the Holistic Balance Sheets asset for CCC or lower rated sponsors and obviously be viewed positively by such sponsors, we question whether this will provide EIOPA and the Commission with information that accurately assesses the risks associated with such sponsors, and could distort the findings of the QIS.</p>	Noted, will be further developed at a later stage.

			<p>However, in most cases the these probability of defaults have a standard deviation that is larger than the average itself (eg S&P have BB at a 1 year average default rate of 0.89% with a standard deviation of 1.05%, whereas the standard deviation for CCC or lower bonds is 12.68%, compared to EIOPA's suggested probability of 4.175%).</p> <p>We also think the number of bands are too low, and there will be significant changes in the calculated items depending on whether a sponsor is at a top of one band or the bottom of another. EIOPA should consider providing a wider range of bands (eg A+, A- etc) in order to improve the accuracy of the calculations (especially for those rated BBB or below) – credit rating agencies use a wider range of bands than those specified here.</p>	
244.	Federation of the Dutch Pension Funds	HBS.6.15.	It is unclear what to use in case of a multi-employer IORP (in the Netherlands, there are many industry wide schemes with over 10.000 non-rated employers).	Noted.
245.	Institute and Faculty of Actuaries	HBS.6.15.	The holistic balance sheet results are sensitive to the probability of default. The probabilities provided seem low to us relative to market conditions at the proposed valuation date and so we are concerned that a QIS in accordance with the draft specification could fail to capture the full impact of implementing the holistic balance sheet.	Noted.
247.	Aon Hewitt	HBS.6.16.	We do not agree that unrated sponsors should have a default rating in line with that of a B rated company. There is some logic in this in the context of Solvency II for a financial institution investing in a broad range of bonds almost all of which are rated, and which can sell the non-rated bonds if it wants. This logic does not apply in relation to IORPs who	Noted.

			<p>cannot choose their sponsor.</p> <p>Credit rating providers also calculate market-implied credit ratings for certain listed entities. We recommend that IORPs are allowed to use a market-implied credit rating when a credit rating is not available.</p> <p>Unrated employers will include non-profit institutions such as charities, universities, research organisations, hospitals, public service providers, trade unions, churches and partnerships. By treating these as unrated employers with a default probability of 4.175%, there is a risk that IORPs sponsored by these institutions will have significant balance sheet deficits and, depending on any future policy framework, may have reduce the amount of money spend on their non-profit activities (eg charitable giving, philanthropic activity). EIOPA should consider whether it is appropriate to treat non-profit institutions in this way.</p>	
248.	Barnett Waddingham LLP	HBS.6.16.	<p>We do not believe the credit rating for unrated employers adequately captures factors such as member state, industry or legal form of employer.</p> <p>In the UK, most IORPs need to pay a levy to a pension protection scheme which is based, in part, on the estimated probability of default of the sponsor. We suggest this would be more appropriate than the blanket rate which EIOPA has specified.</p>	Noted.
249.	Federation of the Dutch Pension Funds	HBS.6.16.	<p>It is unclear what to use in case of a multi-employer IORP (in the Netherlands, there are many industry wide schemes with over 10.000 non-rated employers). With many employers, the sponsor risk is better diversified and should therefore be lower (than 4.175%).</p>	Noted.

250.	Institute and Faculty of Actuaries	HBS.6.16.	No comment	Noted.
251.	Insurance Europe	HBS.6.16.	<p>The specification of reasons for deviation from the 4.175% probability of default requires an individual assessment by the IORP. On the one hand this will require an additional effort for the IORP and on the other hand the IORP will also be responsible for the proof. Especially for multi-employer IORPs evaluation of employers' portfolios is almost impossible.</p> <p>For the purpose of the QIS we therefore propose to provide a unique figure for the probability of default. Alternatively a formula/tool which calculates the figure depending on the number/size of the sponsors should be provided.</p> <p>We expect that the default probability of a portfolio of many (unrated) employers is not much different from the default probability of a good rated employer. Since ratings can change in time this has to be taken into account when deriving a default probability from the rating.</p>	Noted.
252.	Aon Hewitt	HBS.6.17.	The recovery rate may need to vary by country. For Germany 100% may be appropriate, including allowance for PSV. For the UK, 50% seems very high based on actual experience. We note that EIOPA is investigating this further, and we would be pleased to comment on its findings.	Noted.
253.	Belgian Association of Pension Institutions (BVPI-	HBS.6.17.	Why 50% ?	Noted, and note that it is a maximum.
254.	Federation of the Dutch Pension Funds	HBS.6.17.	There is no justification of the 50% presented.	Noted.

255.	Institute and Faculty of Actuaries	HBS.6.17.	We agree that the recovery rate needs further investigation and are concerned that the result of a QIS on this basis may misrepresent the potential impact of implementing the holistic balance sheet. For example, EIOPA may wish to compare the impact on revenue rich/asset poor sponsors with the impact on revenue poor/asset rich sponsors.	Noted.
256.	Towers Watson B.V.	HBS.6.17.	The 50% recovery rate seems to be arbitrarily determined.	Noted.
257.	Institute and Faculty of Actuaries	HBS.6.18.	A typical UK IORP ranks below debt holders but above equity holders. However many IORPs have increased the level of security through corporate guarantees etc. It is rare for the IORP to rank alongside debt holders and therefore to have the same probability of default as them. It follows that it will be difficult to infer the relevant probability of default from market data and that it may therefore be necessary to rely on expert opinion.	Noted.
258.	Institute and Faculty of Actuaries	HBS.6.19.	We anticipate that it will be particularly difficult to take proper account of multiple sponsors (whose businesses may be very similar, subject to cross holdings and guarantees, or completely uncorrelated) or of other IORPs supported by individual sponsors. We suggest that this is a topic that EIOPA may wish to investigate further.	Noted.
260.	Aon Hewitt	HBS.6.20.	In cases where sponsors can walk away from their pension liabilities, it is not clear whether sponsor support should be regarded as 'limited conditional sponsor support' or should not be included at all.	Noted.
261.	Belgian Association of Pension Institutions (BVPI-	HBS.6.20.	Why to calculate an unlimited sponsor value if it is limited anyway ?	Noted.
262.	Institute and Faculty of	HBS.6.20.	No comment	Noted.

	Actuaries			
263.	Insurance Europe	HBS.6.20.	It is unclear what is meant with "the IORP should perform the calculation as if it was not limited in this way (the limit or the condition?) but the value should be reported as relating to "limited conditional sponsor support".	Noted.
264.	AEIP – The European Association of Paritarian Inst	HBS.6.21.	In which case restitutions to the sponsor should be assumed possible?	Noted. This is based on the legal provisions of the IORP.
265.	Aon Hewitt	HBS.6.21.	EIOPA should clarify the treatment of contributions in respect of future accrual where future service benefits are included in the technical provisions under HBS.4.14. If future service benefits are included in the liabilities, then it is appropriate to allow for contributions in respect of the benefits when calculating the assets.	Noted.
266.	Institute and Faculty of Actuaries	HBS.6.21.	We anticipate that the impact of implementing Solvency II for IORPs will be particularly high for shared cost DB schemes and suggest that EIOPA may wish to segment these separately from other DB IORPs.	Noted.
267.	Towers Watson B.V.	HBS.6.21.	We doubt whether it is always clear what part of the contribution relates to existing obligations and should or can therefore be considered additional contributions. We note that the fact that regular contributions aren't referred to in the consultation adds to this lack of clarity.	Noted.
268.	Institute and Faculty of Actuaries	HBS.6.22.	No comment	Noted.
269.	Institute and Faculty of	HBS.6.23.	No comment	Noted.

	Actuaries			
270.	Aon Hewitt	HBS.6.24.	<p>Allowing self estimation would appear to provide scope for manipulation of the results and this would be particularly important if a similar approach was adopted in practice, rather than just for the QIS.</p> <p>However, we note that in many cases the standard methodology will lead to inappropriate values (eg for private and non-profit companies, complex group structures, entities where future earnings will be different from the past eg the past includes exceptional or negative items, sponsors where the nature or size of business has changed).</p> <p>EIOPA should provide guidance on when the standard methodology may not be suitable</p> <p>For the purpose of the QIS, it is likely to be difficult to use anything different from the standard methodology given the time available, so EIOPA should comment on whether there is a risk that the output from the QIS could misstate sponsor support as a whole if most IORPs decide to use the standard methodology for this exercise.</p> <p>It could be argued that as the standard methodology builds in allowance for cash contributions from the sponsor to the IORP which are different to those expected in practice, then every IORP should conclude that the standard methodology gives an inappropriate value. We suspect this is not what EIOPA intends, and suggest that EIOPA reviews the instructions here.</p>	Noted.

271.	Institute and Faculty of Actuaries	HBS.6.24.	We understand that the UK Pensions Regulator will be conducting the QIS for the UK. It therefore seems likely that the standard method will be used throughout	Noted.
272.	Insurance Europe	HBS.6.24.	Usage of own valuation techniques of the IORP would lead to an additional burden for the IORP and to arbitrariness. Alternative methods could be defined at national level by the national supervisors, at least for the purpose of this QIS.	Noted.
273.	Institute and Faculty of Actuaries	HBS.6.25.	No comment	Noted.
274.	Institute and Faculty of Actuaries	HBS.6.26.	We would welcome further analysis of the value of sponsor support recognised on the holistic balance sheet. For example, the level of risk may be transparent if the maximum value of sponsor support were included in the assets and that the SCR was shown gross (after downwards adjustment to reflect correlations). This approach may also require fewer calculations.	Noted.
275.	Institute and Faculty of Actuaries	HBS.6.27.	No comment	Noted.
277.	Aon Hewitt	HBS.6.28.	<p>For listed entities, it is not clear why the maximum amount of sponsor support should be different from the market capitalisation of the entity. It would be helpful if EIOPA could explain its thinking in this area, especially as this would then be a market-related value which would then be consistent with the methods used to value the assets and liabilities.</p> <p>Some of our clients have expressed concerns that the maximum amount of sponsor support could be commercially sensitive, especially it turns</p>	Noted.

			<p>out to be different (either higher or lower) than actual market capitalisation. Some sponsors are concerned as to how this information will be used, and that it could then become available for third parties. This in turn could impact the price that investors may be willing to pay for shares in these sponsors, and reduce the attractiveness of the sponsor to external investors. This in turn could weaken the strength of the sponsor, and reduce the level of sponsor support for the IORP.</p> <p>EIOPA should provide some safeguards and reassurance as to how the information on the maximum sponsor support will be used in order and kept confidential.</p> <p>Without appropriate safeguards, this may mean that some IORPs will be reluctant to take part in the QIS (some of our large clients have already expressed this concern to us).</p>	
278.	Belgian Association of Pension Institutions (BVPI-	HBS.6.28.	If a sponsor reports under local GAAP at solo level and IFRS at group level, which accounting standard should be used to define the liabilities towards the IORP?	Noted.
279.	Institute and Faculty of Actuaries	HBS.6.28.	No comment	Noted.
280.	Insurance Europe	HBS.6.28.	Insurance Europe questions how to achieve realistic assumptions about future gains of the sponsor and how this could be checked by the supervisors. Furthermore, it is unclear how to assess the future profits of non-for profit organisations. They too can offer pension provisions for their employees.	Noted.

