

**Comments Template on  
Consultation Paper on Further Work on Solvency of IORPs**

**Deadline  
13 January 2015  
23:59 CET**

Name of Company:	British Telecommunications plc	
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"> <li>⇒ Do <b>not</b> change the numbering in the column "reference"; <b>if you change numbering, your comment cannot be processed by our IT tool</b></li> <li>⇒ Leave the last column <u>empty</u>.</li> <li>⇒ Please fill in your comment/response in the relevant row. If you have <u>no response</u> to a question, keep the row <u>empty</u>.</li> <li>⇒ Our IT tool does not allow processing of comments/responses which do not refer to the specific numbers below.</li> </ul> <p><b>Please send the completed template, in Word Format, to <a href="mailto:CP-14-040@eiopa.europa.eu">CP-14-040@eiopa.europa.eu</a> . Our IT tool does not allow processing of any other formats.</b></p> <p>The numbering of the questions refers to <b>Consultation Paper on Further Work on Solvency of IORPs</b>.</p>		
<b>Reference</b>	<b>Comment</b>	
General Comment	<p><b><u>About BT</u></b></p> <p>British Telecommunications plc is the sponsor of the BT Pension Scheme, which is the UK's largest corporate pension scheme. As at 30 June 2014, the Scheme held assets of over £40 billion and was responsible for around 314,000 beneficiaries under a defined benefit structure. This includes around 40,000 employees currently earning defined benefits.</p> <p><b><u>This consultation is not the right priority for EIOPA</u></b></p>	

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Given that the EU Commission indicated in May 2013 that it did not intend to proceed with Pillar I funding requirements as part of the current review of the IORP directive, EIOPA should not continue with work on the holistic balance sheet on its 'own initiative' without an explicit mandate from the EC.

This is not the right priority for EIOPA to be pursuing. EIOPA's focus should be on ensuring that citizens across the EU have access to adequate and sustainable pensions, not on devising a methodology that could impose substantial cost burdens on one particular type of pension scheme found in only some member states (namely defined benefit IORPs). We therefore believe that EIOPA should drop its work on the holistic balance sheet altogether.

Given the increasing trend towards defined contribution pension provision, a much better focus would be on developing a framework for strong principles-based defined contribution governance standards across the EU. The UK has already been involved in developing its own governance regime, which could contribute to the development of best practice guidance across Europe.

First pillar pensions are likely to become increasingly limited by the scarcity of Member States resources, and occupational pensions may be required to form a growing part of overall European pension systems. Today, less than a half of European citizens have access to a workplace pension. Extending the coverage of workplace pensions should be Europe's priority, rather than increasing the regulatory burdens on existing and well-established pension schemes.

Occupational pensions are also part of the employment contract and are handled effectively by social partners. The existing funding and supervisory regimes in individual Member States should already provide sufficient protection for members/participants and the principle of Member State subsidiarity should be observed.

**Solvency funding would be damaging for pensions, sponsors and the economy**

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BT does not believe that applying a regime based on Solvency II to IORPs (and to the use of the holistic balance sheet as a mechanism for applying such a regime) would be beneficial. This would be damaging to the provision of pensions to employees, leading to the closure of defined benefits IORPs to future accrual and the provision of lower quality pensions in future. It would also discourage the establishment of new defined benefit provision. This cuts directly against the EC's goal of ensuring adequate pension provision across the EU.

The application of a solvency regime to pensions would also have very damaging consequences for employers sponsoring pension schemes, who could see increased funding deficits and higher contribution demands, which would leave them with a reduced ability to invest in growth and jobs. Furthermore, if European companies are compelled to divert a substantial amount of their capital into funding their pension schemes on a solvency basis, it will lead to reduced competitiveness compared with non-European companies. Such a proposal would also be inconsistent with broader EC policy goals on long term investing and financing, including for EU infrastructure projects, as set out in an EU White Paper and related documentation in 2014. The solvency regime would in our view have the net effect of worsening the investment climate from pension funds in such assets and would have a chilling effect on a macro-economic level on key Northern European economies which are the growth engines of Europe.

