	Summary of Comments on EIOPA-CP-12/003: Draft Technical Specifications QIS of EIOPA's Advice on the Review of the IORP Directive: Consultation Paper Q5 - Q9	EIOPA-BOS-12/086 2 October 2012

EIOPA would like to thank OPSG; AbA; AEIP; Aon Hewitt; Association of British Insurers; Association of Consulting Actuaries UK; Association of French Insurers (FFSA); Balfour Beatty plc; Barnett Waddingham LLP; BASF SE; Bayer AG; Bayerischer Industrieverband Steine und Erden e.V.; BDA; BdS – Bundesverband der Systemgastronomie e.V.; BVPI-ABIP; BlackRock; Bosch Pensionsfonds AG; Bosch-Group; BT Group plc; BTPS Management Ltd; Italian organisations of actuaries; Deloitte; Deutsche Post DHL; Dexia Asset Management; EEF; EAPSPI; EFRP; Federation of the Dutch Pension Funds; Financial Reporting Council; German Confederation of Skilled Crafts; German Institute of Pension Actuaries; GESAMTMETALL; Groupe Consultatif Actuariel Européen; Hundred Group of Finance Directors; IBM Deutschland Pensionsfonds AG; Institute and Faculty of Actuaries; Insurance Europe; KPMG LLP (UK); Mercer Ltd; National Association of Pension Funds (NAPF); Nematrian Limited; Pension Protection Fund, UK; Pensions-Sicherungs-Verein VVaG; Punter Southall; Railways Pension Trustee Company Limited (RPTCL); RWE Pensionsfonds AG; Tesco Plc; Towers Watson B.V.; Towers Watson GmbH; Towers Watson UK; Trades Union Congress; Universities Superannuation Scheme Limited; UVB; vbw; VhU; and Zusatzversorgungskasse des Baugewerbes AG.

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

No.	Name	Reference	Comment	Resolution
1.	OPSG	Q5.	Yes, the OPSG believes that the draft technical specifications provide enough guidance on how to set up and value the HBS. However, there is too little guidance provided on how to calculate the desired value of the adjustments. This requires a lot of interpretation in order to evaluate the steering and adjustments mechanisms. This will lead to large differences in the answers; both from interpreting how and which options should be taken into account, as from the way these options should be calculated. Further, there is too little attention in the draft technical	Noted.

			specifications for the interaction/co-integration between the various steering/adjustment instruments. The value of the different elements out of the HBS cannot always be aggregated. For example, an increase in the value of the sponsor's support will also influence the value of conditional benefits in the concept of a HBS. In order to have a good insight on the actual impact of the QIS exercise, EIOPA should ask for the numbers AND the underlying assumptions from each scheme. The OPSG realises that this more comprehensive analysis makes the QIS more burdensome. Therefore, the OPSG asks whether EIOPA has considered the amount of resources that would be required to supervise this prudential structure. If the HBS were to be implemented as supervisory instrument, who is going to pay for the additional resources to supervise this regime?	
2.	aba Arbeitsgemeinschaft für betriebliche Altersver	Q5.	No. The draft technical specifications do not sufficiently recognize the full variety of schemes that operate in the Member States. Participants will, therefore, interpret the specifications differently leading to figures that are not comparable. In particular the valuation of sponsor support is too complex and impractical and not suited to multi-employer IORPs, quasi-public institutions, non-listed and/or non-rated corporates, subsidiaries of foreign enterprises etc. We are concerned about the reliance on ratings in the computations. There was a clear commitment by representatives	Noted. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time.

			at the G20 summit to reduce the reliance on ratings in financial regulation. This point has been taken up by the OECD in redrafting the Core Principles for Occupational Pension Regulation and the European Commission in its draft revision of the Credit Ratings Regulation. It should be noted that the vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment who often employ low income workers. By making the provision of pensions more expensive for this group of the workforce, EIOPA would be clearly acting against the aims of the European Commission as stated in its recent White Paper.	
3.	AEIP – The European Association of Paritarian Inst	Q5.	No, AEIP does not believe that the draft technical specifications provide enough guidance on how to set up and value the Holistic Balance Sheet. The Holistic Balance Sheet is an interesting and intellectually appealing concept, taking in consideration the peculiarities of IORPs. However, the tool seems far from being functional and efficient. It is likely that in some countries many Holistic Balance Sheets will not be balanced: security mechanisms are calculated to fill the gap between the market value of invested assets and level A technical provisions (HBS.6.42), thus, by construction a deficit equal to safety buffers is possible. Net SCR is not covered by any asset (where there is no PPS, there is no loss absorbing capacity for sponsor default) and the impact of the risk margin is unclear: - either the risk margin is included in level A TP and sponsor support includes capitalizing an insurance company	Partially agreed. The potential use of the level B best estimate of technical provisions is explained in the technical specifications. The assumptions for inflation and salary growth were changed.

			- or it is not included in level A TP and as long as there are less invested assets than TP, the HBS will be in deficit. How will EIOPA interpret such a deficit? EIOPA's base assumption in the way the Holistic Balance Sheet is conceived is to consider that the sponsor can recover a possible surplus against level A technical provisions (HBS.6.21.iii and deterministic valuation, HBS.6.47). In this case, a surplus of invested assets is a liability for the IORP, so it does not improve the deficit and does not allow facing risk margin and capital requirements. Indeed, the only way to meet the risk margin and the SCR is bringing invested assets to a higher level than level A technical provisions and prevent the sponsor to recover any surplus, which means the sponsor pays more contributions than it is committed to (that is, paying pensions and only pensions, no irrecoverable solvency buffer in addition to that). As long as invested assets do not cover level A technical provisions, the improvement to the net balance sheet is close to zero since any rise in invested assets is compensated by a lower sponsor support. As a consequence, there is no incentive to accelerate funding to a level below level A technical provisions. Finally, all the conclusions are very (too) much dependent on sponsor strength and rating everywhere in the HBS: sponsor support, loss absorbing capacity of the SCR and SCR for sponsor default. It is all the more important as the HBS conceived by	

			EIOPA does not provide enough detail on how to treat multi-employer and industry-wide schemes, cases where one sponsor supports several IORPs, or cases where the sponsor is a subsidiary of a larger (stronger) group and has its implicit support. We would also like to remind the European Commission and the EIOPA that there are over 150.000 IORPs in the EU, mostly supported by unrated sponsors (most of the times SMEs). It is not clear why IORPs will be required to calculate either Level A and Level B technical provisions when only Level A TP are needed to calculate the risk margin and the SCR module. Concerning the risk margin we find no necessity to introduce such security mechanism within the regulatory model. The risk margin is considered to level out the additional burden on the capital's return expectations of shareholders if an IORP takes over the liabilities of another IORP in times of distress. Since in continental Europe there are no markets of that kind and since non-for-profit IORPs have no shareholders with capital return expectations calculating a risk margin delivers only an unnecessary additional buffer to be financed by the sponsor. The argument of the usefulness of any additional buffers does not provide economic sense neither: to require sponsor undertakings to finance additional capital buffers would not only interfere with their business investments, i.e. R&D and machinery investments, hampering their productivity and financial results, but, on a larger scale, such impact might cause even greater concerns. Indeed the	

			proposed rule would push IORPs to invest their money in an economically inefficient manner, with a preference (in the current sovereign bond crisis) for low interest rate bearing bonds. This might have a serious impact at EU level, making the EU2020 goals even more difficult to attain. But even if we would consider a risk margin as appropriate, we do question why it has to be calculated with a fixed element of 8%. In such a complex exercise as the proposed QIS, where every element has to be consistent with market values, it seems surprising fixed elements proposed are not justified. The same concept applies to the fixed inflation and salary growth assumptions AEIP also stresses that the methodology to build the Holistic Balance Sheet proposed within the draft technical specifications requires IORPs to make too many assumptions. This gives room to "pseudo-security" and model risk and will eventually hamper the comparability of the results provided by each institution that will implement the QIS. AEIP also finds that the way the whole Holistic Balance Sheet is conceived involves a high model risk. Indeed, any discrepancy in the calculation of the technical provisions (i.e. the way to consider the conditional/discretionary/ and mixed benefits, the valuation of the ex-post benefit reductions) - and also possible mistakes - will reverberate in the calculation of the risk margin and eventually the SCR, hampering the credibility of the tool even further. AEIP proposes that within the actual QIS IORPs should deliver an	

			overview of the legal framework of their operations if they consider this relevant for assessing their security level properly. This regards the whole system of security mechanism including their possibilities and mechanisms of contribution raises, adjustment of accrued rights and last resort benefit reductions. This might support the European Commission and EIOPA in better appreciating the current safety and adjustment mechanisms available for European IORPs. AEIP would also suggest EIOPA to run more than one QIS, since further QISs might be useful to take into account management actions and reactions to the proposed new framework. To run only one QIS would instead provide a "static" picture of the situation of an IORP.	
7.	Aon Hewitt	Q5.	No. We have identified some areas which require additional clarity in our comments on specific paragraphs below. We think some worked examples would help to explain the necessary calculations and may also help to highlight some of the fundamental weaknesses at the heart of the calculations and their application. The key areas where we believe the technical specifications for the holistic balance sheet needs to be improved are: ☐ The derivation and application of sponsor support ☐ The treatment of pension protection schemes ☐ Dealing with inflation and salary increases ☐ The justification of the long-term forward rates ☐ Calculation of discount rate for level B Technical provisions	Noted.

			☐ The inclusion or otherwise of salary increases in Level A Technical Provision ☐ The treatment of pension increase and revaluation subject to caps and collars	
8.	Association of British Insurers	Q5.	The ABI thinks that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet, but doubts its feasibility in practise. The ABI questions how you would achieve realistic assumptions about future profits of the sponsor, and how this could be checked by the supervisors. Furthermore, it is unclear how to assess the future profits of not for profit organisations.	Noted.
9.	Association of Consulting Actuaries UK	Q5.	As stated above, whilst it may be possible to calculate the building blocks of the HBS, without details of the architectural plan in which these building blocks are to be used, there is little point in the process.	Noted.
10.	Barnett Waddingham LLP	Q5.	While we note that EIOPA will provide spreadsheets to assist with some of the calculations, EIOPA or supervisory authorities will likely need to provide additional or country-specific guidance to IORPs (EIOPA has noted that roll-forward methodologies will be one area where such advice is required). Also, while it is possible to undertake the calculations as drafted, we believe that the results will be meaningless for the reasons set out in our responses to other questions.	Noted.

			EIOPA needs to clarify the purpose of the holistic balance sheet and who it is intended for use by. This will impact on the appropriateness, or otherwise, of some of the concepts and parameters. For example, the allowance for salary increases should only be made if the IORP is to be assumed to continue as a going concern.	
11.	BASF SE	Q5.	Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? As discussed in the answer to Question 4, it requires a lot of interpretation in order to calculate the steering and adjustments mechanisms. This will lead to large differences in the answers and consequently to unreliable results. For multi-employer schemes, the HBS is not feasible since it requires the value of each (or most relevant) employer's support for the scheme.	Noted.
12.	Bayer AG	Q5.	No, see answers above.	Noted.
13.	Bayerischer Industrieverband Steine und Erden e.V.	Q5.	We do not agree that the holistic balance sheet approach based on market-consistent valuation is appropriate for IORPs. In particular the valuation of sponsor support is too complex and especially ill-designed for multi-employer IORPs which are often among the largest IORPs.	Noted. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time.

			We are also concerned about the reliance on ratings in the computations. There was a clear commitment by representatives at the G20 summit to reduce the reliance on ratings in financial regulation. This point has been taken up by the OECD in redrafting the Core Principles for Occupational Pension Regulation and the European Commission in its draft revision of the Credit Ratings Directive. It should be noted that the vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. By making the provision of pensions more expensive for this group of the workforce, EIOPA would be clearly acting against the aims of the European Commission as stated in its recent White Paper.	
14.	BDA Bundesvereinigung der Deutschen Arbeitgeberver	Q5.	We do not agree that the holistic balance sheet approach based on market-consistent valuation is appropriate for IORPs. In particular the valuation of sponsor support is too complex and especially ill-designed for multi-employer IORPs which are often among the largest IORPs. We are also concerned about the reliance on ratings in the computations. There was a clear commitment by representatives at the G20 summit to reduce the reliance on ratings in financial regulation. This point has been taken up by the OECD in redrafting the Core Principles for Occupational Pension Regulation and the European Commission in its draft revision of the Credit Ratings Directive. It should be noted that the vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. By making the provision of pensions more expensive for this group of the	Noted. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time.

			workforce, EIOPA would be clearly acting against the aims of the European Commission as stated in its recent White Paper.	
15.	BdS – Bundesverband der Systemgastronomie e.V.	Q5.	We do not agree that the holistic balance sheet approach based on market-consistent valuation is appropriate for IORPs. In particular the valuation of sponsor support is too complex and especially ill-designed for multi-employer IORPs which are often among the largest IORPs. We are also concerned about the reliance on ratings in the computations. There was a clear commitment by representatives at the G20 summit to reduce the reliance on ratings in financial regulation. This point has been taken up by the OECD in redrafting the Core Principles for Occupational Pension Regulation and the European Commission in its draft revision of the Credit Ratings Directive. It should be noted that the vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. By making the provision of pensions more expensive for this group of the workforce, EIOPA would be clearly acting against the aims of the European Commission as stated in its recent White Paper.	Noted. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time.
16.	Belgian Association of Pension Institutions (BVPI-	Q5.	No. We notice still a lot of unclarities – mainly about how to convert these concepts to the specific context of the Belgian social and labour law? The questions are related to segmentation, benefits	Noted. The segmentation of obligations was changed to make clear that all schemes have to be taken into

			and contributions to include, expenses, risk margin, sponsor support, other assets, etc…, as well as to the used terminology (HBS 3.4 closed form solutions, HBS 6.41 run-off value, HBS 6.47 surpluses, etc…). E.g. ☐ In Belgium we currently have a clear split between social labour law and prudential legislation. Social labour law has an impact on the plan rules and the rights of the affiliates. Prudential legislation do impact the plan funding level in the IORP. Not all social labour law requirements are fully prefunded via the IORP e.g. the social labour minimum guarantee of 3.25% on employer contributions in a defined contribution plan require only external (IORP) funding upon leaving, transfer, death or retirement. As social and labour legislation and not the plan as such is requiring an interest guarantee, is it correct to consider the plan as a pure Defined Contribution (DC) benefit without any guarantee in the IORP? ☐ Under Belgian Social and Labour Law retirement benefit plans can be ended or replaced for future service, but in doing so, a dynamic approach will have to be applied, which means that (only for active members), past service benefits in the former plan are to be revalued to take into account salary increases. Stopping a plan without such revaluation of the past services can only be done under exceptional conditions. Are such revaluations to be considered as "accruing new benefits with respect to the future services" , or not? It seems us that the answer is "not", because no new benefits are calculated on the future services. We only have a revalorization of the (stopped) past services, only for active people, and not in all circumstances.	account which include any guarantees to members and beneficiaries irrespective of how these schemes are so far classified in the different Member States.

			If you agree that the answer is "not" the Belgian DB would have to be considered as "type 1". We would have then to apply HBS.4.13 Can we then calculate an ABO our do we have to calculate a PBO ? It seems us that it should be an ABO. If it is a PBO, it would seem us logical to take also account of the contributions corresponding to future salary increases (like in HBS.4.14), but that isn't foreseen in HBS.4.13. ☐ The risk margin o The aim of the provided option is unclear. If the risk margin aims at serving as a buffer for adverse deviation in the assumptions, we believe this part is already included in the capital requirements o In the determination of the risk margin, the link to Cost of Capital is totally irrelevant in the context of not for profit occupational pensions. Any reference to "transfer value to an insurance company" seems arbitrary as it is not clear to us why an insurance solution should be the reference point. o As such the 8% seems to be high and arbitrarily. We would like to invite EIOPA to explain why this number has been developed. ☐ Herewith some examples in the context of the valuation of the sponsor convenant: o We have no information what a recovery plan is looks like although it is part of this valuation (Recovery plan: when? Duration? Etc…) o How to value this concept in the context of Local subsidiaries of multinational groups? How about the context of	

			Industry-wide plans? Multi-employer plans? (How to determine the rating? The company wealth? Multi-employer with/without solidarity? One or multiple holistic balance sheets? Public sector? Non-profit? Etc…) o Will the sponsor (be able to) disclose the necessary information to calculate the sponsor support? (eg. rules on disclosure for listed companies, etc.)	
17.	BlackRock	Q5.	Please see our General Comment above.	Noted.
18.	Bosch Pensionsfonds AG	Q5.	As we outlined in our responses to the EIOPA consultations on the European Commission's Call for Advice, we do not consider the holistic balance sheet a suitable tool for IORPs. It is a far too complex exercise, see "General Comments".	Noted.
19.	Bosch-Group	Q5.	As we outlined in our responses to the EIOPA consultations on the European Commission's Call for Advice, we do not consider the holistic balance sheet a suitable tool for IORPs. It is a far too complex exercise, see "General Comments".	Noted.
20.	BT Group plc	Q5.	Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? As stated earlier, we do not think an overly technical first QIS is the right approach. However, if EIOPA continues to pursue this approach, there needs to be more guidance in several areas to	Partially agreed. The text on the mortality tables to be used was changed. The formula in HBS 7.39 was added.

			ensure that consistent approaches are being taken by all IORPS/ member states. There are numerous examples of unclear wording, including: ☐ "most recent mortality tables" (HBS 4.2) – it is not clear how this should be interpreted and is widely open for different interpretations ☐ in 4.12, we believe that (1) should be amended to apply whether the IORP or sponsor has the possibility to adjust or end the future accrual of benefits ☐ "discounted current recovery plan contributions extended to year d" (HBS 6.36) – the meaning of "extended" should be expanded on ☐ "expected future discounted net profits" (HBS 6.36), which is extremely vague without further guidance Sufficient time does not appear to have been put into producing a useable document and EIOPA must be clear to the Commission on a suitable timetable for the work it is carrying out. It appears a formula has been missed from HBS 7.39 which illustrates the lack of time taken over the document (and raises questions on the level of peer review carried out). As a more general point, the entire QIS is predicated on the IORP carrying out all the calculations and reaching views on subjective parameters (e.g. future mortality improvements) and whether or not to incorporate simplifications or alternative methods. In the	

			UK, the funding regime allows for dialogue and agreement between trustees and employer on suitable assumptions. Under the proposals, there is nothing to stop an IORP creating its HBS with, for example, a nonsensical (and too low) covenant value that has been produced by the simplistic covenant formula. For insurance companies under Solvency II, insurers provide the benefits and carry out their own calculations – whereas in the UK, it is the employer who is providing the benefit (through an IORP). Under the proposals, the calculations are entirely carried out by the IORP and the employer no longer has any input on the methodology. This is a key difference between IORPS and insurers that needs to be recognised within any framework.	
21.	BTPS Management Ltd	Q5.	In many areas it is still unclear how the HBS will be constructed. Many calculations are either unnecessarily complex and if they are simplified as suggested they simply will not produce meaningful results. On sponsor support calculations there is not enough detail, for example, to provide a single value for shareholder funds – a value which could be calculated in a number of different ways with the resulting answers in our case potentially varying by a factor of 20 depending on the methodology chosen. Making assumptions of net profits of sponsors is a complex calculation to make and not all pension schemes will have the access to this sensitive information or access to an expert who can easily calculate it. It is unclear whether we should calculate the sponsor support including or	Partially agreed. The section on inflation and salary growth was changed.

			excluding the recovery payments contributions. We have noted that there are a number of key assumptions and factors built into the models required by the QIS. We wonder what would be the process for updating these as relevant within any regime that emerges, and who will take responsibility for doing this and ensuring the quality of the assumptions chosen to be applied. We note that there will also be significant uncertainty as to the inflation assumption, in simple terms as to which measure of inflation should be applied at any given time. In the UK, this might be either CPI or RPI; the calculation will produce very different results depending on the assumptions made. We note that many elements of the HBS are, despite undertakings from the European Commission, based extremely closely on Solvency II. We believe that many of these are simply not appropriate for IORPs. For example, the relevance of the risk margin is not apparent to us. Again, this will add to the costs of the process for no readily apparent benefit.	
22.	Consiglio Nazionale degli Attuari and Ordine Nazio	Q5.	About the draft Technical Specifications: The instructions for the calculation of technical provision are highly interpretable, and could lead to use very different methods of calculating the benefits to be included in the cash flows, especially for the definition of unconditional, conditional pure, pure discretionary, mixed benefits (accrued only benefits, with or	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.

			without revaluation, fully funded) - Any discrepancy in the calculation of the technical provision (i.e. the way to consider the conditional / discretionary / mixed and benefits, the valuation of the ex-post benefits reductions) will reverberate in the calculation of the Risk Margin and the SCR eventually, hampering the credibility of the tool even further. Calculation of the RM: the three possible interpretations of the risk margin are (1) cost of capital committed to the margin of solvency (2) amount of a surplus of technical provision the IORP would be expected to require in order to take over and transfer pension obligations. (3) risk buffer to cover technical provisions against adverse deviations from the best estimate. Only the third interpretation is applicable to pension funds. The first is not applicable because there isn't an external capital, the second is difficult to be applied because there is not such a market. In light of this, it seems necessary to explain the motivation of the calculation with a fixed element of 8% of best estimate value of technical provisions.	
23.	Deloitte Total Reward and Benefits Limited (UK)	Q5.	As discussed above, it is unclear from the specifications how the different elements will fit together, how the overall holistic balance sheet will be used within the regulatory framework and whether any specific restrictions on individual elements will be imposed e.g. will specific elements on the liability side be required to be matched by specific elements on the asset side? It is impossible to provide comprehensive feedback on the elements of the holistic balance sheet without this wider understanding. In addition, we note that a number of components set out in the technical specifications appear not to be used, e.g. MCR and Level	Noted.

