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| | **Comments Template on<br>Consultation Paper on Further Work on Solvency of IORPs** | **Deadline<br>13 January 2015<br>23:59 CET** |
| Name of Company: | PensionsEurope | |
| Disclosure of comments: | Please indicate if your comments should be treated as confidential: | Public |
| | Please follow the following instructions for filling in the template:<br>⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool<br>⇨ Leave the last column empty.<br>⇨ Please fill in your comment/response in the relevant row. If you have no response to a question, keep the row empty.<br>⇨ Our IT tool does not allow processing of comments/responses which do not refer to the specific numbers below.<br>**Please send the completed template, in Word Format, to CP-14-040@eiopa.europa.eu . Our IT tool does not allow processing of any other formats.**<br>The numbering of the questions refers to **Consultation Paper on Further Work on Solvency of IORPs**. | |
| **Reference** | **Comment** | |
| General Comment | **About PensionsEurope**<br>*PensionsEurope represents national associations of pension funds and similar institutions for workplace pensions. Some members operate purely individual pension schemes. PensionsEurope Members are large institutional investors representing the buy-side on the financial markets.*<br>*PensionsEurope has 24 member associations in EU Member States and other European countries with significant – in size and relevance – workplace pension systems. PensionsEurope member organisations cover the workplace pensions of about 62 million European citizens. Through its Member Associations PensionsEurope represents* | |

*more than € 3.5 trillion of assets managed for future pension payments.*

*PensionsEurope has established a Central & Eastern European Countries Forum (CEEC Forum) to discuss issues common to pension systems in that region.*

*PensionsEurope has established a Multinational Advisory Group (MAG) which delivers advice on pension issues to PensionsEurope. It provides a collective voice and information sharing forthe expertise and opinions of multinationals.*

**1. Preliminary remarks**

First of all PensionsEurope welcomes the possibility to comment on such an important matter. We also welcome the mapping exercise published together with the consultation on solvency for IORPs which shows the major existing differences between and in the Member States with regards to occupational pension provision.

PensionsEurope also commends EIOPA for responding to the concerns raised in previous rounds of consultations as well as during the Quantitative Impact Study (QIS). Indeed we welcome that EIOPA brought forward ideas such as the balancing item approach, the focus on principle-based approach (for example with regards to sponsor support valuation) as well as the consideration of a range of possible frameworks where the Holistic Balance Sheet (hereinafter HBS) could be used.

We also welcome that EIOPA for the first time discusses the central question of the regulatory function of the HBS (trigger points, funding requirements and EU-wide SCR, tiering of assets, recovery period) although we think that it should have been answered on a much earlier stage before all the in-depth-analysis of the HBS elements.

PensionsEurope highlights that it is sometimes difficult to provide reliable answers to certain questions from a pure European perspective. It is especially true when different options are discussed. This shows the wide diversity of the occupational

pension sector and the difficulties or even impossibility to harmonise it. That is why, if, against our recommendation, the HBS is introcued, we stress it should be possible to authorise several options in order to reflect the specificities of occupational pension systems in the various EU Member States.

Last but not least, we would like to remind that our answers to the technical questions depend on the implementation of the prudential framework that is not clear as of yet.

The position of PensionsEurope with regards to the HBS concept can be summarized as follows:

**2. <u>The HBS is not suitable as a regulatory instrument at EU level</u>**

**2.1 <u>The HBS is not an adequate instrument to cover the diversity of IORPs in Europe</u>**

An objective and transparent assessment of the financial security of IORPs and the sound management of risks outlined in this consultation paper is an ambition PensionsEurope shares with EIOPA. However, we are of the opinion that the HBS is not the right way of achieving this, as it does not recognize the specificities of national pension schemes sufficiently. Pension security needs to take into account the overall pension system of a country, including the balance between security, sustainability and adequacy. We would like to reiterate in this respect that pensions fall under the subsidiarity principle and under national social and labour law. We have our doubts whether the HBS approach can be consistent with the principles of subsidiarity and whether further harmonization is warranted.

Although the present consultation goes much further than previous proposals in terms of allowing flexible implementation by national supervisors, this concession undermines the purpose of the whole project, which was originally intended to allow greater comparability of pension schemes across Europe. If pension regulation is to be determined at national level (and as mentioned, PensionsEurope is of the opinion that it should) then we question what the justification for an EU-wide HBS would be. The

differences between the 28 national pension systems and the subsidiarity principle are an additional reason to be against harmonizing occupational pension provision.

**2.2 <u>The HBS dilemma: if it is sound, it isn't practical; and if it is workable, its results are questionable</u>**

While without doubt EIOPA has invested a lot of time and efforts in the HBS, we do not think that the presented concept is to any degree satisfactory: the parts which are intellectually coherent are impossible for all IORPs to comply with given their limited resources (stochastic modelling that is not used by all IORPs, also some of the simplifications); where simplifications have been introduced, the appropriateness of those simplified heuristics and the chosen parameters is doubtful and thus the intended goal of comparability of results is highly questionable (see again 4.145 and EIOPA' s own analysis in section 4.5.6. stating huge differences between resulting values of sponsor support given different modelling approach). From a practical perspective more simplifications would be better – but even as it stands at the moment it is not clear what the derived figures would show and what they could be used for. This illustrates the dilemma of the HBS: to get the HBS workable simplifications are needed (as opposed to a precise valuation of IORP's security mechanisms) that challenge the whole approach. Thus even if we were supportive of the introduction of the HBS, this would not be a suitable approach.

**2.3 <u>The HBS is very costly and it is difficult to interpret its results</u>**

Additionally, we expect the HBS implementation to be very costly while we doubt the potential benefits will outweigh those costs. PensionsEurope regrets that EIOPA does not consider using less complex and less costly risk management instruments such as ALM studies, stress tests, continuity analysis etc. Costs will have a negative impact on the benefits for IORP members and beneficiaries. Moreover, we think that the HBS is a very complex method – therefore very difficult to interpret and use - especially for small and medium sized IORPs.

**2.4 The HBS does not enough take into account the social aspect of IORPs**

Despite the improvements noticed above, we not only oppose the general idea of introducing new solvency requirements for IORPs, but also the HBS approach as proposed. It must be noted that the HBS approach does not adequately account for the social character of IORPs (as opposed to the mostly commercial character of insurance companies) and is therefore not appropriate. In other words, it neglects that the members of IORPs are protected by labour, social and co-determination law.

Discussing the EU's existing supervisory architecture with a European system of financial supervisors (ESFS), occupational pensions were only mentioned in the De-Larosière-Report from 2009 in relation to IAS 19; in a speech by Jacques De Larosière at the Public Hearing on Financial Supervision in the EU they were not even mentioned.[1] Against this background it is presumptuous that the EIOPA Consultation suggests that Member States should adjust their national social and labour law so that it would be compatible with potential new prudential regulation: "*If EU prudential requirements were amended, Member States may need to adjust their social and labour law in order to ensure that their overall framework continues to reflect the previously agreed objectives*." (S. 114). We strongly oppose the idea that prudential law should trump social and labour law.

**2.5 The HBS and the market consistent valuation**

We consider the market-based approach difficult for liabilities with such long durations. Any valuation and risk management that is based on a market value approach could set the wrong incentives for those running the institution. Calculating technical provisions on a market consistent basis including a risk free interest rate is not necessarily appropriate for IORPs. Such a valuation risks to be pro-cyclical, based on a cut-off date and would not take into account the specifics of most IORPs. This type of valuation could harm solid and long-term planning, as well as risk analysis and related calculations. It would therefore not necessarily contribute to more security for

[1] Public hearing on Financial Supervision in the EU, Brussels, 24 May 2013.

the beneficiaries. In addition a transfer of liabilities to other market actors (see i.e. EIOPA 5.83) is – unlike within the insurance sector – not relevant because of the existing security mechanisms of IORPs which are actually to be assessed by the HBS.

**3. Shortcomings in the uses of the Holistic Balance Sheet**

Regarding the specific issues raised in this consultation, PensionsEurope's position can be summarised as follows:

**3.1 Inadequate use for capital requirements (pillar 1)**

We think the HBS is conceptually wrong as an instrument for setting capital requirements.

As capital requirements are neither part of the pension promise nor of the financing of this promise, we think there is no place for capital charges in the HBS. Conditional benefits would become unconditional in practice: Once the initially calculated capital charge is met by means of a higher funding ratio, the capital charge will have grown as the value of the conditional benefit will be higher at a higher funding ratio. This leads to a spiral that will only stop once the maximum of the originally conditional benefit will be granted, making it implicitly unconditional. Moreover, capital requirements for conditional benefits would imply a double charge for risk taking as both the resulting upward potential and the downward risk result in higher capital requirements. This would result in taking less risk, which is likely to be harmful for members of a pension fund as lower returns lead to lower pensions and higher contributions.

*a. HBS is inconsistent with using Solvency Capital Requirement (SCR)*

PensionsEurope is convinced that the combination of the HBS and SCR is conceptually wrong. The HBS shows the current market value of all conditional and unconditional pension promises (assuming there is a complete market, which is not the case), and the way in which these promises are backed by current assets and conditional future

payments (or benefit reductions). As capital requirements are neither part of the pension promise nor of the financing of this promise, there is no place for an SCR on the HBS. This can be illustrated for a simple (complete) agreement with a finite horizon where the participants will receive all revenues of the fund when it will close. If the stochastic simulations for the HBS are conducted over the full (finite) lifetime of the pension agreement, the HBS will exactly balance. The current value of assets is exactly balanced by the current value of 'unconditional' liabilities plus the profit sharing option (e.g. indexation option) minus the loss sharing option (benefit reductions). If the simulation horizon ends before the end of the agreement, the conditional pension rights after the simulation horizon will not be valued, and consequently there will generally be a residual (positive or negative). This residual represents transfers to or from the generations that will still be in the fund after the simulation horizon. In the view of EIOPA, the pension fund only disposes of sufficient capital when this residual will exceed the SCR. This would then in practice mean that, irrespective of the starting financial situation of the fund, current members should always have to make transfers to future generations. This cannot be regarded as beneficial for the current participants. In addition the longer the simulation horizon, the smaller the value of the residual will be (as the transfers are discounted), and therefore the less likely that the HBS (including the SCR) will balance.

*b. HBS is inconsistent with using a recovery plan*

Next to the fact that the HBS concept is inconsistent with the SCR, it is also inconsistent with a recovery plan. Calculating the HBS including all conditional and mixed benefits as well as all security instruments requires to include all extra possible future funding like extra sponsor support and instruments such as benefits cuts. If the HBS does not balance, there is no further recovery plan possible, since all security instruments are already included in the HBS. The only conclusion one can draw is that the funding policy is insufficient to pay out the benefits as promised, thus that the pension agreement seems to be unsustainable (at current market prices and supposing a market actually exists).

*c. HBS cannot be used for supervisory response*

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| | A third fundamental problem with the use of the HBS for capital requirements concerns the supervisory response given that the HBS can only be calculated assuming a complete agreement (including an agreement beforehand on the sharing of surpluses and deficits between the different stakeholders and all recovery mechanisms). This can be demonstrated for an IORP with an insufficient "holistic funding ratio" and a deficit of €100 million in order to comply with the SCR. In this situation for example, an additional payment by the sponsor of €100 million will be impossible, because this future security mechanism has already been valued in the HBS. Therefore, the outcome of the HBS is a take it or leave it deal. If the supervisor would not like the outcome, he might only suggest adjustments in the agreement or the recovery mechanisms, but the resulting HBS-outcome will be highly unpredictable as all HBS-items are interrelated. As a consequence, PensionsEurope deems this approach as not suitable for prudential supervision.<br><br>*d. The HBS is too complex to calculate*<br><br>In addition to these fundamental problems, the HBS also implies severe practical problems. Indeed the QIS1 (2012) has shown that in practice IORPs faced great difficulties in providing accurate numbers, if these can be overcome at all. This is due to the unavailability of necessary data (market prices for long horizons, standard deviations and correlations and missing markets (like the prices for wage inflation)), and the complexity of the methods to use (i.e. risk neutral valuation in the absence of closed form calculation methods). The complexity of the methods to use, makes the HBS very sensitive - possibly too sensitive - for model and parameter assumptions, which can result in the valuation of HBS to change by tens of percentage points depending on the assumptions used. The simplifications that are being investigated may solve the problem of the complexity on the one hand, but will inevitably lead to overall inconsistencies on the other hand: any simplification will inevitably lead to the entire HBS no longer being (market) consistent. And if the simplification will lead to a different market value of balance sheet item, this different valuation will also impact the valuation of all the other balance sheet items. | |

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| | **3.2 <u>Use for risk management (pillar 2)?</u>**<br><br>The HBS might possibly be used as an instrument for risk management to obtain more insights in relative risks of the balance sheet, but other less costly methods would better achieve this goal.<br><br>A well drafted HBS can provide insights in the relative risks for different stakeholders. It is important to note however, that this does not provide insights into the main goals of an IORP, for example the capacity to pay the current benefits or the capacity to compensate for inflation. It only gives the current valuation of the future cash flows against market prices (assuming there is a complete market, which is not the case) of conditional and unconditional pension benefits and the way these promises are financed. It will therefore never be possible to use the HBS as the sole instrument for risk management, but other instruments will always be needed. Other instruments can for example consist of some sort of solvency projection (continuity analysis), ALM calculations and stress tests. If such instruments are available, we think there is little additional added value of also using the HBS, especially given the complexity of the information that the HBS provides.<br><br>**3.3 <u>Inadequate use as a transparency tool (pillar 3)</u>**<br><br>We generally support transparency, but we have concerns with regards to the use of the HBS for transparency purposes. We do not think that the HBS approach is the right way to support it.<br><br>The HBS cannot be used for transparency purposes mainly because the information that is provided by the HBS is not the information that scheme members need or expect, in addition it is way too complexed for members. A participant wants to learn about the risks facing his pension benefits, for example the probability that his benefits will be decreased or not adjusted to inflation, and what the magnitude of these events could be. The option values that are shown on the HBS do not provide | |

this information, as these are not forward looking, but only provide for a relative ranking of risks. The fact that an indexation option (the market value of conditional indexation) currently has a value of for example 5, does not convey any information about the probability that the pensions will be indexed. It only provides the current market price of the option. As the participant cannot trade this option, this value is hardly informative. Technically, the option values provide information about the value of the optionality in a risk neutral world, but this is not the (real) world in which participants live. Moreover, as market conditions may change quickly, the option value may be very volatile. We therefore conclude that the use of the HBS for transparency towards participants is neither desirable nor feasible.

If specific elements of the HBS will be implemented as balancing items, we want to stress that it is still important to properly convey all the relevant information. As an example, if a specific form of sponsor support would be used as a balancing item but the coverage is not 100%, any remaining risk to the participants or the IORP should still be reflected elsewhere on the HBS. In addition, we would also like to point out that transparency needs to be treated carefully in this context. Sponsor support is an important security mechanism for IORPs.