As well as the effect on individual sponsors, the introduction of a solvency regime could also have substantial impacts on the economy as a whole with pension schemes likely to reduce their holdings in equities in favour of debt investment. This and could lead to significant market distortions and runs counter to the EU's current focus on encouraging long-term market investment.

The impact of implementing a holistic balance sheet approach would go far beyond individual pension schemes. A full impact assessment by the EU, ECB and relevant Member States considering the impacts on the wider economy would be essential before any steps could be taken on any of the options in the consultation paper to

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identify possible impacts on pension schemes and sponsoring employers, and also on wider long-term investment trends and economic growth.

**Sponsor support cannot be valued as a single figure**

One of the aims of the consultation is to arrive at a methodology to put a single number on the support provided to an IORP by an employer. We not believe this is feasible.

The support provided by an employer to a scheme varies depending on the individual scheme, the individual employer or employers, and on the situation of both the scheme and the employer(s). For example, the support provided in the event that the scheme is to be wound up is different from that being provided where the scheme is being run on an ongoing basis with contributions continuing to be made.

In the UK, the assessment of sponsor support forms a key part of funding negotiations. Trustees will have access to information of various kinds to enable them to assess that support, ranging from quantitative metrics to more qualitative assessments of the employer's future business prospects and commitment to the pension scheme. Any attempt to reduce this complex array of information to a single number is bound to produce results that are spurious and misleading.

Such a single figure would ignore, for example, additional and valuable protections for pension schemes such as negative pledges and dividend policies, which may well provide significant protection that funding will be available to a pension scheme in the long term without being captured at all by the single figure approach. Covenant assessment requires the exercise of expert judgement in specific circumstances, rather than blind reliance on a model to produce a single number.

Further, the existence of a single figure for the commitment of an employer to their pension scheme could feed into the rating agencies' assessments of a company's strength. Whilst we accept that it is right that an employer's commitment to their pension scheme should form part of an assessment of a corporate's financial position,

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we believe that there is a risk that the number calculated under the holistic balance sheet may be misleading and lead to inappropriate reassessments of a company's financial strength, for example leading to a higher cost of capital. Alternatively, the single figure approach could lead to an undervaluing of the real risk that a pension scheme presents to the continued existence of its sponsoring employer.

In our view, an approach under which sponsor support is assessed in qualitative terms is the only practical approach.

**The consultation contains some less extreme options**

We believe that the holistic balance sheet would be unnecessary, expensive and potentially damaging both to pension schemes and to the sponsors who provide them. We recognise, however, that EIOPA has gone some way to addressing these serious concerns by considering allowing a principles-based assessment of sponsor support and/or for sponsor support to be included in the holistic balance sheet simply as a balancing item, by proposing an option of allowing the holistic balance sheet to be used purely as a risk management tool, and by introducing the possibility of a transitional regime in the event of a holistic balance sheet being introduced.

In the event that EIOPA continues with its plans for a holistic balance sheet, we would urge EIOPA to develop these ideas further to make sure that the holistic balance sheet, if introduced, would not bring in negative consequences for pension schemes and the employers who sponsor them.

**The case for the holistic balance sheet has not been made**

However, neither the European Commission nor EIOPA have made a compelling case as to why the holistic balance sheet needs to be introduced. The fundamental concerns that the holistic balance sheet would be addressing need to be clearly spelt out. The consequences of retaining the status quo should be properly examined as part of the agenda for growth and jobs in the EU. It is inappropriate that retaining the status quo is not even considered as one of the examples in the last section of the consultation

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paper.

**The UK pensions regime has been resilient during tough economic conditions**

In the UK, for example, the combination of a strong regulator, a practical funding regime that recognises the need of both pension schemes and their sponsoring employers, good trustee governance and the ultimate protection of the Pension Protection Fund had provided a durable and resilient framework even in the most extreme economic conditions. The holistic balance sheet is likely to undermine and even conflict with strong existing requirements at member state level.

EIOPA should therefore consider the benefits of dispensing with the holistic balance sheet altogether.