			An alternative approach here would be to take into account the surplus rather than the profit and to also include reserves in the maximum value for the sponsor support.	
282.	Aon Hewitt	HBS.6.29.	<p>Presumably you mean shareholder funds when you refer to excess assets over liabilities (for consistency with the wording in HBS.6.37)? Please clarify.</p> <p>In some cases it may not be easy to work out the liabilities of the sponsor towards the IORP. This will depend on how the sponsor has broken down information in its accounts. Some sponsors may not even include a liability, especially entities in a group company that participate in a multi-employer plan.</p> <p>It is not obvious why current recovery plan contributions are netted off (where relevant) from future profits or earnings in HBS.6.30 but there is no consideration as to whether they should be netted off from current wealth in HBS.6.29.</p>	Noted. Yes to the first question.
283.	Institute and Faculty of Actuaries	HBS.6.29.	This definition of the wealth currently available for the IORP is admirably clear however it may often be too simple to reflect adequately the resources available to the IORP if the sponsoring entity is part of a complex corporate structure.	Noted.
284.	Insurance Europe	HBS.6.29.	The calculation of the first component for the purpose of the maximum value of sponsor support might not be possible as often sponsors don't have an economic balance sheet. Therefore they cannot provide the	Noted.

			economic excess of assets over liabilities to the IORP.	
285.	Aon Hewitt	HBS.6.30.	<p>It is not clear that a sensible value can be obtained by adding a balance sheet item to future cash flows. As an aside, it will be difficult to forecast future net profits or EBTDA (gross profits) as most companies do not disclose this, and EBTDA is not a widely used term, so this may need to be estimated which will increase the costs of doing the exercise.</p> <p>It is also not clear what is meant by net profit . We assume it is post-tax net profit or, in some cases, "other comprehensive income". Or do you mean Operating Earnings, or Amounts transferred to Retained Earnings (ie taking into account dividends paid) or Other Comprehensive Income. EIOPA should provide clarification on the net profit figure that should be used and why it believes this is the most appropriate definition.</p> <p>Also, since contributions are paid from cash flow, a better or alternative metric should be company cash flow (if a company is not generating cash it will generally not be able to pay pension contributions, unless it borrows or sells assets). Alternative measures could then be cash generated from operating activities, net cash inflow from operating activities, net increase in cash during the year, and such measures are normally found in published cash flow statements. Other measures, such as Free Cash Flow, could also be considered.</p> <p>For non-profit entities, the concept of "earnings" does not exist. Alternative definitions will need to be used. For charities, some assets may be restricted assets so not available for pension funding purposes.</p>	Noted. These issues will be further developed at a later stage.

		<p>Given the large number of non-profit organisations in the EEA, EIOPA should provide guidance on how non-profit entities should be treated.</p> <p>It is not clear why EBTDA has been used as a definition, For large financial institutions, a large part of their earnings is interest income, so EBTDA can actually be a very large negative number. We are not sure whether this is EIOPA's intention, as this could penalise some of Europe's largest financial institutions.</p> <p>Since it is possible for future earnings to be negative, then the difference between items II and III should then be set to zero for the purpose of the calculation (ie the minimum value then equals current recovery plan contributions)</p> <p>Likewise, some companies have significant borrowings, with certain creditors ranking ahead of the IORP (eg corporate bond holders). For these companies, EBTDA may overstate the potential amount that may be available to the pension fund. It is not clear why EIOPA have not specified EBITDA as an appropriate earnings measure.</p> <p>As there is an interest component to pension costs, some companies will include this in their interest expense whereas some may include it in their operating expense. For sponsors of large IORPS, the line in which pension net interest expense is recorded could then have a significant impact on the calculated sponsor wealth. For consistency with the balance sheet item, it would be appropriate to strip pension related items out of the earnings component (eg so EBITDAP or EBTDAP should be used instead of EBITDA or EBTDA). We note however that this will</p>	<p>No. These should be any currently agreed recovery plan contributions.</p>
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			<p>make the calculations more complex (and indeed in some cases it may not be possible to make this adjustment if the corresponding amounts are not disclosed in the accounts).</p> <p>For the item "current recovery plan contributions" should these be adjusted to take account of what level of contributions might be payable based on a new valuation, under existing rules and methods, as at 30 December 2011? In some countries, eg the UK, existing recovery plan contributions may have been based on an actuarial valuation that is up to three years old (or in the process of being updated), so it would be inappropriate to compare deficit contributions under a new regime as at this date, without knowing what they would look like under the current regime as at the same date.</p> <p>Overall we think this section needs a significant amount for work in order for it to be meaningful and interpreted appropriately for all different types of sponsors.</p>	
286.	Belgian Association of Pension Institutions (BVPI-	HBS.6.30.	<p>Why EBTDA and not EBITDA ?</p> <p>What's the sense of this in case of sponsors belonging to a bigger group/holding/multinational where often all profit is transferred to the mother holding? How to apply for industry-wide IORPs with multiple small sponsors ?</p>	Noted. This issue will be developed further at a later stage.
287.	Institute and Faculty of Actuaries	HBS.6.30.	<p>Many recovery plans for UK IORPs include contributions contingent on future financial events/conditions. We suggest that it be made clear that future foreseen wealth should be adjusted appropriately to ensure no double-counting.</p>	Noted.

288.	Aon Hewitt	HBS.6.31.	For many sponsors, we would expect future earnings forecasts to be very different from historic earnings. The standard approach suggested by EIOPA is to assume future earnings will be in line with historic earnings adjusted for inflation. We think this is a massive over-simplification, especially given the potential lack of uncertainty around any forward business-looking forecast over any significant period.	Noted.
289.	Institute and Faculty of Actuaries	HBS.6.31.	No comment	Noted.
290.	Aon Hewitt	HBS.6.32.	As a simplification, why not set the value to market capitalisation where this exists.	Noted.
291.	Institute and Faculty of Actuaries	HBS.6.32.	No comment	Noted.
292.	Institute and Faculty of Actuaries	HBS.6.33.	Credit ratings are not created for the purpose of assessing the probability of pension default events and may not adequately reflect where the IORP ranks in the corporate structure or, if a company has no need to borrow, may not exist at all.	Noted.
293.	Institute and Faculty of Actuaries	HBS.6.34.	No comment	Noted.
294.	Insurance Europe	HBS.6.34.	Where the legal nature of the sponsor support means that the sponsor has the opportunity to choose to no longer provide support, Insurance Europe believes that a different simulation should be performed. In cases where the support of a sponsor would be conditional, then the conditional elements should be taken into account. In case the support of the sponsor would not be legally binding and its commitments only come	Noted.

			from sponsor behaviour, then no amounts of sponsoring support should be taken into account.	
296.	Aon Hewitt	HBS.6.35.	It would be inappropriate to gross-up for all employers in multi-employer funds where liabilities and assets are ringfenced for individual employers.	Noted.
297.	Belgian Association of Pension Institutions (BVPI-	HBS.6.35.	In the Belgian context of separate assets (afzonderlijk vermogen/patrimoine distincts) separate statutory balance sheets apply, no solidarity exists, does this also mean a separate HBS ? In case of cross border activities, only 1 HBS ?	Yes. This will depend on the legal nature of the IORP and the financial structure.
298.	Groupe Consultatif Actuariel Européen	HBS.6.35.	In this section, EIOPA has clearly tried to provide a practical alternative for multi-employer IORPs. However, large industry-wide IORPs often have several thousands of small non-associated companies. In order to make calculations for a representative sample, the number of calculations would still be too large. We would encourage EIOPA to formulate clearer guidance on this issue	Noted. This will be further developed at a later stage.
299.	Institute and Faculty of Actuaries	HBS.6.35.	Some UK IORPs are « sectionalised » so that, although they are nominally multi-employer, there is no cross-subsidy by unrelated employers. We therefore suggest that this definition could be usefully expanded so that it is clear that employers can only be omitted if the liabilities they are underwriting are also supported by other employers.	Noted.
300.	Insurance Europe	HBS.6.35.	Insurance Europe believes that this type of simplification does not work. It includes a lot of arbitrariness as the IORP is the responsible for its reasoning. Moreover, Insurance Europe believes that larger employers	Noted.

			<p>are not representative. For example, a multi-employer IORP with 10 indexed big companies (all rated), 100 larger medium-size companies (thereof 5 with a rating) and 200 medium crafts enterprises (no one with a rating).</p> <p>Insurance Europe believes that the results can only be grossed up for all employers in case this could be demonstrated or objectively measured, rather than “seen as”.</p>	
302.	Aon Hewitt	HBS.6.36.	<p>It is not clear why employer support is only assumed to continue for the average duration of the cash flows rather than until all cash flows are paid. Some of the other inputs also appear arbitrary. For example, why is 50% of expected future net profits used rather than 10% or 25%? Why 25% of EBTDA?</p> <p>It is also giving the impression that EIOPA will allow deficits to be met over the average duration of the cash flows. We understand no decision has been made on this yet, and this will be a matter for the Commission, so it is important that the Commission has information which can help it assess the impact of different recovery plan lengths.</p> <p>Given the materiality of this item, we suggest IORPs also do calculations where d is doubled (ie it equals two times the value of the average duration)</p> <p>Further clarification should be given on what is meant by net profit (see comments to HBS.6.30)</p>	<p>Noted, and will be further developed at a later stage.</p> <p>IORPs should</p>

			<p>It is not clear why (ii) is based on future net profit, whereas, in (iii) EBTDA is based on a three year average of EBTDA. Should the net profit for (ii) also be based on a three year average?</p> <p>Also, what happens if any of the earnings periods in the last three years includes negative or one-off exceptional items (which could be positive or negative). Should these be ignored, or adjusted?</p> <p>What inflation figure is proposed for the adjustment? Is it price inflation, or some other measure of earnings inflation (eg dividend growth)?</p>	<p>consider whether the results are misleading and apply their judgment in line with the principles.</p>
303.	Belgian Association of Pension Institutions (BVPI-	HBS.6.36.	<p>The use of « i » is confusing, once it is used as a discount factor (see 6.36 and 6.39), other times it is used as an discount rate (see 6.48 and 6.50). Better to use discount factor $v = 1/(1+i)$ in 6.36 and 6.39, and to use « i » discount rate in 6.48.</p>	Agreed.
304.	Institute and Faculty of Actuaries	HBS.6.36.	<p>We have a number of suggestions for improving these definitions; however it would be wrong to infer that we consider this approach to valuing sponsor support to be satisfactory: we think other methods may be superior and should also be considered.</p> <p>Although the definition of it is correct and it defined in this way is correctly used in the formulae that follow in paragraph HBS 6.39, it is unfortunate that in HBS6.50 « i » is used in a different, more conventional way despite a very similar definition in HBS6.48.</p> <p>We would be pleased to see EIOPA amend HBS6.36 in line with the convention used in actuarial practice, namely:</p>	Agreed.

			<p>i : discount rate</p> <p>v : discount factor for one year= $(1+i)^{-1}$</p> <p>vt : discount factor for t years = $(1+i)^{-t}$</p> <p>In our view it is not necessary or appropriate to limit d to the average duration. In fact using d for duration risks confusion as d commonly denotes the quantity $1 - v$ in actuarial practice.</p> <p>The definition of EC_t is not clear and it appears inconsistent with the formulae in which it is subsequently used. We think the reference to discounting in (i) and (ii) is not correct because a discount factor is applied to EC_t in the formula in HBS 6.39. We also think that the references to year d are unhelpful. We propose the following definition :</p> <p>EC_t : Expected cashflow in year t = Sum of</p> <p>(i) the recovery plan contribution expected in year t</p> <p>(ii) the lesser of :</p> <p>a) For the purpose of this QIS, 50% of the expected net profit in year t, and</p> <p>b) For the purpose of this QIS, 25% of the sponsors' EBTDA in year t.</p> <p>We would like to see EIOPA explain the rationale for proposing a 3 year average for base EBTDA but not for base net profits.</p>	
305.	Insurance Europe	HBS.6.36.	<p>Insurance Europe assesses this as a rather strong simplification. Especially, additional guidance is required on how to calculate the expected net profits.</p> <p>Furthermore, Insurance Europe thinks that regarding the EC_t (iii) for the</p>	Noted.

			future years, the figure should be increased by inflation to year 'd' rather than year 't'.	
306.	Towers Watson B.V.	HBS.6.36.	The assessment of future profits and sponsors' earnings seems to be arbitrarily determined.	Noted.
307.	Aon Hewitt	HBS.6.37.	<p>The most recent shareholder funds may not be comparable across countries. A key factor will be whether goodwill is on or off balance sheet.</p> <p>It is also not clear why 50% has been taken for the proportion of shareholder funds available for the IORP. In many countries, the level of support is not at the employer's or owner's discretion.</p> <p>Where has the 50% figure come from? Shouldn't it be 100% especially in countries where sponsors have a legal responsibility to fund deficits?</p> <p>For y (value of liabilities already accounted for in sponsor accounts), EIOPA should add clarity on whether this is on a pre-tax or post-tax basis?</p>	Noted. This will be further developed at a later stage.
308.	Belgian Association of Pension Institutions (BVPI-	HBS.6.37.	<p>In the Belgian context we understand there is no limitation, is this correct ?</p> <p>If a sponsor reports under local GAAP at solo level and IFRS at group level, which accounting standard should be used to define the liabilities towards the IORP?</p>	Noted. Consult the Belgian supervisors.