**4. Macro-economic effects**

We fear adverse macro-economic effects if the HBS were to be implemented due to increased capital requirements, higher contributions and/or lower benefits for the members and a lower incentive for employers to offer occupational pensions. We fear this would be contrary to the ambition of the European Commission to set up more occupational retirement schemes. Every increase in the costs of providing occupational pensions decreases an employer's willingness to provide this social benefit. This is concerning as when in times where most European societies undergo demographic changes, occupational pensions should be strengthened and coverage should be extended as emphasized by the European Commission in the White Paper – An Agenda for Adequate, Safe and Sutainable Pensions. Employers who continue to offer an occupational scheme and for Member States where the provision of occupational pensions is (semi-) mandatory, capital requirements have a negative influence on the

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| | benefits for the IORP members.<br><br>PensionsEurope warns that the introduction of the concept of a risk-based SCR might affect the strategic asset allocation of IORPs and will create important incentives for the IORPs to move away from long term investing in the real European economy. Investing in long term investments such as infrastructure for example will lead to high(er) capital requirements, where government bonds/interest rate swaps are treated as "risk-free". This could result in a rebalancing of the asset allocation away from investments in the European economy and companies (that might fluctuate over the short-term, but might offer long-term potential in return for this volatility/risk) into (government) bonds/swaps. We note that the European Central Bank also raised this issue in a paper published in July 2014. We highlight that pensions (not only occupational pensions) will only be sustainable and adequate in an environment where unemployment is lower and economic growth is higher in the long run.<br><br>PensionsEurope warns these negatives effects run counter to the European Commission's increased emphasis on the so-called Capital Market Union and the channelling of private (pension) savings in long-term and job/growth-friendly investments.<br><br>PensionsEurope is very worried that this regulatory steering of the investment choices of IORPs might have a negative impact on the cost of providing adequate and sustainable pensions via a funded system. This regulatory incentive to move away from long-term investing might not only have a micro-economic but also an important macro-economic impact.<br><br>Moreover, PensionsEurope warns that applying a solvency capital regime to IORPs based on the principles of Solvency II would risk to be pro-cyclical and therefore could affect financial stability across Europe. We think a proper impact assessment of such risk should be duly conducted.<br><br>Finally, we also note that the HBS - if it were to be implemented – is likely to lead to the closure of many defined benefit (DB) schemes. Obviously, PensionsEurope is | |

aware of the current shift from defined benefits to defined contributions (DC) schemes and the related shift of risk from the employer to the individuals. Without going into detail regarding the differences between DB and DC or hybrid schemes, we emphasise that European regulators should aim to support existing schemes.

**5. The future of occupational pensions in Europe**

On a more positive note, we welcome the recommendation to consider grandfathering, which would mean that the new prudential requirements would not apply to existing IORPs. However, we still see a number of issues for the future of occupational pensions if an HBS-style approach to solvency were to be introduced:

- With state pensions being scaled back in many EU Member States, we envisage a strong second pillar for the future, which supports individuals in closing the gap the reforms of the first pillar have presented them with. Policy-makers and supervisors both at the national and the EU level should do everything possible to ensure that the framework occupational pensions operate in is adequate to support this goal.

- In addition, we think that the current proposals would foster consolidation in the pension sector. While there are certain advantages of larger schemes, e.g. economies of scale, we would like to warn that it is not desirable to grow schemes so big that their failure would cause a major crisis. We have seen the problems with institutions which are too big to fail – even though IORPs are fundamentally different form banks, they also do not benefit from a system with very few very large institutions.

- The consultation paper does not take into account any implications the HBS proposals and the supervisory response will have on what employers offer and how it affects coverage. To us it looks like EIOPA is assuming an occupational pension system where membership is mandatory. In many EU Member States this is not the case, and with further unnecessary burdens being imposed on employers offering occupational pensions, provision in those Member States is likely to go

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| | down.<br><br>• We doubt that the current suggestions will strengthen long-term investment or cross-border activity. The causalities presented in the paper are spurious.<br><br>Finally and importantly, we do not envisage a future where the main concern of IORPs is how to comply with European legislation. Legislation should be designed in a way which allows IORPs to pursue their main objective: providing their members with a good value pension, so that poverty in old age is avoided and a large number of people can maintain a similar standard of living they used to have while working. | |
| 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?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No, "contract" is not an adequate description. There is not often a legal contract between the IORP and the members or beneficiaries. The legal relationship may be indirect (it may be for example an agreement between the sponsor and the IORP or the employer and the member). There is a triangular relationship – often collective - between the employer, the employee and the IORP – often through the involvement of social partners - which is not covered adequately by a "contract" between IORP and employee.<br><br>As suggested in Point 4.22 of the consultation document, the term cannot ensure that from the perspective of the employees all rules and arrangements regarding their occupational pension are captured because the IORP-member relationship misses the | |

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| | crucial role of the employer. This shows the lack of usefulness of the proposed approach. However, alternative terms do not change this, because IORPs cannot be responsible for rules and arrangements only applying to the relationship between employers and employees.<br><br>Also, the concept of 'contract boundaries' does not work well for IORPs – as the consultation paper comes close to recognising in para 4.22. because 'contract boundaries' relate to time, whereas IORPs operate over very long time scales – open-ended in schemes still open to new members, in fact.<br><br>On a more general level, we note there is a lack of clarity for the stakeholders as EIOPA seems to focus on the pension promise between the employer and the employee while the IORP Directive focus on the IORP itself, without fully taking into account the above-mentionned triangular relationship. There is therefore a confusion between the "scheme" and the "institution". | |
| Q2 | **Do stakeholders think that the word "boundary" is suitable here?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Yes, the word "boundary" could be used. However we do not consider this term to be the most appropriate in this context. The word "scope" could be used. | |
| Q3 | **If not, please provide an expression more suitable for IORPs which could replace the expression "contract boundaries".**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative* | |

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| | *impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We would propose "scope of the agreement" or "pension promise" instead of "contract boundaries". | |
| Q4 | **Do stakeholders have any general comments on the above section?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>The Solvency II model fits insurance contracts, but it does not fit occupational pensions. This is the case because in occupational pensions the "boundaries" when and under which conditions the increase in entitlements may change or may be frozen are governed by social and labour law. This often involves many/all parties.<br><br>Currently, IORPs can unilaterally terminate a 'contract' only in a couple of Member States (as shown in the mapping exercise). This means that in all other countries, all future cashflows would be recognised in technical provisions (if Solvency II-type rules were to be applied without amendments). We note that in other Member States the sponsor may terminate the agreement. That is why we support the idea that the technical provisions should only include those contributions and benefits which are laid down in the agreed relationship between IORP and employee as well as between IORP and employer (4.24).<br><br>We strongly disagree with Points 4.25 and 4.26. In many cases, for IORPs it does not matter what the employer promised to the employee; the rules which matter for | |

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| | IORPs are the fixed rules between the IORP and the relevant stakeholders. An adequate description of the risks carried by the IORP canot be based on rules for which there is no agreement with the IORP.<br><br>From our perspective, "risks building up for a promise to provide benefits of occupational retirement provision (primarily) via an IORP" is not at all a suitable approach for calculating adequate financial resources for IORPs. We are concerned about Point 4.27 which relates the "promise to provide benefits" directly to the calculated cashflows. The second part of this paragraph rightly recognises that cashflows which have to be paid by the IORP should be included in the technical provisions. There is no basis for the inclusion of cash flows beyond this, in particular not for parts of the "promise" which is not or cannot be delivered by the IORP.<br><br>The scope of the agreement should be different depending on whether the purpose of the HBS exercise is an application for capital requirements or as a risk management tool. While we oppose any application of the HBS, we think that different applications will require differing scopes of the agreement: For an application in capital requirements, the scope should be limited to unconditional elements of the agreement, for an application as risk management tool, a wider scope could be considered.<br><br>We note that more clarity is needed for cases where no risk is transferred from the sponsor to the IORP for example in the case of a "best effort obligation" of the IORP. | |
| 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** | |

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| | **with the IORP)?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>As stated in Q4, the unilateral right of an IORP to terminate the promise applies only in a couple of Member States. The concept behind this question appears to dismiss the fact that it is regularly the employer who makes the pension promise and, for this reason, it is up to the employer to have and exercise unilateral rights. Therefore, a starting point for defining "agreed boundaries" might also be the entitlement from the employer – which means that the employer has to be incorporated as a party.<br><br>It must be possible to include unilateral rights and options agreed upon by the IORP when determining the relevant cashflows. If the rights and options can only be exercised if other stakeholders agree, there should be the option to include them if the agreement of the other stakeholders can be taken as a given.<br><br>In addition, we note that the right to reject additional contributions does not automatically stop the liability to pay benefits – so that point in time cannot be used for setting a 'contract boundary'. Whether contributions fully reflect the risk is dependent on the measure. So it could result in a circular reasoning to base the definition of 'contract boundaries' and then build up a risk measures on that.<br><br>Therefore we think it is more appropriate to recognise cashflows only in respect of benefits accrued to date where some entity/person or combination of parties (IORP, employer, social partners etc.) can terminate or amend the future accrual of benefits. Hence, the key question is whether the contract/agreement/pension promise can be ended or amended – not which party is involved. If so, whatever the procedure is to do so, future benefit accruals/contributions do not need to be considered for the | |

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| | technical provisions.<br><br>If any form of capital requirements were to be included, we suggest that the "scope of agreement" should take into account only benefits accrued to date. Future in- and outgoing cash flows can be taken into account in a risk management tool of a "holistic framework". | |
| Q6 | **Do stakeholders agree with the analysis above of the different ways of liabilities of IORPs arising?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Not entirely. Even if we agree that liabilities of the IORP arise from the employer promising the entitlement of benefits. Note that in the Member States such as the Netherlands, the accrual of benefits is not conditional on the premiums being paid. It is the other way around: benefits are accrued, which should subsequently be serviced by premium payments. Thus, not the contribution payments are recognized in the technical provisions, but the new entitlements in the technical provisions. The corresponding contribution cashflows are added to the unconditional financial assets of the IORP.<br><br>In addition, we note that not all benefits "build up due to the continued service of the member". For example, liabilities can arise from the single event of a person becoming a member of an IORP (e.g. if, immediately on joining, a member is entitled to a lump sum or to a dependant's pension should they die while being a member, and the formula determining this lump sum or pension is independent of the member's length of membership). | |

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| Q7 | **Do stakeholders think that there should be a distinction between incoming cash-flows which are considered as "regular contributions" to finance (the accrual of) benefits on the one hand and sponsor support on the other hand? What is the view of stakeholders regarding the practicality of such a distinction?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Yes.<br><br>The technical provisions should only include incoming cashflows which are already agreed or where the contribution party has a unilateral right to pay these contributions. Also, especially, when there are contributions of the members they could not be included in sponsor support. In order to treat member and employer contributions in a consistent way (often they are linked with each other), there should be the described distinction.<br><br>PensionsEurope notes it is standard practice to distinguish between regular employer contributions and recovery plan payments intended to bring the scheme back to balance over the medium term. However, regarding the practicality of such a distinction, we have several remarks:<br><br>- The definition of 'fully reflect new risks' still needs to be clarified. In the holistic framework the horizon should not be infinite for practicality reasons, and the increasing uncertainty at longer horizons.<br>- In addition, distinction between "regular contributions" and "sponsor support" can be complex and may not be material: for example if the contributions are fixed for a few years, but based on an estimation that they will fully reflect the | |

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| | risks, and by time the estimate and realization start to differ slightly. The question is whether the probability will be taken into account that the contributions are not paid by the sponsor. Furthermore it has to be clarified how to estimate these probabilities? One could also think about the case that if the sponsor is not able to pay the contributions anymore, the business will close and therefore there will be no new benefits?<br><br>For capital requirements we suggest that the "scope of agreement" should only take into account benefits accrued to date. Future in- and outgoing cash flows can be taken into account in a risk management tool of the "holistic framework". Contributions that fully reflect new risks could be excluded from the "scope of agreement" of the "holistic framework". If contributions are not sufficient or too high to cover newly accrued benefits, this could be labelled as 'sponsor support' (negative or positive) and could be separately placed in the holistic framework. | |
| Q8 | **Do stakeholders agree, that, if there was a distinction as described in question Q7, "regular contributions" should be recognised in technical provisions while sponsor support should be treated separately?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Yes.<br><br>But still already agreed payments by the sponsor, for example as part of a recovery plan, can be, depending on their characteristics, part of the technical provisions or own funds. | |
| Q9 | **Do stakeholders agree that payments by the IORP to the sponsor related to a** | |

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| | **surplus of the IORP (in case such payments are allowed for in the scheme) should not be recognised in technical provisions of the IORP? If not, how/where should they be recognized/presented in the holistic balance sheet?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree that payments by the IORP to the sponsor related to a surplus of the IORP should not be recognized in the technical provisions.<br><br>Such payments usually occur when IORPs have high funding levels (for example when there is an excess of assets over the estimated cost of buying out the liabilities through an insurer in the UK). In practice, we note that the scope for transfers from an IORP to a sponsor is quite limited, not least because they frequently involve complex tax charges.<br><br>We would like to note that if payments from the IORP to the sponsor are possible while the IORP is overfunded, then usually it is possible that the sponsor makes additional payments to the IORP in case of underfunding. Then this should also be taken into account and will result in a positive asset value. | |
| Q10 | **Are stakeholders aware of cases in which there would be an obligation of the IORP to pay out benefits without having received any contributions/payments to finance those benefits (e.g. because the obligation is constituted by social and labour law)? If yes, please describe.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative* | |

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| | *impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We note also rare cases may occur by high level jurisdiction, for instance by ECJ rulings on gender equal treatment. | |
| Q11 | **Do stakeholders believe that the contract boundaries could be defined based on future benefit payments rather than contribution or premiums?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>The answer to Q11 heavily depends on the type of contribution / benefit system, as well as on how closely those contributing to the scheme (employers and employees) are involved in the scheme. Which elements -agreed contributions and/or accrual of benefits- are relevant for the liabilities arising for the IORP is highly dependent on the type of entitlement and type of IORP as well on the national labour and social law. Therefore this definition should be left to the Member States.<br><br>For instance in the Dutch case, the response would be yes, future benefit payments are the relevant element for the scope of the agreement. Not contribution payments but new entitlements are recognized in the technical provision.<br><br>For Belgium, the definition might be workable if referring to future accrual of benefits rather than benefit payments as such, contributions or premiums.<br><br>However, in the German case, a concept which does not also consider the agreed | |

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| | contributions cannot work. | |
| Q12 | **Do stakeholders have any general comments on the above section?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Even if we understand EIOPA's intent, the basic concepts in this section do not fit occupational pensions. In addition, definitions and descriptions are not clear enough and of sufficient depth.<br><br>For the purposes of valuation of the cashflows using risk-neutral valuation, 'probabilities' as we usually think of them are not relevant. In a risk-neutral scenario set, the scenarios are not calibrated to real-world probabilities. Therefore, the resulting option values cannot be interpreted as the 'expected amount of sponsor support' or 'the expected amount of conditional indexation'. | |
| Q13 | **Do stakeholders have any general comments on the above section?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>From our perspective it makes sense to include only unconditional benefits in a risk assessment, in particular if stakeholders have the option to avoid future surplus to avoid an increase in liabilities. Potentially awarded surpluses will be gradually taken | |

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| | into account if these calculations are updated on an annual basis.<br><br>The complexity of calculations which include future, non-fixed non-unconditional benefits leads to only a few benefits compared to the costs and efforts involved, in particular for many small IORPs. In addition, we doubt that many insights can be gleaned from these calculations, because they are unlikely to be transparent and comprehensible to members and/or beneficiaries.<br><br>For capital requirement purposes – if any -, the scope of the agreement should be limited to unconditional benefits accrued to date. For risk management purposes, non-unconditional benefits can be included. Note that for example indexation can be conditional, even if contributions to finance indexation are made. If the purpose is to apply the HBS as a risk management tool, the conditional indexation should not be part of the technical provisions but the means for this indexation should be identified on the HBS separately. | |
| Q14 | **Do stakeholders think that the above definition of contract boundaries for IORPs is in line with the general idea that cash-flows should be recognised if and only if they lead to risks building up in the IORP as described in section 4.2.4 (all those cash-flows should be in technical provisions; no cash-flows where all risks could be avoided should be in technical provisions)?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Yes, the cashflows only should be recognised if they lead to an unalterable risk. However, we warn this would not fit all situations: For example in Belgium where the IORP has a "best effort" obligation to fulfill the promise but where the risk is borne ultimately by the sponsor, "risk buiding up to the IORP" is difficult to interpret. | |

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| | We understand that the given definition fits our positon to only include cashflows, which are based on agreements which the IORP agreed to manage/execute. This also includes the option of the IORP and other stakeholders to avoid future non-unconditional benefits in order to reduce risk.<br><br>Generally it is not quite clear whether the definition would apply on a single member basis or would be applied collectively. This would need clarification. | |
| Q15 | **In case more/higher cash-flows than appropriate (compared with the general idea) are included in technical provisions according to this definition, how should the definition be amended to exclude them?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We are of the opinion that this depends on whether the scope of the agreement is defined for a capital requirement or an application as risk management tool.<br><br>We think one item missing from the definition proposed is the reference to unilateral rights of another party (the sponsor in most of the cases) to terminate the accrual of benefits. | |
| Q16 | **In case not all cash-flows which lead to risk building up in the IORP, as explained in section 4.2.4, are included, with which wording could they be included?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative* | |