We strongly reject the idea of establishing EU capital/funding requirements for IORPs and do not believe the holistic balance sheet should be used for this purpose or any other. More generally, we do not agree that the prudential framework for occupational pensions is derived from Solvency II.

**In summary**

Like many other stakeholders (including pension funds, employers, trade unions, governments), we fear that the proposed quantitative approach might have serious adverse consequences on pension systems, employment and long term investment in Europe.

We strongly reject the idea of establishing EU capital/funding requirements for IORPs and do not believe the holistic balance sheet should be used for this purpose or any other. The existing funding and supervisory regimes in individual Member States should already provide sufficient protection for members/participants and the principle of Member State subsidiarity should be observed. Amending these has associated costs (both initial and ongoing) and no demonstrable additional benefit. It is also likely to lead to any existing DB plans being closed and no new DB plans being opened. Any

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plan to harmonise regimes is unsuitable and will be detrimental to long term investment, growth and job prospects in the EU.

The European Commission has, to a large extent, acknowledged these concerns and decided not to introduce additional solvency requirements in the current review of the IORP Directive. It is not clear why EIOPA continues technical work in this area, without explicit direction from the EC.

Moreover, it makes no sense to discuss prudential rules for IORPs before any political decision is made about their role in the overall pension system and in the economy of the European Union. The starting point of the debate should be the principles stated in the White Paper "An Agenda for Adequate, Safe and Sustainable Pensions" and in the Green Paper on "Long-Term Financing of the European Economy".

**Our response**

We have commented on a few of the specific questions asked by the consultation, but have not focused on the technical detail. Where we have not provided a response to a particular question, this does not mean that we are in agreement with the approach. Our responses below consider the questions raised and overall we do not agree with an approach including the concept of the holistic balance sheet or to the placing of a single value on sponsor support.

Q1

**Q1: Do stakeholders think that the word "contract" is an adequate description of the characteristics of the set of rules and arrangements governing the provision of benefits to members and beneficiaries by an IORP?**

'Contract' is not an appropriate term to describe the arrangements under which pensions are provided by employers to their former employees and beneficiaries (and reflects the fact that the terminology for the holistic balance sheet has been adopted from an insurance context in which policyholders are in a contractual relationship with the insurance company). It should be replaced with a term that recognises that

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	pension schemes are not, in general, contracts.	
Q2		
Q3		
Q4		
Q5	<p><b>Q5: Do stakeholders think that unilateral rights (or obligations) of an IORP to terminate the contract/agreement/promise or reject additional contributions to the contract/agreement/promise or modify the promise in a way that contributions fully reflect the risk should be the basis for a definition of contract boundaries for IORPs? Are there cases where such rights (or obligations) should be the basis for a definition of contract boundaries for IORPs even though they are not unilateral rights (or obligations) of the IORP, but can be exercised unilaterally or jointly by other parties (possibly together with the IORP)?</b></p> <p>This does not capture the situation in the UK where the power to terminate an IORP may also reside with the sponsoring employer (either solely or by agreement with the trustees of the IORP). Such arrangements should also be included in the definition.</p> <p>It should be noted, however, that under UK legislation (section 67 of the Pensions Act 1995), it is not generally possible to modify benefits that have already accrued.</p>	
Q6		
Q7		

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Q8		
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Q33		
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Q36	<p><b>Q36: Do stakeholders agree that at the EU level, there should only be a principle based approach to valuing sponsor support with the specifics being left to member states/supervisors and/or IORPs?</b></p> <p>Yes, were an EU-level approach to valuing sponsor support to be taken, this should be principles based only, with the local supervisor left to determine the detail of how any valuation is undertaken, if indeed, one is needed in the absence of simply being able to count sponsor support as a balancing item. The recognition that 'it may not be possible to devise a one-size-fits-all methodology to the valuation of sponsor support' is a crucial and welcome development in EIOPA's thinking on the holistic balance sheet. It should be for individual IORPs to make an assessment of sponsor support, using either qualitative or quantitative methods as appropriate to their circumstances, with national supervisors maintaining scrutiny (and the possibility of intervention) where needed.</p>	
Q37		
Q38		
Q39	<p><b>Q39: What is the general view of stakeholders with regard to sponsor support as a balancing item?</b></p> <p>The use of Sponsor Support as a balancing item is essential to the proportionality of any solvency framework for IORPs. This approach should be used in all cases. Those managing IORPs and national competent authorities can then consider this in the context of risk management and any risk-based supervisory response.</p> <p>It is not appropriate to set a single value for sponsor support. Whilst we do not agree that there is any need to introduce the holistic balance sheet, if it were to be introduced, then allowing for the sponsor support to be introduced simply as balancing</p>	

