

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

Name of Company:	PensionsEurope	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, in Word Format, to DP-13-001@eiopa.europa.eu</p> <p>Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the questions refers to Discussion Paper on Sponsor Support.</p>		
Reference	Comment	
General Comment	<p>PensionsEurope represents national associations of pension funds and similar institutions for supplementary/occupational pension provision. Its membership covers institutions for work-related (second pillar) pension provision. Some members operate purely individual pension schemes (third pillar). PensionsEurope has 23 member associations in EU Member States and other European countries with significant – in size and relevance – work-related pension systems. PensionsEurope member organizations cover the work-related pensions of 83 million European citizens. Through its Member</p>	

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Associations PensionsEurope represents approximately **€ 3.3 trillions of assets (2011)** managed for future occupational pension payments.

General comments:

- First of all, PensionsEurope herewith shares the experiences and the opinion of its members arising from the Discussion Paper on Sponsor Support. However, this does not imply that we support the harmonization of quantitative capital requirements for workplace pensions across Europe.
- Workplace pensions are based on social and cultural traditions and strongly linked to statutory public (first pillar) pension provision in different Member States. Therefore, quantitative requirements cannot be harmonised in an appropriate way. IORPs cannot be regulated in the same way as banks and insurance companies. PensionsEurope is concerned that applying regulation on IORPs which is based on Solvency II would have negative consequences for pension schemes, employers, employees and the entire economy.
- In general we underline that efforts should be made to increase coverage among the Europeans to build up a supplementary pension, instead of focusing on imposing more regulatory burdens on workplace pension schemes that already exist. Only 40% of European citizens are currently covered by a supplementary workplace pension. Thus, employers who are currently offering schemes should be enabled to

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continue offering them, and those who do not yet offer a scheme, should be encouraged to start offering them.

- PensionsEurope agrees that assets should be valued on a market consistent basis. However, market consistency does not imply that it has to be valued marked-to-market. In appropriate circumstances, valuation rules should permit methods that reduce short-term volatility of values over time for actuarial and funding purposes. For a long-term investor like an IORP, such an addition is not only reasonable but required, also with respect to the desired countercyclical policy of IORPs. Therefore, PensionsEurope advises EIOPA that the valuation of assets should not always be valued marked-to-market: exemptions should be possible. For example, it should be allowed to value long-term bonds which are bought to hold and to value these hold to maturity. Due to the long term horizon for example, IORPs are able to invest in more illiquid and return-seeking assets. For such kind of investments marked-to-market valuations are not always possible. It should also be possible to deviate from the marked-to-market in cases of severe market disturbances. Stock prices, interest rates and credit spreads can be very volatile during a financial crisis: markets can overreact and sometimes it is very questionable if these fluctuations can be justified in economic terms. The main problem hereby is that the marked-to-market valuation of assets directly maps these movements into the balance sheets although this short-term volatility is not of great importance especially for IORPs: IORPs typically have a long term investment horizon.

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- We do welcome the timeframe EIOPA provided to response to the Discussion Paper on sponsor support. This gave us the possibility to come up with an elaborate response which could be discussed properly with our members.
- PensionsEurope questions EIOPA's mandate from the European Commission for assessing the Holistic Balance Sheet. It is unclear what the exact mandate of EIOPA is. Many issues in the Holistic Balance Sheet concept are political and we stress that such questions should not be tackled by EIOPA.

Opposition to Holistic Balance Sheet (HBS) approach:

- We consider impossible to come up with standardized models as they cannot deliver a full picture and we have doubts whether appropriate calculations can be made for the HBS. Consequently, we have strong objections considering the Holistic Balance Sheet approach. We argue that there is no internal market argument for the HBS as pension schemes do not represent a single market.
- PensionsEurope is opposed to the Holistic Balance Sheet approach. It is likely to lead to a liquidation of a large amount of IORPs and many employers will turn to offer a significantly lower pension promise to their employees.
- PensionsEurope is convinced that the Holistic Balance Sheet approach is

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not workable as a supervisory tool. The methodology for calculating the Holistic Balance Sheet is far too sensitive to subjective assumptions as shown during the first Quantitative Impact Study process. Furthermore, the interaction between elements of the Holistic Balance Sheet and the assessment of the Solvency Capital Requirement leads to inconsistency.

- PensionsEurope has strong doubts about the quality and reliability of the valuations within the Holistic Balance Sheet. If the European Commission intends to proceed with the proposal for a Holistic Balance Sheet, far more research will be necessary.
- Capital requirements can not only be detrimental to IORPs but might also lead to severe macroeconomic impacts. Mirroring the sponsor support in the sponsor's balance sheet can make employers more reluctant to offer a pension promise. Furthermore IORPs would most probably make a shift from swapping equities and related assets to fixed income securities, which would jeopardize long-term investing.
- If EIOPA chooses to continue working on the Holistic Balance Sheet against our recommendation, then it is important to highlight that we agree with the view of EIOPA to take into account the steering instruments which are available to IORPs. Those steering instruments, which differ widely between different pension schemes, make IORPs very different from insurance companies.