			B liabilities. These additional components further hamper the ability of stakeholders to determine the overall set up and structure of the holistic balance sheet.	
24.	Deutsche Post DHL	Q5.	We do not agree that the holistic balance sheet approach based on market-consistent valuation is appropriate for IORPs. In particular the valuations of sponsor support and PPS are too complex and ill-designed. Please refer to Q2. for further details.	Noted.
25.	Dexia Asset Management	Q5.	Q5. Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? The guidance provided in the QIS is not sufficient to consistently assess the solvency of an IORP and compare IORPs with each other. We provide below examples of situations which remain unclear to us: - The definition of the possibility or not to end the accrual of new benefits should be clarified - In which case is it possible to include a reduction of benefits in case of sponsor default? - How to calculate ex post benefit reduction? - Who sponsors multiemployer IORPs?	Noted.

			- What is the rating of multiemployer schemes? What rating to use when the sponsor is a subsidiary supported by a rated group? - In which case deterministic or stochastic sponsor valuation should be used? With or without the possibility for the sponsor to recover a possible surplus?	
26.	EEF	Q5.	No. We envisage further rounds of domestic (Member States) interpretation and then individual companies being heavily reliant on advice from professional advisors who are very costly. To create a scheme which bears such compliance costs at a time when companies in Europe are under relentless cost pressures is unjustifiable and is a matter that should be covered in a wider impact assessment.	Noted.
27.	European Federation for Retirement Provision (EFRP	Q5.	Q5. Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the HBS as discussed in Chapter 2? If not, which parts could be improved upon and in what way? The EFRP stresses that in many areas it is still rather vague how the HBS will have to be constructed. Many calculations are either complex or in case of suggested simplifications will not provide meaningful results. Moreover, models to apply the HBS will lead to	Noted.

			increased costs for IORPs. Limited guidance is provided on how to value the steering and adjustment mechanisms, whereas these elements differentiate IORPs from insurance companies are relatively new compared to the well-developed Solvency II framework. For a detailed valuation of the steering and adjustment mechanisms a stochastic analysis is required. Guidance with respect to this valuation is missing, which will lead to large differences in the answers related to the same balance sheet items, both as a result of interpreting how and which options should be taken into account, the way these options should be calculated and the (different) simplifications that IORPs will use. Since so many choices can be made, the comparability of data will be difficult, even more so because EIOPA will not have an insight in the underlying calculations. The valuation of sponsor support is especially complex. Moreover, the current specifications are not designed for multi-employer IORPs, undertakings of multinationals and not-for-profit employers. Regarding market consistent valuation, the EFRP warns that it is likely that different organisations/approaches can come up with different results even though all are market consistent. Figures resulting from the QIS are very dependent on assumptions (in calibrating the model etc.) and could therefore be unreliable. The model risk could be quite severe.	
28.	Federation of the Dutch	Q5.	Technically the guidance seems to be sufficient to set up a HBS,	Noted.

	Pension Funds		but there is still much room for interpretation. We are of the opinion that in many areas it is still rather vague how the HBS will have to be set up. Many calculations are either too complex or, in case of suggested simplifications, will not provide meaningful results. If this would be the only QIS (at Lamfalussy Level 1) before the proposal of an IORP II by the European Commission is launched, certainly not all relevant questions can be addressed and clearly answered in one run. EIOPA should ask for even more information and data than it is planning to ask in this up-coming and complex QIS. If the outcome of the first QIS would be unclear, EIOPA will need a second QIS and possibly even more QISs. Therefore the outcome of only one QIS may not be adequate to feed into the impact assessment to be carried out by the European Commission. Insights from the Netherlands with market consistent valuation, demonstrate that it is likely that different organisations/approaches will come up with different results even though all these results are market consistent. Data from the QIS will therefore most likely be unreliable and (very) dependent on assumptions (in calibrating the model etc.). This model risk could be quite severe. EIOPA needs to provide more guidance on this. Limited guidance is also provided on how to value the steering and adjustment mechanisms, whereas these elements are essential for IORPs and new compared to the well-developed Solvency II framework and differentiate IORPs from insurance companies. This	

			will lead to large differences in the answers related to the same balance sheet items, both as a result of interpreting how and which options should be taken into account, the way these options should be calculated and the (different) simplifications that IORPs will use. Since so many choices need to be made, the comparability of data will be difficult. It would therefore be useful to learn from IORPs how they calculate the numbers. They should be asked which underlying assumptions are being used, even though this would require IORPs to deliver even more information. EIOPA is not asking for an indication of the differences between the options in HBS 4.37, i.e. stochastic, deterministic, deterministic + guarantees. Starting with a first simple QIS and gradually deciding on where more sophistication is needed in the next QISs (at Lamfalussy Level 1) would therefore guarantee a better process and results.	
29.	Financial Reporting Council – staff response	Q5.	The specifications for setting up and valuing the holistic balance sheet are probably sufficient. However they might be easier to understand if there were worked examples. These would reduce the risk of misinterpretation of the specification. We note that the specifications anticipate that calculations will be carried out stochastically. The nature and size of most UK defined benefit IORPs is likely to mean that deterministic calculations would be more proportionate and would be sufficiently accurate.	Noted.
30.	German Institute of Pension Actuaries	Q5.	General remarks: 1. The items falling under Q5 are handled in the following	Partially agreed. The text on the mortality tables to be used was

			questions so these are not addressed under this question. 2. To comment on all the details of section 2 would exceed the given frame. We therefore only discuss points of general importance here. In HBS.4.2 it is required that the cash flow projections should be based on the most recent mortality tables which include a future trend in the mortality rate although special mortality tables based on the individual structure of the population of members and beneficiaries of the IORP are applied. In those cases these specific mortality tables of the IORP should be applicable for the cash flow projections too. For the segmentation into pure conditional, pure discretionary and mixed benefits it is very likely that economically similar pension plans will be classified differently in the different member states due to different legal frameworks and different interpretations of the definitions. This is likely to lead to results that will not be comparable (HBS.4.23 - HBS.4.33). The calculation of the best estimate of non-unconditional benefits is very complex and time consuming. A simplification is necessary to reduce work and to achieve comparability between different IORPs and different member states. In HBS.4.47 there are two cases mentioned:	changed. The segmentation of obligations was changed to make clear that all schemes have to be taken into account which include any guarantees to members and beneficiaries irrespective of how these schemes are so far classified in the different Member States.

			a) The sponsor provides unlimited support and a pension protection scheme is in place that guarantees a reduced amount of benefits. b) The sponsor provides unlimited support and there is no pension protection scheme in place. There are countries (e.g. Germany) where the pension protection scheme guarantees essentially the full amount of benefits. In general, the risk margin (c.f. section 2.5.) should be accounted for in the calculation of the technical provisions. It is only an option to drop the risk margin. The general question has to be answered whether the solvency capital requirement (SCR) covers all the risks - including those risks already accounted for in the risk margin - or not. If the SCR covers all the risks then there is no space for an additional risk margin incorporated in the technical provisions. Here too there is an element of double counting. Many IORPs calculate their technical provision as the difference between the present values of all future benefits (including benefits corresponding to future service) minus the present value of future contributions (including contributions for future service). This should be taken into account in connection with the sponsor support (HBS.6.12 and HBS.6.13).	

			Taken as a whole the suggestions for the valuation of the sponsor support are too complex, difficult to understand and many IORP´s will not have the technical ability to perform the necessary calculations.	
31.	GESAMTMETALL - Federation of German employer	Q5.	We do not agree that the holistic balance sheet approach based on market-consistent valuation is appropriate for IORPs. In particular the valuation of sponsor support is too complex and especially ill-designed for multi-employer IORPs which are often among the largest IORPs. We are also concerned about the reliance on ratings in the computations. There was a clear commitment by representatives at the G20 summit to reduce the reliance on ratings in financial regulation. This point has been taken up by the OECD in redrafting the Core Principles for Occupational Pension Regulation and the European Commission in its draft revision of the Credit Ratings Directive. It should be noted that the vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. By making the provision of pensions more expensive for this group of the workforce, EIOPA would be clearly acting against the aims of the European Commission as stated in its recent White Paper.	Noted. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time.
32.	Groupe Consultatif Actuariel Européen	Q5.	Do stakeholders believe that the draft technical specifications provide enough	Noted.

			guidance on how to set up and value the holistic balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? Partly. The technical specifications provide guidance on the implementation of the holistic balance sheet, but they are at a high level: how exactly the implementation of many of the valuation mechanisms should be done does not become clear, other than some general principles such as market consistency. Specifically, permitted ranges for parameter values (for example for means and volatilities used in the valuation of sponsor support and non-unconditional benefits) are missing, so that in practice identical security mechanisms may end having wildly varying values depending on the underlying assumptions in the valuation. The specifications are confusing on the setup with regard to the stochastic simulation, with respect to the asset (scenario) model. Section HBS 3.11 points out that the assumptions "assumes no arbitrage opportunity". However, section HBS 4.58 states that "a stochastic simulation approach would consist of an appropriate market consistent asset model for projections of asset prices and returns (such as equity prices, fixed interest rate and property returns)". The latter seems to suggest a real world scenario set. We think using a risk neutral scenario set is the correct way of valuing the options in the pension contracts.	

			There is no indication of any rules that may constitute the prudential framework that EIOPA envisages with the HBS. Especially, recovery periods, specific use of the MCR and SCR, use of Level A and B liabilities and any required changes to the existing steering mechanisms come to mind as being very important to assess any impact of the HBS. One very important aspect of the valuation of the security mechanisms is not mentioned: the time horizon to be taken into account for the valuation of the options. In section HBS.4.6 the time horizon for the projection of the cashflows is clearly defined. However, the time horizon over which the security mechanisms should be valued is not mentioned. Obviously, the value of the security mechanisms will be heavily influenced by the time horizon chosen (in general, the longer the time horizon, the larger the value of the security mechanism), so some guidance as to EIOPA's thoughts on this issue would be helpful. An obvious choice would be to set the time horizon of the valuation of the security mechanisms equal to the time horizon of the recovery periods. Since no information on recovery periods is provided in the QIS, this means that any relevant recovery period from the current prudential framework could be used. Third, the discussion on conditional and discretionary benefits still leaves room for many different interpretations. The valuation method to be used for mixed benefits is not clear. This is acknowledged in the specifications, but poses a problem in implementing this particular valuation mechanism.	

			To improve the QIS process it would be useful to start with a simple QIS and in further studies extend it to more in-depth and complex areas. To gain insight into the underlying assumptions being used, IORPSs should provide details of those assumptions when performing the QIS. This information can be used for a next QIS.	
33.	Hundred Group of Finance Directors	Q5.	Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? As discussed above, the consultation provides no indication of the regulatory regime of which the holistic balance sheet will form a part, and, as a result, the elements of the holistic balance sheet are effectively meaningless.	Noted.
34.	IBM Deutschland Pensionsfonds AG	Q5.	No. The draft technical specifications do not sufficiently recognize the full variety of schemes that operate in the Member States. Participants will, therefore, interpret the specifications differently leading to figures that are not comparable. In particular the valuation of sponsor support is too complex and impractical and not suited to multi-employer IORPs, quasi-public institutions, non-listed and/or non-rated corporates, subsidiaries of foreign enterprises etc.	Noted. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time.

			We are concerned about the reliance on ratings in the computations. There was a clear commitment by representatives at the G20 summit to reduce the reliance on ratings in financial regulation. This point has been taken up by the OECD in redrafting the Core Principles for Occupational Pension Regulation and the European Commission in its draft revision of the Credit Ratings Directive. It should be noted that the vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment that often employs low income workers. By making the provision of pensions more expensive for this group of the workforce, EIOPA would be clearly acting against the aims of the European Commission as stated in its recent White Paper.	
35.	Institute and Faculty of Actuaries	Q5.	Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? As noted above we doubt that the guidance is sufficiently detailed to result in consistent interpretations between IORPs and between Member States. Moreover we believe that few, if any, UK IORPs use stochastic calculations to the extent envisaged by the draft specification and that setting up valuation systems to do this would be a costly exercise.	Noted.
36.	Insurance Europe	Q5.	Insurance Europe thinks that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet but doubts on its feasibility in practise. Especially for smaller IORPs some guidance should be provided how to use	Noted.

			company own data and parameters. For more information on which parts should be improved, please refer to the paragraph specific responses.	
37.	KPMG LLP (UK)	Q5.	We do not see how to allow for the values of guarantees to IORPs. e.g. where the parent company of a sponsor has guaranteed the pensions liabilities of the sponsoring employer in a group. There also appears to be no allowance for the loss-absorbancy of deferred tax in the sponsoring employer (rather than in the IORP itself, which is not an issue for UK schemes).	Noted.
38.	Mercer Ltd	Q5.	Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? Although there appears to be sufficient information to carry out the proposed calculations, the results produced are not likely to be useful or representative in many cases. That is, the information provided results in too narrow approach and there is not sufficient flexibility given for those cases where the resulting measures do not produce useful outcomes. On the other hand, the approaches proposed are costly to implement and likely to impose disproportionate cost on many IORPs. Many have fairly straightforward benefit structures and investment strategies, and are unlikely to use stochastic models because they will provide very little additional useful information beyond what can be gleaned from deterministic measures and	Partially agreed. An inflation risk module was included in the SCR.

			scenario testing. As mentioned in our response to Q3, often the key determinants of liabilities and economic risks are not included in the QIS. Most significantly, an inflation risk module based on market information should be provided. In many geographies, it is common practice to set assumptions such as salary inflation and expected pension increases by reference to market based parameters such as inflation expectations and we would suggest that the QIS allow this flexibility. We also find the interest rate stress section unsatisfactory, in particular the proposal that a stressed real yield curve is floored at zero percent (given that on December 2011 many real interest rates were negative). Our strong preference would be for separate treatment of nominal interest rates versus inflation. The suggestion that a spreadsheet is provided with the QIS is in our view welcome, in particular if it facilitates simplifications in situations where participants do not have sufficient detail to accurately carry out calculations.	
39.	National Association of Pension Funds (NAPF)	Q5.	Valuation holistic balance sheet Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic	Noted.

			balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? Although larger schemes will be able to make the calculations required for the Holistic Balance Sheet on the basis of the guidance provided, it does not follow that this will be a good use of time or money. As noted in our answer to question 4 above, a average triennial valuation can cost in the region of €51,000-€102,000 - more for the largest schemes.┐ The calculation of the Holistic Balance Sheet would be even more costly, as it would require extra calculations for sponsor covenant, pension protection schemes and Solvency Capital Requirement. With IORPs under a number of severe pressures from market conditions, Quantitative Easing and increasing longevity, these extra burdens are not justified. For some schemes the challenge will be much greater. Multi-employer schemes, for example, would have to incur even greater costs in gathering the information required on the value of each employer's support for the scheme. And it is not clear how publicly funded bodies, such as universities, would go about calculating the Holistic Balance Sheet, particularly the component for sponsor support.There are similar uncertainities in relation to private sector pension schemes where government intervention would be	

			likely if the sponsor were facing insolvency – such as some of the formerly state-owned utility providers. Many elements of the Holistic Balance Sheet are drawn directly from Solvency II and we believe that inadequate consideration has been given as to their suitability for IORPs. For example, the purpose of the Risk Margin is not adequately explained in the context of an IORP.	
40.	Nematrian Limited	Q5.	We think that the proposed methods for incorporating sponsor support and for incorporating pension protection schemes in the HBS could be significantly simplified without materially altering their effectiveness for this QIS. 1. Introductory comments It is first worth noting that if there is an explicit contractual right to sponsor support then the overall value of the (accrued) pension promise to the member is in general underpinned by two security 'mechanisms', although only one is referred to as such in the technical specification. The first such mechanism is the presence of some tangible assets within the IORP. The second is the potential recourse the IORP (and/or its members) has to future contributions from the sponsor.	Noted.

			The asset side of the proposed HBS computation in effect assumes that the 'primary' security members have is the presence of tangible assets (with their presence not being described as a security 'mechanism' as such). The asset side is then expressed as the (market) value of the tangible assets held by the IORP plus an addition corresponding to the value of the extra benefit security arising from the sponsor support. However, we could equally express the computation with the order of these two mechanisms switched around. The asset side of the HBS would then in this second approach be expressed as a value placed on the promise being provided by the sponsor via the IORP plus an addition corresponding to the extra security being provided because this promise is being collateralised by the presence of assets ring-fenced within the IORP. The first approach may be closer to how IORP balance sheets are usually currently formulated but the two are formally equivalent in an economic sense. Arguably, the first approach is more natural for a 'pure' DC arrangement and the second for a 'pure' DB arrangement. Subdividing the asset side of the HBS using the second (i.e. 'pure' DB) approach rather than the first (i.e. 'pure' DC) approach: (a) Makes it easier to identify how in principle to structure the HBS computation (b) Makes it simpler to identify which inputs might have the	

			most impact on the end answers. (c) Highlights a presentational challenge that will require some refinement of the HBS approach being proposed by EIOPA if we want the answers to be meaningful. In the next few sections we describe each of these points in turn and also comment on the input parameters being proposed by EIOPA. 2. Decomposing the HBS into constituent parts Using the second (i.e. 'pure' DB) formulation as above we see that if the IORP has access to sponsor support then the overall economic value of the pension promise to members can be decomposed into three parts: (1) The value of the (accrued) pension promise if it was 'certain' to be honoured. (2) Minus a value representing the fact that the sponsor is not certain to honour the promise, which (if expressed as a proportion of (1)) will depend on the likelihood of default, the magnitude of the accrued liabilities when the sponsor defaults and any recovery that might be received from the sponsor if it defaults.	

			(3) Plus an uplift partially offsetting (2) because if the sponsor defaults then there will be some collateral available (i.e. some tangible assets held by the IORP) that will limit the loss that would otherwise arise in the event of sponsor default. There are several possible ways of valuing (1). If we assume that the liability cash flows are known then the (market consistent) value of (1) might be determined by applying appropriate (risk-free) discount rates to these cash flows. When the liability cash flows are not certain then a market consistent approach would seek to identify some way in which the liabilities could be replicated by assets whose market prices could be reliably determined. If this is not possible then the methodology would typically revert to a best estimate plus risk margin type approach e.g. as per what is currently proposed in HBS.3.2 and HBS.5.2. In this context, we note that in some member states, e.g. UK, part of the role of the IORP actuary is to estimate the discontinuance position of the IORP, usually understood to refer to the probable buy-out cost were the IORP's liabilities transferred to an insurer. We think that these estimates if available and sufficiently reliable should replace the best estimate + risk margin computation in HBS3.2 and HBS 5.2, on the grounds that such a value can be viewed as corresponding to the market consistent value of the	

			(accrued wind-up) liabilities. If EIOPA do not consider these values to be sufficiently reliable to replace the proposed best estimate + risk margin approach then we would recommend that EIOPA analyse how these sorts of discontinuance values typically compare with the proposed best estimate + risk margin approach. If there is a significant difference then the rationale for using a best estimate plus risk margin computation may be weakened. In the comments below we call the value of the liabilities calculated either as above or using a best estimate plus risk margin approach as the "accrued liability valuation" irrespective of how EIOPA wishes to respond to this point. In line with traditional credit risk pricing techniques, the (market consistent) value of (2) and (3) combined can be determined by determining for each future year an expected probability of default (PD), an expected loss given default before allowing for possible recoveries (LGD) and an expected recovery rate (R) and then summing PD x LGD x (1-R) for each future year (the probabilities etc. being selected in a market consistent manner). In such a computation the value of (2) and (3) combined can be expected to be negative, with (3) partially offsetting (2) because the presence of collateral in the form of tangible assets within the IORP should reduce the LGD. In such a computation we may calculate the depletion, D, in the overall value of the pension promise to members relative to its value if it were provided by an entity certain to honour the promise. D = ((1) – (2) + (3)) / (1). In broad terms D might be viewed as corresponding to the 'security' of the pension promise (expressed as a percentage),	

			although see comments on SCR in section 6 below. 3. Identifying the factors to which the HBS is most sensitive Ignoring other security mechanisms, D will depend on the following factors: (i) How likely the sponsor is to default (i.e. the assumed PD). (ii) How big the LGD before recoveries might be in the future. (iii) How large might be any recoveries from the sponsor in the event of sponsor default. (iv) The extent of interdependencies between the above. Probabilities of default The proposed PDs in HBS.6.15 range from 0.002% pa (AAA) to 4.175% pa (CCC or below or unrated), i.e. EIOPA appear to be expecting them to vary by 2000-fold across different types of sponsor. This is a very large range relative to the probable ranges of all other potential drivers likely to influence the value of D.	