309.	Institute and Faculty of Actuaries	HBS.6.37.	The holistic balance sheets results are potentially sensitive to the chosen value of ξ . Moreover whilst a value of 50% may well be a suitable average value, it is possible that different segments of the market have very different values. We therefore advocate considering a range of values for this parameter as part of the QIS.	Noted.
310.	Institute and Faculty of Actuaries	HBS.6.38.	No comment	Noted.
311.	Aon Hewitt	HBS.6.39.	For the maximum value of sponsor support taking account of credit risk, we think the term next to the summation sign in the second part of the formula should be $t - 0.5$, and not $t + 0.5$.	Noted.
312.	Belgian Association of Pension Institutions (BVPI-	HBS.6.39.	If the first cash flow from recovery plan occurs in the middle of year 1, we would expect the following discount factor : $v^{t-0.5}$, so shouldn't we consider t as from 0 instead of as from 1?	Noted.
313.	Institute and Faculty of Actuaries	HBS.6.39.	As noted in our comment on HBS 6.36, we would like EIOPA to use v^t for the discount factor (or, failing that, to define and use it in the same way throughout the specification. We would also suggest the following correction to the formulae for M_{sscr} and M_{ss} : the first value of t is 1, and assuming EC_t represents cashflows in the first year, the discount factor should be to the power $t - 0.5$ and not $t+0.5$.	Agreed.
314.	Aon Hewitt	HBS.6.40.	Please can we see the spreadsheets – it is a shame these were not produced in time for the consultation exercise.	Noted.
315.	Groupe Consultatif Actuariel Européen	HBS.6.40.	EIOPA provides a simplification to calculate sponsor support. It seems however that there is no base calculation for which this is a simplification.	Noted.
316.	Institute and Faculty of	HBS.6.40.	The consultation period has proved too short for us to analyse the	Noted.

	Actuaries		proposed stochastic valuation of sponsor support. We doubt that this approach will be cost effective for UK IORPs.	
317.	Insurance Europe	HBS.6.40.	Without the tool and further analysis and testing of the influence of the parameters, no final comments on the quality of the results and the calibration can be made.	Noted.
318.	Belgian Association of Pension Institutions (BVPI-	HBS.6.41.	Please clarify term « run off value ».	Noted.
319.	Federation of the Dutch Pension Funds	HBS.6.41.	The simplification is already asking for four steps (and a lot of calculations).	Noted.
320.	Institute and Faculty of Actuaries	HBS.6.41.	The consultation period has proved too short for us to analyse the proposed stochastic valuation of sponsor support. We doubt that this approach will be cost effective for UK IORPs.	Noted.
321.	AEIP – The European Association of Paritarian Inst	HBS.6.42.	Do Level A TP include the risk margin? - either the risk margin is included in level A TP and sponsor support includes capitalizing an insurance company - or it is not included in level A TP and as long as there are less invested assets than TP, the HBS will be in deficit.	Noted.
322.	Aon Hewitt	HBS.6.42.	Please provide supporting information on the figures for “relative standard deviation of assets”, “relative standard deviation of technical provisions”, “expected correlation between assets and liabilities”. The default values appear to have been plucked out of the air, so, given the significance of this item, it is important the pensions industry is able to understand the rationale behind these figures, and when they may be inappropriate for particular IORPs.	Noted. This will be made available at a later stage.

			We are surprised that the recovery for the IORP on sponsor default has been set to be 50% of the IORP shortfall, irrespective of the actual or projected sponsor asset value, whereas the annual sponsor support absent sponsor default has been limited by reference to sponsor value.	
323.	Dexia Asset Management	HBS.6.42.	<p>Does the value of level A TP include the risk margin ?</p> <p>a. In the case the answer is positive, it implies that security mechanisms implicitly include the financing of the cost of capital of an insurance company, and relation between security mechanisms and recovery plans becomes less clear. Moreover, In this case do level B TP also include a risk margin?</p> <p>b. If the answer is negative, as long as invested assets do not cover all the liability side of the balance sheet, the HBS will be in deficit.</p>	Noted.
324.	Groupe Consultatif Actuariel Européen	HBS.6.42.	The description of rho in the formula seems to be different from what is intended. The value of assets and pension liabilities always has some co-movement if a market-consistent risk-free interest rate is used to discount the pension liabilities. The intended correlation seems to be the correlation between assets and projected benefit cashflows to participants. In a pure DB scheme, these cashflows shouldn't change if the value of assets changes (although their present value will fluctuate because of changes in market interest rates). However, this does not mean that the correlation is necessarily 0, as part of the assets can be subject to the same changes as the liabilities, e.g. when the IORP is investing in offsetting fixed income or undertakes a liability hedging programme. The value of rho should in that case be substantially higher	Noted.

			than 0. Indeed, an IORP with a DB scheme could choose to hedge all of its liability risk, in which case rho approaches 1 if some minor basis risk would still be assumed.	
325.	Institute and Faculty of Actuaries	HBS.6.42.	The consultation period has proved too short for us to analyse the proposed stochastic valuation of sponsor support. We doubt that this approach will be cost effective for UK IORPs.	Noted.
326.	Insurance Europe	HBS.6.42.	Regarding the relative standard deviation of assets, Insurance Europe believes that a value of 30% is underestimating the actual deviation. As such Insurance Europe believes that a sensitivity analysis is very important when assessing the results. It is unclear how to calculate the standard deviation from the technical provisions. Therefore, Insurance Europe believes that a sensitivity analysis is very important when assessing the results.	Noted.
327.	Aon Hewitt	HBS.6.43.	Please can we see the spreadsheets – it is a shame these were not produced in time for the consultation exercise. Please note that, in the time available and given that there is no spreadsheet, we have not been able to review this formula. We may want to make comments once we have seen the EIOPA spreadsheet.	Noted.
328.	Institute and Faculty of Actuaries	HBS.6.43.	The consultation period has proved too short for us to analyse the proposed stochastic valuation of sponsor support. We doubt that this approach will be cost effective for UK IORPs.	Noted.
329.	Institute and Faculty of Actuaries	HBS.6.44.	The consultation period has proved too short for us to analyse the proposed stochastic valuation of sponsor support. We doubt that this approach will be cost effective for UK IORPs.	Noted.

330.	Institute and Faculty of Actuaries	HBS.6.45.	It would be helpful if EIOPA were to make clear that « default risk » refers to a default by the sponsor on its obligations to the IORP, which may not be the same as the risk of a sponsor insolvency event.	Noted.
331.	Belgian Association of Pension Institutions (BVPI-	HBS.6.46.	Why only symmetric in the deterministic approach and not in the stochastic.	Noted.
332.	Institute and Faculty of Actuaries	HBS.6.46.	Although we do not comment further on the use of risk-free rates it would be wrong to infer that we accept the principle of using Solvency II as a basis for a robust solvency regime for IORPs.	Noted.
333.	Belgian Association of Pension Institutions (BVPI-	HBS.6.47.	How to understand « surplus » as we are in the context of a recovery plan.	Noted.
334.	Institute and Faculty of Actuaries	HBS.6.47.	We think this is a reasonable approach for the QIS but note that these arrangements are in practice rarely completely symmetric for UK IORPs.	Noted.
335.	Aon Hewitt	HBS.6.48.	<p>The discount factor i ought to be term-dependent</p> <p>Also the annual probability of default could also be term-dependent (as is the case in HBS.7.41 for valuing recoverables from insurance contracts).</p> <p>We are surprised that the recovery for the IORP on sponsor default has been set to be 50% of the IORP shortfall, irrespective of the actual or projected sponsor asset value, whereas the annual sponsor support absent sponsor default has been limited by reference to sponsor value.</p>	Noted and will be developed further at a later stage.
336.	Institute and Faculty of Actuaries	HBS.6.48.	As noted in our comment on HBS 6.36, it would be helpful if i were defined as the discount rate rather than the discount factor. It may be clearer to define i_j as the spot risk free rate for duration j for use in	Noted.

			<p>summing the cashflows CF_j in HBS 6.52. A corresponding change would then be required to the formula in HBS 6.50.</p> <p>The results of the holistic balance sheet calculations are potentially sensitive to the value of RR. We therefore advocate analysing the effect of varying this parameter. We have a concern that limiting the recovery rate will result in the QIS misrepresenting the impact for asset-rich sponsors.</p>	
337.	Insurance Europe	HBS.6.48.	<p>The individual setting of the recovery rate will be different from 50%. Furthermore, arguments for this deviation require additional effort of the IORP. Moreover, it might lead to arbitrariness of the results.</p> <p>Without the tool and further analysis and testing of the influence of the parameters, no final comments on the quality of the results and the calibration can be made.</p>	Noted.
338.	Aon Hewitt	HBS.6.49.	<p>Please can we see the spreadsheets – it is a shame these were not produced in time for the consultation exercise. Please note that, in the time available and given that there is no spreadsheet, we have not been able to review this formula. We may want to make comments once we have seen the EIOPA spreadsheet.</p>	Noted.
339.	Institute and Faculty of Actuaries	HBS.6.49.	No comment	Noted.
340.	Belgian Association of Pension Institutions (BVPI-	HBS.6.50.	<p>What is regarded as a recovery plan? When is a recovery plan needed? What is the duration of the settlement?</p> <p>The use of « i » is confusing, once it is used as a discount factor (see</p>	<p>Noted. These are defined in the text. Agreed.</p>

			6.36 and 6.39), other times it is used as an discount rate (see 6.48 and 6.50). Better to use discount factor $v = 1/(1+i)$ in 6.36 and 6.39, and to use « i » discount rate in 6.48.	
341.	Institute and Faculty of Actuaries	HBS.6.50.	<p>It would be helpful if EIOPA were to make clear that this formula defines CF_t for $t = 1$ to d and that $CF_0 = 0$ and to specify that d should be rounded to the nearest integer.</p> <p>Treating payments as annually in arrear simplifies the formulae but is potentially unduly penal for sponsors with a high pdef.</p> <p>We also think it would be helpful if the QIS analysed the effect of varying the period over which payments are made as the duration d is not necessarily representative.</p>	Agreed.
342.	Institute and Faculty of Actuaries	HBS.6.51.	No comment	Noted.
343.	Institute and Faculty of Actuaries	HBS.6.52.	We think this formula would be much easier to read if the $(1+i)^{-t}$ were taken inside the square bracket and used to cancel out the $(1+i)^t$ terms although we accept it may be easier to understand in the form specified.	Agreed.
344.	Aon Hewitt	HBS.6.53.	We think the total value of sponsor support (SSFV) should be restricted so that it cannot exceed the Maximum Value (Mss). This is not entirely obvious from the way it is currently drafted. The absence of any limitation on the amount recoverable by reference to sponsor value can lead to the total here exceeding the Maximum Value (Mss).	Noted.
345.	Institute and Faculty of Actuaries	HBS.6.53.	No comment	Noted.
346.	Institute and Faculty of Actuaries	HBS.6.54.	The consultation period has not been long enough for us to review this diagram.	Noted.