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General comments on Sponsor support:

- IORPs across Europe are, due to their different setup, incomparable to one another. This is attributable to the differences in methodologies to value the sponsor support, local accounting rules and recoveries which are determined on national level. Calculation of the value of sponsor support on European level is thus extremely complex and burdensome.
- Putting into place a new system for the assessment of sponsor support could add major costs on schemes and their beneficiaries, whilst some Member States already have a well-developed system in place to assess sponsor support. Accordingly, we urge EIOPA to allow for flexibility at national level in order to avoid that Member States which already have a well-developed system are required to change it. Example thereof is the UK where the Pensions Regulator advises trustees to weigh up a very wide range of factors when assessing sponsor support.
- The purpose of the Discussion Paper is to propose a practical approach for calculating sponsor support. We consider it questionable whether this is necessary for IORPs which have in place two security mechanisms: sponsor support coupled with mandatory insolvency protection. Not only would an individual calculation of sponsor support be a highly complex, spuriously accurate and potentially costly exercise, it would also be unnecessary. Even worse, despite the double securing mechanism, the risk remains, that the sponsor would be required to disclose the value of its (questionably calculated) contingent commitment in its own financial statements. A more practical approach

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would be to reflect the complementary nature of the employer support and insolvency protection scheme, which together enable a comprehensive level of protection across the Member States. The HBS should, in these cases, be regarded as balanced, thereby rendering obsolete additional spuriously accurate calculations.

- The proposed methodology for measuring sponsor support is far too simplistic and is likely to lead to inconsistent and non-reliable outcomes. Different variables should be taken into consideration (see Q13). By not taking into account all the different variables the HBS could generate an inaccurate and incomplete assessment.
- Multi-employer plans, industry-wide plans, non-profit organizations, public sector IORPs and sponsors with multiple IORPs compose a greater level of complexity than the relatively simple "1-1-1-1" model (1 sponsor – 1 IORP - 1 pension promise – 1 country) that EIOPA uses to measure sponsor support. The Discussion Paper on sponsor support does not provide a correct methodology to value sponsor support with combinations different to the simplistic "1-1-1-1" combination.
- Proportionality is key when imposing new policy on the valuation of sponsor support. The complexity of the Holistic Balance Sheet makes it unattainable for smaller and medium-sized IORPs to cope with the new requirements. Hence, even if the size is not the only factor to assess when applying proportionality principle, we welcome methodologies which ensure minimum burdens are imposed on smaller pension

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schemes.

- It should be clarified that the Holistic Balance Sheet in general, and the valuation of Sponsor Support in particular, should not be applied to DC schemes, since the stability of this kind of pension schemes is not threatened by the sponsor default probability. In DC schemes, the beneficiary bears the risk and the benefit depends only on the actual amount of the contributions paid. Consequently, sponsor bankruptcy has no impact on savings acquired by the employee. Finally, even when the scheme is guaranteed by a third party (financial intermediary) the latter is subject to prudential and supervisory rules. For example in Italy, DC schemes can be guaranteed by an insurance company, an asset management company, an investment company or a bank. In France, some DC schemes financial options can be guaranteed by an insurance company, or a bank.
- Finally, we took note that the European Commission aborted the studies on the potential macro-economic impacts of the holistic balance sheet from both the Joint Research Center and the European Central Bank. Nevertheless, we emphasise the necessity to assess the macroeconomic consequences of introducing the Holistic Balance Sheet approach. Besides the de-risking effects through the reallocation of assets towards fixed income, introducing the sponsor support element might have a big macro-economic impact on investment and thus on employment and growth. Indeed, it is likely to force the sponsor to ignore other areas in which it may wish to invest, such as innovation, research, expansion

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	<p>and job creation. These impacts should be clearly assessed before any further initiatives are taken.</p> <p><i>PensionsEurope has answered the 36 questions. However, PensionsEurope wants to highlight that this does not imply that PensionsEurope supports the methodology of a HBS approach as supervisory instruments for IORPs.</i></p>	
<p>Q01.</p>	<p>Should IORPs be provided with additional guidance for conducting stochastic valuations of sponsor support?</p> <p>PensionsEurope does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work on its own initiative, PensionsEurope is supplying comments on the technical detail of the issues.</p> <p>Yes, more guidance is needed. PensionsEurope emphasises the following points:</p> <p>In Europe, most IORPs are using deterministic calculations while some are using stochastic valuations. The deterministic approach should not be seen as a low quality alternative and IORPs should be free to choose between the two models.</p> <p>In addition, PensionsEurope highlights the importance of the choice of the different parameters and the related impact they can have on outcomes. Two</p>	

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similar IORPs with different models and /or parameters choices can have broadly different outcomes. A standard set of assumptions is not needed in future legislation, but may prove to be helpful for comparability within the context of a potential QIS. Therefore for any future QIS – if any – we recommend that a complete stochastic set is provided. This should also include guidance on how to combine non-market elements of the discount curve (such as inflation, the countercyclical premium etc.) with a market-based risk neutral framework.