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	<p>item would be a sensible simplification.</p> <p>The approach proposed by EIOPA would require IORPs to meet some arbitrary hurdles before they could use the 'balancing item' approach. It would be more useful for the 'balancing item' approach to be the default approach and it to be for individual IORPs (under the scrutiny of their national supervisors) to take the decision as to whether any more complex valuation is required.</p>	
Q40	<p><b>Q40: Which conditions should apply for sponsor support to be treated as a balancing item?</b></p> <p>Sponsor support as the 'balancing item' should be the default approach and it to be for individual IORPs (under the scrutiny of their national supervisors) to take the decision as to whether any more complex valuation is required.</p>	
Q41		
Q42		
Q43	<p><b>Q43: Do stakeholders think a pension protection scheme could in principle be considered as impacting on sponsor support to allow it to be a balancing item if it is considered financially strong and based on a sufficiently permanent and certain legal arrangement?</b></p> <p>In considering whether a pension regime provides adequate security for member benefits, any pension protection scheme needs to be taken into account.</p> <p>We do not agree with the concept of the holistic balance sheet in the first place. If, however, a holistic balance sheet is introduced, we believe that this should recognise all sources of support, including pension protection schemes.</p> <p>These are matters that should be determined in each Member State against the backdrop of its own supervisory regime and the comparative importance of second pillar retirement provision. It should not be for the EU to prescribe the appropriate</p>	

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	level of pension protection schemes in each Member State.	
Q44	<p><b>Q44: Should considering a pension protection scheme as a balancing item be restricted to cases where a pension protection scheme protects 100% of benefits or is it appropriate to allow for the reduction in benefits in case of sponsor default where there is a pension protection scheme in place?</b></p> <p>These are matters that should be determined in each Member State against the backdrop of its own supervisory regime and the comparative importance of second pillar retirement provision.</p>	
Q45		
Q46	<p><b>Q46: Do stakeholders agree that technical specifications should allow for a principles-based, IORP specific valuation of sponsor support? Please explain.</b></p> <p>Yes. However, we would go beyond this: We do not agree with the concept of the holistic balance sheet in the first place. However, any holistic balance sheet should also allow for a principles-based, IORP-specific <u>qualitative</u> assessment of sponsor support.</p> <p>In the UK, the assessment of sponsor support forms a key part of funding negotiations. Trustees will have access to information of various kinds to enable them to assess that support, ranging from quantitative metrics to more qualitative assessments of the employer’s future business prospects and commitment to the pension scheme. Any attempt to reduce this complex array of information to a single number is bound to produce results that are costly, spurious and misleading.</p> <p>There are also a range of other protections often sought by trustees, which are not captured by a simple covenant value. This could include protections over the level of dividend payments by the company or negative pledges, where no superior security to the pension scheme can be granted.</p>	