			However, there are two weaknesses with the proposed PDs in HBS.6.15: (i) A fully market consistent approach of the sort EIOPA appears to want to adopt would aim where possible to determine PDs (in combination with recovery rates) by reference to current market observables, e.g. current bond spreads or CDS premium rates. This would result in PDs that change through time and do not necessarily correspond with the current credit rating ascribed to the sponsor. In contrast, EIOPA's current proposals involve static PDs assigned to different (current) credit ratings, presumably in part derived from historic data. We recommend that EIOPA explore whether it would be appropriate to incorporate greater market consistency in their selection of PDs or at least benchmark their proposals against PDs derived from such observables to the extent that this is practical. For example, even if rates for individual sponsors were for convenience to be derived from PDs of the sort currently proposed in the QIS, these could be scaled up or down so that at any given point in time on average they corresponded to then average observed credit spreads. (ii) PDs for an individual sponsor do not typically stay unchanged through time. Even ignoring the point made in (i), the risk of default over the coming year for say a AAA rated credit may be small, but a currently AAA rated credit is cumulatively quite likely to be materially downgraded over the lifetime of the IORP's liabilities and therefore its likelihood of defaulting is likely	

			to rise materially through time. The appropriate long term average annual PD to ascribe to it may therefore be materially higher than its current year likelihood of default. The opposite effect applies to currently very poorly rated credits. Ratings-based credit risk models generally take this effect into account by including a transition matrix that specifies the likelihood of an entity currently in one rating category moving to another rating category over the coming year. If PDs are to be derived from credit ratings then we would recommend that such a refinement is incorporated in the computation. Incorporating a transition matrix can reduce substantially the effective range of possible (time-averaged) PDs. Our preliminary analyses suggest that the original 2000-fold range might reduce to the order of a 20-fold range if a plausible transition matrix based on historic data was used, although the resulting range is still large relative to plausible ranges of most other potential factors influencing the value of D. Magnitudes of future LGDs Ignoring any interdependency between the PDs and the LGDs, we may note that in nearly all cases the PD x LGD computation will extend over a considerable timeframe, so particularly important will be the LGD some years into the future. Less important in general will be its size now, except to the extent that the current size of the LGD may influence its future size. In nearly all cases the cumulative value of PD x LGD over, say, 5 – 20 years from the	

			valuation date will be much higher than the value of PD x LGD for just the coming year given almost all plausible ways in which the LGD might evolve. Implicit, therefore, in any HBS that includes sponsor support will be some assumed trajectory through time in the LGD. It is the nature of this trajectory some years out, combined with the PDs, that will dominate the computation rather than the precise value now of the LGD. The trajectory is inherently uncertain as it depends on a wide range of management actions most of which will not be specified or specifiable in advance. It will therefore almost certainly be necessary to assume that it follows some sort of stylised behaviour if it is to be practical to compute a value for sponsor support in the HBS. One such stylised behaviour is specified in the QIS but it is in places difficult to follow or more complicated than we think is necessary. We would suggest consideration be given to the following simplifications: (i) Allowance for explicit extra short term contributions promised by the sponsor: Arguably, these are more 'certain' to be paid to the IORP by the sponsor than other more general contributions. To the extent that these extra short-term contributions exceed those required to provide for additional benefits being accrued over the same timescale, and to the extent that they are sufficiently 'short-term' (perhaps within a time horizon specified by EIOPA) we would suggest that their impact is approximated by reducing the LGD at outset by their present value.	

			(ii) Trajectory for LGD thereafter: Some possible deterministic approaches are set out below: (a) Perhaps the simplest approach is one in which contributions are set in a manner that results in being constant until all the liabilities are paid off where is the amount of (tangible) assets available (now, adjusted as per (i)) and is the accrued liability valuation (now). Suppose now is , is the present value (now) of the liability cash flows falling due in the year from to (so is the present value of the liability cash flows in the coming year), is the present value of liability cash flows falling due from onwards, is the loss given default at time ignoring recoveries and is the number of years over which . Then . Suppose also that is the amount of tangible assets assumed to be present at time . Then in this approach and satisfies the following: (b) A more complicated although not necessarily more reliable approach involves separately determining the extra contributions needed for each future year's cash flow and assuming that these contributions are spread evenly in present value terms between	

			now and when that cash flow becomes due. The same formula for applies as per (a) except that now satisfies the following: (c) An alternative to (b) is to assume that the extra contributions needed for every single future year's liability cash flows are paid evenly in monetary terms between now and the average duration of the total liabilities. This requires an additional input, , the discount rate used to spread present values evenly in monetary terms rather than in present value terms and also involves computing , the average duration of the liabilities. This appears to be the deterministic simplification currently being proposed by EIOPA. However, it seems to be more complex than (b) as the LGD still depends on individual years' cash flows. The same formula for applies as per (a) except that now satisfies the following: where rounded up to the nearest higher integer, say, and	

			Arguably there should be some constraints on the form of the sponsor support to allow any of the above approaches to be adopted. For example, there might need to be a reasonable expectation that the sponsor would make good deficits through time. If not, IORPs might for example be required to assume that the PV (now) of the LGD remains constant through time until the last cash flow is paid (rather than the LGD trending downwards as the cash flows fall due). Recovery rate in the event that the sponsor defaults These will in principle depend on the priority that the IORP has (versus other creditors) over any residual sponsor value in the event of sponsor default. Ratings-based credit risk models quite commonly assume a similar or identical constant recovery rate, R, across multiple different entities (often 40% or 50%). This in the main seems to be what EIOPA is proposing here (the 50% referred to in HBS.6.17 seems to have been based on Solvency II QIS5 which in turn seems to have been based on rating agency historical data). However, the average recovery for an IORP may not be the same as for the types of creditors underlying the historic data on which EIOPA's assumptions seem to be based. We suggest either that the recovery rate assumptions adopted in this QIS are reviewed with this in mind or that EIOPA takes this factor into account when drawing conclusions from the results of the QIS. Interdependencies between PD, LGD and R	

			In theory, the PDs, LGDs and Rs are not independent of each other. A particularly important issue here is that this dependency can be expected to vary according to how large the IORP is relative to its sponsor. In the extreme case where the sponsor is negligible in size relative to the IORP then the sponsor PD may be almost 100% correlated with the LGD being positive and R may be almost zero. In the other extreme case where the IORP is negligible in size relative to the sponsor then there may be relatively little correlation between sponsor PD, LGD and R (although probably not zero correlation as all three may be influenced by common underlying economic factors). Even when the IORP is small relative to the sponsor, handling such dependencies in theory requires the LGD and PD trajectories to be jointly projected in a stochastic rather than a deterministic manner but this would considerably complicate the QIS. The underlying simulation technology and expertise is not currently widely available to IORP industry participants. Moreover, identifying appropriate assumptions to use in such simulations would still be challenging even if the underlying simulation technology and expertise was readily available. In practice, a deterministic approach perhaps with some compensating adjustment to PDs introduced by EIOPA is likely to be the most practical approach for this QIS. More important, probably, is to handle the potential dependency on sponsor size (relative to IORP size). The approach currently	

			being proposed by EIOPA tries to tackle this issue by identifying a maximum (prudent) available sponsor support value (derived primarily from historic balance sheet and P&L data) and in effect limiting the value that can be ascribed to sponsor support in the HBS to this maximum available sponsor support value. Given the uncertainties involved and given the purpose of the QIS, tackling this issue by placing some maximum value on sponsor support seems reasonable to us although we think that identifying any formulaic way of determining this maximum value is inherently challenging. Whether the methodology currently proposed in this respect by EIOPA is likely to prove contentious is unclear to us. Reaction is likely to be driven strongly by any sponsors who think they may be materially discriminated against by the proposed methodology. An impression that can be gained by reading the current QIS specification is that there is a complicated interaction between this and other aspects of the sponsor support valuation. We would suggest reordering the QIS to make the computation easier to follow and perhaps simpler. This involves having the PD x LGD computation as above specified first (including a primary focus on a suitable deterministic simplification) and then limiting the resulting value ascribed to sponsor support to a maximum available sponsor support value derived in some suitable fashion. 4. Presentational challenge arising with sponsor support within the HBS	

			The inclusion of sponsor support within a HBS introduces a presentational challenge. The main reason is that the total economic (and hence market consistent) value of the tangible assets plus sponsor support shown in the HBS, i.e. 2(1) – 2(2) + 2(3), can be expected in general to be less than the value of the accrued liabilities discounted using a risk-free yield curve, i.e. 2(1) in isolation. This is because benefits will in general be lower if the sponsor defaults. However, given the way in which the QIS is specified, the value placed on the liabilities will be 2(1). So, all other things being equal, the value of the assets in the HBS including the sponsor support will be less than the value of the liabilities in the HBS (if A < L) however well-resourced is the IORP. This contrasts with a typical insurance company balance sheet which will in general have the total value of assets greater than the total value of the liabilities by at least the SCR if it is to be deemed adequately capitalised. We would suggest addressing this issue in cases where there is a contractual right to sponsor support in the following manner. Added to the asset side of the HBS or deducted from the liability side would be an adjustment. This adjustment would equal the value of the accrued liabilities calculated assuming a zero likelihood of non-payment less the (lower) value of the same accrued liabilities but calculated assuming some specific non-zero likelihood of non-payment. The specified non-zero likelihood of non-payment used in this computation would be chosen to reflect	

			an agreed view about how risky a pension promise being provided by an adequately resourced IORP 'should' be. The adjustment is easy to quantify as long as liability cash flows by year of payment are available as it involves calculating their present value using two different discount rates/yield curves. For example, the 'target' likelihood of non-payment might be set at 0.5% per annum, notionally corresponding to a 1 in 200 year target (perhaps then with some assumed partial payment level if non-payment was triggered), or at some amount calibrated by reference to the current average IORP position. Alternatively, the target could be set in a manner that varies across time in a counter-cyclical manner along the lines described in Kemp, M.H.D. (2009), Market consistency: model calibration in imperfect markets, if it was desired to limit the extent to which a focus on market consistency might otherwise create pro-cyclical effects. With such an adjustment, a HBS surplus would indicate that the IORP was better than adequately resourced (taking into account all applicable benefit security mechanisms) whilst a deficit would indicate that it was worse than adequately resourced, according to some agreed (but possibly time-varying) criterion for 'adequate'. In theory the same sort of adjustment is also needed even when no sponsor support is present. However it is implicit in the proposal that the accrued liability valuation be derived from the cost of buying out these liabilities with an insurance company. 'Adequate' is then in effect being defined by reference to having	

			sufficient assets to buy out the liabilities in this manner. 5. Pension protection schemes Taking account of pension protection schemes (PPSs) in the HBS has advantages and disadvantages. A disadvantage is that it could lead to moral hazard. An advantage is that it better reflects the benefit security actually present as far as members are concerned. If EIOPA deem it appropriate to take account of PPSs in the HBS then the approach currently proposed in the QIS in broad terms makes sense. However, we would suggest that the actual mechanics are again simplified (and in certain respects caveated) in a similar manner to the approach proposed above for sponsor support. We would propose that: (a) A suitable (annual) PD would be identified for each relevant PPS. These PDs will presumably need to be identified by EIOPA bearing in mind that there is some non-zero but hopefully small risk of a systemic crisis for an entire member state's occupational pension provision. (b) The current value of the accrued benefits covered by the PPS as a fraction of the current value of total accrued benefits would be calculated.	

			(c) Unless manifestly inappropriate, the fraction in (b) would be assumed to remain constant through time when determining the LGD arising were the sponsor to default. This is akin to the simplest deterministic approach we have suggested above for the sponsor covenant. (d) The same broad approach suggested for including the sponsor covenant as a security mechanism can then be used for the PPS. This would still merely involve a tabulation of PVs (now) of accrued liability cash flows by year of payment coupled with elements not dependent on an IORP's own liabilities. The latter would now include the fraction calculated as per (c) above plus a more complicated probability tree as per the one in HBS.6.78. In these circumstances an adjustment similar to the one noted is section 4 above would be necessary if it has not already been introduced when incorporating sponsor support within the HBS. In principle caveats are needed to distinguish a PPS from other more general types of insurance arrangements. Probably most or all member state PPSs as conventionally understood would meet the relevant criteria so these caveats are not likely in practice to present an issue. Specifically, for an arrangement to be considered a PPS it should in effect be required to provide guaranteed continuing coverage probably for the entire lifetime of the liabilities and there should also be some reasonable expectation that the premiums or levies the PPS charges will be met from additional sponsor contributions broadly as they are levied.	

			Sponsor default needs to trigger mandatory transfer of benefits from the IORP to some suitably protected structure. This could involve buyout with an insurance company or could involve retention of assets and liabilities by the PPS. If the PPS typically retains the assets and liabilities itself (which is the case in some member states e.g. UK) then in principle there should be a further caveat since not all PPSs are themselves (EU-domiciled) insurance companies. In principle the PPS needs to be deemed by EIOPA to be sufficiently well-resourced to be able to transfer its own accrued liabilities to an insurance company whenever it wanted to. If this is not the case then in principle the PPS support conditional on the sponsor defaulting in a particular year should be valued by reference to subsequent years' liability cash flows and likelihoods of the PPS subsequently defaulting, in much the same sort of manner as described above for the original sponsor support. 6. SCR The HBS methodology proposed by EIOPA and the further simplifications proposed above implicitly assume that IORP members view a security mechanism through its (market consistent) value (to them). Without some further element it thus implicitly assumes that IORP members have infinitely-well diversified credit exposures, including any to the sponsors of IORPs introduced via their IORP benefit entitlements.	

			This in practice will not be the case. Therefore, we might expect the capital computation to include some penalty, e.g. via a capital requirement in the SCR computation, corresponding to the dis-utility arising from concentration towards a single credit, here the sponsor (and perhaps also the PPS). There is in our opinion no theoretically correct way of determining the overall level of this additional capital requirement. Some individual members may have benefits from many different IORPs by the time they retire and may have other assets that provide diversification. For these members the appropriate SCR concentration charge as a proportion of the accrued liability valuation may be close to zero. Other individual members may have all of their IORP benefits coming from a single IORP and may have little else by way of assets to sustain them in retirement. A more significant SCR concentration charge may be appropriate for them. There is no practical way of ascertaining where within this spectrum any such charge 'ought' to be set. Any theoretically correct aggregate level for an IORP may not be the same as the corresponding level for an insurer (or for another financial services entity). However, all other things being equal, some dependency on credit rating is to be expected. It would be reasonable for any SCR concentration add-on to be lower for more highly rated exposures, as the risks involved are then less likely to materialise. For schemes relying materially on sponsor support, the	

			contribution to the SCR arising from sponsor default risk may be sizeable in comparison with other risks covered by the SCR. We therefore recommend that the in the SCR computation sponsor default risk be carved out into a separate risk module distinct from all other counterparty risk elements. In the light of the above we also suggest that EIOPA is open-minded about how to calculate the capital charge for sponsor default risk. We note that the concentration capital add-on currently being proposed if the IORP had no other type 1 counterparty exposures appears to be as follows: Rating PD (%) (%) (% of LGD after allowing for recoveries) AAA .002 0.4 1.3 AA .01	

			1.0 3.0 A .05 2.2 6.7 BBB .24 4.9 14.7 BB 1.2 10.9 54.4 B or lower (or unrated excl. Solvency II insurers) 4.175 20.0	

			100.0 For the lowest rated categories and for most unrated sponsors the proposed capital charge seems likely to be quite onerous for IORPs. Please bear in mind that there may be many unrated sponsors for smaller IORPs. We hope shortly to provide EIOPA with and/or make available via www.nematrian.com a spreadsheet illustrating how this component of the proposed SCR methodology would interact with other elements of the HBS as described above. Our preliminary analysis suggests that it would result in sponsor support being deemed largely useless as a security mechanism for any IORP that was less than fully funded and had a sponsor rated BB or below (or unrated and not a Solvency II insurer) for any of the LGD trajectories described in section 3 (including the one currently proposed by EIOPA). 7. Other comments Part of the HBS computations proposed by EIOPA involves discounting using two different discount yield curves, a level A computation that is designed to be 'risk-free' and a level B computation that involves a higher return (and therefore lower liability) based on an assumed equity risk premium and an	

			assumed simplified strategic asset mix. We understand that the level B computation is in effect designed to provide a signal that would highlight if the IORP was underfunded by such an extent that it would not be 'self-sufficient' even with some assumed level of equity risk premium. We question whether the additional complexity introduced by the level B computation or rather by how it is currently set and justified in the proposed QIS is helpful. Relying on some (risky) equity risk premium or other source of outperformance implicitly involves higher risk of non-delivery except in relation to conditional benefits that depend on asset returns. So reducing the value placed on the accrued liabilities by using a higher discount rate implicitly involves placing a greater reliance on other security mechanisms, i.e. reduces the value we should place on sponsor support in the HBS (and, if appropriate, on any applicable PPS). Indeed, in the deterministic simplifications suggested above the adjustments would be exactly offsetting. This is because the LGD in the event of sponsor default is in effect assumed to decay through time in a manner that assumes that extra returns generated on any assets present within the IORP accrue to the sponsor (by way of future adjustments to its contributions) rather than to IORP members. So the extra returns assumed to arise in the Level B do not over the longer term actually improve members' benefit security materially.	

			In a formal sense, including a level B computation alongside a level A computation seems to be akin to the adjustment proposed in section 4 above. However, the justification for the differential and hence its probable magnitude is different. Following the logic described in section 4 it should ideally be set in a manner that corresponds to an 'adequate' level of security (possibly time varying) for the pension promise according to some definition of 'adequate'. This does not necessarily have any direct link with the expected long-term outperformance we might expect equities to exhibit versus bonds. 8. Conclusions We recommend that: (a) The current best estimate plus risk margin approach to calculating the value of the accrued liabilities should be replaced by the estimated cost of buying out the accrued benefits with an insurer (subject to Solvency II), if such a costing is readily available and can be reliably estimated. (b) The section on sponsor support should be reworded to focus on a computation that derives the value of the sponsor covenant by reference to assumed future probabilities of default (PDs) and losses given default (LGDs) subject to an upper limit set by reference to some assumed maximum available sponsor support, rather than vice versa.	

			(c) In the component of the sponsor support derived from PDs and LGDs: (1) The PDs should reflect the possibility that the sponsor could move between ratings categories via a transition matrix and ideally should be more market consistent than presently proposed. (2) Given inherent uncertainties in longer-term trajectories of the LGDs and given the purpose of this QIS, the derivation of the LGDs for this QIS should focus largely on a deterministic approach, only reverting to a stochastic approach if the deterministic approach seems manifestly inappropriate. This topic could be reviewed if proposals for regulatory change arise as a result of the QIS. The likely long lead times involved would then give the IORP industry more time to develop the relevant systems and expertise needed for greater use of stochastic simulations. Some further simplifications can be introduced to the deterministic approach currently being proposed without materially altering its effectiveness for the purposes of this QIS. We recommend that these simplifications are incorporated in the final QIS. (d) In the component of the sponsor support involving determination of an appropriate assumed maximum available sponsor support EIOPA should be prepared to explore alternative approaches depending on the numbers and types of sponsor most likely to be affected by selected methodologies.	

			(e) If EIOPA deem it appropriate to include PPS coverage within the HBS then further simplifications similar to those suggested in (c)(2) but applied to the PPS should be considered. The mathematics is also simplified if the computations can assume that on sponsor default the PPS buys out covered benefits with an insurance company or an equivalently resourced entity. If this buy-out entity is the PPS itself then in principle EIOPA should confirm that the relevant PPS has suitable capital resources to support such buy-outs in cases where the PPS is not itself an insurance company. (f) It would be desirable to clarify what a contractual right to sponsor support (or to a PPS if it is deemed appropriate) needs to exhibit to constitute a 'security mechanism' in the context of the HBS. In particular, these mechanisms need to have a long-term dynamic, e.g. they need to be guaranteed to apply for say the lifetime of the liabilities (if the provider of the support mechanism does not default in the meantime) rather than e.g. merely being potentially renegotiable on an IORP/sponsor specific basis year-on-year with no guarantee of renewal. (g) Where IORPS have a contractual right to sponsor support (or to a PPS if deemed appropriate) then a notional credit should be included in the HBS so that the overall result indicates whether the IORP is better or worse than adequately resourced (taking into account all applicable benefit security mechanisms) according to some agreed (but possibly time-varying) criterion for 'adequate'. The mathematics involved is in a formal sense similar to the differential currently being proposed between level A and level B	

			discount rates. However the justification is different and therefore the size of the differential is unlikely to be in line with the differential implicitly included in EIOPA's current proposals. (h) For IORPs with a contractual right to sponsor support the calibration of the contribution to the SCR from sponsor default risk may prove contentious. It would be desirable to separate out sponsor default risk into a separate risk module and to recalibrate its computation. The simplifications proposed above appear to allow the sponsor support component of the HBS (and the PPS component if it is deemed appropriate to include such a component) to be approximated using a relatively straightforward spreadsheet. This assumes that a subdivision by year of payment of the accrued liability valuation is readily available (and that suitable sponsor/PPS PD and recovery assumptions and maximum available sponsor support computations are also readily available).	
41.	Punter Southall	Q5.	Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? The focus of the QIS is limited only to the holistic balance sheet and does not consider the regulatory actions that would be triggered should the holistic balance sheet not balance. In the absence of this information, it is impossible to comment on the adequacy of the guidance on how to set up and value the holistic	Noted.

			balance sheet as discussed in Chapter 2.	
42.	Railways Pension Trustee Company Limited (RPTCL)	Q5.	RPTCL doubts that the guidance is sufficiently detailed to enable different IORPs and different Member States to interpret it in a consistent manner. Within HBS.4.12, RPTCL notes the possibility of additional fact-finding being carried out relating to the possibility of the ending of a scheme/contract. RPTCL believes that it should be clarified that 1 applies where the IORP or the sponsor (or both parties, in agreement) has the possibility to adjust or end the future accrual of benefits. In our particular case, RPTCL's IORPs have members who need to be provided with a certain level of future service benefit as a consequence of legislative requirements, although the members themselves can opt to waive some or all of these future service rights. For example, members can be offered the choice of waiving aspects of their future service rights if the contributions otherwise required of them become unaffordable and, in practice, some members have already made such an election. As it stands, the technical specifications do not appear to allow for this type of scenario, so RPTCL believes that it should be given consideration.	Noted.
43.	RWE Pensionsfonds AG	Q5.	Any reference to QIS 5 for Solvency II should be avoided as no IORP needs to have that knowledge. It would be much more usefull to include the relevant content in this QIS directly.	Noted.

			Formulas for Sponsor Support and Pension Protection Systems suggest some spurious accuracy which is combined with seemingly arbitrary variables applied at critical points. As a consequence, in our opinion more simple and intuitive methods to value sponsor support should be considered.	
46.	Tesco Plc	Q5.	No. As discussed above, the consultation provides no indication of how the HBS will be used in practice and as a result the guidance on how to set up and value the HBS is effectively meaningless. Furthermore, we are unable to comment on the guidance as we would need to outsource valuation of the Holistic Balance Sheet to consultants or actuaries at significant cost. The calculations are far too complex and resource-intensive to carry out internally, and would add an additional layer of complexity to the existing UK funding framework.	Noted.
47.	Towers Watson B.V.	Q5.	Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? Our experience with helping insurers understand and implement the requirements of Solvency II suggests that setting up valuation systems to carry out stochastic calculations for discretionary benefits would be a non-trivial and therefore costly exercise.	Noted.