The valuation of options can also lead to significant fluctuations and inconsistency in the outcomes because the price of the options can fluctuate over time. Thus, depending on the moment it is valued, the outcomes can be totally different.

PensionsEurope also draws attention of the following specific points:

- Section 3.2 of the Discussion Paper does not provide information about probabilities of default. As such it is not clear whether the approach for the probabilities of default is changed towards the method as described under 3.5 of the Paper.
- We assume all four methods can be used (stochastic, deterministic simplification 1, deterministic simplification 2 and the alternative). Confirmation from EIOPA on this point would be welcome .

Q02.

Should IORPs be provided with additional guidance for conducting

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	<p>valuations of sponsor support using either Simplification 1 or 2? Should either of these simplifications be removed or should any other simplification be developed?</p> <p>As both simplification 1 and 2 have their limits, it would be important to provide an alternative. As long as a good further alternative approach for small and medium-sized IORPs is available, no further guidance is needed.</p>	
Q03.	<p>In the stakeholders' view what role should the concept of maximum sponsor support play in the general valuation principles for sponsor support?</p> <p>PensionsEurope agrees with EIOPA that maximum sponsor support can be difficult to value, particularly for small IORPs, non-listed companies and for multi-employer schemes. Moreover, we do not see the added value of calculating maximum sponsor support, in addition to the calculation of "normal" sponsor support</p> <p>The calculation of maximum sponsor support has many drawbacks: The variables and parameters given are arbitrary and the specifications for valuing these maxima are unsuitable for many types of organisations.</p> <p>As a consequence, the concept of maximum sponsor support should not play a role in the general valuation principles for sponsor support.</p>	
Q04.	<p>Is wage an appropriate additional measure for estimating the maximum amount of sponsor support? If so, please explain why? Are</p>	

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	<p>there any other measures which could be used to assess the maximum sponsor support?</p> <p>As PensionsEurope does not believe there is an added value in determining maximum sponsor support, it does not make sense to investigate additional measures to estimate this.</p> <p>However, we acknowledge that wage could be a useful additional measure to investigate if EIOPA chooses to proceed with estimating the maximum amount of sponsor support. As salary mass is not immediately impacted by poor financials (lesser profit, higher debt, etc.), it could help to smooth out volatility between years.</p>	
Q05.	<p>Are stakeholders comfortable with the concept of linking default probabilities, credit ratios and sponsor strength?</p> <p>PensionsEurope does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work on its own initiative, PensionsEurope is supplying comments on the technical detail of the issues.</p> <p>PensionsEurope agrees with EIOPA that maximum sponsor support can be difficult to value, particularly for smaller, non-listed companies and for multi-employer schemes. As a result, we acknowledge that the concept of linking default probabilities, credit ratios and sponsor strength could be a step towards a workable solution for "1-1-1-1" (one sponsor, one IORP, one</p>	

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pension promise, one country) small and medium-sized IORPs.

However, PensionsEurope warns that it may not be practical to obtain the relevant data for sectoral or industry-wide pension schemes. Since multi-employer schemes might need to rely on industry-sector credit ratios, the concept must be explored in significantly greater detail and alternative(s) should be provided by EIOPA.

Obtaining the most recent data from the sponsor might also be difficult because of the time lags of accounting periods. Indeed, figures have to be analysed by the auditor and be presented to the Board/General Assembly before being publicly available to the IORP. As a result, there is a risk that IORPs do not have access to current data/information.

Confidentiality is also a key issue for PensionsEurope. The data required to calculate the sponsor support might be very sensitive, especially for listed companies. We would welcome EIOPA's opinion on how confidentiality could be maintained/assured.

PensionsEurope echoed in several papers the position of the European Parliament, the FSB, the European Commission and other international organisations on the reliance of using credit ratings. We reiterate this concern and warn of the weaknesses of the credit ratings (as also acknowledged by EIOPA in p.47 of the discussion paper).