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| | *impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope notes that the notion of "risk building up in the IORP" is not applicable for some IORPs. As noted before, Belgian IORPs only have a "best effort" engagement whereby all risks stay with the sponsor. From paragraphs 4.26 to 4.28 we learn that we should replace "risks building up in the IORP" by "the IORP to provide for benefit payments" where the corresponding risks of the benefit promise are borne by the sponsor. Again it is not because the IORP (unilaterally) decides to stop providing the benefit payments that the benefit promise as such is stopped: This could mean the sponsor needs to look for another pension vehicle. Please note as in the Belgian context, the IORP is a pension vehicle set up and often also controlled by the sponsor, the decision that the IORP will no longer provide the benefit payments is a theoretical scenario which will hardly happen in practice. Managing/organizing/executing benefits might be more appropriate wording. | |
| Q17 | **Is the wording of the definition appropriate for IORPs?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Again, we think the wording should be extended to capture at least the rights of other parties and therefore better reflect the triangular relationship between the IORP, the sponsor and the members/beneficiaries. In the end, the key question is whether the contract/agreement/promise can be ended/amended or not.<br><br>We think that it might be generally possible to work with the given definition; | |

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| | however, there might be problems with the boundaries of the definition in individual cases. The delivery of occupational pensions is too diverse for a conclusive assessment.<br><br>For capital requirement purposes –if any-, the scope of the agreement should be limited to unconditional benefits accrued to date. For risk management purposes, other cashflows could be included in the definition of the scope of the agreement.<br><br>Finally, "contract boundaries" is not the most appropriate term (see Q1). | |
| Q18 | **Is it necessary to have both 2. a. and b. in the above definition, or could a. be restricted to cases where a termination of the agreement leads to a stop of additional contributions and/or the repayment of contributions received/payment of a surrender value (and then maybe a. and b. could be combined)?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Both a) and b) should be included, as situations could arise where the agreement is not terminated, but no more new benefits are accrued. We favor a slightly longer but comprehensible and clear definition over a short one which is ambiguous. | |
| Q19 | **Are there additional rights of the IORP or another party (unilateral or not) which should be considered in the definition (see section 4.2.4)?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at* | |

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| | *European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>As previously stressed, the definition should also consider the unilateral right of the sponsor, or the unilateral right of the trustees (or their joint exercise) or the IORP to terminate the promise. In the end, the key question is whether the contract/agreement/promise can be ended/amended or not.<br><br>Moreover, for example regarding the mentioned non-unconditional benefits, it should be considered that if there is a consensus among all stakeholders, they can be avoided with the aim of reducing risk. | |
| Q20 | **Is it clear from the proposed wording of the definition that in principle not only benefits (out-going cash-flows), but also contributions (incoming cash-flows) have to be recognized in technical provisions?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>This is not obvious in definition b). Technical provisions should be based on benefit obligations only in case these are established independently from the contributions paid. | |
| Q21 | **Are the cases described in parts a) and b) of the definition clearly distinguishable in practice?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative* | |

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| | *impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We cannot make a final assessment at the current point in time. However generally the definition seems workable. | |
| Q22 | **Are the conditions mentioned above for making unilateral rights of the sponsor part of the definition of contract boundaries sufficient, or should further conditions be included? How could those rights and conditions be merged into the proposed definition of contract boundaries?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>If there are unilateral rights of the sponsor which have implications for the risk carried by the IORP, it should be possible to consider these rights adequately. In the end, the key question is whether the contract/agreement/promise can be ended/amended or not. | |
| Q23 | **Do stakeholders agree that the proposed adapted definition of contract boundaries for IORPs (above) leads to the results described in this section? If not, please explain.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help* | |

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| | *EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Unclear terms should not be used. We understand the term « pension promise » as it is used in this Chapter to refer to the obligation the IORP has towards the members based on the existing contractual relationship between the IORP and the employees. Under this assumption we understand the examples.<br><br>We would like to stress explicitly that we do not take the term « pension promise », as used in this Chapter, to encompass all obligations which the employer has towards the employee within the occupational pension framework, which also includes obligations stemming from social and labour law, and which are not addressed through the IORP.<br><br>Example 8 is the closest to the typical situation in the UK and Ireland but it would be the sponsor acting unilaterally (or together with the IORP) that would most likely terminate the promise. Example 7 (and 8) shows daily practice in the Netherlands: only accrued nominal benefits for which the IORP receives a single contribution have to be recognised in the technical provisions.<br><br>Example 8 is the closest to the Belgian situation although the IORP has a unilateral right to end the "management agreement" of the promise, it will not be the IORP but the sponsor and/or social partners or members and beneficiaries to amend/terminate the benefit promise. | |
| Q24 | **Do stakeholders consider the above definitions workable? If not, please explain why not and how you would suggest to improve the definition(s).**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.* | |

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| | Yes. Although clear definitions are somewhat difficult to recognise, we do think that the concepts contained in the introduction are workable. However, in practice it may still be difficult to categorise existing practices as they may contain elements of more than one class of the identified decision-making mechanisms.<br><br>Furthermore, we do not see the need to distinguish between « discretionary » and « mixed ». Why does the existence of an explicit or implicit policy matter ? From a risk perspective a restriction to pure discretionary benefits seems sufficient, because employees will expect those benefits. Other discretionary benefits seem too uncertain. Modelling and calculating them would bring large uncertainties, which would worsen the transparency and comprehensibility of the results. | |
| Q25 | **Do stakeholders have any general comments on the above section?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No. | |
| Q26 | **Would it be possible, in the views of stakeholders, to properly quantify the relation between the funding position of the IORP and elements of discretionary decision-making (the pattern) in order to take the pattern into account in the valuation process? If so, how?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help* | |

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| | *EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We fear in practice this is too complicated in particular for small and medium sized IORPs.<br><br>In the Netherlands, agreements should provide for patterns of decision-making in view of the changing funding position, however with a well-argued derogation through discretionary decision-making at all times. | |
| Q27 | **Do stakeholders agree that IORPs need to produce a best estimate of expected future payments (under different scenarios), if pure discretionary benefits were to be recognised in a holistic balance sheet? If not, what alternative would you suggest?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree that IORPs need to produce a best estimate of expected future payments, if pure discretionary benefits were to be recognised in a holistic balance sheet. However we doubt that it is possible to conduct reliable and robust calculations regarding these future uncertain benefits, which are based in complex decision processes. This is particularly the case if it is necessary to consider several scenarios (how many? which weighting?) for which there might be no precedent cases. Too much complexity reduces comprehensibility as well as the clarity of the results. In practice we fear this is too complicated for small and medium sized IORPs.<br><br>From a principal point of view we are of the opinion that pure discretionary benefits should not be recognised in the HBS. | |

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| Q28 | **Do stakeholders agree that IORPs need to produce a best estimate of expected future payments (under different scenarios), if mixed benefits were to be recognised in a holistic balance sheet? If not, what alternative would you suggest?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree that, if mixed benefits were to be recognised in a HBS, IORPs need to produce a best estimate of expected future payments, but we foresee that this will be very difficult or even impossible in particular for small and medium sized IORPs. | |
| Q29 | **Do stakeholders agree that IORPs need to produce a best estimate of expected future sponsor payments (under different scenarios), if non-legally enforceable sponsor support was to be included on the holistic balance sheet? If not, what alternative would you suggest?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree that IORPs need to produce a best estimate of expected future sponsor payments if non-legally enforceable sponsor support were to be included on the holistic balance sheet. It must be possible to use reliable (i.e. legally and/or contractually enforceable) support instruments if they are sufficient and necessary. | |

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| | Reliable and therefore (legally and/or non-legally) enforceable support instruments are for us a key characteristic of occupational pensions organised by the social partners.<br><br>Finally, we think that it will be very difficult or even impossible for small and medium sized IORPs to produce such an estimate. | |
| Q30 | **Do stakeholders agree that these are the two options for valuing off-balance capital instruments? If not, what alternative options would you suggest?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree that these Options 1 and 2 are the two options for valuing off-balance capital instruments. | |
| Q31 | **Which option do you support? Please explain why you support this option.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope notes that both of these options could be supported, as this would reflect the specificities of different occupational pension systems in the various EU Member States.<br><br>Option 1 could be supported due to its simplicity. | |

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| | Option 2 could be supported because this option has as (in our view correct) starting point that off-balance sheet instruments are in practice in particular used in situations of underfunding of an IORP, and that for these situations the cashflows related to such instruments should be checked against the availability of such instruments at that point in time. Nevertheless this option seems too complex. | |
| Q32 | **Do stakeholders agree that surplus funds should be valued for their nominal value? If not, how would you suggest to value surplus funds?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree that surplus funds should be valued for their nominal value. | |
| Q33 | **Do stakeholders agree that these are the three options for valuing subordinated loans? If not, what alternative options would you suggest?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree that the Options 1, 2 and 3 are the options for valuing subordinated loans. | |

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| Q34 | **Which option do you support? Please explain why you support this option.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope notes that both of these options could be supported, as this would reflect the specificities of different occupational pension systems in the various EU Member States.<br><br>Option 1 could be supported due to its simplicity.<br><br>Option 2 could be seen as a theoretically good approach although it looks too extensive and therefore potientially leading to unreliable results.<br><br>Finally option 3 could be supported because this option has as (in our view correct) starting point that subordinated loans are in practice typically repaid when they are (due to the funding position of the IORP) not needed anymore to cover the liabilities and capital requirements of this IORP. | |
| Q35 | **Do stakeholders agree with these two approaches to valuing benefit reduction mechanisms? If not, what alternatives or amendments would you suggest?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.* | |

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| | In case of an unlimited benefit reduction mechanism we agree with the conclusion that it generates the ultimate mechanism for the IORP's sustainability and should be valued as balancing item.<br><br>Applying the balancing item approach or the direct approach should be determined by the kind of benefit reduction available. We suggest to use a kind of direct approach that differs from the one provided in the consultation in cases of a "restricted" benefit reduction mechanism such as the UK's Pension Protection Fund system which allows benefit reductions, subject to certain constraints: For most scheme members the PPF pays compensation of 90 per-cent of the benefits that would have been received from the scheme, although the existence of a compensation cap means that the percentage compensation is lower for high earners. If contract/bylaws or national law and other regulations allow for a benefit reduction but restrict that to a certain amount, this mechanism should be recognized directly up to its legal or regulatory limits. There should be no use of probability or predictability based on past policies within this approach.<br><br>As provided in our answers concerning sponsor support and pension protection schemes, the consultation paper and therefore the whole HBS concept lacks convincing and workable answers concerning these two items of the HBS. This hampers the valuation process: either the valuation will be a very costly process or will be impossible to implement. Compelling IORPs to run through the whole valuation process although with a benefit reduction mechanism they provide of an enforceable and easy to calculating balancing item cannot be in the interest of members and beneficiaries.<br><br>Another idea to deal with multiple balancing items could be: As soon as more than one of the three potential items (sponsor support, pension protection scheme or benefit reduction mechanisms) are recognised as balancing items, they could be combined into one value. | |

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| 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?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>First of all, PensionsEurope commends EIOPA for responding in this way to the concerns raised in previous rounds of consultation. Sponsor support and its valuation has been a very sensible issue throughout the previous consultations and the QIS and is a core aspect of occupational pensions.<br><br>We agree that the specifics of the market consistent calculation of sponsor support should be left to Member States and IORPs to implement as appropriate and as specific as possible with regard to their own circumstances. This would allow full recognition of the many differences between Member States' pension systems and would, therefore, result in a more robust policy outcome. It would also allow full recognition of the impossibility of putting a single numerical value on sponsor support, the assessment of which always involves a degree of judgement.<br><br>This approach would enable to find suitable solutions for valuation of this mechanism under consideration of the different types of sponsors and how sponsor support is organized and legally regulated (in SLL) within each Member State. A "one-size-fits-all" approach that does not fit accurately for none of the existing variants should not be applied.<br><br>In addition, PensionsEurope underlines that sponsor support should be considered in a regulatory framework. Thus – if the HBS were to be introduced - the proportionality principle including the balancing item approach for the use of sponsor support in | |

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| | combination with PwC's "M" approach for assessing sponsor's strength should be part of this principle-based approach. However, this alternative approach should not require calculating the HBS (for the "M" approach this is needed), but rather rely on a simpler measure (e.g. technical provisions). | |
| Q37 | **Do stakeholders agree with the overarching principle that the valuation of sponsor support should be market consistent? If not, what principle(s) would you suggest?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope is still of the opinion that the concept of the HBS is unsuitable for IORPs. Generally, we reject the notion that assets and liabilities should be valued mark-to-market given the long term nature of pensions and the inadequate short-termism that mark-to-market valuation may induce (see i.e. Q85 for more details).<br><br>However we agree that the overarching principle of the valuation of sponsor support should be market consistent in the sense that we think it is adequate to use market data where available to account for the ability of the sponsor to pay, especially in cases where sponsor support may be used in tandem with other security mechanisms, such as benefit reductions.<br><br>We want to underline that the proposed balancing item approach (BIA) in this sense is in general market consistent (see also EIOPA 4.3) and should be accompagnied with a model which is similarly simple as the PwC model ("M" approach). | |
| Q38 | **Do stakeholders agree that in order to achieve this market consistent valuation, the expected cash flows required by the IORP should be valued** | |

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| | **allowing for affordability and credit risk of the sponsor? If not, what approach(es) would you suggest?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree that some allowance could be made for affordability and credit risk as they are important components of sponsor support.<br><br>However, such explicit approach raises significant practical problems as already discussed with respect to the IORP QIS and the sponsor support discussion paper in 2013. We stress that it is difficult to get a good view on the credit risk of the sponsor in many cases (the main example being when the sponsor is not rated). Apart from that, the enforcement of the sponsor commitment may also depend on the reported strength of the sponsor. Likewise it is not clear what principle should be used for the allowance for credit risk and affordability in case of multi employer IORPs and multi IORP sponsors: In those cases, the law of large numbers tells us that the average of the results obtained from a large number of trials should be close to the expected value, and will tend to become closer as more trials are performed. As such it seems strange to rely on a value of sponsor support knowing that the figure is obtained by applying the credit risk on one single sponsor only. Furthermore the credit risk is often based on incomplete data. This seems to generate an artificial number giving no guarantee that the actual value will be close to the expected value. This approach only makes sense if it is used as a draft risk indicator and not as an accurate value as such.<br><br>When possible, our suggestion would be to determine the sponsor support by default as the balancing item and to assess the sustainability/affordability afterwards either by use of an accurate valuation or by applying a simplified approach like for instance by use of PwC's suggestion to use "M" times the sponsor's strength. Given that the BIA is | |

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| | only allowed for if the strength of the sponsor is checked the affordability of payments and the credit risk of the sponsor are (implicitly) considered. Thus the BIA in combination with a model which is similarly simple as the PwC model ("M" approach) could be potentially used. It should be very clear that the approach above all needs to be simple and proportionate. | |
| Q39 | **What is the general view of stakeholders with regard to sponsor support as a balancing item?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope supports the proposal of allowing sponsors that meet the 'proportionality principle' criteria to use sponsor support as a balancing item in combination with a model which is similarly simple as the PwC model ("M" approach) could potentially be used. For these schemes, the complexity and the costs implied by calculating the Holistic Balance Sheet would be significantly reduced. The BIA is practical to use in many circumstances, is market consistent and reflects the essential notion of the function of sponsor support as a flexible asset to call upon when needed. If the sponsor (or other security mechanisms) is reliable the BIA should be used to value sponsor support.<br><br>Ideally, PensionsEurope would urge EIOPA to go further and allow, when possible, the use of sponsor support as a balancing item to be the default approach i.e the starting point of any valuation for all schemes in the holistic framework.<br><br>If EIOPA does not take this default approach, then the use of sponsor support as a balancing item is likely to be of greatest use to the larger schemes that have the resources to carry out the work required to demonstrate that they meet the criteria | |