			We also repeat comments made earlier that ☐ we doubt that the guidance is sufficiently detailed to result in consistent interpretations between IORPs and between Member States ☐ a series of, increasingly sophisticated, QISs would be a much better approach.	
48.	Towers Watson GmbH, Germany	Q5.	Our experience with helping insurers understand and implement the requirements of Solvency II suggests that setting up valuation systems to carry out stochastic calculations for discretionary benefits would be a non-trivial and therefore costly exercise. We also repeat comments made earlier that ☐ we doubt that – in places – the guidance is sufficiently detailed to result in consistent interpretations between IORPs and between Member States ☐ a series of, increasingly sophisticated, QISs would be a much better approach.	Noted.
49.	Towers Watson UK	Q5.	Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? Our experience with helping insurers understand and implement	Noted.

			the requirements of Solvency II suggests that setting up valuation systems to carry out stochastic calculations for discretionary benefits would be a substantial and costly exercise. We also repeat comments made earlier that ☐ we doubt that the guidance is sufficiently detailed to result in consistent interpretations between IORPs and between Member States ☐ a series of increasingly sophisticated, QISs would be a much better approach. In HBS 4.12, in our view it should be clarified that 1. applies where the IORP or the sponsor has the possibility to adjust or end the future accrual of benefits, including in circumstances where the IORP is itself terminated. In HBS 7.39, the simplified formula appears to be missing.	
50.	Trades Union Congress (TUC)	Q5.	Even where schemes are able make the calculations required, it does not follow that this will be a good use of their resources. Furthermore, it is likely that some schemes will have great difficulty making the calculations required, such as multi-employer schemes, and schemes for publicly funded bodies such as universities.	Noted.
51.	Universities Superannuation Scheme Limited	Q5.	Valuation holistic balance sheet Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic	Partially noted. The section on inflation and salary growth was changed.

			balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way? The company's first comment is to say that many of the sections of the draft technical specifications are complex and difficult to interpret, especially given the unhelpful inclusion of insurance jargon carried across from the solvency II QIS for insurers. For some schemes the challenge will be much greater. Multi-employer schemes, for example, would have to incur even greater costs in gathering the information required on the value of each employer's support for the scheme, and many schemes in the UK are multi-employer in nature (either through associated or non-associated employers). And it is not clear how partly publicly funded bodies, such as universities, would go about calculating the Holistic Balance Sheet, particularly the component for sponsor support. Many elements of the Holistic Balance Sheet are drawn directly from Solvency II and are inappropriate for IORPs. For example, the purpose of the risk margin is not adequately explained in an IORP context, but it is clearly a principle which has relevance for insurers. In terms of a specific detail, it is not clear from the draft technical specifications whether allowances for future salary increases should be valued as part of the assessment of technical provisions,	

			or whether these are conditional or discretionary benefits for these purposes.	
52.	UVB Vereinigung der Unternehmensverbände in Berlin	Q5.	We do not agree that the holistic balance sheet approach based on market-consistent valuation is appropriate for IORPs. In particular the valuation of sponsor support is too complex and especially ill-designed for multi-employer IORPs which are often among the largest IORPs. We are also concerned about the reliance on ratings in the computations. There was a clear commitment by representatives at the G20 summit to reduce the reliance on ratings in financial regulation. This point has been taken up by the OECD in redrafting the Core Principles for Occupational Pension Regulation and the European Commission in its draft revision of the Credit Ratings Directive. It should be noted that the vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. By making the provision of pensions more expensive for this group of the workforce, EIOPA would be clearly acting against the aims of the European Commission as stated in its recent White Paper.	Noted. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time.
53.	vbw – Vereinigung der Bayerischen Wirtschaft e. V.	Q5.	We do not agree that the holistic balance sheet approach based on market-consistent valuation is appropriate for IORPs. In particular the valuation of sponsor support is too complex and especially ill-designed for multi-employer IORPs which are often among the largest IORPs.	Noted. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time.

			We are also concerned about the reliance on ratings in the computations. There was a clear commitment by representatives at the G20 summit to reduce the reliance on ratings in financial regulation. This point has been taken up by the OECD in redrafting the Core Principles for Occupational Pension Regulation and the European Commission in its draft revision of the Credit Ratings Directive. It should be noted that the vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. By making the provision of pensions more expensive for this group of the workforce, EIOPA would be clearly acting against the aims of the European Commission as stated in its recent White Paper.	
54.	Vereinigung der hessischen Unternehmerverbände (Vh	Q5.	We do not agree that the holistic balance sheet approach based on market-consistent valuation is appropriate for IORPs. In particular the valuation of sponsor support is too complex and especially ill-designed for multi-employer IORPs which are often among the largest IORPs. We are also concerned about the reliance on ratings in the computations. There was a clear commitment by representatives at the G20 summit to reduce the reliance on ratings in financial regulation. This point has been taken up by the OECD in redrafting the Core Principles for Occupational Pension Regulation and the European Commission in its draft revision of the Credit Ratings Directive. It should be noted that the vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. By making the provision of pensions more expensive for this group of the	Noted. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time.

			workforce, EIOPA would be clearly acting against the aims of the European Commission as stated in its recent White Paper.	
55.	Zusatzversorgungskasse des Baugewerbes AG	Q5.	No, ZVK-Bau does not believe that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet. The QIS does not leave room for describing the legal framework of the security elements which should be assessed in the holistic balance sheet. Looking for standardization of calculations is legitimate only if crucial information will not go amiss which will be the case under an incomplete QIS like the one provided. This missing information is about the possibilities that social partners possess, the restructuring clauses, the real value and historic evolution of sponsor support etc. We would like EIOPA to look into the national concepts of providing security via SSL instead of asking of mathematical formulas far away from the concepts and practices of the provision of IORP security.	Noted.
56.	OPSG	Q6.	In general, hard evidence based justification is required to use simplified calculations. The proposed process on when to apply proportionality seems to be more labour-intensive than doing actual calculations and this implies that IORPs might not use the simplified calculations. According to the OPSG, many more simplifications are desirable (given the purpose of this QIS). Starting simple and gradually deciding on where more sophistication is needed – to form the basis of the next QIS – is a	Noted.

			better process and would lead to a better outcome. The valuation of the sponsor support and the pension protection scheme could be simplified further. The use of ratings to evaluate sponsor support can create an excessive burden on sponsors, namely on small and medium companies, not-for-profit and public companies since these companies do not have ratings. The same problem arises for multi-employer IORPs. The simplification for the valuation of amounts recoverable from insurance and the risk margin is adequate. However, the OPSG rejects the proposal of an inclusion of implicit or explicit risk margin or buffer as part of technical provisions. The concept of cost of capital is not relevant for IORPs. In addition, no attention is paid to the fact that the value of the risk margin will interfere with other elements of the HBS – this needs to be clarified.	
57.	aba Arbeitsgemeinschaft für betriebliche Altersver	Q6.	We reject the concept of a risk margin as inappropriate in occupational pension systems with sponsor support and PPS. In these systems the IORP is simply a delivery mechanism for the benefit promise given by the employer. In a going concern situation it is economically inefficient (both at the company level and at the whole economy level) to fund the IORP over and above the long-term value of liabilities. Even in the event of scheme closure, bulk transfers are rare, therefore, the transfer value rationale is not applicable. Should a shortfall in the IORP exist, scheme members have legal recourse to the sponsoring employer.	Noted. Mortality assumptions do not have to include risk buffers.

			Moreover the cost of capital concept is not relevant for IORPs as they do not have third-party shareholders and, hence, do not have to earn (equity-) capital costs, nor are pension liabilities traded in an active market. Therefore, applying both a risk margin and a capital requirement to IORPs is excessive and a misallocation of resources that could be employed more productively in the real economy. Corporate sponsors will be quick to recognize this and curtail their engagement in occupational pensions accordingly. Notwithstanding this, some valuation and calibration assumptions have built in risk buffers (eg. mortality assumptions). Adding an explicit risk margin would be double counting (adding an SCR would then be triple counting.) The valuation of sponsor support and pension protection schemes needs to be radically simplified. The draft technical specifications are unusable for: ☐ Multiemployer schemes, especially those without a small group of dominant emloyers ☐ IORPs of quasi-public institutions (broadcasting, public utilities etc.) ☐ IORPs of sponsors who do not publish EBTDA (sub-entities, foreign subsidiaries, non-listed entities that do not report under	

			IFRS etc.) In a system with unlimited sponsor support and a pension protection scheme that is backed by the Germany economy, their values should simply equate to the balancing item in the holistic balance sheet and represent the base case.	
58.	AEIP – The European Association of Paritarian Inst	Q6.	No, even though AEIP welcomes the fact that EIOPA proposed some simplifications, it does not consider the proposed simplifications for the valuation of the Holistic Balance Sheet adequate. AEIP stresses that the proposed simplifications are still too complex (sometimes even more complex than default methodology) for many IORPs to perform and further simplification is needed. AEIP does also believe that there is actually a need to clarify when simplifications can be applied and when they cannot, since this is not clear within the technical specifications. Regarding the risk margin item in the Holistic Balance Sheet, we do not see any relevance of a risk margin as suggested. We do not support the link between the risk margin and a Cost of Capital (taken from Solvency II) in case of not for profit IORPs. In the determination of the risk margin, the link to Cost of Capital is totally irrelevant in the context of not for profit occupational	Noted.

			pensions. Any reference to "transfer value to an insurance company" seems arbitrary as it is not clear to us why an insurance solution should be the reference point. As for the sponsor support valuation, we welcome the fact that EIOPA recognizes the importance of sponsor support, but AEIP is convinced that this has not yet been developed and studied in enough detail to deal with multi-employer and industry-wide schemes, cases where one sponsor supports several IORPs, or cases where the sponsor is a subsidiary of a larger (stronger) group and has its implicit support or it is a non-for-profit or public organisation. The proposed model suits only cases where there is only one sponsor for a single pension scheme. Moreover, restricting sponsor support to a one year default case is not adequate. Sponsor support in cases of underfunding works by raising the contribution and recovering over a longer period (up to ten years). The contribution and any raises of the contribution in industry wide pension schemes based on collective agreements are decided upon using collective bargaining. Therefore every raise of the pension funds contribution is part of a package that consists of wage raises, pension funds contribution, working time etc. In total the parts sum up to the productivity progress within the industry modified by the bargaining powers of social partners. Every raise of a pension fund contribution is financed not only by the sponsoring enterprises but by the employees too because the latter refrain from getting salary growth of the same amount. Therefore sponsor support cannot be measured only against financial resources but has to acknowledge that the whole industry	

			– employers and employees - support the scheme.	
61.	Aon Hewitt	Q6.	Generally, we would support as many simplifications as possible, given the unnecessary costs being incurred without any clear objective. At present there is a mix of extreme complexity (modelling numerous scenarios and correlations) heroic assumptions (in particular in the context of employer covenant, where the 50% assumption in HBS.6.36 is not adequately explained in the context of pension plans) and, in relation to the level of complexity elsewhere, over simplification on key parameters such as inflation and salary growth. To take the employer covenant as an example, this relies on a calculation of the maximum value of sponsor support calculated without default risk. This in turn relies on discounting future net profits which are difficult to estimate (most corporate forecast of future profits are likely to be wrong/optimistic and short term) or calculating EBTDA which is a non-standard accounting cash flow number and subject to interpretation. This raises several questions. For example, assuming that an EBITDA estimate was available, to convert this to EBTDA (no "I"), do you deduct cash interest paid or stated P&L interest? Is EBITDA available? Is the interest deduction net or gross and what "other" charges may be grouped together in the interest number? Instead, we suggest that sponsor support required to cover the HBS and SCR shortfall is calculated as a balancing item. The IORP manager should then be expected to consider whether it is	Partially agreed. The section on inflation and salary growth was changed.

			reasonable to rely on the sponsor to the extent required. This is consistent with the current UK approach. It avoids the need to place a numerical value on the maximum or actual sponsor covenant. This means that EIOPA avoids having to set out and justify what look like essentially arbitrary formulae. It means there is flexibility to deal with IORPs with several sponsors and with companies (or groups) which sponsor several IORPs. It also avoids problems with much of the required data being difficult to derive (at least in an objective way) such as the default risk relating to unquoted or not for profit entities. In relation to the approach to the risk margin, we do not see how this can be regarded as a simplification, as it is not clear what is intended in the absence of the "simplification". Sponsored IORPs do not have capital or a cost of capital, so there is no carry over from the calculation in Solvency II for insurers. So the "simplification" appears as just an arbitrary stand-alone loading with no rationale or justification. More generally, more thought needs to be given to the circumstances in which an IORP would be expected to revert to the original requirement in place of the simplification. In the context of Solvency II, all insurers can be expected to adopt a more complicated approach if it reduces their required capital and they can justify to their regulator that the approach is appropriate in their circumstances. Free standing IORPs competing for third party business can be expected to adopt a similar stance. However, sponsored IORPs may react differently. They may opt for a more complicated approach only where this increases the	

			required capital, in order to require earlier or greater contributions from the sponsor that would not be payable under their existing governing documents. EIOPA should consider whether such a change in the balance of powers between IORPs and their sponsors, and indeed whether the differing motivations of some IORPs combined with options as to how the calculations are done will militate against any uniformity in outcomes.	
62.	Association of British Insurers	Q6.	The valuation seems to be quite complex, even with the proposed simplification. Stochastic simulation approaches are usually not regarded/considered/perceived simple. Furthermore, the sponsor's financial capabilities are usually not easy to assess particularly over the period of time the IORP liabilities are likely to extend. Additionally, setting probability parameters of sponsor default might be a rather difficult exercise – some additional guidance on national level (taking into account the national specifics) might be helpful. Which pension protection schemes to take into account should also be clarified at the national level since the mechanisms might be very different within member states.	Noted.
63.	Association of Consulting Actuaries UK	Q6.	We cannot comment on whether the simplifications are a reasonable approximation of the position overall if IORPs were required to carry out these calculations accurately themselves – we have already noted the potentially significant divergence at individual IORP level. While they may allow initial figues to be prepared, unless it were EIOPA / the Commission's intention to retain these simplifications as an option in the final version, the ultimate effect could be rather different, even at an aggregate	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.

			level than indicated by the QIS. The completely arbitrary "8%" option for an approach to the Risk Margin shows the total illogicality of transposing insurance rules to an IORP structure.	
64.	Barnett Waddingham LLP	Q6.	We would like confirmation of how the 8% risk margin has been derived and what it is intended to represent. We do not believe this figure has any realistic basis.	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.
65.	BASF SE	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? More simplifications are desirable (given the purpose of this QIS). EIOPA should advise the EU Commission to start with a very simple QIS and gradually decide during the next QIS on where more sophistication is needed. In addition, we reject the proposal of an inclusion of implicit or explicit risk margin or buffers as part of technical provisions. The concept of cost of capital is not appropriate for IORPs (see answer to Q 1).	Noted.

66.	Bayer AG	Q6.	No, see answers above. Additionally, it has clearly to be stated, that the concept of the Risk Margin does not fit to the world of occupational pensions. (Only one example: most of the IORPS do not have to gain their capital costs, since they have none, because they have no shareholders, are financed in a solidary manner between employer and employees and all gains of the IORP's are for the benefit of the current and future beneficiaries.) So, the Risk Margin would have to be taken out. The calculations of sponsor support and pension protection schemes are also complicated. A proposal for simplification follows from the answer to Q2.	Noted.
67.	Bayerischer Industrieverband Steine und Erden e.V.	Q6.	A risk margin is inappropriate in occupational pension systems with sponsor support and pension protection scheme (PPS). In these systems the IORP is simply a delivery mechanism for the benefit promise given by the employer and guaranteed by the PPS. In a going concern situation it is economically inefficient (both at the company level and at the whole economy level) to fund the IORP over and above the long-term value of liabilities. Moreover the cost of capital concept is not relevant for IORPs as they do not raise capital in the financial markets, nor are pension liabilities traded in an active market. Furthermore, some valuation assumptions have built in risk buffers (e.g. mortality assumptions). Adding an explicit risk margin would be double counting (adding an SCR would then be triple counting.) Further simplifications in the valuation of sponsor support and PPS	Noted. Mortality assumptions do not have to include risk buffers.

			are necessary. Even the proposed simplification for the valuation requires data that many companies usually do not determine, e. g. the EBTDA for the next coming years. Focusing the valuation of sponsor support on few large employers may be feasible for schemes where these sponsors are liable for a significant portion of the benefits but not for a scheme that for example has over 40,000 sponsoring employers and whose top 5 sponsors make up approx. 5% of the contributions to the scheme. In the latter case, the probability of default could simply be set to 0, as the probability of all sponsors defaulting at the same time is effectively that. It is not justifiable to use commercial ratings to estimate the default risk of sponsors, nor is it reasonable to assign unrated employers the highest probability of default for the following reasons: - Some IORPs service many (unrated) small employers in a particular industry. The lack of reliance on a single employer arguably reduces exposure to default risk. - Many IORPs are sponsored by public entities which are not rated and whose probability of default is very small. - Some IORPs are sponsored by un-rated subsidiaries of foreign (rated) multinationals. The rating of the parent, however, is irrelevant as the parent is not liable for pensions in a local jurisdiction.	

			- The vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. Therefore assigning unrated employers the highest probability of default would discriminate against SMEs by making their occupational retirement provision more costly.	
68.	BDA Bundesvereinigung der Deutschen Arbeitgeberver	Q6.	A risk margin is inappropriate in occupational pension systems with sponsor support and pension protection scheme (PPS). In these systems the IORP is simply a delivery mechanism for the benefit promise given by the employer and guaranteed by the PPS. In a going concern situation it is economically inefficient (both at the company level and at the whole economy level) to fund the IORP over and above the long-term value of liabilities. Moreover the cost of capital concept is not relevant for IORPs as they do not raise capital in the financial markets, nor are pension liabilities traded in an active market. Furthermore, some valuation assumptions have built in risk buffers (e.g. mortality assumptions). Adding an explicit risk margin would be double counting (adding an SCR would then be triple counting.) Further simplifications in the valuation of sponsor support and PPS are necessary. Even the proposed simplification for the valuation requires data that many companies usually do not determine, e. g. the EBTDA for the next coming years.	Noted. Mortality assumptions do not have to include risk buffers.

			Focusing the valuation of sponsor support on few large employers may be feasible for schemes where these sponsors are liable for a significant portion of the benefits but not for a scheme that for example has over 40,000 sponsoring employers and whose top 5 sponsors make up approx. 5% of the contributions to the scheme. In the latter case, the probability of default could simply be set to 0, as the probability of all sponsors defaulting at the same time is effectively that. It is not justifiable to use commercial ratings to estimate the default risk of sponsors, nor is it reasonable to assign unrated employers the highest probability of default for the following reasons: - Some IORPs service many (unrated) small employers in a particular industry. The lack of reliance on a single employer arguably reduces exposure to default risk. - Many IORPs are sponsored by public entities which are not rated and whose probability of default is very small. - Some IORPs are sponsored by un-rated subsidiaries of foreign (rated) multinationals. The rating of the parent, however, is irrelevant as the parent is not liable for pensions in a local jurisdiction. - The vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. Therefore assigning unrated employers the highest probability of default would discriminate against SMEs by making	

			their occupational retirement provision more costly.	
69.	BdS – Bundesverband der Systemgastronomie e.V.	Q6.	A risk margin is inappropriate in occupational pension systems with sponsor support and pension protection scheme (PPS). In these systems the IORP is simply a delivery mechanism for the benefit promise given by the employer and guaranteed by the PPS. In a going concern situation it is economically inefficient (both at the company level and at the whole economy level) to fund the IORP over and above the long-term value of liabilities. Moreover the cost of capital concept is not relevant for IORPs as they do not raise capital in the financial markets, nor are pension liabilities traded in an active market. Furthermore, some valuation assumptions have built in risk buffers (e.g. mortality assumptions). Adding an explicit risk margin would be double counting (adding an SCR would then be triple counting.) Further simplifications in the valuation of sponsor support and PPS are necessary. Even the proposed simplification for the valuation requires data that many companies usually do not determine, e. g. the EBTDA for the next coming years. Focusing the valuation of sponsor support on few large employers may be feasible for schemes where these sponsors are liable for a significant portion of the benefits but not for a scheme that for example has over 40,000 sponsoring employers and whose top 5	Noted. Mortality assumptions do not have to include risk buffers.

			sponsors make up approx. 5% of the contributions to the scheme. In the latter case, the probability of default could simply be set to 0, as the probability of all sponsors defaulting at the same time is effectively that. It is not justifiable to use commercial ratings to estimate the default risk of sponsors, nor is it reasonable to assign unrated employers the highest probability of default for the following reasons: - Some IORPs service many (unrated) small employers in a particular industry. The lack of reliance on a single employer arguably reduces exposure to default risk. - Many IORPs are sponsored by public entities which are not rated and whose probability of default is very small. - Some IORPs are sponsored by un-rated subsidiaries of foreign (rated) multinationals. The rating of the parent, however, is irrelevant as the parent is not liable for pensions in a local jurisdiction. - The vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. Therefore assigning unrated employers the highest probability of default would discriminate against SMEs by making their occupational retirement provision more costly.	
70.	Belgian Association of Pension Institutions	Q6.	Yes.	Partially agreed. The specifications now give

	(BVPI-		The suggested simplifications might be very useful. We suggest to introduce a further simplification for the sponsor support: acting together with the pension protection scheme as the closing element of the HBS. This would allow to make the calculation of sponsor support superfluous. ☐ Herewith some examples of difficulties in the context of the valuation of the sponsor convenant: o We have no information what a recovery plan is looking like although it is part of this valuation (Recovery plan: when? Duration? Etc…) o How to value this concept in the context of Local subsidiaries of multinational groups? Industry-wide plans? Multi-employer plans? (How to determine the rating? The company wealth? Multi-employer with/without solidarity? One or multiple holistic balance sheets? Public sector? Non-profit? Etc…) o Will sponsor disclose the necessary information to calculate the sponsor support? We do not see any relevance of a risk margin as suggested. We do not support the link between the risk margin and a Cost of Capital (cc Solvency II) in case of not for profit IORPs, hence it is logical to skip the risk margin as it is already included in the SCR (or to deduct it from the SCR requirements). ☐ The risk margin	a short explanation of how the fixed percentage for the risk margin was derived.