347.	Institute and Faculty of Actuaries	HBS.6.55.	Agreed	Noted.
348.	Institute and Faculty of Actuaries	HBS.6.56.	No comment	Noted.
349.	Institute and Faculty of Actuaries	HBS.6.57.	The consultation period has not been long enough for us to consider the implications of taking account of sponsor support as an ancillary own fund item.	Noted.
350.	Institute and Faculty of Actuaries	HBS.6.58.	The consultation period has not been long enough for us to consider the implications of taking account of sponsor support as an ancillary own fund item.	Noted.
351.	Insurance Europe	HBS.6.58.	Insurance Europe does not consider the valuation of the sponsor covenant as an ancillary own fund risk based. Therefore, it should not be used.	Noted.
352.	Institute and Faculty of Actuaries	HBS.6.59.	No comment	Noted.
354.	Association of British Insurers	HBS.6.60.	For most IORPs the pension protection scheme will be a liability rather than an asset, due to the contributions that are payable to the pension protection scheme	Noted.
355.	Federation of the Dutch Pension Funds	HBS.6.60.	The section on PPS is not relevant for the Netherlands. We leave commenting to other countries.	Noted.
356.	Institute and Faculty of Actuaries	HBS.6.60.	No comment	Noted.
357.	Insurance Europe	HBS.6.60.	The value of pension protection schemes has to be included as an asset on the holistic balance sheet. As pension protection schemes are	Noted.

			designed differently in the different member states, at least for the purpose of this QIS, it should be detailed on national level which pension protection mechanisms to include, reflecting the economic reality.	
358.	Institute and Faculty of Actuaries	HBS.6.61.	Agreed	Noted.
359.	Institute and Faculty of Actuaries	HBS.6.62.	No comment	Noted.
360.	Institute and Faculty of Actuaries	HBS.6.63.	No comment	Noted.
361.	Institute and Faculty of Actuaries	HBS.6.64.	We suggest EIOPA take account of the nature of the events that give rise to a payment from a pension protection scheme, which may be somewhat different from sponsor insolvency events and which would then have different probabilities of occurrence and, potentially, different recovery rates.	Noted.
362.	Institute and Faculty of Actuaries	HBS.6.65.	No comment	Noted.
363.	Insurance Europe	HBS.6.65.	Insurance Europe wants to highlight that not all pension protection schemes are similar, including those for insurance and IORPs. . Comparable pension protection schemes should be treated in a comparable way in order to avoid an unlevel playing field between different institutions providing occupational pensions. According to Insurance Europe, at least for the purpose of this QIS, it should be detailed on national discretion which pension protection mechanisms to include.	Noted.

364.	Institute and Faculty of Actuaries	HBS.6.66.	No comment	Noted.
365.	Institute and Faculty of Actuaries	HBS.6.67.	No comment	Noted.
367.	Institute and Faculty of Actuaries	HBS.6.68.	In our view, although this is a sensible approach for the QIS, EIOPA should consider carefully whether the probability of a sponsor default is the appropriate probability to apply to the probability of a payment from the pension protection scheme.	Noted.
368.	Insurance Europe	HBS.6.68.	As indicated in HBS.6.65, Insurance Europe believes that there exist many different types of pension protection schemes. Therefore, Insurance Europe believes that there are more options to take into account of the valuation. For example, a pension protection scheme can make a pay-out to an IORP before the sponsor actually defaults or a reduction in the benefit provision based on the status of the pension protection fund.	Noted.
369.	Institute and Faculty of Actuaries	HBS.6.69.	No comment	Noted.
370.	Institute and Faculty of Actuaries	HBS.6.70.	We think this is a sensible approach for the purpose of the QIS.	Noted.
372.	Institute and Faculty of Actuaries	HBS.6.71.	We think this is a sensible approach for the purpose of the QIS.	Noted.
373.	Insurance Europe	HBS.6.71.	Insurance Europe agrees that when the pension protection scheme would cover 100% of the benefits and it is sufficiently strong, its value is equal to the funding gap that would appear in the holistic balance sheet. However, Insurance Europe questions how to objectively assess the	Noted.

			<p>strength of the pension protection scheme. Moreover, it should also be defined what is understood under “sufficiently”.</p> <p>The gap closing ability of pension protection schemes should be restricted to the parts of the IORP where the pension protection scheme is effective. For example, in some member states pension protection schemes are limited to the maximum amount of benefits, or some beneficiaries of the IORP are excluded due to special rules of labour law. In that case it is most appropriate to separate the business in the parts where the pension protection scheme is effective –and apply HBS 6.71 to that part.</p> <p>The evaluation of the strength of a pension protection scheme however might be different for the best estimate calculation and for the SCR calculation (see SCR 2.6).</p>	
374.	Institute and Faculty of Actuaries	HBS.6.72.	No comment	Noted.
375.	Institute and Faculty of Actuaries	HBS.6.73.	No comment	Noted.
376.	Aon Hewitt	HBS.6.74.	Deriving a “suitable approximation” for the coverage rate of the pension protection scheme, reflecting the difference between possible future differences between the value of protection benefits and the value of scheme assets could be extremely complicated. It is likely to be scheme specific (especially in the UK, where there is a cap on benefits payable from the Pension Protection Fund and different levels of pension increases are payable).	Noted.
377.	Institute and Faculty of	HBS.6.74.	No comment	Noted.

	Actuaries			
378.	Institute and Faculty of Actuaries	HBS.6.75.	No comment	Noted.
379.	Insurance Europe	HBS.6.75.	In combination with HBS.6.68, Insurance Europe would question if a scheme only pays in case of an actual default of the sponsor.	Noted.
380.	Institute and Faculty of Actuaries	HBS.6.76.	No comment	Noted.
381.	Aon Hewitt	HBS.6.77.	<p>The formula for PPFV looks at the difference between the PPS liabilities and assets at each date, and then reduces the difference to allow for amounts recovered from the sponsor (RECT) . We think that the projected assets also need to allow for contributions paid into the scheme up to the point of default, so should also be reduced by the summation of cash flows item included at the end of the RECT definition. If this change is not made, the value of the Pension Protection Scheme is then overstated.</p> <p>It is not entirely clear why the cash flow items in the formula is based on the annual payments that the sponsor would need to make based on the Level A Technical Provisions. Without a requirement to pay these contributions into the fund, this means the calculations are being based on a "notional contribution" level rather than an "actual contribution" level, and so over-state the expected level of assets in the IORP upon default. Surely it would be more appropriate to base the cash flows for this calculation using the recovery plan contributions used in the calculation of Maximum Sponsor Support in HBS.6.36?</p>	Noted. And will be further developed at a later stage.

382.	Financial Reporting Council – staff response	HBS.6.77.	There appears to be an error in the formula for PPF _{fv} – should there should be a summation of RECT?	Agreed.
383.	Institute and Faculty of Actuaries	HBS.6.77.	<p>These formulae would be considerably simplified if RECT was defined as an amount discounted to time $t = 0$. The $(1+i)^t$ terms could then be cancelled out of both formulae. However we accept it may be easier to understand in the form specified.</p> <p>We support the comment in the Financial Reporting Council’s response that there is an error in the formula for PPFV. We too believe that it should allow for payments, CF_j made by the sponsor in the years before default.</p>	Noted.
384.	Institute and Faculty of Actuaries	HBS.6.78.	The consultation period has not been long enough for us to review this diagram.	Noted.
385.	Aon Hewitt	HBS.6.79.	This simplification appears attractive, given the complexity of allowing for the pension protection scheme explicitly. However, it is very difficult to know how to derive the appropriate adjustment unless the pension protection scheme protects benefits in full.	Noted.
386.	Institute and Faculty of Actuaries	HBS.6.79.	We question whether changing the probability of the sponsor defaulting on its pension obligations is the best simplification for taking account of a pension protection scheme. We suggest that EIOPA also consider changing the recovery rate as an alternative approach	Noted.
387.	Insurance Europe	HBS.6.79.	For transparency reasons in this QIS, Insurance Europe suggests showing sponsors support and the effect of pension protection scheme separately as assets in the HBS	Noted.
388.	Institute and Faculty of	HBS.6.80.	No comment	Noted.

	Actuaries			
389.	Institute and Faculty of Actuaries	HBS.6.81.	It is not clear to us how the appropriate reduction to credit risk should be calculated and anticipate that EIOPA will need to issue further guidance to ensure consistent application of this option.	Noted.
390.	Institute and Faculty of Actuaries	HBS.6.82.	No comment	Noted.
391.	Institute and Faculty of Actuaries	HBS.6.83.	No comment	Noted.
392.	Dexia Asset Management	HBS.6.84.	How to calculate the loss absorbing capacity of the SCR for sponsor default by the PPS? The proposed approach is unclear since PPF value only depends on the difference between invested assets and TP.	Noted and will be further developed at a later stage.
393.	Institute and Faculty of Actuaries	HBS.6.84.	We wonder whether this loss absorbency should extend to reducing the Risk Margin too, but the consultation period has proved too short for us to consider this.	Noted.
394.	Institute and Faculty of Actuaries	HBS.6.85.	No comment	Noted.
395.	Institute and Faculty of Actuaries	HBS.6.86.	No comment	Noted.
396.	Institute and Faculty of Actuaries	HBS.6.87.	We wonder whether this loss absorbency should extend to reducing the Risk Margin too, but the consultation period has proved too short for us to consider this.	Noted.
397.	Institute and Faculty of Actuaries	HBS.6.88.	No comment	Noted.
398.	Institute and Faculty of Actuaries	HBS.6.89.	No comment	Noted.

399.	Insurance Europe	HBS.6.89.	Insurance Europe stresses that it shall completely depend on the nature of the pension protection scheme to determine whether it can be taken into account. Comparable pension schemes with those of insurance companies should be treated in a comparable way for IORPs in order to avoid an unlevel playing field between different institutions providing occupational pensions.	Noted.
400.	Institute and Faculty of Actuaries	HBS.6.90.	The consultation period has proved too short for us to consider the implications of excluding pension protection schemes. In our view EIOPA needs to make clear whether levies/premiums payable in respect of pension protection schemes ought to be omitted from the expenses component of the Best Estimate when considering this option.	Noted.
402.	Barnett Waddingham LLP	HBS.7.1.	Does this section also apply in the case of recoverables from an SPV that is not in relation to (re)insurance? An example would be an employer setting up an SPV to pass the cashflows from a property or trademark to its pension scheme. We would prefer the principles set down in section 2.9 to apply to these situations. Alternatively they might be considered under sponsor support.	Noted.
403.	Institute and Faculty of Actuaries	HBS.7.1.	No comment	Noted.
404.	Insurance Europe	HBS.7.1.	Regarding the treatment of recoverables from insurance contracts we would recommend that products as for example the German "Rückdeckungsversicherungen" are not subject to counterparty default risk, since: - The counterparty is an insurance company regulated by Solvency II with a confidence level of 99,5%;	Noted.

			<ul style="list-style-type: none"> - The additional protection schemes available should be taken into account in case of insolvency of these insurance companies ; - Technical provisions, according local GAAP, are highly protected under national law and have priority in case of insolvency. 	
405.	Institute and Faculty of Actuaries	HBS.7.2.	No comment	Noted.
406.	Institute and Faculty of Actuaries	HBS.7.3.	In our view, it would be helpful to cross-reference this section in the section about risk margin and to state simply that the risk margin should be calculated for the liabilities not covered by such insurance arrangements.	Noted.
407.	Institute and Faculty of Actuaries	HBS.7.4.	No comment	Noted.
408.	Institute and Faculty of Actuaries	HBS.7.5.	No comment	Noted.
409.	Institute and Faculty of Actuaries	HBS.7.6.	No comment	Noted.
410.	Institute and Faculty of Actuaries	HBS.7.7.	No comment	Noted.
411.	Insurance Europe	HBS.7.7.	The technical specifications state that the calculation of the amounts recoverable from (re)insurance contracts and special purpose vehicles should only take into account payments in relation to compensation of pension obligations. Insurance Europe wants to highlight that it is unclear what is meant with "pension obligation". In many cases, pension schemes also offer protection against death or premium waivers. In some cases, even disability is taken into account. It is unclear whether	Noted.

			<p>these should be taken into account in the definition of “pension obligation”.</p> <p>Insurance Europe would strongly suggest that these should be taken into account when reinsured to have a correct view of the financial situation of the entity.</p>	
412.	Institute and Faculty of Actuaries	HBS.7.8.	No comment	Noted.
413.	Institute and Faculty of Actuaries	HBS.7.9.	No comment	Noted.
414.	Institute and Faculty of Actuaries	HBS.7.10.	No comment	Noted.
415.	Institute and Faculty of Actuaries	HBS.7.11.	In our view this paragraph would be clearer if it specified which previous section.	Noted.
416.	Institute and Faculty of Actuaries	HBS.7.12.	The consultation period has proved too short to consider this section thoroughly.	Noted.
417.	Institute and Faculty of Actuaries	HBS.7.13.	The consultation period has proved too short to consider this section thoroughly.	Noted.
418.	Institute and Faculty of Actuaries	HBS.7.14.	The consultation period has proved too short to consider this section thoroughly.	Noted.
419.	Institute and Faculty of Actuaries	HBS.7.15.	The consultation period has proved too short to consider this section thoroughly.	Noted.
421.	Institute and Faculty of Actuaries	HBS.7.16.	The consultation period has proved too short to consider this section thoroughly.	Noted.
422.	Institute and Faculty of	HBS.7.17.	The consultation period has proved too short to consider this section	Noted.