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| | (as defined by Principles 1 to 3). Other schemes, however, would still face a very demanding task in valuing sponsor support. Given that these are likely to be the weaker schemes, it will be important to keep the process as simple and low-cost as possible.<br><br>We suggest – if the HBS were to be introduced at all – that a strong sponsor proven by the PwC criteria or a multi-employer-scheme IORP should make up a case for the exemption from explicitly setting up a holistic balance sheet or measuring risk-based solvency capital requirements. At least significant easements of these regulatory concepts would be appropriate.<br><br>The rationale is that in the cases of the application of the BIA, the strength of the security mechanisms / sponsor support is actually proven and thus market consistent valuation of assets and liabilities (incl. using the risk free interest rates) is not needed anymore because the BIA is a flexible asset that fills any gap if needed. So this approach would simply think out consequently the concept of the BIA which is also described by EIOPA (see 4.114.): *"In some circumstances the strength of the sponsor may be sufficient so that a detailed approach to valuing that unlimited sponsor support may be disproportionate. In addition, the set up and legal structure of IORPs may mean that the valuation is unnecessary and does not provide useful information to the IORP and/or supervisor. In these circumstances, IORPs could follow the balancing item approach such that the value of sponsor support is simply the required amount to balance the holistic balance sheet."* | |
| Q40 | **Which conditions should apply for sponsor support to be treated as a balancing item?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.* | |

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| | PensionsEurope anticipates the principles to be used will be different among the Member States. That is why national supervisory authorities should be allowed to decide which conditions are required for sponsor support to be used as a balancing item. Therefore the BIA should be as flexible as possible.<br><br>We also welcome the concept of the balancing item in combination with the simplified and heuristic check of sponsor strength by using principle 2 (model which is similarly simple as the PwC's "M" approach). We think this approach is practicable and efficient to implement for a broad range of sponsors especially with respect to using total wages as proxy for not-for-profit sponsors (public sector, charities, etc.) that do not have values like market capitalization or other suitable financial metrics (4.127, 4.200 and the rationale in 4.229). The value for M would be arbitrary but any value under "2" would not make sense.<br><br>Nevertheless, we are critical with respect to the requirement that IORP shall demonstrate that default rate of the sponsor (4.124) or PwC's M value of the sponsor (see 4.131) is likely to be stable over time. It is really questionable how IORPs could practically fulfill this requirement given that even professional rating agencies have to adjust their ratings from time to time. | |
| Q41 | **Are there other cases beyond the cases mentioned above in which sponsor support could be treated as a balancing item?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>With respect to the use of the balancing item approach for valuing sponsor support we additionally suggest that multi employer schemes (MES) with large number of | |

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| | employers, legally enforceable sponsor support and joint financing should automatically qualify for applying the balancing item approach without explicitly assessing the strength of the sponsors (in addition to the listing in no. 4.4 of the consultation document). The rationale for this is that MES with a sufficient number of employers and joint financing could be seen as a means of collective pooling of default risk of individual sponsors – in analogy to the suggestions of EIOPA regarding pension protection schemes in 4.248 of the consultation paper.<br><br>Furthermore, EIOPA should also take into account some national specificities. For example we note the fact that several major UK pension schemes benefit from Crown Guarantees. This extra element of covenant strength should provide a further 'principle' or 'condition' that would warrant the use of sponsor support as a balancing item. Schemes in this position include the BT Pension Scheme, the Mineworkers' Pension Scheme and the BAE Systems Pension Scheme.<br><br>Finally we believe other situations such as parent company guarantee or governmental guarantee might justify using sponsor support as a balancing item. | |
| Q42 | **Do stakeholders have a view as to what value of M would be appropriate?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Again we would in general welcome the introduction of the "balancing item approach" (BIA) in combination with a model which is similarly simple as the PwC model ("M" approach). Any value for M that is generally applied for all IORPs that use the balancing item approach is arbitrary. We deem more detailed analysis is required in order to establish an appropriate value for M. A sponsor with a large value is not necessarily able to actually pay up the value of the deficit. It is difficult to get a good | |

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| | view on the creditworthiness of a sponsor that is not rated. For this case we support the idea to use the total wages as a proxy for the affordabilty assessment. | |
| 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?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Yes, pension protection schemes should definitely be considered either via backing up sponsor support as balancing item or directly as balancing item on the HBS.<br><br>The default position should be that sponsor support is used as a balancing item. Only if the sponsor were not strong enough to support the scheme would factors such as the existence of a pension protection scheme come into play. If EIOPA choses not to go down this default route, then the pension protection schemes could be considered as impacting on sponsor support and used as a balancing item as proposed in Principle 3. | |
| 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?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at* | |

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| | *European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We believe that the details of the calculation of PPS should be left to Member States and IORPs to implement as appropriate and as specific as possible with regard to their own circumstances. The use of a balancing item approach in case of a PPS should be justified properly and in a transparent manner. | |
| Q45 | **Do stakeholders believe that it is appropriate that where a pension protection scheme is used as the balancing item, a separate minimum level of funding with financial assets and/or sponsor support should be required?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No.<br><br>In case of a strong sponsor or a sponsor backed by a pension protection scheme the pension promise should be seen as safeguarded. That is just the rationale for treating these security mechanisms as balancing items. Thus a separate minimum level of funding with financial assets should not be required as long as the PPS is strong enough to guarantee the benefits. If the PPS does not guarantee full benefits, then the combination of the PPS and the necessary benefits reductions is the balancing item. | |
| Q46 | **Do stakeholders agree that technical specifications should allow for a principles-based, IORP specific valuation of sponsor support? Please explain.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the* | |

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| | *initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope supports the principles-based IORP specific valuation of the sponsor support. The specificities of calculating the sponsor support should be left to the discretion of the Member States and of IORPs providing them with the possibility to implement it appropriately and according to their own circumstances. This enables to cover a broad range of different types of IORPs and sponsors as well as country specific differences and to find suitable solutions. We highlight that the principles themselves should be very high-level and left to national regulators to determine.<br><br>As emphasized by PensionsEurope (and shown from the QIS) in the previous rounds of consultations, a "one-size-fits-all" rules-based valuation would be too complex for incorporating all specificities of all IORPs in the EU and would require the competent authority or EIOPA having to prescribe a risk-neutral valuation set including assumptions for the modelling of options (like one or two parameter Hull-White model) and parameters and information on incomplete markets (like market prices for long horizons, standard deviations and correlations and missing markets (e.g. the prices for wage inflation)).<br><br>Although EIOPA is right to note that the probabilistic approach might not appeal to smaller IORPs, on the other side, large and / or complex IORPs (including multi-employer schemes) are likely to welcome the opportunity to use an approach that takes full account of their own particular circumstances.<br><br>In addition further deterministic simplifications by Member States to consider national circumstances should be allowed for. A stochastic modelling or explicit cash-flow-modeling should not be compulsory. | |
| Q47 | **In what areas of valuation of sponsor support would it be most useful for** | |

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| | **EIOPA to specify guidance? Please explain and describe the possible contents of such guidance.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We believe the national control authorities are best placed to provide guidance about the ranking of the different balancing item approaches, the proportionality principles, further assessment of sponsor support, etc.<br><br>We would welcome more guidance from EIOPA on the allowance for credit risk in the calculation of sponsor support under the stochastic modelling approach. In addition, it is not clear what principle should be used for the allowance of credit risk and affordability in case of multi employer IORPs and multi IORP sponsors. | |
| Q48 | **Are there any other issues in relation to stochastic models, which you believe should be covered?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Yes we would welcome advices on the calculation of the maximum sponsor support under the stochastic modelling approach.<br><br>The major issues with regard to this approach are: | |

1. The projection horizon
2. The application of a UFR
3. Unobservable parameters (like (wage) inflation, volatilities and correlations)
4. Model/parameter sensitivity

The value of the steering mechanisms depends substantially on the evaluation horizon chosen in the valuation. Some Dutch IORPs participating in the IORP QIS 1 that used a risk neutral valuation used a projection horizon of 100 years, whereas others used a horizon equal to the duration of the liabilities. This results in a situation in which the HBSs for the different IORPs are not comparable, as IORPs automatically raise the absorption of shocks on the HBS by increasing the projection horizon.

In general, we agree with the use of the UFR approach, while noting that its application conflicts with the principles of pure market consistent valuation. As the value of the embedded options in a pension agreement cannot be derived from market prices, risk neutral scenarios need to be determined based on a risk free nominal interest rate curve. This curve can be observed in the financial markets, but does not include any UFR. By overwriting market prices by applying an UFR approach, one changes for instance the value of nominal liabilities. Another issue with the UFR is that it is impossible to calculate the impact of interest rate shocks properly.

For some economic variables that are used in the valuation of the HBS there is no market information available or the financial markets are not liquid enough to provide reliable prices. For these variables, such as (wage) inflation, volatilities and correlations, IORPs need to set an assumption, which leads to possible differences in the valuation of the HBS between IORPs.

But even if all market information is available, IORPs can select from a wide range of risk neutral valuation models. Some financial institutions define tailored models to price a very specific derivative. This can be illustrated by the fact that the models that banks use for pricing interest rate caps differ from the models for pricing swaptions, whereas both derivatives are subject to the same interest rate risk. Tailored models

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| | make calibration easier and are therefore believed to make pricing more accurate. When the payoffs of a claim depend on several economic variables such as interest rates, inflation and equity returns, these variables need to be incorporated. One then arrives at more broadly defined models. In this case more model risk is present when valuation is done for products that are dissimilar to the ones that have been used for calibration.<br><br>Apart from these issues the use of the stochastic modelling approach should be encouraged by the implication that in this approach the capital requirements are lower in comparison to using simplified methods. This may not always be the case.<br><br>Finally, PensionsEurope emphasizes using stochastic modelling should remain voluntary. | |
| Q49 | **Do stakeholders believe that this approach is a suitable simplified method for determining sponsor support? In what circumstances is it appropriate? In what circumstances might it not be appropriate?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Generally, we do not consider further QIS work necessary (see General Comments). However, given the announced QIS in 2015, the considered simplifications should be kept. It is crucial that any simplification is viable for IORPs and that there are escape clauses so that special schemes do not have to apply the simplification at all cost.<br><br>Simplification 1 is based on the assumption that the distributions of assets and liabilities are symmetrically spread, while in practice these are not. This is especially the case for IORPs that use benefit reductions as a security mechanism. | |

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| | We note that the required input data (see 4.173) cannot realistically be raised for many sponsors (i.e. default probabilities, some of the correlations or the maximum sponsor support if not PwC's "M" approach is used). This approach is especially not adequate for multi employer schemes (MES) / industry wide IORPs where the problems of input data are even greater (see also Q51). | |
| 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?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>The QIS simplification 1 can be used by IORPs that do not use other security mechanisms than additional sponsor support in case of underfunding. EIOPA can encourage this method by providing more guidance on how to derive the probability of default and maximum sponsor support, as some shareholders provided EIOPA with the feedback that they were not able to derive these assumptions that are input for this simplification.<br><br>Also an approach to capture probabilities of default and maximum sponsor support for more complex IORPs' structures is missing. | |
| Q51 | **Do stakeholders believe that this approach is a suitable simplified method for determining sponsor support? In what circumstances is it appropriate? In what circumstances might it not be appropriate?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the* | |

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| | *initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Generally, we do not consider further QIS work necessary (see General Comments). However, given the announced QIS in 2015, the considered simplifications should be kept.<br><br>We note that the QIS simplification 2 is only considering the current situation of underfunding in the valuation; the possible future situations of underfunding are not taken into account. Therefore the market consistency of this valuation might be questionable.<br><br>It is crucial that any simplification is viable for IORPs and that there are escape clauses so that special schemes do not have to follow the simplification. Regarding Simplification 1 and 2, for example MES / industry-wide IORPs are often not able to assess the sponsor support data in an appropriate way. They need more simplifications like macro-economic data and / or pars-pro-toto calculations or sampling. Further simplifications should therefore be developed in order to reflect the heterogeneous nature of IORPs regarding available resources and know-how. However, "over engineering" of the simplification should be avoided. The applied assumptions must be stated more clearly. The simplifications according to HBS 6.36 of the technical specifications for the QIS should remain applicable. We therefore suggest keeping the simplifications of the last QIS.<br><br>Finally, we emphasize that an IORP with a funding ratio above 100% should not be forced to use these approaches since they are not suitable for a fully funded situation. Overall, we think that legally binding, unlimited sponsor support should entail a positive value regardless of the current funding situation. | |
| Q52 | **As EIOPA has provided a model for IORPs to derive a value using this** | |

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| | **specification as long as they provide the above input data, what more should EIOPA do to encourage use of this approach, where appropriate?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>EIOPA could work on solutions for cases where data on credit ratings, default probabilities, affordability are not easily available and/or totally missing. | |
| Q53 | **Do stakeholders believe that this approach is a suitable simplified method for determining sponsor support? In what circumstances is it appropriate? In what circumstances might it not be appropriate?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>From the consultation paper we understand that the simplified B&H model does take future shortfalls into account (see 4.245). This model is not in line with the overarching principle that market consistent valuation methods should be used. Therefore it is not appropriate.<br><br>Furthermore, we want to stress that no stochastic modeling should be compulsory for IORPs as it is complex and it has not yet been proven that stochastic approaches are better in principle. This also holds for the suggested Barrie & Hibbert variants even if the simplified method is less complex and deterministic aspects are involved. | |

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| | Deterministic approaches (even simplified) should not be seen as "lower-quality" alternatives, but also first choices in their own right. Each IORP needs to be able to decide whether they use the stochastic or simplified calculations. No IORP should be forced to use the stochastic model. Even if guidance was provided, the costs for IORPs will be high and we do not believe that many IORPs have enough resources to do stochastic valuations. EIOPA therefore should also work on developing a deterministic approach which works for IORPs in terms of size, practicability and comprehensibility.<br><br>Overall, we consider it best to leave it at the IORP's discretion to decide whether the value added by stochastic or internal models justifies the resources dedicated to the development of such models. | |
| Q54 | **Should EIOPA produce spreadsheets to enable IORPs to use this simplification?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We are of the opinion that within the principle-based framework of the valuation, EIOPA should transfer the specifications to the Member States.<br><br>Nonetheless if the B&H approaches would be included, EIOPA could help developing spreadsheets. | |
| Q55 | **Do stakeholders believe that this approach is a suitable method for determining sponsor support? In what circumstances is it appropriate? In what circumstances is it not appropriate?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the* | |

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| | *initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>The ASA model does not take future shortfalls into account. This model is not in line with the overarching principle that market consistent valuation methods should be used. However, we support the simplification in this method with regard to the derivation of the credit risk of the sponsor.<br><br>In general the ASA could be useful for the standard case with a medium sized sponsor with one IORP, and addresses the problems for unrated IORPs. Generally the credit ratio method seems less sound compared to standard credit ratings as ratings are based on much more information and thus supposedly provide a more reliable estimate for a sponsor's probability of default.<br><br>However PensionsEurope warns it is still not obvious how to deal with "non-standard" scenarios where a sponsor supports more than one IORP; where a single IORP has several sponsors or where sponsors are non-corporate. For these cases the ASA is not practical or adequate as EIOPA did not suggests changes. If the suggested proportionality principle and the use of the balancing item does not apply the ASA still seems to be very complex or inadequate, in particular for small IORPs, MES or IORPs with non-corporate sponsors (see also Q62 to 68). Thus further work in a number of areas needs to be done for the general applicability of the ASA. Also further work is necessary in order to avoid cliff effect.<br><br>Our main concerns are:<br><br>• Generalisation: not really simpler and not adequate, particularly for MES. The problem of unrated companies has been addressed, but other central problems have not been solved. | |