			o The aim of the provided option is unclear. If the risk margin aims at serving as a buffer for adverse deviation in the assumptions, we believe this part is already included in the capital requirements o In the determination of the risk margin, the link to Cost of Capital is totally irrelevant in the context of not for profit occupational pensions. Any reference to "transfer value to an insurance company" seems arbitrary as it is not clear to us why an insurance solution should be the reference point. o As such the 8% seems to be high and arbitrarily. We would like to invite EIOPA to explain how this number has been developed.	
71.	BlackRock	Q6.	Please see our General Comment above.	Noted.
72.	BT Group plc	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? It is impossible to comment fully without having details of how the HBS will be used. In particular, there needs to be further	Noted.

			explanation of why items that arise in Solvency II should also feature in the context of IORPS. Justification for needing technical provisions on a "risk-free" basis, plus a risk margin, together with a Solvency Capital Requirement (SCR) has not been provided. The simplifications provided do not appear materially easier and it is questionable whether the spurious accuracy is appropriate given the extreme difficulty in placing a point estimate on employer covenant. It is also harder to comment on some of the technical detail without the spreadsheets discussed in the document being provided.	
73.	BTPS Management Ltd	Q6.	The required evidence for being allowed to simplify is extensive and will need agreement by our domestic pensions regulator which will need additional experienced resource to facilitate this. The restriction of "the IORP should carry out its own valuation which should be consistent with the general requirement" risks meaning that in practice the availability of an alternative may be of limited value. We would welcome being able to use the methods we have developed internally over the last decade and to use our existing covenant valuation advisers to avoid running two conflicting calculation methodologies, but it is not clear that in practice this will be permitted. We would like to comment on simplification 1 in 6.39 – we believe	Noted.

			that very few IORPs will regard "stochastic valuations of sponsor support" as a simplification. It is worth noting that stochastic modelling of the sponsor covenant is likely to be beyond even many sophisticated advisers in the pension scheme sector and asking them to use these (even in a 'black box' spreadsheet) is dangerous as there will be little ability to validate the output. We are concerned that we have not seen the simplification spreadsheets and hence are unable to comment on the suitability of these; this makes it impossible to give a fully considered response to this question. The most obvious simplification of the sponsor support calculation – and one that reflects the reality at least for UK defined benefit calculations – is simply that the sponsor support fills any deficit between assets and liabilities. In situations where the sponsor covenant is not sufficiently robust to cover this deficit, ultimately the Pension Protection Fund may be called on. We would not recommend the option in HBS 6.89 to exclude pension protection schemes as we believe that it is entirely appropriate that value is assigned in the HBS to the PPS. Beneficiaries take significant comfort from the existence of PPS structures. Further simplifications are necessary in the valuation of sponsor support and pension protection schemes to ensure a higher level of participation in the QIS. When we calculated the sponsor support according to the methodology, it was significantly complex	

			and the results appeared to be extremely unclear. The inclusion of certain aspects, such as recoverables from insurance seem irrelevant to IORPs and seems to provide evidence of an inappropriate inclusion of elements of Solvency II, something which is unwelcome and is not in accordance with European Commission undertakings.	
74.	Consiglio Nazionale degli Attuari and Ordine Nazio	Q6.	About the proposed simplifications (for risk margin, sponsor support and pension protection plan): The proposed simplifications seem too complex (sometimes even more complex than default methodology). Also there is the need to explicit when simplifications can be applied and when they can not.	Noted.
75.	Deloitte Total Reward and Benefits Limited (UK)	Q6.	No. As with all these elements, it is very difficult to judge if the simplifications are adequate when it is not clear what the ultimate use will be or if the complex version itself is an adequate representation of the component. In our view, a clearer order of events would involve (i) determining the overall purpose and suitably of the holistic balance sheet; (ii) assessing the individual components and (iii) considering possible simplifications to certain of the components. This order of events will require a significant extension to the currently proposed timescales of the review.	Noted.

			A simplification for the risk margin has been proposed, however it remains unclear what the 'unsimplified' approach would entail. The proposed simplification appears to have been 'cut and pasted' from the Solvency II approach based on a cost of capital concept. However, the fundamental question of what the cost of capital is for an IORP has not been considered. The PPS simplification proposed whereby the PPS is not valued and instead the default risk in the valuation of the sponsor support is reduced significantly reduces the burden from a cost and calculation perspective. However,we consider it will be challenging for EIOPA to derive a reasonable adjustment to the default probabilities which will capture the variation in PPS' between Member States without requiring additional calculation on the part of the IORP. As set out in our response to Q3, the sponsor support calculation does not provide a meaningful result and the definition of sponsor needs to be further considered before the detail of the calculations can be reviewed for appropriateness.	
76.	Deutsche Post DHL	Q6.	In case of existing e.g. sponsor support or PPS a risk margin is an inappropriate concept for occupational pension systems at all. If a pension promise is fully backed by the sponsoring company (employer) and if employer's insolvency is fully covered by a strong PPS then this should be fully sufficient from any funding gap or capital requirement perspective. This would be a reasonable and feasible simplification.	Noted.
77.	Dexia Asset Management	Q6.	Q6. Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance	Noted.

			sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? More simplifications would be a good step forward. 1. Risk margin should be deleted a. IORPs are not for profit and they cannot raise capital on the market so the cost of capital is not applicable: they cannot "take over and meet the pension obligation" of an other IORP b. If risk margin reflects a possible adverse deviation of the actual situation compared with the best estimate, there is some double counting with the SCR c. If risk margin reflects a provision for a possible sponsor default and the financing of the transfer of pension obligations to an insurance company, the notion of not-for-profit IORP is lost and the costs are rising (the sponsor is expected to pay for possible future profit of another firm). 2. Sponsor support and Pension Protection Scheme (PPS) are over-simplified. 3. Other items a. The calculations of recoverable from insurance contracts are too complicated b. SCR calculations are too complicated for sometimes minor Items (concentration, morbidity, catastrophe, operational…)	

78.	EEF	Q6.	No – for the reasons given in response to Q5	Noted.
79.	European Association of Public Sector Pension Inst	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? The proposed simplifications for the valuation of the holistic balance sheet illustrate the general conflict: the original goal of the Solvency II structure and the HBS is to precisely measure the specific risk profile of an IORP and its security mechanisms. Simplifying the original structure only suggests better risk measuring. However, the intended objective can not really be achieved. Naturally, simplifications reduce the difficulty of carrying out complex calculations and thus practically implement the notion of proportionality. They may also help IORPs to be less reluctant to participate in the QIS. However, the various simplifications indicate that certain concrete measures are not feasible and/or possible. Simplifications play a prominent role concerning the measurement of concrete values of the HBS and the loss-absorbing capacities of IORPs security mechanism state. This is due to the general problem of evaluating the specific security mechanisms of IORPs, i.e. the future payments of sponsors.	Noted.

			A combination of various specifications and on-top-adjustments increase the question of practicality and possibility, e.g. the matching premium, the counter cyclical premium, or the option of the duration-based approach for equity risk; see also EAPSPI's answer to Q13. And that the contested 1-year time horizon of the SCR of Solvency II should be applied also for IORPs, is due to the reason that "no superior alternative or analysis could be identified as to date" (see EIOPA's EIOPA-CP-11/006 consultation document on the IORP review, page 277). The aspects mentioned indicate that the Solvency II structure is not appropriate for regulating IORPs. Therefore several questionable adaptions are made. Using simplifications, adjustments and other practicality aspects casts a different light on the current IORP directive: The use of simplifications and adjustments leads back to a more practicable approach. EAPSPI therefore suggests to reconsider the regulatory approach of IORP I and revaluate its pragmatic approach which is easy to implement at low cost and makes a regulation of all IORPs possible. If a higher security level is considered to be necessary it can be easily achieved by adjusting parameters within the framework of the existing IORP directive. Simplifications and adjustments are – in EAPSPI's opinion – contradictory to the Solvency II structure that targets precise measurement of the risks of IORPs notably by means of quantitative requirements.	

			(see for a more in depth answer to the question of the valuation EAPSPI's answer to Q10)	
80.	European Federation for Retirement Provision (EFRP	Q6.	Q6. Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the HBS (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? The EFRP welcomes simplifications, but wants to mention that further simplifications are warranted. Furthermore, extensive evidence and data are required before the simplified calculations can be perfor med. The proposed process to be applied before being able to perform the simplified calculations under the proportionality criteria is more demanding than doing the actual – more difficult - calculations. The costs involved in this will not spur the IORPs to use simplified calculations. A better process would have been to start with a simpler QIS and gradually decide whether more sophistication is needed in next QISs. The EFRP is very concerned about the relevance of the risk margin and its valuation. The valuation using the concept of cost-of-capital does not make sense for IORPs as it does for insurers. Moreover, the EFRP disagrees with the inclusion of the risk margin for adverse assumptions into the best estimate calculation. The purpose of the risk margin – to provide an extra buffer against risks over and above technical provisions – is duplicated by the	Noted. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time.

			Solvency Capital Requirement. Further simplifications in the valuation of sponsor support and pension protection schemes will contribute to a higher level of participation in the QIS exercise. The formulas for sponsor support cannot be used in many cases: - Multi-employer fund - Subsidiaries of multinational companies - Not-for-profit employers The EFRP is concerned about the reliance on credit ratings in the computations. There was a clear commitment by representatives at the G20 summit to reduce the reliance on credit ratings in financial regulation. This point has been taken up by the OECD in redrafting the Core Principles for Occupational Pension Regulation and the European Commission in its draft revision of the Credit Ratings Regulation. In October 2010, the Financial Stability Board also argued that the reliance on credit rating agencies should be reduced. They proposed that standard setters and authorities should assess references to credit rating agency ratings in standards, laws and regulations and, wherever possible, remove them or replace them by suitable alternative standards of creditworthiness.The ECON Committee of the European Parliament also emphasized this point recently: “no EU law will be permitted to refer to credit rating for regulatory purposes”. It should be noted that the vast majority of employers who sponsor	

			occupational pensions are not rated. Alternative option : As a simplification for a first QIS, the sponsor support and/or the pension protection scheme could be treated as a residual asset that fills a deficit shortfall between assets and liabilities, including any capital requirements.	
81.	Federation of the Dutch Pension Funds	Q6.	More simplifications are warranted. As stated in our answer to question 5, starting with a first simple QIS and gradually deciding on where more sophistication is needed in the next QISs (at Lamfalussy Level 1) would guarantee a better process. The required evidence for obtaining allowance to simplify is extensive. The simplified calculation of sponsor support and PPS refer to the valuation of a 1 year period, thus only underfunding at the date of valuation is taken into account. Occurring shortages and resulting additional sponsor support in subsequent years will therefore be neglected. This will result in an underestimated market value of the sponsor support/PPS when compared with a stochastic approach (like risk neutral valuation) that does take future shortages and hence sponsor support in coming years into account. The proposal that the maximum sponsor support should depend on the financial position of the sponsoring company is not appropriate. The definition of sponsor's profit and excess assets	Noted.

			over liabilities is not sufficient as it does not tell anything about the sponsor's actual ability to provide financial support (the capital may be locked into non-liquid assets). Basing the sponsor support on EBDTA numbers is questionable. These numbers are very difficult to forecast, and can show a high dispersion among the various estimations (as we can see looking at forecasts by different analysts for the same company). A multiple of the annual pension cost or a percentage of the total salaries might be a better indicator of the sponsor's ability to provide additional support/guarantee. Deviation could be allowed where the IORP judges that the percentages are not realistic. The formulas for sponsor support are not useful in the case of a multi-employer fund, of which many exist, such as the Dutch industry wide funds with sometimes more than 10.000 non-listed employers. It is not clear how to calculate the value of the sponsor support for these industry wide funds. Many items, like spread risk and market risk concentrations, are not relevant in the case of pension funds and can easily be left out. The concepts of cost of capital and risk margin seem not to be very useful for IORPs. For the risk margin, explicit calculation based on the current IORP directive may be easier for IORPs than the Solvency II method, and at the same time more accurate than	

			the proposed simplification. In this respect we also refer to our answer on Q17.	
82.	Financial Reporting Council – staff response	Q6.	We do not consider in the context of UK IORPs that the cost of capital is a meaningful concept on which to base a risk margin. IORPs do not hold capital in its traditional form (equity and debt) as the holistic balance sheet is attempting to recognise. The simplification for the risk margin (ie 8% of the level A best estimate technical net of reinsurance) is easy to calculate. However, it appears rather arbitrary. We consider that EIOPA should provide evidence why it considers 8% of the level A best estimate technical provisions is reasonable.	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.
83.	German Confederation of Skilled Crafts	Q6.	A risk margin is inappropriate in occupational pension systems with sponsor support and pension protection scheme (PPS). In these systems the IORP is simply a delivery mechanism for the benefit promise given by the employer and guaranteed by the PPS. In a going concern situation it is economically inefficient (both at the company level and at the whole economy level) to fund the IORP over and above the long-term value of liabilities. Moreover the cost of capital concept is not relevant for IORPs as they do not raise capital in the financial markets, nor are pension liabilities traded in an active market. Furthermore, some valuation assumptions have built in risk buffers (e.g. mortality assumptions). Adding an explicit risk margin would be double counting (adding an SCR would then be triple counting.)	Noted. Mortality assumptions do not have to include risk buffers.

			Further simplifications in the valuation of sponsor support and PPS are necessary. Even the proposed simplification for the valuation requires data that many companies usually do not determine, e. g. the EBTDA for the next coming years. Focusing the valuation of sponsor support on few large employers may be feasible for schemes where these sponsors are liable for a significant portion of the benefits but not for a scheme that for example has over 40,000 sponsoring employers and whose top 5 sponsors make up approx. 5% of the contributions to the scheme. In the latter case, the probability of default could simply be set to 0, as the probability of all sponsors defaulting at the same time is effectively that. It is not justifiable to use commercial ratings to estimate the default risk of sponsors, nor is it reasonable to assign unrated employers the highest probability of default for the following reasons: - Some IORPs service many (unrated) small employers in a particular industry. The lack of reliance on a single employer arguably reduces exposure to default risk. - Many IORPs are sponsored by public entities which are not rated and whose probability of default is very small. - Some IORPs are sponsored by un-rated subsidiaries of	

			foreign (rated) multinationals. The rating of the parent, however, is irrelevant as the parent is not liable for pensions in a local jurisdiction. - The vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. Therefore assigning unrated employers the highest probability of default would discriminate against SMEs by making their occupational retirement provision more costly.	
84.	German Institute of Pension Actuaries	Q6.	Ad 2.5. (Risk margin) In our opinion a risk margin in addition to the technical provisions is inappropriate because there will typically be no external financial investors that calculate on a cost of capital basis. Including the risk margin in calculating the technical provisions as a risk buffer to cover against adverse deviations from the best estimate leads to an element of double counting of risk. If there is a risk margin included in the technical provision, then ceteris paribus the SCR is increased proportionally. We are convinced that the proposed simplification not to account for a risk margin is much more appropriate for IORPs. Ad 2.6. (Sponsor support and pension protection schemes) The simplification tentatively seems to be appropriate. However, it has to be pointed out that in case of a 100 % coverage by a pension protection scheme the result is a full cover of the gap between the pensions payable by the IORP and the benefits defined by the pension plan.	Noted.

			Ad. 2.7. (Recoverables from insurance contracts) Section 2.7. states that for purposes of calculating the amounts recoverable from insurance contracts, the cash flows should only include payments in relation to compensation of pension obligations. In this context it is not clear whether this means only the pension amounts to be paid by the IORP to the beneficiary or if it is possible to (potentially) include the future expected surplus paid by the insurance.	
85.	GESAMTMETALL - Federation of German employer	Q6.	A risk margin is inappropriate in occupational pension systems with sponsor support and pension protection scheme (PPS). In these systems the IORP is simply a delivery mechanism for the benefit promise given by the employer and guaranteed by the PPS. In a going concern situation it is economically inefficient (both at the company level and at the whole economy level) to fund the IORP over and above the long-term value of liabilities. Moreover the cost of capital concept is not relevant for IORPs as they do not raise capital in the financial markets, nor are pension liabilities traded in an active market. Furthermore, some valuation assumptions have built in risk buffers (e.g. mortality assumptions). Adding an explicit risk margin would be double counting (adding an SCR would then be triple counting.) Further simplifications in the valuation of sponsor support and PPS	Noted. Mortality assumptions do not have to include risk buffers.

			are necessary. Even the proposed simplification for the valuation requires data that many companies usually do not determine, e. g. the EBTDA for the next coming years. Focusing the valuation of sponsor support on few large employers may be feasible for schemes where these sponsors are liable for a significant portion of the benefits but not for a scheme that for example has over 40,000 sponsoring employers and whose top 5 sponsors make up approx. 5% of the contributions to the scheme. In the latter case, the probability of default could simply be set to 0, as the probability of all sponsors defaulting at the same time is effectively that. It is not justifiable to use commercial ratings to estimate the default risk of sponsors, nor is it reasonable to assign unrated employers the highest probability of default for the following reasons: - Some IORPs service many (unrated) small employers in a particular industry. The lack of reliance on a single employer arguably reduces exposure to default risk. - Many IORPs are sponsored by public entities which are not rated and whose probability of default is very small. - Some IORPs are sponsored by un-rated subsidiaries of foreign (rated) multinationals. The rating of the parent, however, is irrelevant as the parent is not liable for pensions in a local jurisdiction.	

			- The vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. Therefore assigning unrated employers the highest probability of default would discriminate against SMEs by making their occupational retirement provision more costly.	
86.	Groupe Consultatif Actuariel Européen	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? The underlying detail of the risk margin is unclear and, as such, it is difficult to comment on the suggested simplification of its calculation. There needs to be a balance in the level of detail for elements that feature in Solvency II and those that are new, such as sponsor support. In our opinion, further work is needed in relation to the latter, but for the purpose of the (first) QIS, some of the detail of the former might reasonably be simplified. It is difficult to opine	Partially agreed. It is made clearer in the specifications that SCR risk modules do not have to be taken into account which are not material to the IORP.

			on potential simplifications until the further development work on the new aspect has been undertaken. However, we suggest that it should be possible to reduce or even remove the following modules of the SCR calculation: • Health risk • Operational risk • Intangible asset risk module • Market risk concentrations • Pension disability-morbidity risk • Pension revision risk • Pension catastrophe risk sub-module • Counterparty default risk module These risks are not likely to be material, but take a lot of time and effort to calculate for the purposes of determining the SCR. At the same time, the formulae for sponsor support are not useful in the case of a multi-employer fund, of which many exist like the Dutch, Belgian and UK industry-wide funds with sometimes more than 10,000 non-listed employers. It is not clear how to calculate the value of the sponsor support for these industry funds.	

			Amounts recoverable from insurance are unlikely to be material in most IORPs. The simplification suggested is, therefore, appropriate.	
87.	Hundred Group of Finance Directors	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2,5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? As before, we note that we cannot answer this question without knowing what the holistic balance sheet is to be used for. For example, a risk margin calculation of 8% of Level A liabilities is proposed. Alternatively, the IORP can calculate the risk margin according to Solvency II (details of which are not given in the consultation paper). However, it is not made clear what the risk margin is trying to achieve in an IORP context rather than an insurance context. We do not believe that the rationale for a risk margin in an insurance context is at all applicable to pension schemes. As a result, we cannot say whether 8% of Level A liabilities is an appropriate simplification or not, because we do not know what it is a simplification for nor how the number for the risk margin will be used in the calculation.	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.

			Similar comments apply to the simplifications proposed for sponsor covenant and pension protection schemes.	
88.	IBM Deutschland Pensionsfonds AG	Q6.	We reject the concept of a risk margin as inappropriate in occupational pension systems with sponsor support and PPS. In these systems the IORP is simply a delivery mechanism for the benefit promise given by the employer. In a going concern situation it is economically inefficient (both at the company level and at the whole economy level) to fund the IORP over and above the long-term value of liabilities. Even in the event of scheme closure, bulk transfers are rare, therefore, the transfer value rationale is not applicable. Should a shortfall in the IORP exist, scheme members have legal recourse to the sponsoring employer. Moreover the cost of capital concept is not relevant for IORPs as they cannot raise capital in the financial markets, nor are pension liabilities traded in an active market. Therefore, applying both a risk margin and a capital requirement to IORPs is excessive and a misallocation of resources that could be employed more productively in the real economy. Corporate sponsors will be quick to recognize this and curtail their engagement in occupational pensions accordingly.	Noted. Mortality assumptions do not have to include risk buffers.