From a more general point of view, PensionsEurope highlights the difference

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	<p>between defaulting on issued bonds and being insolvent. The seniority of pension benefits is different from that of corporate bonds.</p> <p>Finally, there is a potential problem with EIOPA's proposed approach, which appears to involve the generation of a significant volume of new tables and data, thereby creating potential for error or misinterpretation.</p>	
Q06.	<p>Do stakeholders agree with exploring the possibility of including a standard table in the technical specifications that links credit ratios with default probabilities?</p> <p>As every pension scheme and employer is different, a full assessment of sponsor support should take account of a much wider range of factors than credit ratios and default probabilities. These further factors would include the sponsor's ability to provide extra cash for the scheme, forecasts of future performance and contingent assets. A standard table based on credit ratios would be – at best – no more than a proxy for this full assessment.</p> <p>Moreover, we do not think such a table would be feasible in practice as the figures would have to be calibrated with extreme caution in order to provide a realistic picture of default probabilities.</p> <p>Finally, a standard table should only be a possibility and IORPs should have the possibility to develop their own internal model. A “comply or explain” approach would be an appropriate principle.</p>	

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Q07.	<p>Do stakeholders have other suggestions to derive default probabilities of the sponsor and to reduce reliance on credit ratings?</p> <p>PensionsEurope stresses that a full assessment of sponsor support should not focus solely on the likelihood of the sponsor becoming insolvent. IORPs should also have an understanding of the sponsor’s ability to increase cash flows in the event of new pressures on the scheme, such as an increase in longevity projections or a reduction in government bonds’ yields. In addition, it should be noted that it is not always possible for IORPs to obtain information from the sponsors because of legal and/or confidentiality issues.</p> <p>The use of credit default swap could be an option although it would only concern relatively large companies. Any available market information could be used. The credit spread in the cost of funding of the sponsor could also be examined as a possible measure.</p>	
Q08.	<p>Do stakeholders agree that timing of sponsor support reflecting the affordability of making additional payments could be an improvement to the general principles for valuing sponsor support?</p> <p>It is very hard to respond to this question as the answer strongly relies on the supervisory framework. However, PensionsEurope acknowledges that the timing of sponsor support is a very significant consideration in any assessment of sponsor support although we do not see how it could work in practice.</p> <p>A number of other factors should also be taken into account when valuing sponsor support. These will vary from scheme to scheme, but will generally</p>	

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include:

- strength of the sponsor's balance sheet;
- forecasts of the sponsor's future performance;
- sponsor's ability to provide increased cashflow if necessary;
- sponsor's ability to draw on contingent assets;
- extent of 'negative pledges' from the sponsor – ie, commitments from the employer that they will not grant new security without the agreement of the pension scheme trustees;
- the order in which creditors could make a claim on the employer's remaining assets in the event of insolvency;
- the sponsor's future business plans;
- potential developments in the environment in which the sponsor does business;
- the shape of scheme benefits;
- where the scheme sits in the sponsor's global network or structure; and
- the relationship between the scheme and the sponsor.

The level of complexity is significantly greater in multi-employer and industry-wide schemes.

Q09.

Do stakeholders think that limited conditional sponsor support should be valued and included on the holistic balance sheet? Should it be included separately?

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	<p>We believe it should be possible to take into account limited conditional sponsor support (for instance by a parent company) but it should be left to the discretion of the IORP whether to include it or not in the HBS.</p> <p>We also suggest that it should be included separately.</p>	
Q10.	<p>Should more detailed guidance be provided in future technical specifications to value sponsor support that is subject to discretionary decision-making processes? If yes, please explain in what way. Could the suggested detailed guidance also be applied to benefit adjustment mechanisms that contain discretionary elements?</p> <p>PensionsEurope is convinced that more guidance is needed with regards to technical specifications for valuing sponsor support that is subject to discretionary decision-making processes.</p> <p>The options proposed can indeed be included, as guidelines to a possible estimation of the conditional limited sponsor support. It should be left to the discretion of IORPs whether to actually use these methods or not, or to opt for an own estimation with sufficient explanation in prevalent cases.</p>	
Q11.	<p>Please provide your general comments on the alternative approach.</p> <p>PensionsEurope does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work on its own initiative, PensionsEurope is supplying comments on the technical detail of the issues.</p>	

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PensionsEurope welcomes the fact that EIOPA intends to take proportionality into account through an alternative simplified approach. Nevertheless, simplification does not automatically lead to correct and reliable outcomes. Indeed, we fear that this approach will not be practical in many cases. For instance for IORPs having multiple sponsors or for sponsors having multiple IORPs, the suggested alternative method to calculate sponsor support is too comprehensive and time consuming.

In order to make it manageable to perform the calculations for multi-employer schemes, different types of simplifications should be considered for example the possibility to gather sponsors with similar characteristics.