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| | • Where do the parameters for the calculations come from?<br>• Data requirements: difficult, particularly for MES<br>• Sponsor support and insolvency protection<br><br>We oppose the introduction of any new data requirements. However, if any new data requirements were to be introduced at all, this should only be done for the future, because in the past the necessary data was not collected. Some aspects of the method still need further explanation or elaboration or otherwise seem very arbitrary (e.g. Tables 4 and 6 in EIOPA's sponsor support discussion paper 2013). We also point out that large IORPs should also be allowed to use the simplified approach.<br><br>As EIOPA indicates the comparability of the ASA with other approaches is questionable (4.244) showing that values for sponsor support deviate systematically.<br><br>Finally, we emphasize that an IORP with a funding ratio above 100% should not be forced to use these approaches since they are not suitable for a fully funded situation. Overall, we think that legally binding, unlimited sponsor support should entail a positive value regardless of the current funding situation. | |
| Q56 | **Do the proposed adaptations to this option overcome the criticisms? Should EIOPA produce spreadsheets to enable IORPs to use this simplification?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No, we do not see that any adaptions have been made with respect to the problems mentioned in Q55. The suggested balancing item approach (especially PwC's "M" | |

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| | approach to assessing sponsors strength) is helpful only when applicable, but that does not help in cases where the criteria are not fulfilled and the proportionality principle thus not qualifies: In this case a concrete valuation using one of the 5 principles-based approaches (incl. the ASA) has to be applied (see 4.200).<br><br>No, EIOPA should not produce spreadsheets to enable IORPs to use this simplification. | |
| Q57 | **Do stakeholders agree that a simplified one-size-fits-all approach for the calculation of maximum sponsor support is not possible and so the best approach is the proposed principles-based approach for including sponsor affordability? If not, please explain.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Yes, PensionsEurope agrees that a simplified "one-size-fits-all" approach is not possible, particularly for large or complex IORPs. A principles-based-approach enables to cover a broad range of different types of IORPs and sponsors as well as country specific differences and to find suitable solutions. Thus the regulatory specifics should be set by Member States including a variety of equivalent approaches and leaving it up to the IORP to decide which approach to choose (including particularly the balancing item approach). In addition further deterministic simplifications by Member State to consider national circumstances should be allowed for.<br><br>The principles-based approach, however, appears to make an arbitrary choice of an approach based on the relationship between the value of the sponsor and certain multiples of sponsor support. This is not adequately justified in the consultation paper.<br><br>PensionsEurope notes that the suggestion (para 4.189) that the balancing item | |

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| | approach would require 'additional prudential requirements' seems odd, as this would effectively penalise schemes for enjoying robust financing and support. No details are given on what the additional prudential requirements would be; EIOPA should make this clear. | |
| Q58 | **In respect of a further quantitative impact assessment, would stakeholders like EIOPA to define the parameters to use for maximum sponsor support? If yes, how could EIOPA improve the approach set out in the previous QIS?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No, we believe that the specifics of the calculation of the maximum sponsor support should be left to the discretion of the Member States and to IORPs in order to implement it as appropriately and as specifically as possible according to their own circumstances.<br><br>We agree with the procedure suggested by EIOPA in 4.199 in that sense that as a 1st step sponsor support should be checked (for example with a model as simple as PwC's "M" criteria) for sponsor strength. If the sponsor support is strong given this criteria sponsor support qualifies as balancing item which should exempt the IORP from setting up a HBS, etc. as the balancing item is able to "*balance technical provisions and reduce SCR to zero*" (4.187).<br><br>With respect to cases where the "M" criteria is not fulfilled, EIOPA suggests IORPs to calculate more precisely the sponsor support and to make "*a quantitative assessment of the maximum amount of support the sponsor is capable of affording*" (meaning a more detailed assessment with respect to the values checked within the "M" approach such as market cap, shareholder funds, discounted future cash-flows or total wages; | |

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| | see 4.200). We think the check of the appropriateness of the assessment should be left to national competent authorities (as is likely suggested by EIOPA in 4.201 to 4.203) and should also allow for a qualitative assessment.<br><br>But in general the attempt to precisely calculate the value of (maximum) sponsor support is still questionable as there are no "*universally recognised standards*" of calculating it (as stated by EIOPA in the 2013 Discussion Paper on Sponsor Support) and the calculation gets very complicated very quickly. (Maximum) sponsor support is a complex concept that requires a more rounded assessment in order to ensure the governing body of the IORP fully understand the extent to which they can rely on the sponsor's backing for the scheme and the risks associated with it. We still think that maximum sponsor support could be a useful measure; however, so far (e.g. in the ASA) it has not been used sensibly. Thus an explicit quantitative calculation should not be compulsory. | |
| Q59 | **Do stakeholders think that other options should be considered to determine a value to be used to assess overall sponsor affordability?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Yes, especially in case of multi employer IORPs and multi IORP sponsor. We would welcome more principle-based guidance for these cases. We believe the national control authorities are best placed to provide such guidance. Historic default rates could be used for multi employer IORPs with a large number of employers.<br><br>Also PensionsEurope thinks the balancing item approach for the valuation of sponsor support in combination with a model which is similarly simple as the PwC's "M" approach for assessing sponsor's strength as proxy for sponsor affordability should be | |

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| | part of the suggested approaches.<br><br>Nevertheless it is important to stress that valuing maximum sponsor support can only be seen as an indicator of current affordability which can differ from the willingness and which might evolve substantially over time. To value the maximum sponsor support IORPs can only rely on publicly available information which means some important elements might be ignored (e.g. sponsor's investment plans, future mergers & acquisitions etc.). | |
| Q60 | **Do stakeholders believe that the approaches presented cover the full range of possibilities to estimate sponsor default probabilities? If not, what specific alternative approaches would stakeholders suggest?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>The initiative taken by the UK PPF is certainly a possible approach but the approaches presented do no fit all the situations. For MES it is a concern that in practice linking default probabilities, credit ratios and sponsor strength can be a very challenging approach, since it is assumed the credit ratios are dependent on the industry sector. Again, the concept is by far not elaborated enough to support industry wide or multi-employer IORPs or other complex situations.<br><br>We support a pragmatic approach that can be used by all IORPs. Therefore we favor the approach in which the credit risk of the sponsor can be based on historical data of different types of sponsors such as the PPF assessment. The enforcement of the sponsor commitment may also depend on the reported strength of the sponsor. If historic data of the peers of this sponsor are used, the enforcement of the commitment would be easier. | |

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| | As the consultation notes, the UK's Pension Protection Fund has recently concluded an extensive exercise to develop a pensions-specific model for estimating sponsor default risk, with a company (Experian) providing the data underpinning the new system. It is widely agreed that the new system provides a closer link between the risks posed to the PPF by each scheme and the levy it pays. That is why PensionsEurope recommends that Member States are allowed to use existing systems. | |
| Q61 | **What in stakeholders views is the appropriate time period on which to consider possible payments from sponsors for the calculation of sponsor support? Please explain.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope does not agree with this approach, as this paragraph considers only the current situation of underfunding as a base for the valuation of sponsor support. To be in line with the overarching principle of market consistent valuation, also possible future underfunding should be considered. In our opinion the timing of the sponsor support cash flow is covered by the principle of market consistent valuation and there should be no artificial limitation of when these payments have to be made.<br><br>PensionsEurope considers this is a complex topic that warrants far more detailed consideration. | |
| Q62 | **Please provide your views on this suggested approach.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative* | |

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| | *impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Under the assumption that the investment behaviour of the IORPs within the multi IORP sponsor is almost the same, the situation of underfunding for these IORPs is highly correlated. In that case the apportioning of the maximum sponsor across the relevant IORPs seems to be appropriate. However, it is not clear how this would be done in today's complex corporate environment: For example, in the case of a more complex structure (such as Public Limited Company in the UK), the most 'senior' company within the group does not itself sponsor any IORPs at all. Therefore it would not really be appropriate to apportion any of its strength across IORPs that it does not sponsor.<br><br>PensionsEurope notes that the weakness of this approach lays in the fact that an IORP has no view on other sponsor's engagements: credits, leases, other IORPs, funding position in other IORPs, etc.<br><br>Therefore we deem a scheme-specific approach is needed to take account of the wide variety of complex corporate structures.<br><br>Finally, this paragraph only addresses the implications of the multi IORP sponsor in case of the application of simplified methods. We would welcome more principle based guidance for the stochastic modelling approach. | |
| Q63 | **Are there any other suggestions on how to deal with single sponsors with multiple IORPs?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help* | |

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| | *EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Maybe the QIS 1 simplification can be extended in such a way as to take the correlation of underfunding of various IORPs into account. We stress however that this method can only be used by IORPs that use no other security mechanisms than additional sponsor support in case of underfunding. | |
| Q64 | **Please provide your views on this suggested approach.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>The approach suggested for the calculation of sponsor support for multi-employer IORPs might be suitable as an option for trustees/governing body to use, but it would be completely inappropriate for some IORPs. In sectionalised schemes, for example, taking account of a sample of the five largest employers, as suggested in paragraph 4.230, would mean the strength of a particular employer being used to calculate support for a scheme even though there was no prospect of that employer actually supporting the scheme. At the same time, the support that could actually be provided by the relevant sponsor would be ignored. Covenant assessment remains a complex matter, where assessing the sum of the parts is far from an exact science. The correct policy would be to allow a scheme-specific approach to valuing sponsor support in multiple-employer schemes.<br><br>The credit of the sponsors of the multi sponsor IORP cannot be assessed by averaging the credit risk of the individual sponsor. We would suggest to take the correlation between the defaults of the sponsors into account. Apart from that, in our opinion the default rate could be based on the defaults of the sponsors in the past, if the total | |

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| | number of sponsors is large enough.<br><br>PensionsEurope notes that most of the approaches discussed within the consultation are available since the IORP-QIS of 2012. Therefore many IORPs had the opportunity to test them already. Especially in cases of industry wide IORPs assessing sponsor strength by using financial reporting proved to be impossible. Sometimes the same held true concerning the simplification of a sample of the five largest sponsors because their officially published financial reporting contained either not the necessary data or no connection between the companies and the IORPs business.<br><br>Finally, in case of industry wide schemes that use the wage sum for calculating contributions, only the total wage sum of the sponsors seemed to be an appropriate solution for assessing the sponsor support. Therefore we would like to bring forward a model which is similarly simple as the PwC model ("M" approach), but which does not require calculating the HBS, but rather rely on a simpler measure (e.g. using market capitalization, total wages, technical provisions, etc.). | |
| Q65 | **Are there any other suggestions on how to deal with multiple employer IORPs?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>As stated in the response to Q64, the credit risk of the sponsors of the multi sponsor IORP cannot be assessed by averaging the credit risk of the individual sponsor. We would suggest to take the correlation between the defaults of the sponsors into account. Apart from that, in our opinion the default rate could be based on the defaults of the sponsors in the past, if the total number of sponsors is large enough. | |

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| | The calculation of support for multi-employer IORPs is a complex challenge, and these schemes have developed their own methods that work well for their particular circumstances. Given this background, it seems ill-advised to posit a single methodology that could work for all multi-employer schemes. It would be better to find a way of using pension schemes' existing valuation work.<br><br>In addition with respect to the use of the balancing item approach for valuing sponsor support we suggest that multi employer schemes with a large number of employers, legally enforceable sponsor support and joint financing should automatically qualify for applying the balancing item approach without recurring to the strength of the individual sponsor (in addition to the listing in no. 4.4 of the consultation document). The rationale for this is that MES with a sufficient number of employers and joint financing could be seen as a means of the collective pooling of default risk of individual sponsors – in analogy to the suggestions of EIOPA regarding pension protection schemes in 4.248 of the consultation paper. | |
| Q66 | **Please provide your views on this suggested approach.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree to take all guarantees into account when valuing the sponsor support. The suggested approach is appropriate as it will facilitate the valuation without undermining the underlying principles. Allowing parent guarantees under the same conditions and with the same effects as "standard" sponsor support is reasonable and, in addition, often a meaningful simplification.<br><br>However we have the same comment as on sponsor with multiple IORPs: The required data may not be available for IORPs. Indeed the IORP will probably have information | |

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| | about the guarantor but does not have any view on the other commitments made by the guarantor. | |
| Q67 | **Please provide your views on this suggested approach.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope welcomes that EIOPA explicitly recognises that the non-standard case of non-corporate sponsors, especially public sector entities and charities which are in addition mostly multi-employer-schemes (MES), deserve specific considerations.<br><br>We recognise that in particular the presented principle 2 (PwC's "M") for the use of the balancing item approach and the calculation of the sponsor support facilitates the valuation for not-for-profit sponsors, especially if this needs to be done by using total wages as proxy and for MES (only for the suggested sample of the 5 largest sponsors).<br><br>However we stress that much more research/guidance is needed to assess the financial strength of not-for-profit organisations as it an extremely complex issue. We believe the national control authorities are best placed to provide such guidance. We also note that these organisations can also benefit from "implicit" supporting mechanisms such tax support or regional/governmental support. The three-paragraph discussion in EIOPA's consultation paper, by contrast, is disappointingly superficial.<br><br>With respect to the range of (partly new) simplified valuation methods presented by EIOPA we are of the opinion that these approaches (except the balancing item approach) are still not suitable / workable for not-for-profit and public sector sponsors as all these approaches focus on financial data / metrics of corporate sponsors. The | |

difficulty in this area, (which for example has been extensively explored as part of the recent consultations on reform of the Pension Protection levy in the UK) is that financial data is not as readily and publicly available as it is in the corporate sector.

Although EIOPA states (No. 4.236) that assessing the ability of the sponsor(s) to provide financial support to the IORP is in principle not fundamentally different for not-for-profit sponsors compared to corporate sponsors, no concrete suggestions of how to do so can be found. PensionsEurope emphasizes the following shortcomings:

- EIOPA still mentions with respect to charities etc. that a relaxation with respect of the income ratio but a increased value for the asset cover / balance sheet ratio within the ASA might be suitable. But we are of the opinion that it will be rather challenging to discover a serious (data) base for the deduction of how much relaxation is appropriate (i.e. to develop an adjusted credit ratio matrix for not-for-profits). Valid data on default probabilities for not-for-profit entities seems to be lacking. If no serious deduction is possible, the procedure as a whole becomes questionable. In addition, there is doubt that financial ratios for not-for-profit entities have the same explanatory power as those of profit-oriented corporations always paying attention on their financial metrics. Therefore, the output of the simplified alternative approach for not-for-profit entities might not be comparable with the output for "normal" profit-oriented corporations.

- PensionsEurope regrets that public sector sponsors are not mentioned anymore by EIOPA, although they were explicitly tackled in the Sponsor Support Discussion Paper of 2013 stating that the credit quality of the public sponsor may be assessed using the credit ratios analogue to the income and the asset cover ratio (see No. 67 Discussion Paper 2013). This seems to indicate that EIOPA realised that a thorough assessment of these mostly very complex financial arrangements and safeguarding mechanisms of many public sector entities is time-consuming and can hardly be handled while the approach itself is already questionable (e.g. an attempt to precisely qualify).