			Notwithstanding this, some valuation assumptions have built in risk buffers (e.g. mortality assumptions). Adding an explicit risk margin would be double counting (adding an SCR would then be triple counting.) The valuation of sponsor support and pension protection schemes needs to be radically simplified. The draft technical specifications are unusable for: ☐ Multiemployer schemes, especially those without a small group of dominant employers ☐ IORPs of quasi-public institutions (broadcasting, public utilities etc.) ☐ IORPs of sponsors who do not publish EBTDA (sub-entities, foreign subsidiaries, non-listed entities that do not report under IFRS etc.) In a system with unlimited sponsor support and a pension protection scheme that is backed by the Germany economy, their values should simply equate to the balancing item in the holistic balance sheet and represent the base case.	
89.	Institute and Faculty of Actuaries	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance	Partially agreed. The specifications now give

			sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? The background to the simplification to the Risk Margin calculation is unclear. Adopting a Solvency II approach might argue for a margin based on the duration of the liabilities however we consider that EIOPA's options of either having an explicit provision for adverse deviation or no Risk Margin at all would be preferable. We find it unhelpful that in some places in the draft specifications the term "technical provisions" clearly includes the Risk Margin whereas in others it does not. The process required to assess proportionality is itself potentially onerous. We therefore support the suggestion of the Groupe Consultatif Actuariel Europeen that EIOPA consider omitting modules of the SCR calculation that are expected to result in immaterial results for most IORPs.	a short explanation of how the fixed percentage for the risk margin was derived.
90.	Insurance Europe	Q6.	The valuation seems to be quite complex, even with the proposed simplification. Stochastic simulation approaches are usually not regarded/considered/perceived simple. Furthermore, the sponsor's financial capabilities are usually not easy to asses. It is already difficult for single-employer IORP. For multi- employer IORP there can be more than 100 sponsors possible. Additionally, it is unclear how to assess the future profits of non-for profit organisations. They too can offer pension provisions for their employees. An alternative approach here would be to take into account the surplus rather than the profit and to also include reserves in the maximum value for the sponsor support.	Noted.

			Additionally, setting probability parameters of sponsor default might be a rather difficult exercise – some additional guidance on national level (taking into account the national specifics) might be helpful. Which pension protection schemes to take into account should at least for the purpose of this QIS be clarified at the national level since the mechanisms might be very different within member states. Another possibility to determine the asset value of pension protection schemes might be to evaluate the reduction in risk for the IORP that results from transferring some of its obligations to the protection scheme (which could be modelled as a special form of lapse). Furthermore, we understand the need to value the different security mechanisms in the context of the QIS. However, as a proposal we see more benefit in a top down approach based on the level of sponsor support meaning that when the assets are higher than the SCR/MCR requirements no additional calculations should be required. Only in case the assets do not cover SCR/MCR requirements it should be checked what the next protection mechanism is and its impact on the SCR/MCR ie sponsor support, benefit reduction, pension protection schemes, … This could avoid unnecessary calculations. Finally, Insurance Europe stresses that the sponsor covenant should be taken into account only if the sponsor covenant is legally enforceable. However, for purpose of the QIS, it might be useful for further discussions to also assess the effect of the sponsor covenant when it would not be legally enforceable.	
91.	KPMG LLP (UK)	Q6.	Although the proposed risk margin of 8% is appealingly simple, no justification is given for its amount. We are not convinced that a	Partially agreed. The specifications now give

			cost-of-capital approach is appropriate for many IORPs, as it it not clear whether the SCR is being maintained over time by the IORP or by the sponsor. We do not believe that the proposed allowance for pension protection schemes will operate appropriately under the UK framework, nor how this could possibly be assessed with any rigour when using aggregated national data. (See our response to Q10.) The question about additional simplification highlights the shortcomings of this process. In reality, to accurately reflect the holistic balance sheet would require much less simplification in any revised IORP funding directive. However, this would further undermine the feasibility of applying such a process across EU IORPs without disproportionate expense and supervisory resourcing.	a short explanation of how the fixed percentage for the risk margin was derived.
92.	Mercer Ltd	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? Risk margin – we cannot argue that the proposal for calculating a 'risk margin' is simple. However, we do not understand its purpose. Generally, IORPs are not bought and sold for commercial reasons by other IORPs, so the premise in HBS5.1 seems flawed. In addition, 8% seems entirely arbitrary particularly compared against the 6% margin required for insurers.	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.

			The alternative – an explicit margin against the risk of adverse experience – seems (theoretically) more defensible although we are still not convinced that it is necessary or appropriate in the context of IORPs: in a framework that requires them to hold explicit margins for risk this seems like double counting. Sponsor support and pension protection schemes – we understand that measuring these contingent sources of security is complicated and largely untested. As a consequence, the simplifications are not simple	
93.	National Association of Pension Funds (NAPF)	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? The simplifications are not particularly simple; they still require an	Noted.

			extensive range of data. A more effective simplification would be to remove some elements of the Holistic Balance Sheet altogether. For example, there is no reason for the Risk Margin other than that it replicates the system applied to the insurance sector in Solvency II. Unlike in insurance, the long-term nature of pension provision means that schemes are able to plan their way out of underfunding over a number of years, through recovery plans, so there is no need for a separate risk margin. Further simplifications should include removing elements of Solvency II that are not particularly relevant for pension schemes, eg spread risk, market risk concentrations and recoverables from insurance contracts. Given the impossibility of putting an accurate figure on the value of sponsor support, the NAPF would propose that the result emerging from the Holistic Balance Sheet will not be sufficiently robust to be used as a basis for scheme funding. At best it could be used as a disclosure item or as a prompt for discussion by the governing body, although the UK's system of triennial reviews already serves this purpose very well.	
94.	Pension Protection Fund, UK.	Q6.	In general, we welcome EIOPA's suggestions for simplifications and would encourage including further simplifications where	Noted.

			possible. One proposed simplification is the risk margin, which is intended to value technical provisions as equivalent to the amount an IORP would be expected to require to take over pension obligations. In the UK, it is not possible for one IORP to take over another IORP in the same way as an insurer might take on another insurer's contracts. Schemes may merge, but this would be as a result of mergers and acquisitions by the respective sponsors, rather than because of poor funding in an IORP. It is therefore difficult to comment on whether this is an appropriate simplification. An alternative possibility in the UK is for an insurer to take on an IORP's assets and liabilities, at the request of the IORP and sponsor. In such a scenario, the insurer is likely to value the IORP's liabilities using a risk-free rate. To add an additional 8% to technical provisions could therefore mean that the cost to the sponsor of continuing to operate the IORP is higher than transferring the assets and liabilities to an insurer. This could act as an incentive for sponsors to cease future accrual and transfer schemes to insurers, rather than continuing to allow members to accrue new benefits.	
95.	Pensions-Sicherungs-Verein VVaG	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate?	Noted.

			If the value of sponsor support and the value of the PPS are to be calculated at all, then we regard the proposed simplification as more appropriate than the stochastic approach. However, even the simplified valuation rule calls for the consideration of parameters that are very difficult to measure. Many sponsoring companies do not publish their EBTDA, for example. In our opinion, other simplified versions of the model would be possible without a significant loss of accuracy, especially in the case of an initial QIS. In cases in which the PPS guarantees 100% of an obligation, for example, the value of the security mechanisms (PPS and sponsor support) could be considered in combination. The highly complex calculation would be unnecessary if the value of the pension protection instruments were derived from the amount of the coverage gap between assets and total obligations (including risk margin). In that case, no additional solvency capital would be required. Although worthy of reconsideration is the effect that, in the proposed calculation method using the option of taking into account PPS in calculating the probability of default on the part of the employer, the value of the PPS falls along with the declining maximum sponsor support. We would expect the value of the PPS to rise when the employer's capacity to meet its obligations declines. The effect would be avoided if the value of the security mechanisms corresponds to the amount of the coverage gap. The contradictory nature of the effect described above in the eyes of those entitled to receive benefits represents an argument in favour of the option of including PPS as an asset in its own right in	

			the HBS.	
96.	Punter Southall	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? The focus of the QIS is limited only to the holistic balance sheet and does not consider the regulatory actions that would be triggered should the holistic balance sheet not balance. In the absence of this information, it is impossible to comment on the adequacy of the proposed simplifications.	Noted.
97.	Railways Pension Trustee Company Limited (RPTCL)	Q6.	It seems unclear to RPTCL what the rationale is for some of the simplifications proposed and some of the proposals do not seem appropriate.	Noted.
98.	RWE Pensionsfonds AG	Q6.	The background for computing the Risk Margin with a Cost-of-Capital approach with 8% is not explained – the necessity for a Risk Margin itself is not documented.	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.

101.	Tesco Plc	Q6.	No. Simplification of the valuation of the Holistic Balance Sheet has no meaning without knowing how the HBS will be used in practice. Also, as stated previously, no rationale has been provided for certain assumptions and simplifications, i.e. a risk margin of 8%, so we are unable to give meaningful comments. Additional time is needed to explore and understand the proposals and discuss alternatives.	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.
102.	Towers Watson B.V.	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? The derivation of the number 8% for the Risk Margin 8% is unclear. We question whether the 'stochastic simplification' of the valuation of sponsor support is stochastic at all – as the text provides a closed formula solution. We would also want to consider whether the proposed simplifications could go further, since we consider that complex formulae coupled with what appear to be arbitrary assumptions leads to misleading precision. Some significant testing is needed to see whether appropriate simplifications can be made in order to avoid misleading precision.	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.

			The inclusion of certain aspects (e.g. recoverables from insurance) seem irrelevant to IORPs and highlights the inappropriateness of cutting and pasting from Solvency II – as the QIS undoubtedly does.	
103.	Towers Watson GmbH, Germany	Q6.	As already mentioned, the derivation of the number 8% for the Risk Margin is unclear, in particular why it should be a multiple of what is required for insurers. For the valuation of sponsor support, two simplifications are proposed ('stochastic' and 'deterministic'). It is unclear to us whether the two simplifications will yield comparable results. First considerations suggest that the 'deterministic simplification' may not result in an additional asset in the HBS if assets are larger than technical provisions, while this seems to be possible in the 'stochastic simplification'. We question whether the 'stochastic simplification' of the valuation of sponsor support is stochastic at all – as the text provides a closed formula solution. We would also want to consider whether the proposed simplifications could go further, since we consider that complex formulae coupled with what appear to be arbitrary assumptions leads to misleading precision. Some significant testing is needed to see whether appropriate simplifications can be made in order to avoid misleading precision.	Partially agreed. The specifications now give a short explanation of how the fixed percentage for the risk margin was derived.

			The calculation of the value of pension protection systems as an asset in the HBS relies heavily on the calculation of the 'deterministic simplification' concerning sponsor support as it conceptually uses the same approach (and the same probability tree). Thorough testing seems to be necessary whether this calculation also fits to the 'stochastic simplification'.	
104.	Towers Watson UK	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? The background to the simplification to the Risk Margin calculation is unclear. Adopting a Solvency II approach might suggest a margin based on the duration of the liabilities. That said, we do not favour using a basis akin to Solvency II and consider that EIOPA's options of either having an explicit provision for adverse deviation or no Risk Margin at all to be preferable. We question whether the 'stochastic simplification' of the valuation of sponsor support is stochastic at all, as the text provides a closed formula solution. We would also want to consider whether the proposed simplifications could go further, as the formulae appear complex yet are based on rather arbitrary assumptions. Some significant testing is needed to see whether appropriate simplifications can be made in order to avoid spurious accuracy. The distinction between the actual value of sponsor support and	Noted.

			the maximum value of sponsor support seems artificial. One outcome is that, because the actual value of sponsor support (and pension protection schemes) is limited to the shortfall in the IORP relative to Level A technical provisions (plus risk margin), the HBS is very unlikely to balance. Furthermore, in the simplified approach to valuing sponsor support in HBS 6.50 and HBS 6.51, there is an inconsistency in the discount rates used to determine the cash flows CFt (which uses the risk-free rate at duration d only) and then to discount these cash flows to arrive at SSCF (which use risk-free rates for each year up to duration d).. This inconsistency means that, even if the default probability were zero, the value of sponsor support would not be equal to the shortfall. In HBS.6.36, the definition of ECt needs clarifying. In particular, we believe that the reference to discounting in (i) and (ii) is inappropriate because the formula in HBS.6.39 includes a discounting factor explicitly. Also in HBS.6.36, the reference to "duration of d" in the definition of it should be to "duration of t". It should be clarified whether, in HBS.6.42 and HBS.6.48, TP is intended to include the risk margin. We believe this is implied by the draft technical provisions, but it should be confirmed explicitly so as to remove any scope for differing interpretations.	
105.	Universities Superannuation Scheme Limited	Q6.	Given the purpose of the QIS, do stakeholders consider the proposed2 simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection	Noted. EIOPA generally encourages the use of other information, but couldn´t do without external ratings at this time.

			schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate? The simplifications are not straightforward, and they will require an extensive range of data. It is difficult to see the reasoning behind the Risk Margin other than that it replicates the system applied to the insurance sector in Solvency II. Unlike in insurance, the long-term nature of pension provision means that schemes are able to plan their way out of underfunding over a number of years, through recovery plans, so there is no need for a separate risk margin which provides for other IORPs to take over the liabilities. The principle does exist within DB provision in the UK through the insurance buy-out proxy calculation, but even if this were appropriate there appears to be no reason why additional solvency capital requirements would be necessary also. Furthermore, the purpose of the risk margin – to provide an extra buffer against risks over and above Technical Provisions – is duplicated by the Solvency Capital Requirement. We repeat a point made earlier to express our concern at the costs	

			for an IORP in producing these calculations. Finally, we are concerned about the reliance on credit ratings in the computations; the vast majority of employers which participate in USS are not rated, and this would be true of many IORPs.	
106.	UVB Vereinigung der Unternehmensverbände in Berlin	Q6.	A risk margin is inappropriate in occupational pension systems with sponsor support and pension protection scheme (PPS). In these systems the IORP is simply a delivery mechanism for the benefit promise given by the employer and guaranteed by the PPS. In a going concern situation it is economically inefficient (both at the company level and at the whole economy level) to fund the IORP over and above the long-term value of liabilities. Moreover the cost of capital concept is not relevant for IORPs as they do not raise capital in the financial markets, nor are pension liabilities traded in an active market. Furthermore, some valuation assumptions have built in risk buffers (e.g. mortality assumptions). Adding an explicit risk margin would be double counting (adding an SCR would then be triple counting.) Further simplifications in the valuation of sponsor support and PPS are necessary. Even the proposed simplification for the valuation requires data that many companies usually do not determine, e. g. the EBTDA for the next coming years.	Noted. Mortality assumptions do not have to include risk buffers.

			Focusing the valuation of sponsor support on few large employers may be feasible for schemes where these sponsors are liable for a significant portion of the benefits but not for a scheme that for example has over 40,000 sponsoring employers and whose top 5 sponsors make up approx. 5% of the contributions to the scheme. In the latter case, the probability of default could simply be set to 0, as the probability of all sponsors defaulting at the same time is effectively that. It is not justifiable to use commercial ratings to estimate the default risk of sponsors, nor is it reasonable to assign unrated employers the highest probability of default for the following reasons: - Some IORPs service many (unrated) small employers in a particular industry. The lack of reliance on a single employer arguably reduces exposure to default risk. - Many IORPs are sponsored by public entities which are not rated and whose probability of default is very small. - Some IORPs are sponsored by un-rated subsidiaries of foreign (rated) multinationals. The rating of the parent, however, is irrelevant as the parent is not liable for pensions in a local jurisdiction. - The vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. Therefore assigning unrated employers the highest	

			probability of default would discriminate against SMEs by making their occupational retirement provision more costly.	
107.	vbw – Vereinigung der Bayerischen Wirtschaft e. V.	Q6.	A risk margin is inappropriate in occupational pension systems with sponsor support and pension protection scheme (PPS). In these systems the IORP is simply a delivery mechanism for the benefit promise given by the employer and guaranteed by the PPS. In a going concern situation it is economically inefficient (both at the company level and at the whole economy level) to fund the IORP over and above the long-term value of liabilities. Moreover the cost of capital concept is not relevant for IORPs as they do not raise capital in the financial markets, nor are pension liabilities traded in an active market. Furthermore, some valuation assumptions have built in risk buffers (e.g. mortality assumptions). Adding an explicit risk margin would be double counting (adding an SCR would then be triple counting.) Further simplifications in the valuation of sponsor support and PPS are necessary. Even the proposed simplification for the valuation requires data that many companies usually do not determine, e. g. the EBTDA for the next coming years. Focusing the valuation of sponsor support on few large employers may be feasible for schemes where these sponsors are liable for a significant portion of the benefits but not for a scheme that for	Noted. Mortality assumptions do not have to include risk buffers.

			example has over 40,000 sponsoring employers and whose top 5 sponsors make up approx. 5% of the contributions to the scheme. In the latter case, the probability of default could simply be set to 0, as the probability of all sponsors defaulting at the same time is effectively that. It is not justifiable to use commercial ratings to estimate the default risk of sponsors, nor is it reasonable to assign unrated employers the highest probability of default for the following reasons: - Some IORPs service many (unrated) small employers in a particular industry. The lack of reliance on a single employer arguably reduces exposure to default risk. - Many IORPs are sponsored by public entities which are not rated and whose probability of default is very small. - Some IORPs are sponsored by un-rated subsidiaries of foreign (rated) multinationals. The rating of the parent, however, is irrelevant as the parent is not liable for pensions in a local jurisdiction. - The vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. Therefore assigning unrated employers the highest probability of default would discriminate against SMEs by making their occupational retirement provision more costly.	
108.	Vereinigung der	Q6.	A risk margin is inappropriate in occupational pension systems	Noted. Mortality

	hessischen Unternehmerverbände (Vh		with sponsor support and pension protection scheme (PPS). In these systems the IORP is simply a delivery mechanism for the benefit promise given by the employer and guaranteed by the PPS. In a going concern situation it is economically inefficient (both at the company level and at the whole economy level) to fund the IORP over and above the long-term value of liabilities. Moreover the cost of capital concept is not relevant for IORPs as they do not raise capital in the financial markets, nor are pension liabilities traded in an active market. Furthermore, some valuation assumptions have built in risk buffers (e.g. mortality assumptions). Adding an explicit risk margin would be double counting (adding an SCR would then be triple counting.) Further simplifications in the valuation of sponsor support and PPS are necessary. Even the proposed simplification for the valuation requires data that many companies usually do not determine, e. g. the EBTDA for the next coming years. Focusing the valuation of sponsor support on few large employers may be feasible for schemes where these sponsors are liable for a significant portion of the benefits but not for a scheme that for example has over 40,000 sponsoring employers and whose top 5 sponsors make up approx. 5% of the contributions to the scheme. In the latter case, the probability of default could simply be set to 0, as the probability of all sponsors defaulting at the same time is effectively that.	assumptions do not have to include risk buffers.

			It is not justifiable to use commercial ratings to estimate the default risk of sponsors, nor is it reasonable to assign unrated employers the highest probability of default for the following reasons: - Some IORPs service many (unrated) small employers in a particular industry. The lack of reliance on a single employer arguably reduces exposure to default risk. - Many IORPs are sponsored by public entities which are not rated and whose probability of default is very small. - Some IORPs are sponsored by un-rated subsidiaries of foreign (rated) multinationals. The rating of the parent, however, is irrelevant as the parent is not liable for pensions in a local jurisdiction. - The vast majority of employers who sponsor occupational pensions are not rated. These are especially to be found in the SME segment. Therefore assigning unrated employers the highest probability of default would discriminate against SMEs by making their occupational retirement provision more costly.	
109.	Zusatzversorgungskasse des Baugewerbes AG	Q6.	No, ZVK-Bau does not consider the proposed simplifications for the valuation of the holistic balance sheet adequate. As mentioned before in the General Comments the pars-pro-toto-concept of using the rating of the biggest three sponsors within a	Noted.

			multiemployer scheme for 40.000 enterprises as an estimate of the value of sponsor support within the whole scheme would not lead to any valuable insights. The value of the PPS may not be assessed without looking in the design and the constitution of the PPS neither. The PPS-like design of an IORP like ZVK-Bau itself would get lost the way this QIS is going to handle PPS. We are convinced that these "simplifications" are not useful because they are derived from a wrong overall concept. Instead of offering "simplifications" EIOPA should offer open space for IORPs to describe their legal security framework and assess the level of security as well as the economic impact of any changes within a first of more than one QISes. Concerning the risk margin we find no necessity to introduce such security mechanism within the regulatory model at all. The risk margin is considered to level out the additional burden on the capital's return expectations of shareholders if an IORP takes over the liabilities of another IORP in times of distress. Since in continental Europe there are no deep enough markets of that kind and since not-for-profit IORPs have no shareholders with capital return expectations calculating a risk margin delivers only a unnecessary additional buffer to be financed by the sponsor.	
110.	OPSG	Q7.	The OPSG believes that IORPs will be able to take into account the trend in mortality rates, at least from a technical point of view. The providers of mortality tables need to be reputable. In this context, mortality rate-trends should be defined on a national level, for example by national working groups, and not on a harmonised European stage, so that structural disparities can be dealt with appropriately.	Noted.

			Currently, not all Member States use the 'foreseeable trend' in their calculations. This highlights differences in the application of pension regulation between Member States. Moreover, IORPs in those Member States where at this time there is no obligation to use future mortality rates in the calculation of technical provisions, will be confronted with significant immediate increases in their provisions.	
111.	aba Arbeitsgemeinschaft für betriebliche Altersver	Q7.	The best estimate of technical provisions should include a suitable trend in mortality rates. Mortality is country and sometimes sector/scheme specific. Therefore, mortality tables and assumptions for future mortality trends should be defined at a national level or even sector/scheme level. For those IORPs who currently use mortality tables without a trend, a simple adjustment should be acceptable for the QIS.	Noted.
112.	AEIP – The European Association of Paritarian Inst	Q7.	Yes, AEIP does believe that IORPs should be able to take into account the future trend in mortality rates. However, AEIP reminds that for the moment on the market not all IORPs have access to this kind of information. AEIP would also invite EIOPA to assess what kind of impact the	Noted.

			introduction of future trend in mortality rates might have on the technical provisions of IORPs who currently do not use it.	
115.	Aon Hewitt	Q7.	Yes. A requirement to use up to date information seems very sensible, and indeed is a requirement under IFRS and US GAAP accounting standards. We note that different countries have very different mortality expectations and current industry standard mortality tables and so this will introduce some inconsistency.	Noted.
116.	Association of British Insurers	Q7.	It might be difficult and inappropriate to apply the same mortality rate assumptions across all member states. Using national trends and rates would be more relevant. It is also not clear what is meant by "the most recent mortality tables" – in the UK, as there is a wide range of tables and these do not include a standard allowance for future trends.	Partially agreed. The text on the mortality tables to be used was changed.
117.	Association of Consulting Actuaries UK	Q7.	Yes, this is common practice in most countries. We assume that EIOPA / the Commission does not intend to prescribe the mortality table and future trend rate to be used in each country – this would not make sense as the membership of IORPs, and thus the mortality experienced by the membership, can vary significantly within a country (as an example, the difference in average life expectancy from one part of London to another can be as much as seven years). IORPs should be given flexibility to adopt the mortality assumption that is most appropriate to their membership. This may not always involve using the most recently published table if an earlier table (potentially adjusted), or a scheme-specific experience-based table for larger IORPs, is considered to reflect better the scheme's	Partially agreed. The text on the mortality tables to be used was changed.