The suggested simplification to use weighted financial figures for all of the sponsors would still be very time consuming for IORPs with many sponsors. How to take proper account of diversification effects is also relevant. The diversification effect of multiple sponsors may be negatively affected by highly correlated business risks or the possibility that some sponsors are directly connected financially. However, regardless of correlations, we would expect that joint responsibility for a substantial part of the liabilities would increase the value of the sponsor support in comparison to that of a single sponsor or individual responsibilities.

Finally, we also fear that this stage approach would entail extra costs which could be very detrimental for small and medium-sized IORPs. The alternative approach could also be burdensome and very difficult to perform for small

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	IORPs as the different stages are – while simplified- still very sophisticated (credit ratio techniques, sensitivity analysis).	
Q12.	<p>Does the alternative approach address the concerns raised during the previous consultation on the technical specifications?</p> <p>We think that a lot of questions remain unsolved. Indeed, every situation that differs from the combination “1-1-1-1” (one sponsor, one IORP, one pension promise, one country) is unclear, for example for IORPs with multiple employers and industry-wide plans as well as for sponsors with multiple IORPs.</p> <p>In general, the alternative represents an oversimplification that will mask important risk management information.</p>	
Q13.	<p>Are there any areas that have not been addressed adequately enough?</p> <p>Indeed, as stated above, all the situations that differ from the “1-1-1-1” combination (one sponsor, one IORP, one pension promise, one country) remain very unclear and/or very burdensome.</p> <p>Also, the issue of the availability of the data required has not been addressed adequately by EIOPA.</p> <p>The proposed methodology does not take account of a range of significant factors that have a direct bearing on the strength of sponsor support.</p>	

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PensionsEurope's view is that at least all the following factors would be needed to make correct calculations, making them very costly and difficult to perform:

- Strength of the sponsor's balance sheets
- Forecasts of the sponsor's future performance
- Sponsor's ability to provide increased cash flow if necessary.
- Sponsor's ability to draw on contingent assets.
- Extent of 'negative pledges' from the sponsor – i.e. commitments from the employer that they will not grant new security without the agreement of the pension scheme trustees.
- The order in which creditors could make a claim on the employer's remaining assets in the event of insolvency.

Moreover, the following issues have not been addressed adequately:

- The generalisation is not really simpler and not adequate, especially for multi-employer schemes
- It is unknown which consequences are tied on the results
- All the data requirements are very demanding and will be difficult to achieve concretely
- The derivation of the parameters within the calculations is unclear.

Are IORPs still likely to want to calculate a maximum value of sponsor support (even if not required under the alternative approach)? If so, for what purpose?

Q14.

No.

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Q15.	<p>Do stakeholders have other suggestions to adjust these ratios to cater for different sectors?</p> <p>Although EIOPA has clearly put thought into designing a system that draws on existing information, the sponsor support calculation would still require a detailed piece of work by the scheme’s professional advisers. If, as seems likely, this is <i>additional</i> to existing work, then it would be a significant increase in the scheme’s overheads.</p> <p>Furthermore it is still very unclear how to apply these ratios to group entities, multi-employers schemes, multinationals, public sector funds and industry-wide funds. In addition, the access to the relevant and complete information is likely to be very difficult.</p>	
Q16.	<p>Does Stage 1 contain enough information and guidance for IORPs to calculate a credit strength that is proportionate for QIS purposes?</p> <p>PensionsEurope does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work on its own initiative, PensionsEurope is supplying comments on the technical detail of the issues.</p> <p>The generalisation raises issues for all IORPs. How to obtain and how to apply average estimations of the required ratios remain key concerns. Statistical sampling could be a solution, but sponsoring companies do not have a legal obligation to provide data for that sampling exercise and their willingness to</p>	

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provide these data on a voluntary basis might prove poor.

The inputs are heterogeneous and therefore often hardly comparable. For instance, firms could have used figures from national commercial law or according to IFRS in the QIS for IORPs which are not comparable among member states. On the other hand, by far not all sponsors report under IFRS.

PensionsEurope considers this approach far too complex. We doubt whether this method will encourage small and medium-sized IORPs to join a potential QIS effort or later be able to execute such calculations.

In addition, the following clarifications should be added:

- Paragraph 54: The ratios should be defined by the IORPs themselves. Why could the choice of the ratios vary by industry?
- Paragraph 57: The IORPs should define the Table 2.

From these two paragraphs 54 and 57 it is not totally clear if a standard formula will be provided. But even if so, IORPs should always have the possibility to come up with an alternative approach based on a 'comply or explain' principle.

Therefore it should be clear which criteria need to be met if an alternative approach is used.