  We highlight that especially multi-employer public sector IORPs will face obstacles:

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| | For example, a German public sector IORP with municipalities as sponsors would have to assess the structure and the various dimensions of the revenue equalisations in Germany, that organises the financial distributional system between the different administrative levels: municipalities, federal states, federal level. This system involves a distinction between the primary and secondary revenue equalisation (the formal allocation of proportions from certain tax revenues vs. hardship case adjustments) as well as between the horizontal and the vertical revenue equalisation (from one municipality/state to another municipality/state vs. from the federal state to the states or from the states to the municipalities). The German system of revenue equalisation is very complex and a thorough assessment seems to be unworkable in practice.<br><br>Therefore we think EIOPA has not yet further developed solutions or amendments for quantifying the sponsor support related to not-for-profit-institutions and for public sector IORPs compared to EIOPA's Sponsor Support Consultation (see No. 64 to 67 and 101 to 102 of the 2013 Discussion Paper) and EIOPA's Sponsor Support Conference in 2013. Thus these problems are still not resolved and that is why we consider much more research is needed on these issues. | |
| Q68 | **Are there any other suggestions on how to deal with not-for-profit entities?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We think a method such as the PPF assessment may be of use for some of these IORPs. In our opinion it is better to base the default rate on historic data. | |
| Q69 | **Do stakeholders agree with the above comments on the options to value pension protection schemes? If not, please explain.** | |

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| | *PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree with the advantages and disavantages of the two options as described in paragraph 4.6.<br><br>At first glance, separate valuation of the pension protection scheme appears attractive, as it would boost the transparency of the Holistic Balance Sheet by marking the pension protection element as a distinct and separate component of the support for members' benefits. However, putting a value on the pension protection scheme component is far from straightforward, and there is some temptation to suggest it should be used as balancing item - perhaps discounted to reflect the percentage of compensation received by most members (for example most members receive 90% compensation under the UK PPF system).<br><br>PensionsEurope proposes that the existence of a pension protection scheme should be treated as a balancing item of second resort. So, the first step would be to use sponsor support as a balancing item, and then to use the pension protection scheme if further collateral is needed to achieve balance. | |
| Q70 | **Which of the options to value pension protection schemes do stakeholders prefer?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable* | |

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| | *and does not place undue burdens on workplace pension schemes.*<br><br>We think it is important that the effect of a PPS as a balancing item is considered at all in the HBS be it via modelling it indirectly as backing up sponsor support to function as balancing item by reducing sponsor default probability to zero or directly as balancing item. However, given the variety of possible constellations, in certain cases this treatment may not be appropriate. Therefore IORPs should be able to choose between both variants.<br><br>At first glance, separate valuation of the pension protection scheme appears attractive, as it would boost the transparency of the Holistic Balance Sheet by marking the pension protection element as a distinct and separate component of the support for members' benefits. However, putting a value on the pension protection scheme component is far from straightforward, and there is some temptation to suggest it should be used as balancing item - perhaps discounted to reflect the percentage of compensation received by most members (for example most members receive 90% compensation under the UK PPF system).<br><br>Methodologically, it looks best to value a pension protection scheme seperately using a full valuation, such as the full Barrie & Hibbert method. However, in the light of simplicity and feasibility, allowing the presence of a pension protection scheme to reduce the sponsor default rates to 0% seems a practical solution. It is important however that in this case, the pension protection scheme guarantees all liabilities of an IORP. In case less than 100% of the liabilities are guaranteed by the pension protection scheme, a combination of the PPS and benefit reductions is the balancing item. If this route is chosen, we invite EIOPA to further suggest how to allow for a combination of the PPS and benefit reduction as a balancing item. The use of a balancing item approach in case of a PPS should be justified properly and in a transparent manner.<br><br>PensionsEurope proposes that the existence of a pension protection scheme should be treated as a balancing item of second resort. So, the first step would be to use sponsor support as a balancing item, and then to use the pension protection scheme if | |

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| | further collateral is needed to achieve balance. | |
| Q71 | **Do stakeholders think a pension protection scheme could in principle be considered a balancing item on the holistic balance sheet, if considered as a separate asset on the holistic balance sheet?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree with the approach to consider the PPS as balancing item in the HBS, under the condition that the PPS is strong enough to guarantee 100% of the benefits. If the PPS does not guarantee full benefits, then the combination of the PPS and the necessary benefit reductions is the balancing item. The use of a balancing item approach in case of a PPS should be justified properly and in a transparent manner.<br><br>As emphasized in Q69 and Q70, at first glance, separate valuation of the pension protection scheme appears attractive, as it would boost the transparency of the Holistic Balance Sheet by marking the pension protection element as a distinct and separate component of the support for members' benefits. However, putting a value on the pension protection scheme component is far from straightforward, and there is some temptation to suggest it should be used as balancing item - perhaps discounted to reflect the percentage of compensation received by most members (for example most members receive 90% compensation under the UK PPF system).<br><br>Methodologically, it looks best to value a pension protection scheme seperately using a full valuation, such as the full Barrie & Hibbert method. However, in the light of simplicity and feasibility, allowing the presence of a pension protection scheme to reduce the sponsor default rates to 0% seems a practical solution. It is important however that in this case, the pension protection scheme guarantees all liabilities of | |

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| | an IORP. In case less than 100% of the liabilities are guaranteed by the pension protection scheme, a combination of the PPS and benefit reductions is the balancing item. If this route is chosen, we invite EIOPA to further suggest how to allow for a combination of the PPS and benefit reduction as a balancing item. The use of a balancing item approach in case of a PPS should be justified properly and in a transparent manner.<br><br>PensionsEurope proposes that the existence of a pension protection scheme should be treated as a balancing item of second resort. So, the first step would be to use sponsor support as a balancing item, and then to use the pension protection scheme if further collateral is needed to achieve balance | |
| 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.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No, PensionsEurope does not see a role for the HBS in funding requirements as part of pillar 1.<br><br>The HBS should show what the current market value is (assuming there is a complete market, which is not the case) of all conditional and unconditional pension promises, and the way these promises are backed by current assets and conditional future payments (or benefit reductions).<br><br>As capital requirements are neither part of the pension promise nor of the financing of this promise, there is no place for capital charges in the HBS. This is easily explained | |

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| | for a simple agreement with a finite horizon where the participants get all revenues of the fund when it is closed. If the stochastic simulations for the HBS are conducted over the full lifetime of the agreement, the HBS exactly balances. The current value of assets is exactly balanced by the current value of 'unconditional' liabilities plus the profit sharing option minus the loss sharing option (benefit reductions). If the simulation horizon ends before the end of the agreement there generally is a residual. This residual represents transfers to or from the generations that are still in the fund after the simulation horizon. The EIOPA Balance Sheet (EBS = HBS+net SCR) can only be positive if the net SCR is smaller than the residual. This means that irrespective of the starting financial situation, current members should always make a transfer to future generations. This cannot be regarded as in the benefit of the participants. The longer the simulation horizon, the smaller the value of the residual (as the transfers are discounted), and therefore the less likely the EBS will balance.<br><br>Prudential supervision should focus on unconditional promises. In Solvency II, the mistake was made to also require capital for conditional promises, even if these promises are conditional on the future financial health of the insurance company (profit sharing). Consequently, there is a double charge for risk taking under Solvency II. First, more risk increases downside risk and therefore a higher SCR is required. Second, more risk also increases upward potential and thereby the profit sharing option. Where the first requirement makes perfect sense, the second does not. Either a company makes a profit and so will have the money to share a part of it, or there is no profit and in that case also no promise to pay anything. For insurance companies this mistake might be circumvented by formulating agreements in such a way that this may be discarded (contract boundaries), or by simply not promising profit sharing any more. For IORPs the mistake is more binding however as conditional indexation is an important aspect of the pension agreement (for example in the Netherlands).<br><br>Even if a pension fund has a strong sponsor who is willing to finance a deficit due to the value of the indexation option, the Solvency II balance sheet will not work as it is dynamically inconsistent as extra contributions of the sponsor will increase the indexation option. This process can continue up until indexation is almost fully guaranteed, but this is clearly at odds with the agreed conditionality of the indexation. | |

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| | In the EBS, one tries to correct this conceptual mistake by adding compensating options that are available to pension funds to finance future deficits, namely benefit reductions and sponsor support.<br><br>In general, it is seldomly a good idea to compensate mistakes by compensating mistakes. Here it is not different. With respect to benefit reductions, it is doubtful whether a supervisor (who should protect pensions of current and future participants) should disregard pension promises simply because these promises are no longer likely to be met. Moreover, as options are less sensitive to changes in volatility if they are far out of the money, the relative attractiveness of risk taking as a function of the financial health of the fund is contrary to the desired situation from a supervisor point of view. If the fund is highly underfunded, the indexation option is far out of the money and extra risk taking will hardly affect this value. The benefit reduction option on the other hand will increase with risk taking. For a fund with a large surplus, it is the other way around. Consequently, risk taking is less attractive for a rich fund than for a poor one. Again, this seems contrary to a good policy for members and beneficiaries' protection. The best solution to circumvent the mistake of Solvency II is not to enlarge the balance sheet, but to shrink it to just to unconditional promises.<br><br>PensionsEurope notes that the HBS only provides insight in the current valuation of assets (under current market conditions), pension promises and security mechanisms and does not provide an insight on their future development - therefore also not on the capital requirements over one year. The valuation of all kind of options on HBS requires complex valuation methods like risk-neutral valuation which only gives the current valuation of the expected cash flows. The HBS can be seen as a picture of the current financial position of the IORP (at current market conditions), but it cannot be used as a forward-looking view to see the development of that financial position going forward.<br><br>Also, the use of HBS in a risk-based supervisory framework may lead to undesirable behaviour from the perspective of both the IORP and supervisory authorities. Indeed, based on this framework, an IORP would take extra risk during bad economic cycles, because an IORP that is highly underfunded could improve the HBS by taking extra | |

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| | risk. This extra risk would not have a big impact on the conditional benefits (like conditional indexation) that is part of the HBS. The benefit reduction option on the other hand would increase with risk taking as this option will get more 'in the money'.<br><br>Moreover, PensionsEurope considers proportionality as a crucial issue since the HBS is a very complex method. Even if the information arising from the HBS would have an added value, the calculations can be so complex and costly that it is not a cost-effective instrument for supervisory purposes. As highlighted many times by PensionsEurope, we call EIOPA to consider also other options that are currently already in place such as Asset-Liability Management (ALM) studies, stress tests, continuity analysis etc. in order to analyse the financial position of IORPs.<br><br>We stress the introduction of the HBS as pillar 1 would have consequences such as – as analysed by EIOPA too, see i.e. 5.86 – enormous cost increases for sponsors (and not only recognised as balance sheets items for IORPs) as well as detrimental macro-economic effects result:<br><br>• increased call on business funds, due to the role of employers as guarantors of defined benefit pensions in several EU Member States;<br>• significant negative impacts on capital spending, corporate cash flow, corporation tax payments, wages;<br>• members' benefit reductions<br>• macro-economic impact on growth, employment and sustainability of public debt<br><br>In our opinion, this could lead to further closure of defined benefits (often collective) schemes in particular where sponsoring undertakings and employers are voluntary offering such schemes as human ressources management. | |
| 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.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the* | |

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| | *initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We do not believe that the application of the HBS approach produces additional security for pensions. On the contrary, the additional burdens will reduce both the benefits and the commitment of employers to provide occupational pensions. In our view, any valuation and risk management that is based on a one-year-horizon sends the wrong message to anyone running an IORP. However, if EIOPA and the European Commission were to insist on pressing ahead with the Holistic Balance Sheet (contrary to the PensionsEurope's advice), then the best option would be to use it as a risk management tool. Most importantly, if the HBS were to be used as a risk management tool, it should and cannot be the only one available for IORPs. They should be able to use existing tools at their disposal, according to the features of the scheme, the national pension system etc.<br><br>The HBS could possibly be used as an instrument for risk management to obtain more insights in relative risks of the balance sheet, but less complex methods like ALM, continuity analysis and stress tests would better achieve this goal. In theory, the HBS could shed some light on the relative importance of the different recovery mechanisms of IORPs. One of the preconditions for this theory is however that the market is complete, which is clearly not (and never will be) the case.<br><br>Moreover, the calculation of these options is far from trivial, and therefore costly. This consultation document offers numerous simplifications to calculate a HBS. The result of these simplified calculations is a balance sheet without any logical economic interpretation as the interaction between balance sheet items is lost and because the assumed option prices disregard the price of risk (the expected payout on an insurance policy is not equal to the premium) and simplifications of one balance sheet item will also impact the valuation of other balance sheet items. | |

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| | Another issue is that the HBS will only give the current valuation but no projections which in PensionsEurope's view, downsizes the efficiency of the HBS as a risk management tool.<br><br>It must be safeguarded that the use of the HBS will not be broadened step by step: in a first step an introduction as risk management tool in pillar 2 followed by the second step to use the HBS for strict harmonization of valuation and funding.<br><br>Finally, EIOPA should note, however, that the Council's General Approach regarding IORP II from 10 December 2014 includes a new Risk Evaluation for Pensions (article 29) report which appears to duplicate much of what would be achieved by using the HBS as a Pillar II tool – i.e. better management of risks. We stress there is clearly no need for both. | |
| Q74 | **Do stakeholders agree that the outcomes of a pillar 2 assessment should be publicly disclosed as part of pillar 3 requirements?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope has serious concerns in using risk assessment as part of transparency and disclosure requirements. PensionsEurope has always been in favor of good communication and transparency towards members and beneficiaries: Therefore, not using HBS pillar 2 assessment as part of pillar 3 requirements should not be seen as a lack of transparency or any kind of secrecy whatsoever.<br><br>In our view, even apart from the incompleteness of the market, the HBS is extremely complex to communicate and interpret, even for pension experts. A pension scheme participant is in most of the cases interested in concrete aspects of his/her pensions | |

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| | and would like to know for example to what extent his/her pension is likely to keep up with inflation. Even an expert will have no idea how to interpret an indexation option of for e.g. 25% of unconditional liabilities. Equally uninformative is the knowledge that the benefit cut option is worth 5% of liabilities. As options are priced in the risk-neutral world (in which we do not live) such a number is hardly indicative of the probability or size of future benefit cuts. For a member, in order to get an idea of the perspective and risks of his/her future pension, one should simulate with real world scenario's. The HBS does not do that. It only indicates how much he/she should be able to get at the market for his/her pension deal or how much he/she should pay to get rid of a pension promise if there would be a market (which is not the case). These numbers will moreover depend highly on the specific day the balance sheet is calculated as all prices are calibrated to the market prices of one particular date.<br><br>Therefore HBS information should only be disclosed to supervisors (if at all) as this information maybe of relevance for IORPs and supervisors but not for members or beneficiaries; especially if there will be other balance sheet information of pillar 1 according to national standards in addition to the risk assessment in pillar 2 as it will not be easily understood how these values relate to each other. As the methodology is very complex, the results could be misinterpreted very easily.<br><br>A possible solution could be to explain to members and beneficiaries, what (recovery) actions the IORP intends to take, and why, where possible.<br><br>Furthermore, PensionsEurope warns that public disclosure of HBS information could also impact the sponsor, especially in the case of listed companies. The impact of such disclosure should be investigated more in depth as it also concerns other areas such as corporate financial reporting. | |
| 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?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the* | |

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| | *initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No.<br><br>Using the concept of the HBS for risk management/pillar 2 requires the inclusion of all security and adjustment instruments. In case the HBS funding ratio would then be too low, there are no further instruments available for recovery. In this case the recovery plan cannot be set up; it is already included in the HBS through security mechanisms and adjustment instruments available to the IORP. The only signal the HBS can give is that the pension agreement is possibly not sustainable (given current market prices).<br><br>For us, this a major shortcoming in the concept of the HBS and its use as a supervisory tool. Obviously, this conceptual issue leads to a situation where no supervisory action is possible. That is why we think the competent authorities should continue to use the locally established rules. | |
| Q76 | **Which of the two options for recognising non-legally enforceable sponsor support do stakeholders support? Please explain why you support this option.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>The existence of some form of non-legally enforceable sponsor support will contribute to the safety of the pension promise even if it could risk giving an inflated view of the support for the scheme in some cases. Therefore one could be in favour of the option | |

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| | to include the non-legally enforceable sponsor support in the HBS. However, individual IORPs are best suited to decide if and how to include this. As there is a link to IFRS in the sense there is a need for a realistic picture of the sponsor's liabilities, the IORP should be able to address this issue with its sponsor(s). The local supervisor should then assess the method used and the viability of the assumptions and resulting outcome.<br><br>We note that legally enforceable sponsor support may come in a form that is complicated to operate for sponsors. Therefore they may choose a form of sponsor support that is easy to perform for them and easy to assess for the IORP but not legally enforceable. For example to lift contributions or provide additional resources instead of making up for any shortfall of the IORP against members and beneficiaries individually.<br><br>Additionally we would like to come back to the question of a "last man standing principle". In these cases where a legally enforceable sponsor support is available for every employee against his/her own employer but as a whole there is no legally enforceable "last man standing principle" available (in a sense that the industry is indebted to finance the benefits of every member on a collective basis and social partners as representatives of the sponsors act as if it was available), we suggest that a practical application of "last man standing principle" as a collective funding of the scheme (using historical data) should also be recognised as being at the disposition of the IORP.<br><br>Therefore we suggest to recognise all forms of non-legally enforceable sponsor support if can be shown from historical data that it has been provided reasonably often. We regard this condition to be met if the sponsors or their representatives corresponded in 3 out of the last 4 times to the pattern. | |
| Q77 | **Which of the two options for recognising pension protection schemes do stakeholders support? Please explain why you support this option.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the* | |