	Actuaries		thoroughly.	
423.	Institute and Faculty of Actuaries	HBS.7.18.	The consultation period has proved too short to consider this section thoroughly.	Noted.
424.	Institute and Faculty of Actuaries	HBS.7.19.	The consultation period has proved too short to consider this section thoroughly.	Noted.
425.	Institute and Faculty of Actuaries	HBS.7.20.	The consultation period has proved too short to consider this section thoroughly.	Noted.
426.	Institute and Faculty of Actuaries	HBS.7.21.	The consultation period has proved too short to consider this section thoroughly.	Noted.
427.	Institute and Faculty of Actuaries	HBS.7.22.	The consultation period has proved too short to consider this section thoroughly.	Noted.
428.	Institute and Faculty of Actuaries	HBS.7.23.	The consultation period has proved too short to consider this section thoroughly.	Noted.
429.	Institute and Faculty of Actuaries	HBS.7.24.	The consultation period has proved too short to consider this section thoroughly.	Noted.
430.	Institute and Faculty of Actuaries	HBS.7.25.	The consultation period has proved too short to consider this section thoroughly however we understand that the treatment of SPVs may be material to the holistic balance sheet results of a small number of some large UK IORPs.	Noted.
431.	Aon Hewitt	HBS.7.26.	We are surprised that there are several paragraphs in this section concerning the most appropriate default probabilities (ie HBS.7.26 to HBS 7.31) to use, whereas in the section for sponsor support very little explanation is given (cf HBS.6.15), even though we expect default probabilities to be far more material to the calculation of sponsor support.	Noted.

432.	Institute and Faculty of Actuaries	HBS.7.26.	The consultation period has proved too short to consider this section thoroughly.	Noted.
433.	Institute and Faculty of Actuaries	HBS.7.27.	The consultation period has proved too short to consider this section thoroughly.	Noted.
434.	Institute and Faculty of Actuaries	HBS.7.28.	The consultation period has proved too short to consider this section thoroughly.	Noted.
435.	Institute and Faculty of Actuaries	HBS.7.29.	The consultation period has proved too short to consider this section thoroughly.	Noted.
436.	Institute and Faculty of Actuaries	HBS.7.30.	The consultation period has proved too short to consider this section thoroughly.	Noted.
437.	Institute and Faculty of Actuaries	HBS.7.31.	The consultation period has proved too short to consider this section thoroughly however we observe that t-1 should be a superscript.	Noted.
438.	Institute and Faculty of Actuaries	HBS.7.32.	The consultation period has proved too short to consider this section thoroughly.	Noted.
439.	Belgian Association of Pension Institutions (BVPI-	HBS.7.33.	Why not taking into account any collateral in the recovery rate ?	Noted.
440.	Institute and Faculty of Actuaries	HBS.7.33.	The consultation period has proved too short to consider this section thoroughly.	Noted.
441.	Institute and Faculty of Actuaries	HBS.7.34.	The consultation period has proved too short to consider this section thoroughly however we think that EIOPA will need to be more specific about how to decide whether or not an estimate is reliable.	Noted.
442.	Barnett Waddingham LLP	HBS.7.35.	We believe this is exactly the sort of area where professional judgement will be required and we would not like to see such advice fettered.	Noted.
443.	Groupe Consultatif Actuariel Européen	HBS.7.35.	This article is unclear. In our view, where there are very few objective data on which to estimate default probabilities, it seems unavoidable to	Noted.

			have to rely on judgement. In other cases, where there is sufficient objective data, the reliance on judgement should be restricted.	
444.	Institute and Faculty of Actuaries	HBS.7.35.	The consultation period has proved too short to consider this section thoroughly.	Noted.
445.	Institute and Faculty of Actuaries	HBS.7.36.	The consultation period has proved too short to consider this section thoroughly.	Noted.
446.	Institute and Faculty of Actuaries	HBS.7.37.	The consultation period has proved too short to consider this section thoroughly.	Noted.
447.	Institute and Faculty of Actuaries	HBS.7.38.	The consultation period has proved too short to consider this section thoroughly.	Noted.
448.	Institute and Faculty of Actuaries	HBS.7.39.	The consultation period has proved too short to consider this section thoroughly however it appears that it is missing a formula.	Noted.
449.	Institute and Faculty of Actuaries	HBS.7.40.	The consultation period has proved too short to consider this section thoroughly.	Noted.
450.	Aon Hewitt	HBS.7.41.	As noted above, the probability of defaults in HBS.6.15 are not consistent with those quoted in HBS.7.41.	Noted.
451.	Association of British Insurers	HBS.7.41.	It should be clear that in the case of insurance recoverables the credit rating and default analysis should be based on the status of the insurance policy, not the credit rating of an unsecured creditor of the insurance undertaking.	Noted.
452.	Institute and Faculty of Actuaries	HBS.7.41.	The consultation period has proved too short to consider this section thoroughly but it would be helpful if EIOPA were to explain the derivation or source of these probabilities.	Noted.
453.	Institute and Faculty of	HBS.7.42.	The consultation period has proved too short to consider what alternative	Noted.

	Actuaries		methods may be more justifiable and in what circumstances.	
455.	Institute and Faculty of Actuaries	HBS.8.1.	No comment	Noted.
456.	Insurance Europe	HBS.8.1.	The calculation of the technical provisions should be with a level A discount rate only. The discounting method of expected cash-flows should be the same as in Solvency II. In particular the extrapolation method is essential for the long term business of IORP's. Discounting rates derived by level B method in a low-interest-rate phase are not adequate for the long term character of IORP liabilities	Noted.
457.	Institute and Faculty of Actuaries	HBS.8.2.	No comment	Noted.
458.	Institute and Faculty of Actuaries	HBS.8.3.	No comment	Noted.
459.	Federation of the Dutch Pension Funds	HBS.8.4.	This is even more stringent than the curve Solvency II will apply to insurance companies.	Noted.
460.	Institute and Faculty of Actuaries	HBS.8.4.	No comment	Noted.
461.	Academic Community Group <input type="checkbox"/> Prof. David Blake (Cit	HBS.8.5.	We suggest to add as a criterion that the determination of the risk-free term structure be such that market impact of the regulation is minimized. Also, the word 'prudent' needs clarification. As we will argue below, the proposed method is neither prudent nor does it minimize market impact. See HBS.8.7 and HBS.8.11.	Noted.
462.	Institute and Faculty of Actuaries	HBS.8.5.	No comment	Noted.
463.	Academic Community	HBS.8.6.	We support the use of an ultimate forward rate for those interest rate	Noted.

	<p>Group</p> <p><input type="checkbox"/> Prof. David Blake (Cit</p>		<p>points that do not meet the criterion of “deep, liquid and transparent” as defined in 3.13.</p> <p>We advise to revisit the use of a subjectively determined, off-market Ultimate Forward Rate. History shows that interest rates fluctuate considerably over time with no clear mean reversion patterns and at some future date these parameters will have to be adjusted. The fact that the UFR level of Japan is lower reveals that a sustained period of low interest rates may result in lowering the UFR level. It is worrisome that the procedures to decide on such changes are unspecified.</p> <p>The 4.2% is far from market consistent and in the current proposal, a very liquid 30 year bond on the asset side will be priced much higher than the same cashflow on the liability side, creating a entirely wrong view of the health of an insurance company. It violates the criteria of prudence (and objectivity) because at current low market rates, liabilities are valued much lower and so capital much higher than under liquid (e.g. 30 year) market rates would be the case.</p> <p>It creates serious amounts of basis risk: In case of sustained low interest rates, adjustments to the UFR level will come as a surprise and will be unhedged (compared to the current situation where insurance companies hedge their economic interest rate risk).</p> <p>These future changes are a kind of regulatory risk that replaces economic risk (in fact it is delayed economic information). The reduction in hedging due to the method chosen can be considerable (over 30% of</p>	
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			<p>total interest rate sensitivity). Such a procedure thus violates the criteria stated in HBS.8.5. The approach in fact increases economic risk for insurance companies that are seeking to minimise their economic risk as much as possible.</p> <p>We propose a more prudent and objective procedure in HBS 8.7.</p>	
464.	Barnett Waddingham LLP	HBS.8.6.	<p>We are concerned that the same ultimate forward rate is to be used for liabilities denominated in three separate currencies where other parameters, such as the last liquid point, vary. We believe the use of the ultimate forward rate could give rise to rates which are not consistent with market pricing, particularly given the long duration of pension liabilities, and produce counter-intuitive results that are difficult for an end user to understand.</p>	Noted.
465.	Institute and Faculty of Actuaries	HBS.8.6.	No comment	Noted.
466.	Insurance Europe	HBS.8.6.	<p>HBS.8.6 – 8.8: Generally, it must be ensured that the same solutions apply to both the IORPs and Insurers. In line with our positions on Solvency II, we have the following view on the various elements:</p> <p>We believe that a convergence period of 10 years to the UFR instead of the 40 years suggested in this consultation is more appropriate. As a general point, the extrapolation methodology should not introduce artificial volatility in itself. In this context, having a 10 year convergence period would ensure a stable interest rate term structure over time for those maturities which are ten years or more beyond the beginning of extrapolation. Additionally, the choice of a 10 year convergence period</p>	Noted.

		<p>would better reflect the current Omnibus II dialogue discussions.</p> <p>We note that the speed of convergence set at 0.1 in these specifications should be in line with the convergence period. Consequently we understand that this is the starting point for calibration and should be adapted to be consistent with the maximum period of convergence.</p> <p>Regarding the ultimate forward rate (UFR), it is important that a solution depending on currencies, or at least on buckets of currencies, is implemented, as historic inflation (as well as inflation targets of central banks) and historic growth rates depend on currencies.</p> <p>Also, the use of swap mid rates instead of swap bid rates would be more appropriate in our view, since:</p> <ul style="list-style-type: none"> - The position of an undertaking might not always be that of a fixed rate receiver. - This is a market standard; hence technical provisions should be valued using mid rates in order to avoid inconsistencies between the valuation of assets and liabilities. Also, from an ALM perspective, mid rates seem more appropriate. <p>We also note that the speed of convergence is set at 0.1. We understand that this is the starting point for calibration and that it should be changed to be consistent with the maximum period of convergence.</p> <p>Regarding the ultimate forward rate (UFR), it is important that a solution depending on currencies, or at least on buckets of currencies, is implemented, as historic inflation (as well as inflation targets of central banks) and historic growth rates depend on currencies.</p> <p>On all these issues, it must be ensured that such solutions should apply both the IORPs and Insurers and that solutions found should be addressed within the context of Solvency II.</p>	
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467.	<p>Academic Community Group</p> <p><input type="checkbox"/> Prof. David Blake (Cit</p>	HBS.8.7.	<p>It is not clear why the 20 year interest rate is viewed as a last liquid point. It is obvious that there is a very limited market after 30 years. E.g. notionals outstanding in Euroswaps reduce to only a few percent of the outstanding amount in the range 10-20 years. However, the outstanding swaps in the range 20-30 years seem to be around 50-60% of the very liquid 10-20 years market. For the AAA Eurobond market, the observation is the same: AAA bonds in large liquid countries (Germany, Netherlands, France) show equal volumes outstanding and equal bid-offer spreads in the 10-20 years range as in the 20-30 years range.</p> <p>The plain Smith-Wilson procedure forces institutions to hedge their liabilities exceeding 20 years of maturity via the 20 years hedge instruments (bonds and swaps), concentrating large “buy” activities in this single point. This will automatically lead to illiquidity, volatile pricing and low yields around this point, and discontinuities in the swap and bond market after 20 years,</p> <p>The Last Liquid Point method also entails annual rebalancing of the hedge that is concentrated in the 20 year point. Every year this hedge will drift from the 20 year point (in the direction of the 19 year point), but the regulatory interest rate sensitivity will remain in the 20 years point causing mismatches and higher capital requirements. This will induce high annual rebalancing market transactions and therefore high unnecessary transaction costs</p>	Noted.