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Q17.	<p>Does Stage 1 contain enough guidance for IORPs to do their own calculations if they believe this is appropriate for them to do so?</p> <p>It is not clear, if a IORP would like to come up with an alternative approach, which criteria need to be met.</p> <p>Once again, the situation for other combinations than "1-1-1-1" (one sponsor, one IORP, one pension promise, one country) remains very unclear and/or burdensome.</p>	
Q18.	<p>Are Income Cover and Asset Cover suitable credit ratios to use for Stage 1?</p> <p>The question of the availability (due to accounting periods) of the accurate data is also a key point (please refer to Q5). It will be very difficult to collect the corresponding data (especially in the case of IORPs with multiple sponsors).</p> <p>PensionsEurope is also concerned about the confidentiality of the information to be provided. This point is not addressed in the discussion paper and EIOPA should explain how confidentiality could be maintained/assured.</p>	
Q19.	<p>Are the parameters used to determine sponsor strength in Table 4 appropriate?</p> <p>PensionsEurope stresses the difficulty into accessing accurate, complete and consistent information. If credit ratios are based on local Generally Accepted</p>	

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	<p>Accounting Principles (GAAP), the outcomes can be biased because:</p> <ul style="list-style-type: none"> - local GAAP differ from IFRS - not all sponsors follow IFRS - local GAAP differ across EU countries <p>We fear that 6 credit steps might not be sufficient. For instance, there is an enormous gap between « weak » and « very weak ».</p> <p>It is not clear how the calibration has been determined, hence more detailed reasoning is required. The data in the table should be checked with regards to the distribution and variation across sectors and countries. Also the extreme values in the table are not symmetric and the validity of the values should be considered.</p> <p>For other combinations than "1-1-1-1" (one sponsor, one IORP, one pension promise, one country) and particularly for industry-wide schemes, these parameters are hugely difficult to acquire and therefore not appropriate.</p>	
Q20.	<p>What other definitions of earnings or net assets could be used in sectors where the standard definitions are not appropriate?</p> <p>No comment</p>	
Q21.	<p>Are the periods shown in Stage 2 appropriate (bearing in mind this is for QIS work only, and not to determine a policy response)?</p>	

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	<p>It is difficult to respond to this question without a clear knowledge of the supervisory framework and the length of the recovery periods in particular. Would the recovery period imposed by national supervisors override the contribution payment periods proposed in table 6? Consequently, it would be very useful to have more guidance on the supervisory framework and the length of the recovery periods.</p> <p>In countries where the length of the recovery plan is determined by negotiation between the IORP and the employer, there is a concern that EIOPA's proposed approach to determining payment periods would not reflect the particular circumstances of the scheme and of the employer and would inevitably generate payment periods that would place undue pressure on one party or both.</p> <p>Again, it is not clear how the payment periods and the sponsor strength are derived, so more detailed reasoning is required.</p>	
Q22.	<p>Do you agree that time periods for contributions for the QIS calculations for sponsor support should be based on affordability or should they be based on willingness/obligation to pay?</p> <p>The concept of "affordability" is vague and the information needed to assess this concept might not be visible and/or disclosed.</p> <p>PensionsEurope fears that forcing sponsors into contribution schedules based purely on affordability to pay might entail severe consequences. It is likely to</p>	

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	<p>force the sponsor to ignore other areas in which it may wish to invest, such as innovation, research or expansion and job creation.</p> <p>Moreover, the time period deemed necessary to recover the shortfall depends on the annual payments assessed as being “affordable” for the sponsor. However, that way of thinking may be too crude, as evidenced by the real example of a Swedish IORP. The IORP has 176 individual sponsors and benefits from unlimited sponsor support. The sponsors (which are mainly banks) have a statutory entitlement to choose to pay their sponsor support contribution over a 10 years period regardless of any ability to pay it all sooner. Because the remaining amounts to be paid constitute claims on banks, they could immediately be treated as assets on the balance sheet and would hence directly improve the solvency situation. Please consider the signal sent out if these claims could not be treated as assets or if some sort of reservation is needed. The suggested grading system could hence give this IORP a lower grading of sponsor support strength than necessary.</p>	
Q23.	<p>To what extent are there any IORPs whereby sponsor contributions cannot exceed certain limits (even if contributions are affordable)?</p> <p>In Belgium for instance, company contributions are limited by tax regulations (even if they are affordable).</p> <p>In Germany, tax exemptions for employer contributions are limited, which influences the attractiveness of contributions for employers and their employees. Still, taxed contributions could be made beyond this limit, even</p>	

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	though they would not be efficient neither for sponsor nor for employees.	
Q24.	<p>Are the annual probabilities of default appropriate for future QIS purposes? If not, why not?</p> <p>Firstly, the weakness of the proposal on default risk is that they are –by definition- approximations. It might lead to low quality assessment. Thus, when possible, it would be better to use default risk information that is specific to each individual sponsor as experienced, for example, by the Pension Protection Fund in the UK.</p> <p>Secondly, the gap between “weak” and “very weak” is enormous and should be revised.</p> <p>It is also very unlikely that figures presented in Table 7 will be valid for a country as a whole.</p> <p>We also suggest to include recoveries into the calculations of annual probabilities of defaults.</p> <p>Finally, PensionsEurope regrets that the probabilities of default are much higher than those used in the QIS exercise and the Solvency II context. We would welcome EIOPA’s view on that point.</p>	
Q25.	<p>Do stakeholders have any comments on stage 3?</p> <p>PensionsEurope does not support EIOPA’s work on developing the Holistic</p>	