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| | *initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>EIOPA rightly considers individual sponsor support as an important security mechanism. It would not make sense not to include pension protection schemes as a form of collective sponsor support of thousands of employers (over 90,000 in Germany for example).<br><br>The existence of a pension protection scheme (PPS) contributes to the safety of the pension promise. PensionsEurope would prefer the first option, since including the pension protection scheme as a separate asset in its own right is more transparent than using it as an adjustment to the credit risk of the sponsoring employer. However, in the case of the inclusion of the PPS, EIOPA has to monitor the financial strength of these PPSs. This has to be done on a macro scale, otherwise the systemic risk of such schemes are not taken into account in the value.<br><br>We support following arguments for including pension protection schemes in any EU-wide framework as expressed in the Consultation paper:<br><br>• PPS protects members and beneficiaries against insolvency of their employers. In a holistic view, it should therefore be included in the HBS. The Consultation paper describes conditions a PPS would have to fulfill (CP, par. 4.139), which we support.<br>• There is a close link between sponsor support and pension protection schemes. Pension protection schemes could be seen as a form of collective sponsor support. Therefore they should, like sponsor support, be included in the holistic balance sheet.<br>• PPS is a mechanism, established under national social and labour law, which protects members and beneficiaries against insolvency of their employers. A prudential framework should not aim at changing the level of security which is | |

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| | accepted under national social and labour law.<br>• PPSs fulfil their task on a regular and ongoing basis. They are not a last resort mechanism, like insurance guarantee schemes. So PPSs cannot be excluded from the HBS on the grounds that they are similar to insurance guarantee schemes.<br>• PPS can be financed by tens of thousands of sponsors, which gives them a very strong financial basis, comparable to the strength of a whole national economy.<br>• In cases where a strong PPS is in place, a significant level of security can therefore be taken for granted, without applying short recovery periods or requiring an IORP to hold financial assets at least of the amount of Level A technical provisions.<br><br>We note that since the foundation of the PSVaG in Germany forty years ago, no beneficiaries or pensioners have lost their legally protected pension rights because of the insolvency of the sponsoring employer. Not taking pension protection schemes into account in the HBS would therefore remove it even further from the reality of occupational pensions in some European Member States. | |
| 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?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>As mentioned above, we see no role for the HBS for quantitative requirements. If it were to be used in pillar one, we agree that pure discretionary benefits should not be included on an IORP's capital requirement balance sheet (but as mentioned above, we | |

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| | see no role for the HBS for setting capital requirements). | |
| Q79 | **Which of the three options for recognising mixed benefits do stakeholders support? Please explain why you support this option.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope notes that both options 2 and 3 could be supported, as this would reflect the specificities of different occupational pension systems in the various EU Member States.<br><br>Option 2 could be supported because in the case of mixed benefits there is, similar to the case of pure discretionary benefits, no contractual obligation to provide these benefits.<br><br>Option 3 could be supported – allowing country-specific decisions on the treatment of mixed benefits - as this option would be consistent with our general approach, which is to take full account of the specific circumstances of each Member State's pensions system wherever possible. | |
| Q80 | **Which of the three options for recognising benefit reduction mechanisms do stakeholders support? Please explain why you support this option.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable* | |

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| | *and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope notes that both options 2 and 3 could be supported, as this would reflect the specificities of different occupational pension systems in the various EU Member States.<br><br>Option 2 might be supported as it always allows for ex-ante benefit reductions, but make allowance for ex-post benefits reduction or reductions in case of sponsor default as specified by the Member States. Since national social and labour law is crucial in this regard, any concept needs to take into account the existing differences in the Member States.<br><br>Option 3 could be seen as most sensible. The HBS is consistent only when all options are included on the balance sheet, which means that all types of benefit reductions should be included.<br><br>In addition, PensionsEurope notes that in practice there is no rationale for making a distinction between ex-ante and ex-post reductions.<br><br>In relation to paragraph 5.65 we would like to comment that, although the view given by EIOPA may be economically valid, the legal perspective is different, i.e. granting discretionary benefits in addition to hard benefits is legally different from cutting benefits, resulting in benefit payments below the original hard benefits. | |
| Q81 | **Are there any additional options that stakeholders believe should be considered?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.* | |

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| | In our view there are no other options to be considered. | |
| Q82 | **Do stakeholders agree that off-balance capital instruments should always be eligible to cover the SCR? If not, what alternative options would you suggest?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>As mentioned above, we see no role for the HBS for SCR.<br><br>We agree that off-balance sheet capital instruments should be eligible to cover the SCR. Off-balance sheet instruments, such as contingent assets, have a material effect on the sponsor's contributions and on the strength of the sponsor covenant, and should logically be reflected in the HBS. | |
| Q83 | **Do stakeholders agree that surplus funds should always be recognised on an IORP's balance sheet and could always be used to cover capital requirements? If not, how would you suggest to treat surplus funds in this respect?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree that surplus funds should be recognised on an IORP's balance sheet and | |

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| | could be used to cover capital requirements. | |
| Q84 | **Do stakeholders agree that subordinated loans should always be recognised on an IORP's balance sheet and could, bar possible future decisions to introduce restrictions, be used to cover capital requirements? If not, how would you suggest to treat subordinated loans in this respect?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We agree that subordinated loans should be recognised on an IORPs balance sheet and could, bar possible future decisions, be used to cover capital requirements. | |
| 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.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We believe the minimum requirement for the level of liabilities to be covered with financial assets should be set at national level according to the IORP I Directive requirements. The discount rate should reflect the character and the risks of the liabilities and that should be left to Member States to decide on the level of technical | |

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| | provisions. The context of occupational pensions (social security system for pension and health care, other retirement income, house ownership, sponsor characteristics, way of organizing supplementary pensions, DB, DC, funding, guarantees, …) is too heterogeneous to justify a one-size-fits-all approach for supervision. To avoid an EU harmonized but overly complex system, Member States should be responsible for the supervisory framework based on some basic general principles set at EU level.<br><br>Therefore the level B technical provisions should be the minimum requirement for the level of liabilities. This would be consistent with the approach taken by the current IORP Directive, so disruption would be minimal. It would also be in line with the current practice in many member states (as shown in EIOPA mapping exercise).<br><br>Calculating technical provisions on a market consistent basis including a risk free interest rate is not necessarily appropriate for IORPs. A mark-to-market valuation of liabilities for IORPs could be very damaging for long-term investments. Such a valuation would be pro-cyclical, and based on a cut-off date; and would not take into account the specifics of most IORPs. This type of valuation could harm solid and long-term planning, as well as risk analysis and related calculations. It would therefore not contribute to more security for the beneficiaries. In addition a transfer of liabilities to other market actors (see i.e. EIOPA 5.83) is – unlike than within the insurance sector – not relevant because of the existing security mechanisms of IORPs which are actually to be assessed by the HBS. Thus we think that especially in cases where the balancing item approach is justified a mark-to-market valuation is particularly not appropriate or necessary given its possibly damaging consequences.<br><br>In addition, we note the outcome of using Level A technical provisions at EU level would be an **enormous increase in the value of the liabilities** (without necessarily being a more accurate assessment) and thus **funds to be delivered by sponsor** (for future promises and eventually for existing) will discourage sponsors from offering occupational pensions. We therefore support EIOPA's analysis (i.e. 5.86, 5.177, 5.179 and 5.188) of the negative consequences of Level A technical provisions as funding requirements for existing promises for sponsors, employees and defined benefits and also with respect to growth and macroeconomic aspects. | |

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| | These consequences are confirmed by comprehensive studies, i.e. the study "The economic impact for the EU of a Solvency II inspired funding regime for pension funds" by UK's employer association CBI together with Oxford Economics that analysed economic consequences of a 30% increase of the value of the liabilities to be covered by additional delivered funds by sponsors and the SCR covered by sponsor support or PPS (= corresponds to Level A technical provisions to be covered by financial assets). The main results by the study are an increased call on business funds and in sonsequence significant negative impacts on capital spending, corporate cash flow, corporation tax payments, wages and employment as well as more modest impacts on employee pension contributions, procurement, prices and dividend payments. To give somme numbers:<br><br>• 30% increase of technical provisions = €440 billion (£350 billion) = cost increase for UK Businesses<br>• Up to 2.5% reduction of GDP for longer period<br>• Up to 180,000 job losses<br><br>Similar results are given by the Report commissioned by UK's Pensions Minister Steve Webb (Webb-Report) indicating a funding shortfall in the UK of £400 billion (i.e. increase in technical provisions of £500 bn, less estimated sponsor support of £350bn, plus a net SCR of £250bn. The net SCR also allows for sponsor support). | |
| 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.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help* | |

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| | *EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope notes that both of these options could be supported, as this would reflect the specificities of different occupational pension systems in the various EU Member States. Member state options should be possible, to reflect specificities of national occupational pension systems. Importantly, this regulation shall not affect national labour or social law(s). | |
| 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.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We are in favour of flexibility in order to reflect national practices. We note that using of level B is consistent with the current approach in the IORP Directive and in line with the practice in many Member States. | |
| Q88 | **If the Level B best estimate were to be used, in the stakeholders' view 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.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at* | |

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| | *European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope notes that both of these options could be supported, as this would reflect the specificities of the different occupational pension systems in the various EU Member States. Member State options should be possible, to reflect specificities of national occupational pension systems. Importantly, this regulation shall not affect national labour or social law(s). | |
| Q89 | **Do stakeholders believe it would be a sensible approach for member states to specify additional requirements regarding the funding with (financial) assets through national social and labour law, instead of through national prudential regimes? Please explain.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope notes that different approaches can be defended as these reflect the different occupational pension environments in the different Member States. Please note, by doing so also cross border activities and possible other players on the market (life insurers) might be affected.<br><br>This is currently established practice in the Netherlands and hence would tally in nicely with the present arrangements, without jeopardizing the national equilibrium in pension legislation, thus avoiding breaching the subsidiarity principle.<br><br>On the contrary, UK schemes would favor using national prudential rules, rather than social and labour law, as the basis of pension scheme funding, as this is the approach | |

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| | to which UK schemes are accustomed. | |
| 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.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No. Recovery periods are integral parts of national pension systems. Since national pension systems are very different across Member States, harmonizing recovery periods would disrupt one or more of these systems. Indeed Members States follow different approaches and favor different priorities for considering security mechanisms to support IORPs facing financial difficulties. For example, while in some Member States the ability to reduce benefits provides the principal safety valve for IORPs under financial pressure, long recovery periods will be firstly favoured in other Member States.<br><br>We doubt that harmonising would be appropriate especially in option 1 with short recovery periods (we note it should be Member State decision to set the length of the recovery period depending on the set-up of the pension system). Even if the recovery period was longer, harmonization would not be sensible because of the big differences between occupational pension systems and in particular the security mechanisms anchored in national social and labour law(s). Leaving it to the discretion of Member States is the best approach, because this way the duration of the liabilities can be taken into account.<br><br>Furthermore, as all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed (see general remarks). | |

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| 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.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>This is entirely dependent on the set-up of the pension system. It does not only depend on the nature of the pension entitlements but also on for example the governance structure, the participants included and other sources of pension provision, such as government pensions or private pensions. Therefore it should be a Member State decision to set the length of the recovery period.<br><br>The arguments presented in 5.114 and 5.86 especially that sponsor money is usually best invested in the own business rather than paid as solvency buffer into the IORP have to be highlighted. This supports an extensive period of time for recovery of any underfunding, which is locally decided. Due to the long duration of pension entitlements an underfunding situation usually does not affect the possibility of the IORP to pay its benefits for a very long period. Thus, we note that long recovery periods can help to define an appropriate recovery plan avoiding pro-cyclical behavior.<br><br>Again, we highlight that, as all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed. | |
| 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.** | |

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| | *PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Again, this is entirely dependent on the specific national set-up. It should be a Member State decision to set the length of the recovery period.<br><br>PensionsEurope notes that regulatory approval for recovery plans is essential in order to ensure members' benefits are well protected.<br><br>Furthermore, as all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed. | |
| Q93 | **Do stakeholders believe that there is scope for harmonising the recovery period for meeting the SCR on the EU level? Please explain.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No, there is no need to harmonising recovery periods for meeting SCR. Since national pension systems are very different across Member States, harmonizing recovery periods for meeting SCR would disrupt one or more of these systems.<br><br>We would like to note that we think that the SCR is not compatible with the HBS. As all recovery mechanisms have to be included in order to be able to calculate the HBS, | |

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| | no further recovery plan can be developed. | |
| 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.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>We would like to note that we think that the SCR is not compatible with the HBS. As all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed.<br><br>If SCR were to be introduced, the length of the recovery period to meet those SCR should be decided at Member State level. PensionsEurope also highlights it should be determined by considering the business needs of the sponsoring employer. | |
| Q95 | **In the view of stakeholders 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.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.* | |

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| | We would like to note that we think that the SCR is not compatible with the HBS. As all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed.<br><br>If SCR were to be introduced, the length of the recovery period to meet those SCR should be decided at Member State level. PensionsEurope also highlights it should be determined by considering the business needs of the sponsoring employer. | |
| 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.**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No. Although we support the approach of submitting a recovery plan, we would like to emphasise that because of the relevance of national social and labour law(s) and their differences, there should be no specific measures taken at EU level.<br><br>We would like to note that we think that the SCR is not compatible with the HBS. As all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed. | |
| 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?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative* | |

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| | *impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>The size of the impact depends crucially on the scope of the future supervisory framework. Existing contractual agreements concerning future contributions and benefits may need to change. Also, as acknowledged by EIOPA (5.138), national social and labour law(s) may need to be adjusted.<br><br>With regard to existing pension benefits, the impact will depend on whether these benefits could be interpreted as acquired property rights. Those rights should remain unadjusted. Moreover, in Member States such as the Netherlands, it is explicitly confirmed that a change in prudential regulation as such does not give a reason to change existing agreements with the supervisor, such as for instance in the case of recovery plans approved by the supervisor. As long as IORPs fulfill their obligation according to these agreements, there is no reason to change it. If existing contractual agreements need to be revised in a future European framework, this should explicitly be stipulated by law.<br><br>PensionsEurope stresses that, it has to be avoided that a new regime influences labour and social law: Prudential regulation should go along with and support national social and labour law(s), it should not do the opposite.<br><br>There are a number of ways in which the impact of a HBS-based funding regime could be mitigated, and PensionsEurope would support both the grandfathering and the long transitional periods (depending on national specificities) options discussed in paragraph 5.139 if the HBS were ever to be implemented for that purpose. | |
| 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?** | |

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| | *PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>First of all, PensionsEurope is against EIOPA interfering with national social and labour law(s).<br><br>Then, in order to answer this question we should better understand the impact of the possible EU prudential regime on contracts and national social and labour law(s). Not only the framework is still unclear (use of the holistic balance sheet, level A versus level B, etc.) but apart of some possible scenarios so far there is no information about the future supervisory actions. Once the impact is known we can answer questions about the transition, the length of transitional measures, the grandfathering, etc.<br><br>If new quantitative elements were to be introduced, these should only apply to new members. Existing successful IORPs should be able to continue their work as they used to. We understand this means new accruals would be ring-fenced.<br><br>We would like to emphasise that transitional measures are not an alternative to including security mechanisms in the HBS: Security mechanisms need to be included, *and* adequate transitional measures have to be developed.<br><br>The application of such new rules will lead to a completely new business model for these new members with, we think, considerably reduced benefit levels. Additionally we warn that introduction of such new rules will lead to closings of several IORPs and will reduce DB promises. | |
| Q99 | **Do stakeholders have any general comments on (the description of) example 1?** | |

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| | *PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>First of all, PensionsEurope stresses that it is challenging to analyse the following examples from a pure European perspective. Indeed, every example could fit into one national pension system while being not acceptable at all for (an)other Member State(s). However, we try to provide a reliable answer for each of the examples while keeping in mind that the HBS, if it were to be introduced, should not harm existing – and sometimes very old – pension systems.<br><br>Also, any assessment of an example of supervisory framework would have to take into account by far more detailed definitions and descriptions, an outline of the transitional measures, and the simplifications. Since these points are far from clear, it is very challenging for us to provide a final assessment of any of the presented examples.<br><br>The framework proposed in example 1 is not usable, since it contains some inconsistent elements. It includes an SCR while some options such as PPS and some benefit reductions are left out of the balance sheet, thus causing inconsistencies in the valuation of the options on the HBS including inappropriate uniform recovery period. In addition, this recovery period is very short, which does not do justice to the long-term nature of IORPs. We also note that this solvency framework would seriously interfere with existing pension scheme agreements as well as on national social and labour laws in many Member States.<br><br>In several of the supervisory frameworks, we are concerned that EIOPA suggests that sponsor support could be used to cover only the SCR. There are cases where IORPs have unlimited sponsor support which are - according to the statutes - entitled to choose to pay their sponsor support contribution over a long period regardless of their ability to pay it all immediately. Because the remaining amounts to be paid constitute | |

claims on sponsors, they could immediately be treated as assets on the balance sheet and would hence directly improve the solvency situation. It would be very strange if these claims could not be treated as assets and hence not be used to cover technical provisions.