			(expected) experience. Professional expert judgement from will be required in arriving at the appropriate assumption for each IORP.	
118.	Association of French Insurers (FFSA)	Q7.	Since longevity risk is one of the main risks for IORPs, the use of up-to-date and non-static mortality tables is of extreme relevance. However, many stakeholders might, as of today, use regulatory mortality tables of the Member State they belong to and market practices might diverge for one another on the prudential level one has to introduce on the valuation of the provision. A prudential regime that would emphasize the use of the most recent mortality table should not lead to a disadvantage of competition for the IORP. As of today, the mortality choc is the same for every one whatever the mortality table used, considering it should the 'best estimate'. For cross border activity, having prudent mortality tables into force in the host country is coherent with the mortality observed in that country. It should be avoided, in the policyholder's best interest, to allow for a pension provider from a country A to use mortality tables in force in its home country to cover risks in country B where longevity is much greater. Policyholders from country A would then be penalized in their rents by technical deficit borne by policyholders from country B.	Noted.
119.	Balfour Beatty plc	Q7.	The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain? We consider the reference to the most recent tables to be	Partially agreed. The text on the mortality tables to be used was changed.

			ambiguous. If it is intended that "recent tables" refers to the most recent calibration of the IORP to standard tables, we are happy to support this principle. If, by contrast, it is intended to require IORPs to calibrate their mortality only by reference to the most recently published standard tables, we would consider this a retrograde step. IORPs should be permitted to use the standard tables that best fit their demographic profile even if that means calibrating to older tables. We consider "future trend" to be an unsatisfactory term, and in the context of HBS 4.2 note that no recently published mortality tables in the UK include a future trend. However we would support the principle of using mortality tables that included a "best estimate" projection of future mortality improvements.	
120.	Barnett Waddingham LLP	Q7.	EIOPA should bear in mind that the latest available tables and improvement rates may not necessarily be appropriate and proportionate given the nature of the IORP. Expert judgement will be required here, particularly in estimating the future trend in mortality rates : in the UK there is no single published set of future improvements. This could lead to variations between IORPs. EIOPA should note that the frequency of publication and sophistication of mortality tables may be different between countries, and that this may lead to inconsistencies in the reported information.	Partially agreed. The text on the mortality tables to be used was changed.
121.	BASF SE	Q7.	The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be	Noted.

			able to take into account this trend in mortality rates? Can you explain? In Germany it is already common practice to calculate the technical provisions of IORPs using mortality tables which include mortality trends. However, besides our general critique on the intention of the EU Commission to apply the Solvency II framework to IORPs, we believe that suitable mortality trends should be defined on a national level since they depend heavily on the population covered by the IORP.	
122.	Bayer AG	Q7.	Yes, IORPs will be able to take into account suitable mortality trend regarding the individual and specific group of their beneficiaries.	Noted.
123.	Bayerischer Industrieverband Steine und Erden e.V.	Q7.	We believe that IORPs will be able to take into account this trend in mortality rates. The providers of mortality tables need to be reputable. Currently, not all Member States take into account 'future trends' in their calculations / mortality tables. Also, mortality is heavily related to the national circumstances. So such issues should be left up to national working groups: to assess and propose how they can best be incorporated in the future in their specific Member State.	Noted.
124.	BDA Bundesvereinigung der Deutschen Arbeitgeberver	Q7.	We believe that IORPs will be able to take into account this trend in mortality rates. The providers of mortality tables need to be reputable. Currently, not all Member States take into account 'future trends' in their calculations / mortality tables. Also, mortality is heavily related to the national circumstances. So such issues should be left up to national working groups: to assess and propose how they can best be incorporated in the future in their	Noted.

			specific Member State.	
125.	BdS – Bundesverband der Systemgastronomie e.V.	Q7.	We believe that IORPs will be able to take into account this trend in mortality rates. The providers of mortality tables need to be reputable. Currently, not all Member States take into account 'future trends' in their calculations / mortality tables. Also, mortality is heavily related to the national circumstances. So such issues should be left up to national working groups: to assess and propose how they can best be incorporated in the future in their specific Member State.	Noted.
126.	Belgian Association of Pension Institutions (BVPI-	Q7.	No. At this moment it is not totally clear if Belgian IORPs have always access to the most recent mortality tables which include a future trend in mortality. If we look beyond theory and move to the real usefulness, pension liabilities are very long term, we think that no one is able to make reliable long term predictions regarding mortality rates. This needs at least further investigation.	Noted.
127.	Bosch Pensionsfonds AG	Q7.	Yes, we believe that IORPs will be able to take into account future trends in mortality rates. However, these trends should be defined on a national level - for example by national working groups - to	Noted.

			make adequate allowance for demographic differences between the Member States.	
128.	Bosch-Group	Q7.	Yes, we believe that IORPs will be able to take into account future trends in mortality rates. However, these trends should be defined on a national level - for example by national working groups - to make adequate allowance for demographic differences between the Member States.	Noted.
129.	BT Group plc	Q7.	The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain? In the UK, it is common practice to allow for expected future improvements in mortality. The difficulty is that projecting future life expectancy is inherently uncertain. Consequently, there are a wide range of views on what a "best estimate" is. If one of the aims of the HBS is to achieve comparability, this will not be achieved due to subjective judgments on life expectancy and also differences in national approaches to setting life expectancy tables. Again, this will be a subjective judgment purely by the IORP, rather than the current system within the UK which allows for discussion and agreement between the employer and the trustee on the appropriate rate. Any approach on mortality needs to be flexible enough to allow for	Noted.

			the use of scheme specific rates (where appropriate) rather than the use of standard tables for all.	
130.	BTPS Management Ltd	Q7.	In the UK we are generally able to access and take into account the trends in mortality. However, it is not entirely clear what the technical specifications are requesting. If it is intended that IORPs calibrate their mortality only by reference to the most recently published standard tables, we would consider this inappropriate as IORPs should be permitted to use the mortality tables that best fit the demographic profile of their beneficiaries even if that means calibrating to non-standard tables or ones which have not been updated as recently as the standard tables. In principle, we support the use of mortality tables that reflect a 'best estimate' projection of future mortality improvements.	Partially agreed. The text on the mortality tables to be used was changed.
131.	Consiglio Nazionale degli Attuari and Ordine Nazio	Q7.	About future trend in mortality rates: We think that IORPs will be able to take into account future trend in mortality rates. However, we remind that for the moment on the market not all IORPs have access to this kind of information.	Noted.
132.	Deloitte Total Reward and Benefits Limited (UK)	Q7.	Mortality models and projections are not readily available across all European jurisdictions. This aspect needs to be considered further by EIOPA, together with differences in typical market practice across jurisdictions.	Noted.

			However, in the UK there are a number of standard projection models available to project future trends in mortality rates. The CMI (Continuous Mortality Investigation) projection model is the most up to date available. An important input of the model that will need to be considered is the long term trend rate to be applied i.e. the rate at which improvements in mortality are assumed to trend to. UK IORPs and sponsors are used to agreeing the long-term trend rate for funding purposes and accounting purposes, hence we expect that no change in current UK market practice would be required in respect of this assumption.	
133.	Deutsche Post DHL	Q7.	Yes, IORPs are able to take into account future trends in mortality rates. In fact this is already common practice in many schemes / countries. E.g. the "Heubeck RT 2005 G" are quite recent standard tables for the German corporate pension market and being often used for valuations for accounting puroses. These tables do include already an annual improvement of future life expectancy. In addition it is possible to make company specific adjustments to the underlying base tables if deemed appropriate. Applied mortality trends (or e.g. disability trends) should be defined on a national level - for example by national working groups or by applying country wide standard base tables - to make adequate allowance for demographic differences between the Member States.	Noted.
134.	Dexia Asset Management	Q7.	Q7. The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain?	Noted.

			We think that the reliability of the estimate of future cash flows payable by the IORPs is of primary importance for a solvency regime. However we think it will be difficult to enforce this principle into valuation: - Mortality tables and data are not available to all IORPs and mortality projection requires professional judgment - Mortality tables should be industry / income group / region specific to be accurate, which is an additional data issue for IORPs.	
135.	EEF	Q7.	We believe IORPS should have reasonable flexibility to adopt assumptions that fit the scheme (as is currently the case in the UK).	Noted.
136.	European Federation for Retirement Provision (EFRP	Q7.	Q7. The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain? The EFRP agrees that the most recent mortality tables available to the individual IORPs should be used for the calculation of the best estimate. The providers of mortality tables must also be reputable. The trends on mortality tables should take into account the	Noted.

			different life expectations for the populations of each Member State. The mortality tables defined as standard to each Member State should be accepted. It should be noted that in some Members States the introduction of these type of mortality tables will have a significant impact, because they are not commonly in use.	
137.	Federation of the Dutch Pension Funds	Q7.	In the Netherlands IORPs are able to take into account the trend with regard to mortality as this is already common practice.	Noted.
138.	Financial Reporting Council – staff response	Q7.	Mortality is likely to be IORP specific. Therefore, market rates based on the latest tables will not necessarily be suitable to calculate the best estimate of technical provisions. Smaller schemes might have insufficient data to determine an IORP specific mortality table. It might therefore be appropriate to consider the shape of mortality rates from a recent relevant mortality table. We agree that it is particularly important to take account of the future trend (although we do not like the term future trend and prefer best estimate projection) in mortality when estimating the best estimate value of technical provisions for IORPs as longevity is one of the major risks to which they are exposed. While there is uncertainty in deciding on the future trend in mortality, there are a number of established methods to estimate the future trend.	Partially agreed. The text on the mortality tables to be used was changed.
139.	German Confederation of Skilled Crafts	Q7.	We believe that IORPs will be able to take into account this trend in mortality rates. The providers of mortality tables need to be	Noted.

			reputable. Currently, not all Member States take into account 'future trends' in their calculations / mortality tables. Also, mortality is heavily related to the national circumstances. So such issues should be left up to national working groups: to assess and propose how they can best be incorporated in the future in their specific Member State.	
140.	German Institute of Pension Actuaries	Q7.	Including future trends in mortality rates in any suitable manner is certainly appropriate by taking into account what is practically realizable by the IORPs. Mortality rate-trends should be defined at a national level, for example by national working groups, and not at a harmonized European level, so that structural disparities can be dealt with appropriately. So, the different expected demographic developments in the single member states, which will in some cases be very different within the European Union, could be adequately taken into account on the definition of these trends. Given the individual structure of the population of members and beneficiaries of IORPs, adequate / realistic future trends in mortality rates will also strongly differ between different IORPs in the same member state. As a simplification, future trends in mortality rates from actuarial accepted national / sector-based mortality tables could be applied instead of an individual IORP-based future trend in mortality rates.	Noted.

			Taking into account future mortality trends while accounting/calculating the liabilities of an IORP could at first be very difficult for IORPs that have never carried out such calculations before. For that reason, simplified assumptions are more appropriate for IORPs than complex calculations.	
141.	GESAMTMETALL - Federation of German employer	Q7.	We believe that IORPs will be able to take into account this trend in mortality rates. The providers of mortality tables need to be reputable. Currently, not all Member States take into account 'future trends' in their calculations / mortality tables. Also, mortality is heavily related to the national circumstances. So such issues should be left up to national working groups: to assess and propose how they can best be incorporated in the future in their specific Member State.	Noted.
142.	Groupe Consultatif Actuariel Européen	Q7.	The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain? We think that the best estimate should be based on the most appropriate mortality tables (this might be a different set of tables from simply those published most recently – for example, an individual IORP might have compiled its own table based on an historic table but updated in the light of experience specific to that	Partially agreed. The text on the mortality tables to be used was changed.

			IORP). If necessary, there could be guidance that tables used would be expected to have been published no more than, say 5, years before those published most recently. Allowance for future improvements should be applied in addition and the most appropriate allowance for these may very well be informed by sources other than the base mortality table selected or the most recent published table.	
143.	Hundred Group of Finance Directors	Q7.	The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain? We do not anticipate that this would cause problems for UK IORPs. However, we note that the question talks about 'the future trend' as though there were only one such trend, whereas in fact various different assumptions can be made about the rate of future improvements.	Noted.
144.	IBM Deutschland Pensionsfonds AG	Q7.	The best estimate of technical provisions should include a suitable trend in mortality rates. Mortality is country and sometimes sector/scheme specific. Therefore, mortality tables and assumptions for future mortality trends should be defined at a national level or even sector/scheme	Noted.

			level. For those IORPs who currently use mortality tables without a trend, a simple adjustment should be acceptable for the QIS.	
145.	Institute and Faculty of Actuaries	Q7.	The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain? Yes, however we consider the reference to the most recent tables to be ambiguous. If it is intended that "recent tables" refers to the most recent calibration of the IORP to standard tables, we support the principle. If, by contrast, it is intended to require IORPs to calibrate their mortality only by reference to the most recent standard tables, we would consider this a retrograde step – IORPs must be allowed to use the standard tables that best fit their demographic profile even if that means calibrating to older tables. We consider "future trend" to be an unsatisfactory term. However we would support the principle of using mortality tables that included a "best estimate" projection of future mortality improvements. As an aside, we consider the longevity stress too approximate and unrealistic given the importance of this parameter for IORPs.	Partially agreed. The text on the mortality tables to be used was changed.
146.	Insurance Europe	Q7.	Insurance Europe believes that since longevity risk is one of the main risks for IORPs, the use of up-to-date generational mortality	Partially agreed. The text on the mortality

			tables and not of static mortality tables is extremely important. Currently many IORPs and supervisors use static mortality tables that are only reviewed after certain years and reflect the past experience of the period in which the data were collected. When using static tables, the life expectancy is the same at any given age no matter when the individual was born. Generational mortality tables calculate mortality based on the year of birth for each individual, allowing for expected future improvements in mortality. As such, the future development of life expectancy throughout one's life is systematically included in the calculation of the present value of the calculations. On the other hand, generational tables will allow for the fact that those that will reach a certain age later, will be expected to live longer. However, it should be remarked that in most cases trend information is usually not be on special portfolio information of the single IORP or insurer but on information derived from (national) population data. Some insurers and IORPs already use such generational mortality tables. It should be required for this QIS as well. Insurance Europe also wants to stress that the most appropriate tables should be used, these are not necessarily the most recent ones available.	tables to be used was changed.
147.	KPMG LLP (UK)	Q7.	That is an appropriate theoretical starting point. However in practice, for this QIS, it is likely that the data collected will be based on whatever mortality tables were used by each IORP at the date of its last valuation. This will inevitably include a range of relatively optimistic and pessimistic assumptions. In terms of allowances for future improvements in mortality, since	Noted.

			there is rarely agreement within each member state, let alone across member states, as to what the trend is likely to be, we do not see how a consistent assumption can be made, and therefore how the results will be comparable.	
148.	Mercer Ltd	Q7.	The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain? The statement in paragraph HBS4.2 is unclear. There is no purpose in using the most recent mortality tables if these are not representative of the IORP'S experience. We also note that the use of 'future trends' is unclear. For example, although we believe EIOPA means that an allowance should be made for future improvements in mortality rates, scheme experience could also change because the nature of the membership has changed. Our experience is that allowance for future improvements in mortality rates varies considerably between different member states, in terms of the methods used and the allowance made. This is partly because the effect is more material in some countries than in others and also (perhaps not unrelated) because some countries have more information about the rate of improvement.	Partially agreed. The text on the mortality tables to be used was changed.

149.	National Association of Pension Funds (NAPF)	Q7.	The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain? In the UK, guidance from the Pensions Regulator allows IORPs to choose reasonable assumptions about mortality, according to the nature of the particular scheme. Actuaries would also refer to industry-standard tables, such as those issued by the Board for Actuarial Standards. The NAPF is confident, therefore, that actuaries will be able to take account of potential future trends in mortality rates. This question highlights one of the difficulties in applying a standard assessment method across the EU, as some Member States use the 'foreseeable trend' for mortality and some do not.	Noted.
150.	Pension Protection Fund, UK.	Q7.	Yes, we believe that UK IORPs will be able to allow for future improvements in mortality as this is already common practice for UK IORPs when conducting statutory and accounting valuations. We agree that allowing for future improvements in mortality is the appropriate approach.	Noted.
151.	Punter Southall	Q7.	The best estimate of technical provisions should be based on the	Noted.

			most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain? We believe that UK IORPs will be able to take into account the most recent mortality tables and future trends in the best estimate of their technical provisions. However, we note that various different assumptions can be made regarding future trends in mortality and IORPs should be given the flexibility to adopt the mortality assumption that is most appropriate to their membership.	
152.	Railways Pension Trustee Company Limited (RPTCL)	Q7.	RPTCL notes that reference is made to use of 'the most recent mortality tables' and we have two specific comments to make relating to this: 1. 'The most recent mortality tables' available in a particular Member State may be less relevant to a particular IORP than other, potentially older, tables that have been produced for a particular IORP or are relevant to the scheme-specific experience of the IORP. For example, RPTCL's pension schemes have around 150,000 pensioners and, consequently, we consider it more appropriate to use scheme-specific mortality data as part of selecting an appropriate mortality table rather than routinely using the most recent UK mortality tables.	Partially agreed. The text on the mortality tables to be used was changed.

			2. For those IORPs where use of a standard table available in a particular Member State may be appropriate, consideration should be given to the relevance of the population sample used within the production of 'the most recent mortality tables' to the IORP. In many cases, the most widely available mortality tables are based on life assurance mortality experience within a Member State and the mortality rates within it may not be fully relevant to the membership of IORPs. RPTCL therefore considers that IORPs should be permitted to use any standard or scheme-specific table that best fits the demographic profile of an IORP, even if this means departure from use of the most recent mortality tables.	
153.	RWE Pensionsfonds AG	Q7.	It should be possible to use tables derived from the population of the IORP.	Noted.
156.	Tesco Plc	Q7.	The reference to "recent tables" is not clearly defined. We do not expect the principle to be an issue for UK IORPs. However, it is not feasible to envisage a single mortality trend but rather different trends, which will vary by sector of the workforce and by member state.	Partially agreed. The text on the mortality tables to be used was changed.
157.	Towers Watson B.V.	Q7.	The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain?	Partially agreed. The text on the mortality tables to be used was changed.

			Although the terminology needs further clarification, we expect that in the Netherlands IORPs should be able to meet this requirement.	
158.	Towers Watson GmbH, Germany	Q7.	We think this specification is clear.	Noted.
159.	Towers Watson UK	Q7.	The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain? We consider the reference to the most recent tables to be ambiguous. If it is intended that "recent tables" refers to the most recent calibration of the IORP to standard tables, we are happy to support this principle. If, by contrast, it is intended to require IORPs to calibrate their mortality only by reference to the most recently published standard tables, we would consider this a retrograde step. IORPs should be permitted to use the standard tables that best fit their demographic profile even if that means calibrating to older tables. We consider "future trend" to be an unsatisfactory term, and in the context of HBS 4.2 note that no recently published mortality tables in the UK include a future trend. However we would support the principle of using mortality tables that included a "best estimate" projection of future mortality improvements. In our view the longevity 'shock' proposed is too crude in that a	Partially agreed. The text on the mortality tables to be used was changed.

			permanent 20% decrease in mortality rates is a poor approximation to a 1 in 200 shock. A more realistic approach would include decreases in mortality rates that vary by age.	
160.	Universities Superannuation Scheme Limited	Q7.	The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain? In the UK, guidance from the supervisor requires IORPs to choose prudent assumptions about mortality, according to the nature of the particular scheme. Actuaries would also refer to industry-standard tables, such as those issued by the Board for Actuarial Standards, in order to determine rates of future longevity improvement. This question highlights one of the difficulties in applying a standard assessment method across the EU, as some Member States use the 'foreseeable trend' for mortality and some do not.	Noted.
161.	UVB Vereinigung der Unternehmensverbände in Berlin	Q7.	We believe that IORPs will be able to take into account this trend in mortality rates. The providers of mortality tables need to be reputable. Currently, not all Member States take into account 'future trends' in their calculations / mortality tables. Also, mortality is heavily related to the national circumstances. So such issues should be left up to national working groups: to assess and propose how they can best be incorporated in the future in their specific Member State.	Noted.