			<p>A small but essential adjustment in the Smith-Wilson procedure, suggested below, will strongly reduce disruptive market impact, high rebalancing costs and support balanced supply and demand in long-maturity markets.</p> <p>We advise to revise two parts of the process (see also document http://www.cardano.com/cms/upload/20120713_-_working_paper_-_UFR.pdf):</p> <p>1) Replace the subjective (semi-)fixed 4.2% Ultimate Forward Rate by an automated, transparent, prudent and objective method that uses the liquid market information of, say, the 10-30 years points and possibly adds a (small) spread representing the (normally) upward sloping character of the long end of the yield curve. This spread parameter may vary somewhat between currencies. Concretely, the Ultimate Forward Rate would periodically be determined as a liquidity and maturity weighted average market yield of 10-30 years instruments, plus possibly the above-mentioned small spread at the long end of the curve. This leads to variability in the Ultimate Forward Rate that matches market movements and, thus, is truly market consistent. Also, changes in this Ultimate Forward Rate are hedgeable. It also avoids serious economic basis risk and material underhedging by insurance companies that violates prudence and good incentives for proper risk management.</p>	
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			<p>2) Avoid working with a degenerated 20-years Last Liquid Point which will result in extreme “pin risk” in the market and serious market disruption.</p> <p>We suggest to use a Smoothed Smith-Wilson procedure, using available market data in a decreasing manner as liquidity decreases, but in such a manner that interest rate sensitivity is still linked to many more (liquid) maturities and not degenerated in one single point.</p> <p>The idea is that, rather than abruptly switching from fully relying on market data to fully discarding all market data beyond the LLP, we continue to rely on market data beyond the 20 year point (so it’s the last fully used point, not last liquid point. The curve construction is again separated into two parts – before and after the LLP_1 . Before, the constructed curve again coincides with the market swap curve. After the LLP, curve construction is based on the forward curve which again converges to the UFR determined according to our proposal 1) above, using the speed of convergence in an identical manner.</p> <p>The difference between our proposed method and the original method relates to the model which determines the one year forward rates beyond the 20 year point:</p>	
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		<p>This model continues to use new market forward rates beyond the 20 year point, rather than focusing on the 20-year forward rate only. Because we basically choose the same recipe, both the constructed curve itself and the valuation effect on the liabilities are largely similar to the original SW method. Yet, there is a pronounced difference in terms of sensitivity to various segments of the interest rate curve. There is no longer a concentration (degeneration) of interest rate sensitivity in the 20 year point. The interest rate sensitivity is still significant - but lower than is the case without the UFR method - in the maturities between 20 and 30 years. This avoids concentration in the 20 year point, market disruption, and high annual rebalancing costs</p> <p>The figure below shows how interest rate sensitivities vary according to the current use of</p> <ol style="list-style-type: none"> 1) the risk free rate (called "swap curve"; can also be the AAA gov curve), 2) the UFR proposed in HBS 8.7 (UFR 20-60) and, 3) the alternative presented above using the forward rates in year 21, 22, etc but with a decreasing weight in line with the convergence parameter in SW . <p>The UFR 20-60 shows a concentration of hedge activities in the 20 year point. It also reveals an opposite sensitivity in the 15 year bucket. This latter phenomenon is due to the fact that if the interest rate in the 15</p>	
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		<p>year point goes up and 20 year remains the same, the forward rate in year 20 will go down and thereby the market value of the liabilities increases. (This is based on a world in which people hedge themselves with very liquid 10, 15, 20, 25 and 30 year swaps and we linearly interpolate the rates in between, but the same applies if annual buckets are used) This is another unintended consequence of using a Last Liquid Point. This is a huge concern to risk managers at insurance companies.</p> <p>The assumption that for the euro interest rate curve the 20 years point is the Last Liquid Point (LLP) is not an observation we recognize. The AAA government bond market has higher volumes outstanding in the 20-30 year segment than in the 10-20 years segment. For Germany, Netherlands and France, around 3 thousand billion Euro of the AAA bonds is in the 20-30 year segment versus 2.5 thousand in the 10-20 years segment. The OTC derivatives market is even bigger and has slightly lower volumes in the 20-30 year market than in the 10-20 year market. From non-public information we received from London Clearing House (LCH) we see that liquidity in the 20-30 year Euro market is not much different from the 10-20 years Euro market (Figures may be provided by LCH). In addition to that data, the publicly available report of Trioptima also shows that beyond the 20 years point there is a voluminous and liquid market, especially up to the 30 years point. http://www.trioptima.com/uploading_images/pdf/Rates_Repository_Industry_Report_20120420.pdf)</p> <p>The Trioptima report shows aggregated data from all major currencies and the euro denominated derivatives contracts account for approximately 35% of the total. From this report the 10-30 year euro</p>	
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			<p>swapmarket is estimated to be approximately 10 thousand billion Euro. In the 20-30 years segment, the volumes are 65% of the outstanding volumes in the 10-20 years segment. The number of trades is equally high in the 20-30 segment as the 10-20 segment. Of course the Euro data cannot be derived exactly from this public set but non-public information reveals roughly similar profiles. More specific figures may be provided by the DTCC (the successor of TriOptima in maintaining the OTC Trade Repository Database, per April 2012).</p> <p>After the 30 years point, the outstanding volumes and traded volumes are less than 10% of the 10-30 year market, indicating low liquidity that gave rise to the UFR discussion.</p> <p>In summary, the outstanding swap volumes are big in the 10-30 years segment compared to the (roughly) 1 to 2 thousand billion Euro of insurance and pension liabilities in the 10-30+ year segment that are (potentially) being hedged with swaps (a high percentage of the interest rate hedge at insurance companies is implemented with Government Bonds via the investment portfolio). The 20-30 years Euro bond and swap market doesn't show any sign of being significantly less liquid than the 10-20 years Euro bond and swap market. The discussion should concentrate on the 30+ year segment as it comes to replacing this with a UFR interest rate.</p>	
468.	Aon Hewitt	HBS.8.7.	What is the source of the data for the swap curves? Will it be curves produced by individual banks (which will vary by bank), or some composite curve (eg Bloomberg; or a curve produced by EIOPA)?	Noted.

			<p>What is the 10bp credit risk adjustment for? Given that, elsewhere in the document, there is no risk charge in respect of government bonds issued by EEA member states, it is not clear why an adjustment is being made here.</p> <p>EIOPA states the last liquid point for Euro-zone is after 20 years. However, we note that De Nederlandsche Bank (DNB) publishes interest rate term structure (zero coupon swap rate) curves for durations of up to 60 years, and that this curve is constructed using European swap rates for up to 50 year maturities as they are listed by Bloomberg. Therefore why is only a 20 year period being used for the EIOPA's Euro-zone swap curve, when there is data for longer periods available and published on DNB's website?</p> <p>What is the justification for an Ultimate Forward Rate of 4.2%? We note that this was used by EIOPA for the Solvency II QIS5 at end December 2009. Since then long-term interest rates have fallen considerably at long durations. For example, the 50 year UK swap forward rate has reduced from 4.2% to 3.2% between end 2009 and end 2011 (over the same period 30 year UK rates have also fallen from 4.5% to 3.4%). Therefore, although an Ultimate Forward Rate of 4.2% appeared sensible for the UK and end 2009, it seems to be significantly higher than what the market is implying at end 2011. Therefore, why does EIOPA think forward rates in 90 years time will be significantly higher than the 50 year forward rate when this was not the case in 2009?</p>	
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		<p>Similarly, in the Euro-zone, 30 year swap yields fell from 4% at end 2009 to 2.6% at end 2011. This is bigger than the corresponding reduction in the UK. The 50 year-rate on the DNB interest rate term structure curve was 2.7% at end 2011 and 3.6% at end 2009. Therefore why does EIOPA think Euro-zone rates in 60 years' time will be significantly above the 50 year level when this was not the case in 2009?</p> <p>In summary, we are puzzled as to why the Ultimate Forward Rate has remained unchanged at 4.2% since end 2009 for QIS5, since this does not appear to be support by market-related data at 50 year durations in both the UK and Euro-zone. Please can EIOPA explain its thinking and be more transparent on this point. At the moment, the document gives a potential impression that EIOPA is conjuring up long-term discount rates without any reference at all to actual long-term (ie 50 year) market-data and recognising the significant drop in long-term yields since end 2009.</p> <p>Given this, we believe it is inappropriate to assume a maximum period of convergence of 40 years from the last liquid point. As currently drafted, this would mean the Ultimate Forward Rate will be attained after 50 years in Sweden; 60 years in Euro-zone but 90 years in the UK. Given the drop in the UK swap curve for data points up to 50 years, it seems unreasonable to assume that in other currencies yields would climb up to 4.2% over the same time period.</p> <p>Under the proposed approach, IORPs in Sweden and the Euro-zone will also be treated more favourably than the UK, since UK will not be able to benefit from the much higher Ultimate Forward Rate for the best part of</p>	
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			<p>a century, whereas other countries will benefit within half a century. It seems unfair to penalise the UK in this way, especially when it is the only country where long-term data exists.</p> <p>Finally, the Smith-Wilson method requires a subjective decision over the appropriate point at where an interest curve should be extrapolated, and what the Ultimate Forward Rate should be. Other methods exist, eg the Cairns model, which could be equally or more appropriate, so EIOPA should provide some clarity on why it is using the Smith-Wilson method rather than other methods.</p>	
469.	Barnett Waddingham LLP	HBS.8.7.	<p>Pension schemes in the UK tend to invest their bond portfolio in a mixture of fixed interest and index-linked bonds, depending on factors including the nature of their liabilities. The market for index-linked bonds is less deep and liquid than that for fixed interest bonds and we consider that the last liquid point for liabilities expressed in sterling should be shorter.</p>	Noted.
470.	Federation of the Dutch Pension Funds	HBS.8.7.	<p>Next to the approximation of the so-called matching premium and countercyclical premium, we would also like to draw attention to the third measure that is suggested to account for the long-term nature of pension liabilities, the use of the UFR as extrapolation method where the interest rate markets are less liquid and distorted. We fully support the need for an extrapolation method. Such a method also provides stability to the illiquid part of the interest rate curve. Experience in among others the Netherlands has shown that without such a method, large volatility can result from small transactions in the markets, with substantial consequences for the valuation of technical provisions. As to the question, whether the proposed UFR-method is the best extrapolation</p>	Noted.

			method, there are some concerns with respect to the tension between 'regulatory' and 'economic' hedging, the possibly severe market imbalances due to the huge demand for fixed income assets around the last liquid point (and selling of shorter and longer dated assets), the negative consequences for economic hedges already set up and the complex methodology. Therefore, more research should be done on the UFR-method.	
471.	Groupe Consultatif Actuariel Européen	HBS.8.7.	The parameters here are copy pasted from Solvency II but are still the subject of debate and we would urge EIOPA to take into account the feedback from the consultation on risk free rates for the purpose of the QIS.	Noted.
472.	Institute and Faculty of Actuaries	HBS.8.7.	We would like EIOPA to explain how the proposed ultimate forward rate of 4.2%pa can be reconciled to a market consistent approach.	Noted.
473.	Insurance Europe	HBS.8.7.	Generally, it must be ensured that the same solutions should apply to both the IORPs and Insurers. In line with our positions on Solvency II, we believe that the future inflation assumption used in the calculations should be consistent with the target inflation for each currency's central bank. These assumptions cannot be the same for all member states. It should allow for the national trends in salary increases and inflation.	Noted.
474.	Towers Watson B.V.	HBS.8.7.	We would argue for an approach that takes movements in interest rate markets into account. An approach that doesn't do this would limit the efficiency of interest rate hedges and could therefore be an incentive for risk management behavior that is suboptimal. It has been argued that this is even the case for the currently proposed design of the Ultimate	Noted.