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	<p>Balance Sheet concept. However, given that EIOPA is continuing with this work on its own initiative, PensionsEurope is supplying comments on the technical detail of the issues.</p> <p>It is not very clear what the 3% discount rate is reflecting. Does it refer to the risk-free interest rate or Solvency I-type of prudent discount rate?</p> <p>PensionsEurope is concerned about the general idea that strong sponsors have shorter recovery periods: Indeed 'strong' and 'very strong' sponsors would be penalised with very short recovery periods (maximum 5 years). Penalizing stronger sponsors is not an adequate way of regulating the pension sector. The stronger the support, the less the imperative for shorter recovery periods.</p>	
Q26.	<p>Is it reasonable to not allow for any recoveries from sponsor defaults? Please provide examples where this could increase the calculated value of sponsor support.</p> <p>PensionsEurope thinks it is too strict not to allow for any recoveries from sponsor defaults. Indeed, as recoveries are often part of national regulation, it would render it difficult to compare the balance sheets across EU countries. In any case, IORPs should have the choice whether or not to allow for any recoveries from sponsor defaults.</p> <p>The probabilities of default determined by the credit ratings are based on the defaults which are often caused by problems of liquidity. This does not always mean there is insolvency. Using these probabilities of defaults in combination</p>	

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with no allowance for recoveries is too severe.

Furthermore, the probability of recovery varies by sector and types of vehicles and is very likely to be much higher than 5%. This percentage is therefore not adequate. For example in Germany, sponsoring employers of *Pensionsfonds* are legally obliged to pay into the national insolvency protection system (*Pensions-Sicherungs-Verein*), which would lead to a probability of recovery close to 100%.

One practical solution could be to adjust the probabilities of default to reflect a certain percentage (to be chosen by the IORP) of recoverables from a default. Thus, the used default probabilities would be lower than the actual probabilities, without the need for separate recoverable calculations.

Is it appropriate to do separate calculations to allow for sponsor support from other group companies (both for legally enforceable and not legally enforceable support by group companies)?

Separate calculations for sponsor support from other group companies seem very complex and unnecessary. Indeed, the sponsor company agree to guarantee to the IORP the total contribution of all other group companies. In case of default, the sponsor will fund the IORP and then charge the other group companies. So the IORP does not have to claim directly to the group companies, that is why making separate calculations is not appropriate.

Moreover, the calculations will be arbitrary and hazardous because it will be impossible to foresee the willingness of the group companies to contribute in

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	rare situations in advance.	
Q28.	<p>Should any other guidance be included on how to allow for sponsor support from other group companies?</p> <p>As stated above, separate calculations seem needlessly complex and therefore unnecessary. However, if EIOPA intends to proceed with this, PensionsEurope warns of the difficulty in accessing relevant, accurate and consistent information notably for multi-national companies, industry-wide schemes and holdings with companies ranging from minority shareholders to 100% shareholders.</p> <p>The point of the comparability of different local GAAP information is also a key issue.</p> <p>Existing collateral, guarantees and other claims should also be taken into account.</p> <p>For other combinations than "1-1-1-1" (one sponsor, one IORP, one pension promise, one country) and particularly for industry-wide schemes, these parameters are impossible to acquire and therefore not appropriate.</p>	
Q29.	<p>What could be other valid reasons why the IORP should or should not take the financial position of the wider sponsor group into account when assessing the sponsor's financial position?</p> <p>A valid reason for taking the financial position of the wider sponsor group into</p>	

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	<p>account might be that an official credit rating is only available at Group level.</p> <p>Intercompanies loans/transactions/etc. could also be a valid reason to look at a consolidated level.</p>	
Q30.	<p>Is the approach to determining the loss-absorbing capacity appropriate?</p> <p>We think that the inclusion and the valuation of loss-absorbing capacity in the SCR is a crucial issue. Unfortunately, the approach suggested by EIOPA in the Discussion Paper is not clear enough and can be very costly to perform. EIOPA should propose an alternative and leave the IORP to decide which approach should be used.</p> <p>PensionsEurope reiterates its opposition to include Solvency II-types of SCR for IORPs, although we share the European Commission's wish to ensure robust protection for members' benefits. In this regard, we believe that the assumptions on which technical provisions are calculated are already designed to provide for the risks that IORPs and their sponsoring employers might face.</p> <p>Furthermore, PensionsEurope notes that showing the gross SCR elements together with the loss-absorbing capacities (benefit mechanisms, sponsor support) might have an added value in terms of risk management/reporting for/to the stakeholders.</p>	
Q31.	<p>Should any other sensitivity analysis be considered?</p>	