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Q47	<p><b>Q47: In what areas of valuation of sponsor support would it be most useful for EIOPA to specify guidance? Please explain and describe the possible contents of such guidance.</b></p> <p>None. These are matters that should be determined in each Member State against the backdrop of its own supervisory regime.</p>	
Q48		
Q49		
Q50	<p><b>Q50: As EIOPA has provided a model for IORPs to derive a value using this specification as long as they provide the above input data, what more should EIOPA do to encourage use of this approach where appropriate?</b></p> <p>Nothing. These are matters that should be determined in each Member State against the backdrop of its own supervisory regime.</p>	
Q51		
Q52	<p><b>Q52: As EIOPA has provided a model for IORPs to derive a value using this specification as long as they provide the above input data, what more should EIOPA do to encourage use of this approach, where appropriate?</b></p> <p>Nothing. These are matters that should be determined in each Member State against the backdrop of its own supervisory regime.</p>	
Q53		
Q54	<p><b>Q54: Should EIOPA produce spreadsheets to enable IORPs to use this simplification?</b></p> <p>No. These are matters that should be determined in each Member State against the backdrop of its own supervisory regime.</p>	
Q55		
Q56	<p><b>Q56: Do the proposed adaptations to this option overcome the criticisms? Should EIOPA produce spreadsheets to enable IORPs to use this</b></p>	

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	<p><b>simplification?</b></p> <p>No. These are matters that should be determined in each Member State against the backdrop of its own supervisory regime.</p>	
Q57		
Q58		
Q59	<p><b>Q59: Do stakeholders think that other options should be considered to determine a value to be used to assess overall sponsor affordability?</b></p> <p>In the UK, the assessment of sponsor support forms a key part of funding negotiations. Trustees will have access to information of various kinds to enable them to assess that support, ranging from quantitative metrics to more qualitative assessments of the employer’s future business prospects and commitment to the pension scheme. Any attempt to reduce this complex array of information to a single number is bound to produce results that are costly, spurious and misleading.</p> <p>Where relevant, each member state has developed an approach to suit their individual circumstances and this should continue.</p>	
Q60		
Q61		
Q62		
Q63	<p><b>Q63: Are there any other suggestions on how to deal with single sponsors with multiple IORPs?</b></p> <p>EIOPA’s proposed approach on sponsors with multiple IORPs is an attempt at a very simplistic solution to what may be a very complex and sponsor-specific situation. The decision of an appropriate approach should be left to individual IORPs (under the scrutiny of national supervisors), who will be able to determine an approach that provides an appropriate assessment of the support being provided to individual pension schemes.</p>	

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Q64		
Q65	<p><b>Q65: Are there any other suggestions on how to deal with multiple employer IORPs?</b></p> <p>EIOPA's proposed approach on multiple-employer IORPs is an attempt at a very simplistic solution to what may be a very complex and scheme-specific situation. The decision of an appropriate approach should be left to individual IORPs (under the scrutiny of national supervisors), who will be able to determine an approach that provides an appropriate assessment of the support being provided to individual pension schemes.</p>	
Q66		
Q67		
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Q71		
Q72	<p><b>Q72: If it was decided to establish EU capital/funding requirements as part of pillar 1, would there in the stakeholders' view be a role for the holistic balance sheet? Please explain why and, if yes, what that role should be.</b></p> <p>We strongly reject the idea of establishing EU capital/funding requirements for IORPs as part of Pillar 1 and do not believe the holistic balance sheet should be used for this purpose or any other. The existing funding and supervisory regimes in individual Member States should already provide sufficient protection for members/participants and the principle of Member State subsidiarity should be observed. Amending these has associated costs (both initial and ongoing) and no demonstrable additional benefit. It will be damaging to the provision of pensions to employees, leading to the likely closure of defined benefits IORPs to future accrual and discouraging future defined benefit provision. This cuts directly against the EC's goal of ensuring adequate pension provision across the EU.</p>	

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The application of a solvency regime to pensions would also have very damaging consequences for employers sponsoring pension schemes, who could see increased funding deficits and higher contribution demands, which would leave them with a reduced ability to invest in growth and jobs. Furthermore, if European companies are compelled to divert a substantial amount of their capital into funding their pension schemes on a solvency basis, it will lead to reduced competitiveness compared with non-European companies.

As well as the effect on individual sponsors, the introduction of a solvency regime could also have substantial impacts on the economy as a whole with pension schemes likely to reduce their holdings in equities in favour of debt investment. This runs counter to the EU's current focus on encouraging long-term market investment. EIOPA must be aware that the impact of implementing its holistic balance sheet could go far beyond individual pension schemes. Overall therefore, any plan to introduce solvency funding is unsuitable and will be detrimental to long term investment, growth and job prospects in the EU.