			Forward Rate, which creates unhedgeable basis risks.	
			We refer to the response by the Academic community group for an alternative that meets our criteria.	
475.	Academic Community Group <input type="checkbox"/> Prof. David Blake (Cit	HBS.8.8.	In view of HBS.8.7 the relevant parameters are: 1) The starting point of "less liquid points" 2) The speed of convergence from these less liquid points to the UFR 3) The parameters used to average the liquid yield points in order to determine the UFR 4) The spread on top of the average liquid long-maturity yields to determine the UFR	Noted.
476.	Institute and Faculty of Actuaries	HBS.8.8.	No comment	Noted.
477.	Barnett Waddingham LLP	HBS.8.9.	We consider that the deduction made to interest rates to allow for credit risk should vary by country to better reflect the risk likely to apply given the IORP's local investment opportunities.	Noted.
478.	Institute and Faculty of Actuaries	HBS.8.9.	No comment	Noted.
479.	Aon Hewitt	HBS.8.10.	In I.5.5, it is stated that EIOPA will provide the risk-free interest rate curves. However here EIOPA states they will only provide a tool in order for IORPS to apply the Smith-Wilson procedure themselves. Can EIOPA confirm that they will be producing the risk-free curves and that it will not be necessary for IORPs to produce their own curves?	Noted.

480.	Institute and Faculty of Actuaries	HBS.8.10.	No comment	Noted.
481.	Academic Community Group <input type="checkbox"/> Prof. David Blake (Cit	HBS.8.11.	See HBS 8.7 with respect to the liquidity up to 30 years and the advice not to use one single Last Liquid Point.	Noted.
483.	Aon Hewitt	HBS.8.11.	<p>This option appears to be spurious. Either change the last liquid point and convergence period in HBS.8.7 or don't do this at all.</p> <p>If an option is to be given, we think it makes much more sense to include the option introduced by the US government in July 2012 for US pension plans, where the discount rate can be set based on a corridor of average bond yields over the last 25 years. This will then allow the Commission to make a direct comparison to methods used in the US and those used in the EEA, and allow them to make an overall assessment of the competitiveness of pension costs in both areas.</p>	Noted.
484.	Institute and Faculty of Actuaries	HBS.8.11.	No comment	Noted.
485.	RWE Pensionsfonds AG	HBS.8.11.	Not being a participant in QIS 5, it would be an additional burden to get the right understanding of QIS5. We would appreciate a direct description of the content without such reference.	Noted.
486.	Academic Community Group	HBS.8.12.	We advise to be very cautious using a 50 basis points spread. Funding pension or insurance promises with illiquid assets leads to illiquidity risk	Noted.

	<input type="checkbox"/> Prof. David Blake (Cit		<p>mismatch that is generally fully on the balance sheet of the IORP and thus should lead to a capital reserve, not to a lower valuation of the promises. Furthermore, situations of liquidation may entail that the illiquidity premium cannot be collected and the insurance company ends up with a deficit. It is questionable if this approach is prudent.</p> <p>We do not see empirical evidence to use a Counter Cyclical Premium (CCP) in default-free interest rates. Market consistent valuation should not use future expected interest rates but current market interest rates for the relevant maturity. These represent the market price for buying (deferred) annuities, which is exactly the product that the supervisor is trying to secure.</p>	
488.	Aon Hewitt	HBS.8.12.	Why is the adjustment 50 bp? Why not 100bp? Please explain.	Noted.
489.	Barnett Waddingham LLP	HBS.8.12.	As for HBS.8.9. above, the counter cyclical premium adjustment could vary by country to reflect local conditions.	Noted.
490.	Federation of the Dutch Pension Funds	HBS.8.12.	We suggest to define this as default option.	Noted.
491.	Groupe Consultatif Actuariel Européen	HBS.8.12.	We note that the Commission has requested EIOPA to obtain an approximation for the impact of the counter cyclical premium, but no justification is given for the use of a vertical 50 bps shift for this purpose.	Noted.
492.	Institute and Faculty of Actuaries	HBS.8.12.	No comment	Noted.
493.	Insurance Europe	HBS.8.12.	We note that the CCP is tested without considering a CCP risk module. We welcome this approach, as if there was such a module, the CCP risk module should be negatively correlated with other market risk modules	Noted.

			<p>to reflect the fact that the CCP is a counter-cyclical tool which is activated when financial markets come under stress. Therefore, for simplicity reasons, we welcome not to include a CCP risk sub-module altogether.</p> <p>However, as a CCP risk module is currently considered in Solvency II, it must be ensured that such solutions should apply both the IORPs and Insurers and that solutions found should be addressed within the context of Solvency II.</p> <p>Additionally it would be helpful to provide clarity on how the level of 50bps was determined as it seems to be very low in the current market conditions.</p>	
494.	Towers Watson B.V.	HBS.8.12.	The 50 bp adjustment to allow for the illiquidity premium seems to be arbitrarily determined.	Noted.
495.	Aon Hewitt	HBS.8.13.	<p>In order to use a Matching Premium, Annex 2 contains a number of conditions, including that the assigned portfolio of assets are ring-fenced and managed separately from the rest of the obligations. This appears to be overly restrictive. Many IORPs, especially in the UK, back part of their obligations (eg pensioners) with bonds and other assets with similar characteristics. However these are not separately ring-fenced within the IORP, and so it may not be possible to benefit from the matching premium based on the current drafting of Annex 2.</p> <p>We recommend that EIOPA considers further how this can be applied to IORPs in order that they can potentially benefit from this approach.</p>	Noted.

496.	Barnett Waddingham LLP	HBS.8.13.	Many IORPs in the UK operate liability-driven investment strategies which aim to match certain portions of their liabilities to some extent. We believe that the conditions set out in Annex 2 should be relaxed (for example, by removing the requirement to ringfence such assets) to recognise such responsible strategies without imposing stringent conditions on the management of the IORP.	Noted.
497.	Institute and Faculty of Actuaries	HBS.8.13.	The consultation period has proved too short to consider the matching premium however it appears to us that few, if any, UK IORPs would satisfy the conditions set out in Part 1 of Annex 2, in particular, the requirement for ring-fencing. It therefore seems to us that rather than levelling the playing field, a solvency regime for pensions in this form would create incentives to transfer IORP pension liabilities to insurers. In addition, it would be helpful if the purpose of the 24 month period in paragraph 6 of Part 1 of Annex 2 could be explained.	Noted.
498.	Insurance Europe	HBS.8.13.	We welcome that EIOPA will develop approximations for the calibration of the fundamental spread for the matching premium and would welcome to have more insight in the technical work carried out.	Noted.
500.	Institute and Faculty of Actuaries	HBS.8.14.	We would like EIOPA to say whether or not it will delay finalising the QIS specification until these issues have been resolved.	Noted.
501.	Aon Hewitt	HBS.8.15.	Is it necessary to do sensitivity calculations with a 50bp adjustment to the discount rate, given HBS.8.12 already requires a calculation with a 50bp adjustment? Given HBS.8.12, we suggest these are HBS.8.15 is unnecessary, or replaced with a 100bp sensitivity adjustment.	Noted.
502.	Institute and Faculty of	HBS.8.15.	We consider that EIOPA should consider the sensitivity to pivoting yield	Noted.

	Actuaries		curves and that it should investigate how the sensitivity varies if the term of sponsor payments is varied.	
503.	Insurance Europe	HBS.8.15.	As the sensitivity analysis can be provided by the interest rate risk module, Insurance Europe does not see the use to test separate 50bps up and down shifts of the interest rate term structure.	Noted.
505.	Aon Hewitt	HBS.8.16.	How should IORPs take account of any planned changes to investment strategy in the future (eg strategies or stated policies where the proportion invested in fixed-income will increase over time, as part of de-risking activities)?	Noted.
506.	Groupe Consultatif Actuariel Européen	HBS.8.16.	<p>We think that including both a Level A and a level B computation may in many cases overcomplicate the QIS. A higher return as per Level B based on an assumed simplified strategic asset mix implicitly involves higher risk of non-delivery other than in relation to conditional benefits that are themselves dependent on asset returns. So reducing the value placed on the accrued liabilities by using a higher discount rate implicitly involves placing a greater reliance on other security mechanisms, i.e. reduces the value we should place on sponsor support and any applicable pension protection scheme in the HBS.</p> <p>It would be helpful if EIOPA could provide more guidance on the way it intends to use the different Liability levels.</p>	Noted. The potential use of the level B best estimate of technical provisions is explained in the technical specifications.
507.	Institute and Faculty of Actuaries	HBS.8.16.	No comment	Noted.
508.	Insurance Europe	HBS.8.16.	HBS.8.16 – HBS.8.21: It is important that the same underlying principles	Noted.

			apply to IORPs and Insurers. Therefore Insurance Europe does not see the use to test the “level B discount rate” based on the expected return as such a solution is not being considered in the Solvency II framework. The matching premium mechanism is in our view a more reliable way to achieve the same objective of recognising that insurers and IORPs can mitigate spread risk through their liability features and investment strategy.	
509.	Towers Watson B.V.	HBS.8.16.	We appreciate that based on macro-economic considerations, there may be arguments to prefer the level B approach over the level A approach. Other than in other legislations, if the level B approach would come to apply for benefits accrued under Dutch legislation, this would lead to sizeable redistributions.	Noted.
510.	Barnett Waddingham LLP	HBS.8.17.	Consideration should be given to innovative investment strategies with, for example, targets that reference bank base rates or inflation. The asset allocation of such funds can vary widely and at short notice, and may not necessarily have a benchmark asset allocation which is free of tactical deviations.	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
511.	Institute and Faculty of Actuaries	HBS.8.17.	See our comment on HBS 8.18	Noted.
512.	Academic Community	HBS.8.18.		Noted. For the

	<p>Group</p> <p><input type="checkbox"/> Prof. David Blake (Cit</p>		<p>It is important to adjust the expected return on bond portfolios if interest rates change. We assume therefore that the reference to December 2011 is for completeness only and that this date is automatically adjusted when the regulation will be implemented. As an alternative to approximating the expected return using interest rates at specific maturities, one can also set the expected return for a n-maturity bond equal to the prevailing n-maturity default-free interest rate. This effectively assumes unpredictable changes in the interest rates which is consistent with empirical results. In case of lower-rated bonds, credit spreads may be added to expected returns, but these should be based on market data (i.e. be frequently adjusted) and not set deterministically.</p>	<p>purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>
513.	Aon Hewitt	HBS.8.18.	<p>The rates listed in (a) to (d) may not be appropriate if the duration or components of the underlying indices are different from those of the fixed-income assets of the IORP.</p> <p>It may be better to state that IORPs can set bond yields based on the actual bonds held by the IORP. IORPs are used to following this type of approach for IAS19 accounting and funding purposes.</p> <p>Any remaining part of the fixed income portfolio should have a yield based on the actual portfolio – it may not be appropriate to assume the yield equals the average yield of the rest of the portfolio.</p> <p>The assumed return for corporate bonds ought to allow for default risk (ie the expected return will be less than the underlying yield on these</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

			<p>bonds given the risk of default).</p> <p>If yields are to be provided, EIOPA should also provide the yields that it would like to see used in other currencies (especially UK and Sweden) in order to ensure there is a consistent approach.</p>	
514.	Association of British Insurers	HBS.8.18.	This bucket approach seems too simplistic and should be linked to the returns achieved by each IORP.	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
515.	Institute and Faculty of Actuaries	HBS.8.18.	In our view this parameterisation is oversimplified and risks misrepresenting the impact of the Level B approach. We consider that it would be much better to specify that the approach already followed for the sponsor's pensions accounting disclosures should be adopted.	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate

				needs further analysis.
516.	Insurance Europe	HBS.8.18.	Insurance Europe does not understand the distinction being made between corporate bonds and bonds issued by banks. In our understanding, corporate bonds include bonds issued by banks	Noted.
517.	Towers Watson B.V.	HBS.8.18.	The indices seem to be arbitrarily determined. It is unclear why only long maturity bond indices are referred to.	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
518.	Aon Hewitt	HBS.8.19.	<p>For a best estimate, we would suggest that the proposed assumption for non-fixed income investments is too low under current financial conditions. In addition, building a best estimate return for equities from the underlying gilt yield is an outdated approach which does not work in the current environment.</p> <p>It is not clear whether non fixed income assets should be 3% above the yield for AAA government bonds (so will vary by country) or should be 5.98% in all countries. We assume it should be country specific?</p>	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further

			We think a more appropriate best estimate equity risk premium should be in the region of 4% to 5% (with a higher premium in the UK to allow for end 2011 valuation levels of equities in the UK relative to the Euro-zone). Different risk premiums should also be considered for other asset classes eg property, infrastructure, and private equity.	analysis.
519.	Association of British Insurers	HBS.8.19.	The rate of return for non-fixed income again seems arbitrary. This should be linked to the return achieved for each IORP.	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
520.	Barnett Waddingham LLP	HBS.8.19.	Our historic analysis indicates that, in the UK, an average risk premium of 4% over AAA government bonds would be more appropriate for a best estimate of expected returns. Consideration should be given to allowing this parameter to vary by country.	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further

				analysis.
521.	Institute and Faculty of Actuaries	HBS.8.19.	See our comment on HBS 8.18	Noted.
522.	Aon Hewitt	HBS.8.20.	We also suggest that an alternative option for Level B is considered. This should be the discount rate calculated in accordance with IFRS under IAS19, and will allow direct comparability to the calculated value of the obligation under international accounting standards. This measure is often used by some plan sponsors as a reference point for funding levels .	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
523.	Institute and Faculty of Actuaries	HBS.8.20.	See our comment on HBS 8.18	Noted.
524.	Aon Hewitt	HBS.8.21.	As noted above for HBS.8.16, how should IORPs take account of planned changes to investment strategy, or where there are policies to have different assets to back non-pensioner and pensioner liabilities (and so the asset mix will change over time as liabilities mature)?	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.