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	PensionsEurope stresses that sensitivity analysis is already too wide and burdensome especially if it has to be combined with the SCR approach.	
Q32.	<p>Are there any other types of sponsors that should be included</p> <p>PensionsEurope questions the application of the sponsor support concept to IORPs with self-employed individuals.</p>	
Q33.	<p>What additional work should be carried out if this methodology was to be used for determining sponsor support in a regulatory or supervisory environment?</p> <p>PensionsEurope does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work on its own initiative, PensionsEurope is supplying comments on the technical detail of the issues.</p> <p>PensionsEurope does not believe in a one-size-fits-all approach for valuing sponsor support. We are extremely concerned by the macro-economic effects of the overall approach in terms of investment, growth and innovation. We call for sound macro-economic impact assessments, notably on the effects of the likely switch from equities to fixed income. The incentive for sponsors to offer occupational pension schemes is also at stake with such harmonized methodology.</p> <p>It is still unknown how the Holistic Balance Sheet would be used in practice. This can be illustrated by the example of an IORP which has an insufficient</p>	

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“holistic funding ratio” and has a deficit of 100 million in order to cope with the required Solvency Capital Requirement. An additional payment by the sponsor of 100 million is impossible because all the future security and adjustment mechanisms are already included within the Holistic Balance Sheet. On the other hand this additional payment will not be sufficient as the increase of the level of assets by 100 million will automatically lead to a decrease in the value of sponsor support. At the same time, the level of mixed benefits will increase and the level of *ex-post benefit reductions* will decrease. As a result, the IORP still has a deficit in order to cope with the Solvency Capital Requirement. It is then unknown where the additional funding should come from.

PensionsEurope stresses that comparable sponsor’s IORP/pension scheme information should be available to make a correct assessment of an IORP belonging to a sponsor with different IORPs/pension schemes (national, multi-national, global).

Sponsor support of the wider company group requires more accurate reporting to make access to information feasible and to avoid gearing effects.

The necessary calculations to establish a value for the sponsor support are very extensive and very costly. We question if IORPs and supervisory authorities will have sufficient resources available to deal undertake these complex calculations . We are also pessimistic about the capabilities for small and medium-sized IORPs to undertake all these calculations.

As stated before in this response, the valuation of sponsor support for all

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	<p>situations differing from a "1-1-1-1" (one sponsor, one IORP, one pension promise, one country) scenario as well as for IORPs in the public or non-for-profit sector and the cross-border situations remain widely unclear and understudied. As one of the initial goal of the introduction of the HBS is to increase cross-border schemes, it seems surprising that this situation is not further explored in the Discussion Paper.</p>	
Q34.	<p>What other improvements could be made to the suggested approach?</p> <p>PensionsEurope does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work on its own initiative, PensionsEurope is supplying comments on the technical detail of the issues.</p> <p>We fear that costs and administrative burden will be very high under the suggested approach. Consequently, it will be very challenging to make the calculations, especially for small and medium-sized IORPs (which represent the large majority of the IORP landscape). The iterative process of the calculations must be accompanied by good and efficient tools to limit the costs and take proportionality into account.</p>	
Q35.	<p>Are there any aspects of the suggested approach which are unclear?</p> <p>It remains unclear how the output of the suggested approach will be used and without that information it is impossible to assess whether the methodology and the corresponding results will be proportionate and fit for purpose.</p>	

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The text provided by EIOPA is currently too confusing with regards to discount rate. So, for clarity purposes, EIOPA should specify the discount rate each time.

For industry-wide schemes applying “last man standing” principle, the approach is not applicable. Partly due to data requirements and calculation efforts, partly due to an inappropriate concept that cannot take into account the legal structure and obligations of the sponsors within the scheme. The sponsor support calculations would lead to a cost and time consuming process without information value.

Once again, the valuation of sponsor support for all situations differing from a “1-1-1-1” (one sponsor, one IORP, one pension promise, one country) scenario as well as for IORPs in the public or non-for-profit sector and the cross-border situations remain widely unclear and understudied.

How could the average financial strength of an industry be determined?

This task might be very challenging. Indeed, only the IORPs – but not the employers – have a duty to comply with the demands of the supervisory authorities. Therefore it could be difficult for IORPs to get all the required data to determine the average financial strength of the industry. Please note that diversification effects should be taken into account.

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The data (for example on specific sector) from institutions such as Central Banks could be used.

A possibility could be to use a group of representative individual companies as a benchmark for the sector.