**Q73: Do stakeholders believe that the holistic balance sheet should be used as a risk management tool as part of pillar 2 requirements? Please explain.**

There has been no compelling case made for introducing a holistic balance sheet at all. It should not therefore be used for pillar 1 or extended in any way as a possible risk management tool as part of pillar 2.

The draft text of the revised IORP directive already contains a risk management tool in the form of the Risk Evaluation for Pensions. As such, IORPs should be able to develop risk-assessment and risk-management tools that are appropriate to the specific circumstances of their arrangements. At an EU-level, any requirements under pillar 2 should be principles-based, determined by local supervisors and should not stipulate the HBS as the only appropriate risk management tool, as there will be other, more suitable, tools available to different IORPs.

Q73

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Q74	<p><b>Q74: Do stakeholders agree that the outcomes of a pillar 2 assessment should be publicly disclosed as part of pillar 3 requirements?</b></p> <p>We do not agree with the concept of the holistic balance sheet in the first place. And thus we do not believe that it is appropriate to calculate a single value for sponsor support across all IORPs. If a single value were to be calculated for risk management purposes and then publicly disclosed, this number may be misleading and may either inappropriately damage a company's standing, or give an inappropriately positive view of an employer's obligations to their pension scheme.</p>	
Q75	<p><b>Q75: Do stakeholders agree that competent authorities should be empowered to take supervisory action based on the pillar 2 assessment of the holistic balance sheet? Please explain and, if yes, what action?</b></p> <p>This should be left to the supervisors of individual member states to determine.</p>	
Q76		
Q77		
Q78	<p><b>Q78: Do stakeholders agree that pure discretionary benefits should not be included on an IORP's pillar 1 balance sheet, as these do not represent a part of the benefit promise that needs to be protected by quantitative requirements? If not, what alternative options would you suggest?</b></p> <p>Pure discretionary benefits should not be included on an IORP's pillar 1 balance sheet as they are discretionary.</p>	
Q79		
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Q82		

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Q83		
Q84		
Q85	<p><b>Q85: In the stakeholders' view should the minimum requirement for the level of liabilities to be covered with financial assets be based on the Level A technical provisions or the Level B best estimate of technical provisions? Please explain.</b></p> <p>The Level B best estimate should be used, in line with the existing calculation of technical provisions. No evidence has been presented that this is an inappropriate valuation approach. Level B reflects the actual investment approach of the IORP, not a theoretical level.</p>	
Q86	<p><b>Q86: If the Level B best estimate were to be used, in the stakeholders' view should it apply to all IORPs or should its use be restricted to IORPs which dispose of certain security and adjustment mechanisms, be subject to prior approval of the national supervisor or applied as a member state option? Please explain.</b></p> <p>The Level B best estimate should apply to all IORPs without restriction.</p>	
Q87	<p><b>Q87: In the stakeholders' view should the level of technical provisions that needs to be covered with assets (incl. security mechanisms), and that potentially serves as a basis for the SCR, be based on Level A technical provisions or on the Level B best estimate of technical provisions? Please explain.</b></p> <p>The Level B best estimate should be used, in line with the existing calculation of technical provisions. No evidence has been presented that this is an inappropriate valuation approach. Level B, reflects the actual investment approach of the IORP, not a theoretical level.</p>	
Q88	<b>Q88: If the Level B best estimate were to be used, in the stakeholders' view</b>	