PensionsEurope emphasises that in those examples where financial assets are required against Level A technical provisions and only SCR may be covered by sponsor support or PPS (i.e. example 1), the main driver of the quantitative impact is expected to be the use of a risk free discount rate for calculating the best estimate of liabilities. The remaining items seem less influential. The consequences would be – as analysed by EIOPA too, see i.e. 5.86, 5.177, 5.179 and 5.188 – an enormous cost increases for sponsors (and not only recognized as balance sheets items for IORPs) as well as detrimental macroeconomic effects result:

- Increased call on business funds, due to the role of employers as guarantors of 'defined benefit' pensions in several EU states
- Consequences of additional funding: significant negative impacts on capital spending, corporate cash flow, corporation tax payments, wages and employment
- More modest impacts on employee pension contributions, procurement, prices and dividend payments

Beyond the economic implications, the material impact on social, co-determination and labour law are hardly acceptable.

Finally, PensionsEurope would strongly argue that the paper should have a further example – example 7 – which would be a 'no change' option (as included in impact assessment options testing of the European Commission for instance). It is disappointing that, throughout the document, there appears to be a presumption in favour of change. 'No change' in some areas should also be available as a policy option.

Again, we note that we think that the SCR is not compatible with the HBS. As all

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| | recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed. | |
| Q100 | **Could example 1, in the view of stakeholders, be used for all IORPs in the EU?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Any assessment of an example supervisory framework would have to take into account by far more detailed definitions and descriptions, an outline of the transitional measures, and the simplifications. Since these points are far from clear, it is very challenging for us to provide a final assessment of any of the presented examples.<br><br>No, example 1 is not at all acceptable. This framework is not usable, since it contains some inconsistent elements. It includes an SCR, some options are left out of the balance sheet, thus causing inconsistencies in the valuation of the options on the HBS including inappropriate uniform recovery periods. As questioned in previous exercises, we do not see any relevance of the risk margin in the context of a non-profit sector.<br><br>In addition to the points raised in Q99, we would like to emphasise that it is important to take into account all implications the HBS proposals and the supervisory response (in general as well as for the individual examples) will have on what employers offer and how it affects coverage. To us it looks like EIOPA is assuming an occupational pension system where membership is mandatory. In many countries this is not the case, and with further unnecessary burdens being imposed on employers offering occupational pensions, provision in those countries is likely to go down.<br><br>We would like to note that we think that the SCR is not compatible with the HBS. As all recovery mechanisms have to be included in order to be able to calculate the HBS, | |

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| | no further recovery plan can be developed.<br><br>Finally, we welcome that EIOPA recognises the negative impact this example might have on long term investments and on the economic development and growth in EU. However, we rather see the consistency with Solvency II as a negative element as applying Solvency II requirements would ignore the specificities of the IORPs (not-for profit, best estimate engagement, triangular relationship IORP/employer/member and beneficiaries, long term investments etc.) which results in an inappropriate framework (risk margin, Var over 1 year, level A etc.).<br><br>In addition, as many of the building blocks of these scenarios were calculated during the last QIS exercise, PensionsEurope wonders if it is not feasible to provide a broad impact of each of these scenarios based on those results. | |
| Q101 | **Do stakeholders have any general comments on (the description of) example 2?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Any assessment of an example supervisory framework would have to take into account by far more detailed definitions and descriptions, an outline of the transitional measures, and the simplifications. Since these points are far from clear, it is very challenging for us to provide a final assessment of any of the presented examples.<br><br>It is not clear to us how the level B technical provision could be combined with market-consistent valuation of the different options in the pension agreement.<br><br>Some options are missing. We question why pension protection schemes and some | |

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| | benefit reduction mechanisms are not taken into account. Again, including an SCR is not appropriate.<br><br>In several of the supervisory frameworks, we are concerned that EIOPA suggests that sponsor support could be used to cover only the SCR. There are cases where IORPs have unlimited sponsor support which are - according to the statutes - entitled to choose to pay their sponsor support contribution over a long period regardless of their ability to pay it all immediately. Because the remaining amounts to be paid constitute claims on sponsors, they could immediately be treated as assets on the balance sheet and would hence directly improve the solvency situation. It would be very strange if these claims could not be treated as assets and hence not be used to cover technical provisions.<br><br>However, defining considerably long recovery periods by the Member States for underfunding situations is the right approach. Example 2 would have to include adequate simplifications and transitional measures. Once again, as stressed in the General Remarks, we emphasise that simplifications might lead to uncomparable outcomes, that is why they have to be carefully designed.<br><br>Recovery plan requirements should be set at the Member State level. As all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed. | |
| Q102 | **Could example 2, in the view of stakeholders, be used for all IORPs in the EU?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>This is not possible to be used for all IORPs in the EU. It is not clear to us how the | |

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| | level B technical provision could be combined with market-consistent valuation of the different options in the pension agreement.<br><br>Some options are missing. We question why pension protection schemes are not taken into account. Again, including an SCR is not appropriate.<br><br>Recovery plan requirements should be set at the Member State level. As all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed.<br><br>In addition, as many of the building blocks of these scenarios were calculated during the last QIS exercise, PensionsEurope wonders if it is not feasible to provide a broad impact of each of these scenarios based on those results. | |
| Q103 | **Do stakeholders have any general comments on (the description of) example 3?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Any assessment of an example supervisory framework would have to take into account by far more detailed definitions and descriptions, an outline of the transitional measures, and the simplifications. Since these points are far from clear, it is very challenging for us to provide a final assessment of any of the presented examples.<br><br>In example 3, the balance sheet intended for capital requirements (the pillar 1 balance sheet) is stated in the text to only cover unconditional elements. However, in the description in table 5.4, three conditional elements are included: ex ante benefit reductions, legally enforceable sponsor support and PPS. Since some conditional | |

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| | elements are left off the balance sheet, ex ante benefit reductions, sponsor support and the PPS will be mispriced. Therefore, the 'pillar 1' framework as presented is not usable in its current form.<br><br>The approach of example 3 with one framework for quantitative requirements and another framework for pillar 2/3 sounds quite complex and bureaucratic, especially if additional national regulation rules also shall apply. The cost-benefit relation is not acceptable. As we understand also the outcomes of pillar 2/3 calculations can result in additional solvency requirements (at least of qualitative character but these could also induce additional capital needs). We therefore reject this alternative.<br><br>The HBS as a risk management tool includes future accrual of benefits and accompanying future contributions. Since it is not clear how these will develop, in addition they will require IORPs to make a lot of additional assumptions about future development of these variables.<br><br>In several of the supervisory frameworks, we are concerned that EIOPA suggests that sponsor support could be used to cover only the SCR. There are cases where IORPs have unlimited sponsor support which are - according to the statutes - entitled to choose to pay their sponsor support contribution over a long period regardless of their ability to pay it all immediately. Because the remaining amounts to be paid constitute claims on sponsors, they could immediately be treated as assets on the balance sheet and would hence directly improve the solvency situation. It would be very strange if these claims could not be treated as assets and hence not be used to cover technical provisions.<br><br>In addition, as many of the building blocks of these scenarios were calculated during the last QIS exercise, PensionsEurope wonders if it is not feasible to provide a broad impact of each of these scenarios based on those results. | |
| Q104 | **Could example 3, in the view of stakeholders, be used for all IORPs in the EU, taking into account national specificities?** | |

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| | *PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>In example 3, the balance sheet intended for capital requirements (the pillar 1 balance sheet) is stated in the text to only cover unconditional elements. However, in the description in table 5.4, three conditional elements are included: ex ante benefit reductions, legally enforceable sponsor support and PPS. Since some conditional elements are left off the balance sheet, ex ante benefit reductions, sponsor support and the PPS will be mispriced. Therefore, the 'pillar 1' framework as presented is not usable in its current form.<br><br>The approach of example 3 with one framework for pillar 1 and another framework for pillar 2/3 sounds quite complex and bureaucratic, especially if additional national regulation rules also shall apply. The cost-benefit relation is not acceptable. As we understand also the outcomes of pillar 2/3 calculations can result in additional solvency requirements (at least of qualitative character but these could also induce additional capital needs).<br><br>In principle, the HBS could possibly be used as a risk management tool, but needs more thought and developing before it is ready to be implemented. One issue is the necessary assumptions. Another thing to keep in mind is that the market value of an option on the HBS is not linked one-on-one to the probability of the option being executed times the size of the event, but also depends on pricing characteristics such as volatility of the financial instruments the scenario set is calibrated on.<br><br>Finally, as it would produce a lot of burden and costs that will negatively influence benefit levels and willingness of sponsors to provide occupational pensions. We therefore reject this alternative. | |

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| Q105 | **Do stakeholders have any general comments on (the description of) example 4?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Any assessment of an example supervisory framework would have to take into account by far more detailed definitions and descriptions, an outline of the transitional measures, and the simplifications. Since these points are far from clear, it is very challenging for us to provide a final assessment of any of the presented examples.<br><br>This framework is not usable, since it contains some inconsistent elements. It includes an SCR, some options are left out of the balance sheet (mixed benefits and pure discretionary benefits), thus causing inconsistencies in valuation of the options on the HBS. We also note that we think that the SCR is not compatible with the HBS (see above).<br><br>However, it is appreciated that under example 4 Level B technical provisions are used to be covered by financial assets and that all security and benefit adjustment mechanisms could be used for covering the SCR + technical provisions. This makes Example 4 the most complete one, but also the most complex and bureaucratic.<br><br>We do not understand why the recovery period shall be 1 year but can be extended through national social and labour law. This opening should also be possible within the national regulatory rules. That said, example 4 and 6 are from our perspective the ones that would less seriously damage existing pension systems. | |
| Q106 | **Could example 4, in the view of stakeholders, be used for all IORPs in the EU?** | |

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| | *PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No. This framework is not usable, since it contains some inconsistent elements . It includes an SCR, some options are left out of the balance sheet (mixed benefits and pure discretionary benefits), thus causing inconsistencies in valuation of the options on the HBS.<br><br>However, together with examples 6 and example 2 with the inclusion of PPS, example 4 would be the less damaging example. It would have to include generous simplifications and transitional measures. Once again, as stressed in the General Remarks, we emphasise that simplifications might lead to uncomparable outcomes, that is why they have to be carefully designed. | |
| Q107 | **Do stakeholders have any general comments on (the description of) example 5?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Any assessment of an example supervisory framework would have to take into account by far more detailed definitions and descriptions, an outline of the transitional measures, and the simplifications. Since these points are far from clear, it is very challenging for us to provide a final assessment of any of the presented examples. | |

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| | The pillar 1 framework in example 5 is not usable, since it contains some inconsistent elements. Some options are left out of the balance sheet (sponsor support, mixed benefits, ex post benefit reductions), thus causing inconsistencies in valuation of the options that are on the HBS. This framework would require a market consistent valuation of technical provisions and for an SCR which is not appropriate for the long-term character of the promises, it is a very complex system.<br><br>For insurance contracts the approach might be adequate as hypothetically all contracts could be cancelled at the same time, for occupational pensions labour law does not allow early cancellations. So the current liabilities cannot be the determining factor. The public disclosure would lead to mis-interpretations by members and beneficiaries since the results are neither easily to explain nor to understand, especially the effects of "market consistent" discount rates (see also Q74). The disclosure requirement is therefore not acceptable for IORPs and their sponsors. And even if a pillar 2 underfunding does not impose directly a higher capital need this could be succeeded by a modification of the pension arrangement.<br><br>If the proposed pillar 2 framework would include an SCR, this is not consistent with the methodology and it is illogical to include an SCR for risk management. The positive side of the pillar 2 framework is that it would include all options (like conditional and mixed benefits, sponsor support and benefit cuts) in the HBS. | |
| Q108 | **Could example 5, in the view of stakeholders, be used for all IORPs in the EU?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>No. | |

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| | The pillar 1 framework in example 5 is not usable, since it contains some inconsistent elements. Some options are left out of the balance sheet (sponsor support, mixed benefits, ex post benefit reductions), thus causing inconsistencies in valuation of the options that are on the HBS. This framework would require a market consistent valuation of technical provisions and for SCR which is not appropriate for the long-term character of the promises. It is a very complex system.<br><br>If the proposed pillar 2 framework would include an SCR, this is not consistent with the methodology and it is illogical to include an SCR in pillar 2. The positive side of the pillar 2 framework is that it would include all options (like conditional and mixed benefits, sponsor support and benefit cuts) in the HBS.<br><br>The HBS is not usable for capital requirements because it excludes options from the balance sheet. The HBS is not usable as a risk management tool as laid down in example 5, as it includes an SCR. We would like to note that we think that the SCR is not compatible with the HBS.<br><br>In addition, as many of the building blocks of these scenarios were calculated during the last QIS exercise, PensionsEurope wonders if it is not feasible to provide a broad impact of each of these scenarios based on those results. | |
| Q109 | **Do stakeholders have any general comments on (the description of) example 6?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>Any assessment of an example supervisory framework would have to take into account by far more detailed definitions and descriptions, an outline of the transitional | |

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| | measures, and the simplifications. Since these points are far from clear, it is very challenging for us to provide a final assessment of any of the presented examples.<br><br>The HBS could possibly be used as an instrument for risk management to obtain more insights in relative risks of the balance sheet, but less complex methods like ALM, continuity analysis and stress tests would better achieve this goal. However, we consider including an SCR in the specifications to be inconsistent and not useful within the HBS methodology.<br><br>From our perspective the Risk Evaluation for Pensions (Article 29) of the fourth IORP II Compromise by the Italian Presidency is sufficient. As a risk management tool the full HBS approach is oversized. Public disclosure for IORPs is not acceptable: In our view, even apart from the incompleteness of the market, the HBS is extremely complex to communicate and interpret, even for pension experts.<br><br>No additional funding requirements would occur by staying with the current IORP Directive rules in pillar 1. However the application of the HBS and SCR calculations in pillar 2 are very costly. It is appreciated that all security mechanisms can be applied – but then the result of a complete funding at all times could be stated without any calculation in case of a strong sponsor/pension protection scheme in place and ex-ante benefit reduction mechanisms. | |
| Q110 | **Could example 6, in the view of stakeholders, be used for all IORPs in the EU?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>If the SCR component were to be left out, there could be potential to use the example as a risk management tool on a EU-wide level. In addition, simplifications and | |

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| | transitional measures should apply. Once again, as stressed in the General Remarks, we emphasise that simplifications might lead to uncomparable outcomes, that is why they have to be carefully designed.<br><br>Finally we note that, especially for smaller IORPs even this approach would bring additional costs that are unjustified given the limited benefits. | |
| 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?**<br><br>*PensionsEurope does not support the Holistic Balance Sheet project: We consider the initiative to be conceptually wrong (see General Remarks) and expect some negative impacts on both micro and macroeconomic levels if the HBS were to be introduced at European level. However PensionsEurope is answering this question in order to help EIOPA develop its policy and ensure the new system – if introduced – is practicable and does not place undue burdens on workplace pension schemes.*<br><br>PensionsEurope welcomes the idea to simplify the HBS in cases where additional security mechanisms are in place. | |