525.	Institute and Faculty of Actuaries	HBS.8.21.	See our comment on HBS 8.18	Noted.
526.	Institute and Faculty of Actuaries	HBS.8.22.	No comment	Noted.
527.	Academic Community Group <input type="checkbox"/> Prof. David Blake (Cit	HBS.8.23.	We favour market rates (Break Even Inflation in Inflation-linked bonds), possibly with adjustments for local inflation characteristics.	Partially agreed. The section on inflation and salary growth was changed.
529.	Aon Hewitt	HBS.8.23.	<p>Given the level of complexity of other elements of the holistic balance sheet, and the importance of the inflation assumption, using a fixed inflation rate across all countries appears extremely simplistic. In practice inflation can vary significantly between countries and between economic scenarios under consideration. The assumptions should be market driven, based on observable market information on breakeven inflation expectations.</p> <p>Also, there are different levels of inflation in each country. For example, in the UK, there is inflation measured with reference to the Consumers Price Index and that measured with reference to the Retail Prices Index. In the UK, we think a more appropriate inflation assumption (for Retail Price Index inflation) would be just above 3% at end 2011. This would then be consistent with what UK companies used as a best estimate inflation assumption for IAS19 accounting disclosures at end 2011.</p> <p>We also note that another critical assumption is pension increases, and</p>	Partially agreed. The section on inflation and salary growth was changed.

			revaluation of accrued benefits. For cash balance plans, a critical assumption is the annual rate of increase to cash balance accounts. These increases are often linked to inflation but are not the same as inflation (eg in the UK, there are maximum limits for some type of pension increases). EIOPA should provide additional guidance on how to set assumptions for increases to benefits.	
530.	Association of British Insurers	HBS.8.23.	Please see the response to Q15. Using static inflation and salary increase assumptions are unrealistic.	Partially agreed. The section on inflation and salary growth was changed.
531.	Barnett Waddingham LLP	HBS.8.23.	EIOPA should clarify whether this fixed inflation assumption is intended to represent all inflation measures, or simply those published under the harmonised rules (HICPs). We would recommend that EIOPA considers making this assumption country-specific, perhaps to reflect the member state's target for inflation, and allowing room for professional judgement.	Partially agreed. The section on inflation and salary growth was changed.
532.	Federation of the Dutch Pension Funds	HBS.8.23.	We suggest using break-even inflation.	Partially agreed. The section on inflation and salary growth was changed.
533.	Groupe Consultatif Actuariel Européen	HBS.8.23.	Ideally these should not be constant but where possible set by reference to suitable market observables and/or consistent with other economic factors such as the discount yield curve applicable to the member state	Partially agreed. The section on

			<p>in question. We suggest taking break-even inflations implied by financial markets. These will lead to valuations consistent with financial markets, a requirement that EIOPA itself asks of IORPs in HBS.3.1, HBS.3.8 and further.</p> <p>However, we understand that using break-even inflation may lead to valuation issues as there is not always a liquid market available for all inflation rates. We therefore suggest EIOPA to prescribe a procedure much like the Smith-Wilson procedure used for the interest rate curve for break-even inflation.</p>	inflation and salary growth was changed.
534.	Institute and Faculty of Actuaries	HBS.8.23.	We are strongly of the view that the valuation of inflation-linked pensions would not be market-consistent if IORPs were not expected to adopt assumptions consistent with market-implied inflation. Consistent with this, if there is to be an SCR we believe that it should include a component for inflation stress (although we remain unclear what purpose the SCR would serve).	Partially agreed. The section on inflation and salary growth was changed.
535.	Insurance Europe	HBS.8.23.	<p>The future inflation assumption used in the calculations should be consistent with the target inflation for each currency's central bank. These assumptions cannot be the same for all member states. It should allow for the national trends in salary increases and inflation.</p> <p>In any case it is important to apply a similar approach for pension funds and insurers providing long term products.</p>	Partially agreed. The section on inflation and salary growth was changed.
536.	Towers Watson B.V.	HBS.8.23.	<p>The inflation assumptions determined.</p> <p>The fixing of these variables is in stark contrast to the highly-detailed</p>	Partially agreed. The section on inflation and

			approach adopted in other areas of the specification in the name of achieving market consistency. It is unclear why IORPs are not required to set their inflation assumption in a market-consistent way to the extent that market information is available.	salary growth was changed.
537.	Academic Community Group <input type="checkbox"/> Prof. David Blake (Cit	HBS.8.24.	We favour market rates (Break Even Inflation in Inflation-linked bonds), possibly with adjustments for local inflation characteristics.	Partially agreed. The section on inflation and salary growth was changed.
539.	Aon Hewitt	HBS.8.24.	<p>It is not clear whether Level A Technical Provisions should allow for salary increases. If the purpose of Level A is come up with an estimate of the value of accrued benefits, then it is important to note that, in many countries, accrued benefits are often regarded as those payable based on salary at the calculation date; plus any increases that are required to be given by statute/regulations/scheme rules between date of leaving and the date benefits commence.</p> <p>As such, a number of countries do not require accrued benefits to include an allowance for future salary increases.</p> <p>The issue of whether to include an allowance for salary increases is when that has been discussed at length by accounting standard setters for many years, and EIOPA should at least acknowledge that it has considered this in formulating its proposals (and if it hasn't we recommend this issue is explored in more detail)</p>	Noted. The section on inflation and salary growth was changed.

			Given the level of complexity of other elements of the holistic balance sheet, and the importance of the salary increase assumption, using a fixed rate across all countries appears extremely simplistic. In practice, salary growth expectations can vary significantly between countries and between economic scenarios under consideration. Also, salary growth usually includes an element for general salary increases and an element for promotional salary increases. The latter is often considered as a demographic assumption, with an explicit salary scale for promotional salary increases, as well as the general salary increase assumption.	
540.	Barnett Waddingham LLP	HBS.8.24.	The level of salary increases varies widely over time, country and employment industry. In the UK we would normally seek information from different sources to arrive at an assumption for salary increases which is appropriate for the IORP concerned.	Partially agreed. The section on inflation and salary growth was changed.
541.	Federation of the Dutch Pension Funds	HBS.8.24.	We suggest using break-even inflation for prices, adjusted with e.g. $x\%$ (where the value of x is decided per country) to compensate for the difference between wage and price inflation.	Partially agreed. The section on inflation and salary growth was changed.
542.	Groupe Consultatif Actuariel Européen	HBS.8.24.	For wage inflation an add-on of 1% on price inflation seems reasonable, but it seems logical that Member State specific differences can occur. We therefore suggest that this specific add-on is to be set by the national supervisor.	Partially agreed. The section on inflation and salary growth was changed.

543.	Institute and Faculty of Actuaries	HBS.8.24.	We are also strongly of the view that salary growth should only be allowed for to the extent that salaries are guaranteed to increase and benefits are guaranteed to remain linked to them.	Noted. The section on inflation and salary growth was changed.
544.	Insurance Europe	HBS.8.24.	<p>Insurance Europe believes that the salary increases should reflect the actual expected salary increases of a company. It is also unclear whether the salary increase is already taken into account the expected inflation or is coming on top of it.</p> <p>Furthermore, equalising the expected salary increases for the whole Eurozone does not seem to be appropriate or consistent in a prudent framework. For example in Belgium, the long term salary increase rate is similar to the expected inflation rate due to its salary indexation mechanism.</p>	Partially agreed. The section on inflation and salary growth was changed.
545.	Towers Watson B.V.	HBS.8.24.	<p>The salary increase assumptions seem to be arbitrarily determined.</p> <p>The fixing of these variables is in stark contrast to the highly-detailed approach adopted in other areas of the specification in the name of achieving market consistency. It is unclear why IORPs are not required to set their inflation assumption in a market-consistent way to the extent that market information is available.</p>	Partially agreed. The section on inflation and salary growth was changed.
546.	Aon Hewitt	HBS.9.1.	It is not entirely clear whether EIOPA is expecting bid market prices to be used, or whether mid market prices could be acceptable. For the avoidance of doubt, we suggest making this clear.	Noted.

547.	British Airways Pension Investment Management Limi	HBS.9.1.	<p>While it makes complete sense to value assets on a consistent basis to avoid different IORPS valuing the same type of asset on a different basis, it surely does not mean that all asset classes should be valued in the same way. If the asset classes share similar characteristics, then that is one thing, but where the characteristics and risks of an asset class are quite different, then surely the logic would be for all those assets to be valued on a basis which is consistent with market practice for that asset class?</p> <p>Private equity is an unquoted asset class, hence the investments are not traded on a market and so have no market value. Consequently, the concept of "market value" makes little sense in private equity.</p> <p>The value of private equity investments is known very clearly when the unquoted investment is sold or floated on the stock market (an "IPO"). In private equity there are long-established market standards for calculating interim valuations based on the concept of "fair value" for investments which have not yet been realized. The International Private Equity Valuation guidelines have long been accepted by investors as providing a suitable market standard for valuation in private equity.</p>	Noted.
548.	Institute and Faculty of Actuaries	HBS.9.1.	No comment	Noted.
549.	Institute and Faculty of Actuaries	HBS.9.2.	In our view, more guidance may be required on materiality. Our members have found that in some cases the holistic balance sheet results can be highly geared. This gearing makes it difficult to be sure that simplifications/approximations are not material without checking against the fully detailed calculations.	Noted.

550.	Institute and Faculty of Actuaries	HBS.9.3.	No comment	Noted.
551.	Belgian Association of Pension Institutions (BVPI-	HBS.9.4.	How to understand « other liabilities » ? How to understand in Belgian context ?	Noted.
552.	Institute and Faculty of Actuaries	HBS.9.4.	No comment	Noted.
553.	Institute and Faculty of Actuaries	HBS.9.5.	No comment	Noted.
554.	Institute and Faculty of Actuaries	HBS.9.6.	No comment	Noted.
555.	Barnett Waddingham LLP	HBS.9.7.	Further consideration should be given to the valuation of intangible assets. The nature of these can vary widely and it can be difficult to find a comparable market price, although the asset could be sold if necessary. EIOPA should be willing to accept an expert's assessment as to the value of such assets.	Noted.
556.	Institute and Faculty of Actuaries	HBS.9.7.	No comment	Noted
557.	Institute and Faculty of Actuaries	HBS.9.8.	No comment	Noted.
558.	Institute and Faculty of Actuaries	HBS.9.9.	No comment	Noted.
559.	European Private Equity & Venture Capital Associat	HBS.9.1.	EVCA agrees with EIOPA that assets should be valued on a market consistent basis. However, EVCA stresses that a market-consistent basis should not be	Noted.

			<p>limited to “mark-to-market” valuation as this will not always be appropriate. IORPs are long-term investors and their long-term investment horizon means they are able to invest in more illiquid growth assets such as private equity investments. For investments in illiquid assets, mark-to-market valuations are not always possible, or even meaningful. Therefore, EVCA urges EIOPA to expressly recognise that market consistent valuations encompass the “fair value” valuation methods consistently applied in the private equity fund sector and laid out in the International Private Equity Valuation (IPEV) guidelines in order for such valuation methods not to be detrimental to the financing of European non-listed companies.</p>	
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