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	<p><b>should its use be restricted to IORPs which dispose of certain security and adjustment mechanisms, be subject to prior approval of the national supervisor or applied as a member state option? Please explain.</b></p> <p>The Level B best estimate should apply to all IORPs without restriction.</p>	
Q89		
Q90	<p><b>Q90: Do stakeholders believe that there is scope for harmonising the recovery period regarding the level of technical provisions to be covered with financial assets on the EU level? Please explain.</b></p> <p>No. This should be left to the member state level.</p>	
Q91	<p><b>Q91: Do stakeholders think that the recovery period regarding the level of technical provisions to be covered with financial assets should be short or cover an extensive period of time? Please explain.</b></p> <p>This should be specific to the individual circumstances of an IORP and its sponsor(s). As recognised in the consultation document (5.115), an inappropriately short period could lead to unnecessary damage to the sponsor. This could increase the probability of the employer's insolvency with the outcome for members' benefits worsened.</p>	
Q92	<p><b>Q92: In the stakeholders' view how long should the more extensive recovery period be and should it be restricted to IORPs which dispose of certain security and adjustment mechanisms and/or be subject to prior approval of the national supervisor? Please explain.</b></p> <p>This should be specific to the individual circumstances of an IORP and its sponsor(s).</p>	
Q93	<p><b>Q93: Do stakeholders believe that there is scope for harmonising the recovery period for meeting the SCR on the EU level? Please explain.</b></p>	

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	<p>No compelling case has been made for an EU-level SCR. Were there to be an SCR (and therefore any associated recovery period), this should be specified at member state level.</p>	
Q94	<p><b>Q94: In the view of stakeholders should the recovery period in the event of non-compliance with the SCR be short or cover a more extensive period of time? Please explain.</b></p> <p>No compelling case has been made for an EU-level SCR. Were there to be an SCR (and therefore any associated recovery period), this should be specified at member state level.</p>	
Q95		
Q96	<p><b>Q96: Do stakeholders agree that IORPs should be required to submit a recovery plan if capital/funding requirements are not met or should more specific supervisory responses be specified on the EU level? Please explain.</b></p> <p>The detail of how supervisory responses will be implemented (which may include, but is not limited to, submitting a recovery plan) should be determined by the relevant national supervisor. More detailed action should not be specified at an EU level as a one-size-fits-all supervisory response is unlikely to capture all of the key variables of the local environment in which IORPS operate.</p>	
Q97	<p><b>Q97: What is the view of stakeholders on the potential impact of a possible future European prudential framework for IORPs on existing contractual agreements and national social and labour law?</b></p> <p>The application of an EU-wide prudential framework is not compatible with the variety of arrangements which exist at local country level. A one-size-fits-all supervisory response is unlikely to capture all of the key variables of the local environment in which IORPS operate.</p>	

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Q98	<p><b>Q98: In the stakeholders' view is there scope for transitional measures in order to mitigate the potential impact of a possible EU prudential regime on existing contractual agreements and national social and labour law?</b></p> <p>Any possible future European prudential framework whether based on the HBS or an alternative would be inappropriate if applied to existing schemes and would have a significant adverse effect for long term investment growth and job prospects. However, if such a framework were to be introduced, there must be the use of grandfathering to reduce the impact. The new requirements should not apply to either the accrued rights or future rights under any scheme established before any such rules potentially come into force. In the absence of explicit grandfathering then the use of lengthy transitional periods to reduce the impact of any future possible EU prudential regime must be established. This would allow IORPs, investment markets and labour markets to adapt to a new framework and develop appropriate responses in as cost-efficient a manner as is possible.</p> <p>It should be noted that the impact of a EU prudential regime in practice that substantially increases costs for employers, is likely to mean the closure to future accrual of all existing defined benefit provision, which cuts directly against the EC's goal of ensuring adequate pension provision across the EU.</p>	
Q99	<p><b>Q99: Do stakeholders have any general comments on (the description of) example 1?</b></p> <p>As noted in the consultation paper itself, Example 1 would 'seriously interfere' with existing IORPs, especially in those member states with large defined benefit liabilities. It would also discourage sponsors from providing pension promises in the future (except where required to do so by legislation). We regard this example as highly damaging for pension schemes, and unlikely to be possible to implement successfully in practice.</p>	
Q100	<p><b>Q100: Could example 1, in the view of stakeholders, be used for all IORPs in the EU?</b></p>	

