

Feedback on OPSG response to CP on further work on solvency of IORPs (Q1-Q71)

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- 11 May – Launch quantitative assessment
 - o Publication of all responses
 - o Publication of reasoned feedback valuation part (Q1-71)
- April 2016 – Opinion to EU institutions on solvency
 - o Publication of reasoned feedback general comments and supervisory responses (Q72-Q111)
 - o EIOPA may revisit responses on valuation section
- Reasoned feedback on incorporation of responses in technical specifications
 - o Scope consultation paper is broader

Contract boundaries (Q1-Q23)

- Expression “Contract boundary”
 - Benefits and contributions to be included in cash flows
- Realisation of liabilities of IORPs:
 - Payment of contributions
 - Independently of contribution payments
- Cash flows after valuation date not recognised, if:
 - IORP has unilateral right to terminate future accruals
 - Sponsor (or sponsors) has unilateral right to terminate future accruals
- Regular contribution versus sponsor support
 - Regular contributions part of technical provisions
 - Sponsor support as asset on the HBS

Discretionary decision-making processes (Q24-Q34)



- General definitions
 - Clarification pure discretionary benefits, mixed benefits and surplus funds
- Best estimate valuation
 - Pure discretionary benefits
 - Mixed benefits
 - Non-legally enforceable sponsor support
- Valuation ancillary & basic own fund items
 - Tiering own funds not part of QA to limit burden on IORPs
- Benefit reduction mechanisms
 - Definitions and incidence in member states
 - Balancing item and direct valuation approach

Legally enforceable sponsor support (Q36-Q56)



- Principles-based approach
 - o Market-consistent & expected return on assets
 - o Elaborated on general principles for valuation
- Balancing item approach
 - o Condition 1: default rate sponsor
 - o Condition 2: strength of sponsor (based on multiple M)
 - o (Condition 3: pension protection scheme)
- Simplifications
 - o QIS simplifications 1 and 2
 - o (B&H simplification)
 - o Alternative simplified approach (ASA)
- More analysis conditions and simplifications

Specific issues for valuation of sponsor support (Q57-Q61)



- Maximum sponsor support
 - Principles-based approach
- Sponsor default probabilities
 - Use whatever method that is most appropriate for IORP's circumstances
 - Implied by securities traded on financial markets
 - Sponsor's credit rating
 - Scoring methodology using financial reporting data
 - UK PPF methodology
- Timing of sponsor support
 - Depending on pension contract and/or national SLL
 - Duration of liabilities, sponsor affordability

Complex IORP structures (Q62-Q68)



- Complex IORP structures
 - Sponsors with multiple IORPs
 - IORPs with multiple sponsors
 - IORPs with sponsors with parent guarantees
 - (Not-for-profit sponsors)
- Complex and diverse situations
 - Principles-based approach
 - Allowance in specifications to capture IORP specificities

Pension protection schemes (Q69-Q71)



- Valuation of pension protection schemes
 - o Asset on the holistic balance
 - o (Impacting on the default rate of the sponsor)
- Balancing item approach, where PPS
 - o guarantees 100% of benefits
 - o guarantees less than 100% of benefits, if benefit reductions are accounted for on holistic balance sheet



Thank you

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