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	<p>This example could not be applied, certainly in the UK, without serious damage to pension schemes, employers sponsoring them and long-term investment markets. Further details would be needed on how the transfer of assets envisaged in 5.173 would take place in practice and which party would take on the liabilities.</p>	
Q101	<p><b>Q101: Do stakeholders have any general comments on (the description of) example 2?</b></p> <p>The consultation document notes that this approach would 'interfere' with some existing regimes and we agree with this assessment.</p> <p>Under 5.216, there is an implication that schemes need to reach full funding on a Level A basis for members to receive their full benefits. However, schemes are only required to pay benefits as they fall due and this could also be achieved funding on a more realistic Level B basis.</p> <p>Any approach reliant on a number of specified assumptions will be overly model dependent and is likely to be inefficient. The complexities of pension funding require elements of judgment that cannot be achieved with a prescribed 'one size fits all' approach.</p>	
Q102	<p><b>Q102: Could example 2, in the view of stakeholders, be used for all IORPs in the EU?</b></p> <p>No, we believe this approach would be detrimental to pensions schemes, members and employers.</p>	
Q103	<p><b>Q103: Do stakeholders have any general comments on (the description of) example 3?</b></p> <p>This approach again implies that schemes need to reach full funding on a Level A basis for members to receive their full benefits. However, schemes are only required to pay benefits as they fall due and this could also be achieved funding on a more realistic Level B basis.</p>	

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	<p>Further detail is needed on how an IORP can “restore sustainability using a flexible approach” [Table 5.4] where the sponsor does not have sufficient resources to do so.</p> <p>Further justification is also needed on how the approach has limited impact, given the lack of detail on “restoring sustainability” as discussed in the previous paragraph.</p>	
Q104	<p><b>Q104: Could example 3, in the view of stakeholders, be used for all IORPs in the EU, taking into account national specificities?</b></p> <p>No, we believe this approach would be detrimental to pensions schemes, members and employers.</p> <p>5.243 implies that there are regimes which allow unsustainable pension promises to be provided. In the UK the Pension Regulator has the unilateral power to stop a scheme providing future benefits where it believes there is justification to do so. If the EC has concerns in this area, we suggest further consideration is given to this power and whether it could be adopted in other regimes.</p>	
Q105		
Q106	<p><b>Q106: Could example 4, in the view of stakeholders, be used for all IORPs in the EU?</b></p> <p>No, we believe this approach would be detrimental to pensions schemes, members and employers.</p>	
Q107		
Q108	<p><b>Q108: Could example 5, in the view of stakeholders, be used for all IORPs in the EU?</b></p> <p>No, we believe this approach would be detrimental to pensions schemes, members and employers.</p>	
Q109	<p><b>Q109: Do stakeholders have any general comments on (the description of) example 6?</b></p>	

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Example 6 is the best of the examples under consideration here, since it limits the holistic balance sheet to use as a risk management tool. This would, however, still leave IORPs with the cost of having to produce the holistic balance sheet for little obvious benefit. The need for such a solution as a risk management tool has been superseded by the revised IORP directive's 'Risk Evaluation for Pensions' which will achieve much of what the holistic balance sheet might be able to do, with an emphasis on more meaningful qualitative assessments of risk rather than spurious numbers for the support provided by the sponsor and, where relevant, any pension protection scheme.

The choice of examples is skewed because they all involve the use of the holistic balance sheet in some form. We believe that the consultation should also have considered an example 7, which is retaining the status quo without the introduction of the holistic balance sheet. Neither EIOPA nor the EC has yet demonstrated why the holistic balance sheet is needed.

Q110

**Q110: Could example 6, in the view of stakeholders, be used for all IORPs in the EU?**  
No, we believe this approach would be detrimental to pensions schemes, members and employers.

The application of an EU-wide prudential framework is not compatible with the variety of arrangements which exists at local country level. A one-size-fits-all supervisory response is unlikely to capture all of the key variables of the local environment in which IORPS operate.

Q111

**Q111: Do stakeholders agree that there is scope for simplifications with regard to drawing up the holistic balance sheet? Which simplifications would you consider most important and in which situations?**

EIOPA should also consider an example 7, which is retaining the status quo without the introduction of the holistic balance sheet. Neither EIOPA nor the EC has yet

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demonstrated why the holistic balance sheet is needed.