162.	vbw – Vereinigung der Bayerischen Wirtschaft e. V.	Q7.	We believe that IORPs will be able to take into account this trend in mortality rates. The providers of mortality tables need to be reputable. Currently, not all Member States take into account 'future trends' in their calculations / mortality tables. Also, mortality is heavily related to the national circumstances. So such issues should be left up to national working groups: to assess and propose how they can best be incorporated in the future in their specific Member State.	Noted.
163.	Vereinigung der hessischen Unternehmerverbände (Vh	Q7.	We believe that IORPs will be able to take into account this trend in mortality rates. The providers of mortality tables need to be reputable. Currently, not all Member States take into account 'future trends' in their calculations / mortality tables. Also, mortality is heavily related to the national circumstances. So such issues should be left up to national working groups: to assess and propose how they can best be incorporated in the future in their specific Member State.	Noted.
164.	Zusatzversorgungskasse des Baugewerbes AG	Q7.	Yes, ZVK-Bau is able to take into account future trend in mortality rates.	Noted.
165.	OPSG	Q8.	No, it is not clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate. There is a clear case for more guidance, to assure some utility and comparability of the outputs. For example, more guidance is required for: • When projected benefit obligations (PBO) i.e. allowing for	Partially agreed. The section on inflation and salary growth was changed. The definition of ex ante benefit adjustment mechanism

			future salary increases should be taken into account. • Definitions of conditional, discretionary and mixed benefits are not clear and it is therefore very hard to make a distinction between those. • Difference between "ex post" and "ex ante" benefit reductions. • Definition and use of conditional benefits and contractual options.	has been made clearer.
166.	aba Arbeitsgemeinschaft für betriebliche Altersver	Q8.	No. Projecting cash flows in respect of each individual member will be costly and time consuming for many members. Having to provide evidence that the grouping of entitlements is acceptable would almost require as much effort. Pensions plans in Germany typically provide defined death and disability benefits. The valuation of these is integrated with the valuation of retirement benefits, therefore, it is not feasible to value these as a separate plan. The exact distinction between unconditional, conditional and discretionary benefits is not sufficiently clear. Under the current wording of the technical specifications, the majority of German IORPs would fall under Type 1 schemes according to HBS 4.13, as these can be discontinued at any time. In this case, accrued benefits would be valued on an ABO basis. This means that conditional benefits arising from accrued	Noted.

			entitlements (eg. bonus distributions in hybrid schemes) would not be included in the valuation. In any event, these are a function of the funded status of the scheme, which is influenced by the solvency requirements. To the extent that future solvency requirements are not yet known, it is not possible to make these projections.	
167.	AEIP – The European Association of Paritarian Inst	Q8.	No, the technical specifications do not provide enough guidance regarding what cash flows should be taken into account in the calculation of the best estimate and how the projections should be made. AEIP would invite EIOPA to clarify the concepts of conditional/discretionary/mixed benefits and other references from social and labour law which impact the rules of the pension plan, which do result difficult to implement at this stage in the forthcoming QIS. There is also a need to clarify the cash flows related to the expenses borne by the IORP. AEIP does indeed finds that the cash flows that have to be taken care of within the QIS are not sufficiently identified, i.e. in the case where IORPs do have cash flows related to PAYG elements.	Noted.
170.	Aon Hewitt	Q8.	It is generally clear but potentially cumbersome. We would	Partially agreed. The

			suggest, as a pragmatic alternative, that a similar approach to that used for calculating obligations under IFRS and US GAAP accounting standards should be used. These require cash flows to be calculated using best estimate principles, and we see no specific reason why a different best estimate calculation should be used for the QIS (other than for the setting of the discount rate, and other assumptions like inflation and salary increases which EIOPA wants to fix rather than set equal to a best estimate). As noted in the consultation document, the degree of expectation as to whether discretionary benefits will be granted and if so at what level covers a wide spectrum. The QIS wording does not help clarify the level of expectation above which allowance for discretionary benefits should be included. In most countries, accrued benefits are regarded as those benefits payable if a member were to leave service at the calculation date. This raises an important policy issue as to whether the accrued benefits should include allowance for future salary increases. In some countries, minimum funding measures do not take account of future salary increases, and Pension Protection Schemes will not link benefits to future salary increases. Given the importance of this point, please can EIOPA share its thinking on this issue. A lot of thinking has been done on this issue in the past by other organisations, not least the IASB in respect of whether allowance should be made for salary increases when calculating obligations for company accounting purposes. The guidance on stochastic projections is confusing to say the	section on inflation and salary growth was changed.

			least. It reads more like an instruction to choose a representative set of scenarios to project, rather than describing how to define the probability space in which to carry out stochastic projections. Also, the wording about benign or adverse scenarios does not look to be consistent with the way these terms would be understood by an IORP. For an IORP, a benign scenario is one in which a high level of discretionary or conditional benefits can be afforded/provided.	
171.	Association of Consulting Actuaries UK	Q8.	Yes.	Noted.
172.	Barnett Waddingham LLP	Q8.	We have made comments on specific sections below where clarification is requested.	Noted.
173.	BASF SE	Q8.	Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)? It is not clear which cash flows should be taken into account in calculating the best estimate of technical provisions. In particular, the definitions of conditional, discretionary and mixed benefits as well as the distinction between ex post and ex ante benefit reductions are unclear. Furthermore, in order to quantify the conditional benefits a stochastic approach may be required. Consequently, quantifying the conditional benefits will be very burdensome and expensive.	Noted.

174.	Bayer AG	Q8.	No, because the current draft of the technical provisions leaves it e.g. unclear, how conditional benefits shall be calculated concretely.	Noted.
175.	Bayerischer Industrieverband Steine und Erden e.V.	Q8.	No, it is not clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate. There is a clear case for more guidance, to assure some utility and comparability of the outputs. For example, more guidance is required for: • When projected benefit obligations (PBO) should be taken into account; • Definitions of conditional, discretionary and mixed benefits are not clear and it is therefore very hard to make a distinction between those; • Difference between “ex post” and “ex ante” benefit reductions; • Definition and use of conditional benefits and contractual options. Pension plans in Germany typically provide defined death and disability benefits. The valuation of these is integrated with the valuation of retirement benefits, therefore, it may not be feasible to value these as a separate plan.	Partially agreed. The section on inflation and salary growth was changed. The definition of ex ante benefit adjustment mechanism has been made clearer.
176.	BDA Bundesvereinigung der Deutschen Arbeitgeberver	Q8.	No, it is not clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate. There is a clear case for more guidance, to assure	Partially agreed. The section on inflation and salary growth was

			some utility and comparability of the outputs. For example, more guidance is required for: • When projected benefit obligations (PBO) should be taken into account; • Definitions of conditional, discretionary and mixed benefits are not clear and it is therefore very hard to make a distinction between those; • Difference between "ex post" and "ex ante" benefit reductions; • Definition and use of conditional benefits and contractual options. Pension plans in Germany typically provide defined death and disability benefits. The valuation of these is integrated with the valuation of retirement benefits, therefore, it may not be feasible to value these as a separate plan.	changed. The definition of ex ante benefit adjustment mechanism has been made clearer.
177.	BdS – Bundesverband der Systemgastronomie e.V.	Q8.	No, it is not clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate. There is a clear case for more guidance, to assure some utility and comparability of the outputs. For example, more guidance is required for: • When projected benefit obligations (PBO) should be taken into account; • Definitions of conditional, discretionary and mixed benefits are not clear and it is therefore very hard to make a distinction	Partially agreed. The section on inflation and salary growth was changed. The definition of ex ante benefit adjustment mechanism has been made clearer.

			between those; • Difference between "ex post" and "ex ante" benefit reductions; • Definition and use of conditional benefits and contractual options. Pension plans in Germany typically provide defined death and disability benefits. The valuation of these is integrated with the valuation of retirement benefits, therefore, it may not be feasible to value these as a separate plan.	
178.	Belgian Association of Pension Institutions (BVPI-	Q8.	No. It is not always clear which benefits to value. E.g. ☐ In Belgium we currently have a clear split between social labour law and prudential legislation. Social labour law has an impact on the plan rules. Prudential legislation do impact the plan funding level in the IORP. Not all social labour law requirements are fully prefunded via the IORP e.g. the social labour minimum guarantee of 3.25% on employer contributions in a defined contribution plan require only external (IORP) funding upon leaving, transfer, death or retirement. As social and labour legislation and not the plan as such is requiring an interest guarantee, is it correct to consider the plan as a pure Defined Contribution (DC) benefit without any guarantee in the IORP ☐ Under Belgian Social and Labour Law retirement benefit	Noted. The segmentation of obligations was changed to make clear that all schemes have to be taken into account which include any guarantees to members and beneficiaries irrespective of how these schemes are so far classified in the different Member States. The section on inflation and salary growth was changed. It

			plans can be ended or replaced for future service, but in doing so, a dynamic approach will have to be applied, which means that (only for active members), past service benefits in the former plan are to be revalued to take into account salary increases. Stopping a plan without such revaluation of the past services can only be done under exceptional conditions. Are such revaluations to be considered as "accruing new benefits with respect to the future services" , or not? It seems us that the answer is "not", because no new benefits are calculated on the future services. We only have a revalorization of the (stopped) past services, only for active people, and not in all circumstances. If you agree that the answer is "not" the Belgian DB would have to be considered as "type 1". We would have then to apply HBS.4.13 Can we then calculate an ABO our do we have to calculate a PBO ? It seems us that it should be an ABO. If it is a PBO, it would seem us logical to take also account of the contributions corresponding to future salary increases (like in HBS.4.14), but that isn't foreseen in HBS.4.13. We also notice unclarity about the expenses to take into account: legal expenses, administration expenses and actuarial/consultancy expenses are mostly born by the sponsor. To simplify the calculation, we suggest to ignore them. Expenses linked to the asset management are taken from the investment return and often are not transparent to the IORP. For those it is difficult what to take in the context of this valuation. We	has been made clear that expenses borne by the employer can be disregarded.

			suggest to estimate them at 0,5%. Options and guarantees might make the valuation very complex.	
179.	BlackRock	Q8.	Please see our General Comment above.	Noted.
180.	BT Group plc	Q8.	Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)? This appears largely clear. However, as noted under Q2, further clarity on whether an allowance for salary increases should be made if they are not contractual is required.	Partially agreed. The section on inflation and salary growth was changed.
181.	BTPS Management Ltd	Q8.	The principles for calculating the best estimate cashflows seem clear. However, using a stochastic approach is likely to be onerous; so would splitting the liabilities into the different categories (discretionary, unconditional etc). Also, we consider performing separate SCR calculations for each category as overly complex and an unnecessary burden. We feel that the assumption for level A of swap bid rates less 10 bp is an unnecessary non-market consistent assumption as to the risk free rate in the UK.	Noted.

			We currently use the Gilt curve or the Sterling swap curve. Again the 4.2% forward rate beyond 50 years will have a major financial implication as our scheme has liabilities out to 80 years. Bringing expenses into the calculations seems less material and overly complex.	
182.	Consiglio Nazionale degli Attuari and Ordine Nazio	Q8.	About technical specifications cash flows and projections: The technical specifications do not provide enough guidance regarding what cash flows should be taken into account in the calculation of the best estimate and how the projections should be made. See answer to Q5	Noted.
183.	Deloitte Total Reward and Benefits Limited (UK)	Q8.	No. The technical specifications do not make it sufficiently clear how salary increases should be treated for past service benefits. In addition, it is unclear how levies payable to Pension Protection Schemes should be incorporated. The levy can be added to the allowance for expenses, however in practice it will be necessary to adopt a very broad brush assumption for how levies may change in future. The technical specifications request IORPs to value too many alternatives as regards conditional/ discretionary/mixed benefits. This increases the complexity and cost of the QIS process. Many IORPs are unlikely to have available data on future pension cashflows in each year (in particular for small IORPs). This needs	Partially agreed. The section on inflation and salary growth was changed. Levies to a Pension Protection Schemes do not have to be included in the HBS.

			to be considered further by EIOPA.	
184.	Dexia Asset Management	Q8.	Q8. Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)? The cash-flows calculations is unclear on several points : - The definition of the possibility or not to end the accrual of new benefits - The calculation of ex post benefit reduction - The definition of discretionary and conditional benefits - The difference between ex ante and ex post benefit reduction	Partially agreed. The section on inflation and salary growth was changed. The definition of ex ante benefit adjustment mechanism has been made clearer.
185.	European Federation for Retirement Provision (EFRP	Q8.	Q8. Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)?	Partially agreed. The section on inflation and salary growth was changed. The definition of ex ante benefit adjustment mechanism has been made clearer. It has been made clear

			The calculation of the cash flows in the HBS/QIS is unclear. In particular conditional cash flows are difficult to quantify through the three suggested methods in QIS specifications. In order to produce comparable information across countries, the instructions on how standard premiums, recovery premiums etc will have to be taken into account should be absolutely clear. We believe that too little guidance is provided to ensure some utility and comparability of the outputs. For example, more guidance is required for the following issues: – When projected benefit obligations (PBO) should be taken into account. – Definitions of conditional, discretionary and mixed benefits are not clear and it is therefore hard to make a distinction between them. – How to deal with a pension promise where different parts offset each other and are funded via different pension vehicules? (eg. an employer funded DB plan, with an employee funded DC part where one part is managed by an IORP and the other by an insurance contract?) – Last resort benefit reductions, at least in Germany, can be the ex-post result of an unsustainable solvency position. Including them endogenously in the model does not reflect reality and seems to introduce circularity. – Lack of clarity on what EIOPA perceives as the difference between "ex post" and "ex ante" benefit reductions. – Definition and use of conditional benefits and contractual	that expenses borne by the employer can be disregarded.

			options. – It is unclear how expenses should be taken into account: legal expenses, administration expenses and actuarial/consultancy expenses are mostly borne by the sponsor. To simplify the calculation, we suggest ignoring them or – as an alternative – taking a fixed number.	
186.	Federation of the Dutch Pension Funds	Q8.	The definition of the contract boundaries is clear for Dutch IORPs, so from that perspective the cash flows should be clear. It is unclear though how the cash flows should be calculated in the HBS/QIS. In particular conditional cash flows are difficult to quantify through the three suggested methods in the QIS specifications. In order to produce reliable and comparable information across countries, the instructions on how standard premiums, recovery premiums etcetera will have to be taken into account, should be absolutely clear. Questions are arising such as: ☐ How should unconditional increases of accrued rights (DB final pay or unconditionally indexed average career pay) be valued? ☐ To what extent do these unconditional rights belong to the accrued rights as quoted in HBS 4.13? ☐ And if these are to be taken into account, should the related corresponding funding of contributions also be valued as	Noted.

			an asset? Little guidance is provided on the definition and valuation of conditional/discretionary/ mixed benefits and the distinction between them. It is not clear what EIOPA perceives as the difference between conditional benefits (HBS 4.23 and further) and contractual options (HBS 4.51 and further). For contingent cash flows (both contingent assets and contingent liabilities), using a stochastic approach may be too burdensome and expensive. And at the same time, it is not clear at all how to attribute probabilities and value in a market consistent way by using a series of deterministic projections or using only one deterministic valuation. In some circumstances it is not always clear which part of the sponsor contribution is defined for normal accrual and which part is 'sponsor support' in respect of security mechanisms. More guidance is required in order to get a good indication of sponsor support; the reference to 'excess of its regular contribution' in HBS 6.10 is not sufficient as there may be many different definitions in the different Member States.	
187.	Financial Reporting Council – staff response	Q8.	We found the majority of the technical specifications in section 2.4 clear. We found paragraphs HBS.4.46 to HBS.4.48, which describe the approach to be taken for a reduction in benefits in case of sponsor default, difficult to follow. Clarification of these paragraphs would	Noted.

			be helpful.	
188.	German Institute of Pension Actuaries	Q8.	The specifications are neither clear nor transparent enough. Most of the IORPs in Germany will not be able to compute the liabilities easily for all the required components. For the purpose of this QIS much more estimates and extensive simplifications will be desirable with respect to the different characteristics of the individual plan designs of the IORPs. Many very difficult assumptions are necessary to value the liabilities and that means a lot of work. As a valuation of the liabilities of the IORP is only possible / feasible by taking into consideration the further developments / further performance of the assets of the IORP, the execution of the suggested calculations will be (very) difficult. Furthermore, a lot of management rules, based on inaccurate information, will have to be stipulated and will thus lead to imprecise / indefinite results that will be not appropriate and comparable in between the various IORPs. The calculation of the pure conditional, mixed and pure discretionary benefits as well as the options and guarantees embedded in pension contracts will overburden many IORPs, because instruments and methods to carry out such difficult calculations are mostly not readily available to the IORPs. More detailed description of what constitute unconditional, pure conditional, pure discretionary and mixed benefits required. We welcome the specification in HBS.4.53, that defined benefits paid until the death of the beneficiary, are not regarded as an implicit financial guarantee which would have to be valued separately as part of the technical provisions.	Noted.

189.	GESAMTMETALL - Federation of German employer	Q8.	No, it is not clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate. There is a clear case for more guidance, to assure some utility and comparability of the outputs. For example, more guidance is required for: • When projected benefit obligations (PBO) should be taken into account; • Definitions of conditional, discretionary and mixed benefits are not clear and it is therefore very hard to make a distinction between those; • Difference between "ex post" and "ex ante" benefit reductions; • Definition and use of conditional benefits and contractual options. Pension plans in Germany typically provide defined death and disability benefits. The valuation of these is integrated with the valuation of retirement benefits, therefore, it may not be feasible to value these as a separate plan.	Partially agreed. The section on inflation and salary growth was changed. The definition of ex ante benefit adjustment mechanism has been made clearer.
190.	Groupe Consultatif Actuariel Européen	Q8.	Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to	Partially agreed. The section on inflation and salary growth was changed. The definition of ex ante benefit

			benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)? The specifications leave room for interpretation especially for 'mixed' benefits. In practice, there will be very few pure conditional and pure discretionary benefits, so that for the majority of non-unconditional benefits it is unclear how they are to be treated. We also think that differentiation between conditional and discretionary benefits is inherently challenging. We would suggest that EIOPA arrange to provide advice on a case by case basis and maintain a readily accessible list of answers that can be referred to by those completing the QIS on its behalf. We believe that greater clarity in the following areas would be beneficial: ☐ the difference between ex-ante and ex-post benefit reductions. ☐ In the case of final wage schemes, how unconditional future increases of accrued pension rights should be valued? To what extent do these unconditional rights belong to the accrued rights as mentioned in HBS 4.13? Should the corresponding future contributions that are to be made to fund these entitlements also be valued as an asset?	adjustment mechanism has been made clearer.

			☐ the difference between conditional benefits (HBS 4.23 and further) and contractual options (HBS 4.51 and further). ☐ Which part of the sponsor contribution is defined for normal accrual and which part is 'sponsor support' in respect of security mechanisms. Different definitions might be used in practice.	
191.	Hundred Group of Finance Directors	Q8.	Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)? No comment.	Noted.
192.	IBM Deutschland Pensionsfonds AG	Q8.	No. Projecting cash flows in respect of each individual member will be costly and time consuming for many members. Having to provide evidence that the grouping of entitlements is acceptable would almost require as much effort. Pension plans in Germany typically provide defined death and disability benefits. The valuation of these is integrated with the valuation of retirement benefits; therefore, it is not feasible to value these as a separate plan.	Noted.

			The distinction between unconditional, conditional and discretionary benefits is not sufficiently clear. Under the current wording of the technical specifications, the majority of German IORPs would fall under Type 1 schemes according to HBS 4.13, as these can be discontinued at any time. In this case, accrued benefits would be valued on an ABO basis. This means that conditional benefits arising from accrued entitlements (e.g. bonus distributions in hybrid schemes) would not be included in the valuation. In any event, these are a function of the funded status of the scheme, which is influenced by the solvency requirements. To the extent that future solvency requirements are not yet known, it is not possible to make these projections.	
193.	Institute and Faculty of Actuaries	Q8.	Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)? The principles appear clear, but we reiterate our concerns that different IORPs and different Member States might interpret what constitute unconditional, conditional, discretionary and mixed benefits differently. Using a stochastic approach could be onerous; as could unbundling liabilities into the different categories (discretionary, unconditional etc.) and doing separate SCR calculations for each category.	Noted.

194.	Insurance Europe	Q8.	Insurance Europe believes that the section 2.4 was clear in its description of the calculation of the best estimate and how the projection of these cash flows will be made. However, it should be made clear from the beginning of this section that surplus funds as exempt by Solvency II are not included in the discussions on how to value technical provisions; as such funds should be treated as assets and not liabilities. In addition, Insurance Europe has its doubts on the feasibility and practical implementation if no additional information would be provided to those IORPs participating in the QIS. For example for Germany, there are still some questions under discussion. For example on how to include some indexation mechanisms in the pay-out phase required by German law Betriebsrentengesetz. A simpler and more general concept of benefits might be easier to handle than the different kinds of benefits defined in the technical specifications. For the QIS, however, testing the different concepts might be reasonable but causes some effort. Based on the principle of proportionality, a general concept could be developed.	Noted. Surplus funds are not included in technical provisions.
195.	KPMG LLP (UK)	Q8.	In the UK it will be a matter of conjecture as to what allowances to make for future levies payable by IORPs to the Pension Protection Fund (PPF). The majority of UK defined benefit IORPs have benefits linked to their members' final salaries. However in most cases it is the sponsors who determine future salaries, and whether some or all salary increases give rise to additional benefits in IORPs. Our understanding of the proposed approach is that liabilities arising from possible future salary increases should be treated as	Noted. Levies to a Pension Protection Schemes do not have to be included in the HBS. The section on inflation and salary growth was changed.

			conditional benefits – but can this then be offset by the loss-absorbancy capacity of the power of employers not to allow for such increases to count for benefits under the IORPs? This is another example of where trying to adapt the bi-partite nature of insurance (insurer – policyholder) to the tri-partite nature of IORPs (sponsor – IORP – member) seems to give rise to undue complication.	
196.	Mercer Ltd	Q8.	Is it clear from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)? As in much of the document, the principles that have been adopted are relatively clear, but not necessarily appropriate. IORPs in different member states, and their regulators, are likely to characterise unconditional, conditional and discretionary benefits differently. In any case, in our view discretionary and mixed benefits should not be included in technical provisions calculated for regulatory purposes before the discretion has been exercised. One of the subjective tests for granting payment is likely to be the financial state of the IORP so their inclusion will be circular. In addition, the ability to exercise discretion was often provided for in IORP rules when there were no legislative requirements to ensure, for example, that benefits were increased or vested. Since legislation has formalised these requirements, IORPs generally have less need to, and generally do not, provide benefits on a discretionary basis.	Noted.

			Also, the requirement to value unconditional, conditional and discretionary benefits separately for the QIS seems unduly onerous and unlikely to give rise to useful information as the way the benefits emerge is likely to be inextricably interlinked. We also disagree with the distinction being made between IORPs with the power to close to future accrual and those where there seems to be no possibility to do so. In practice, it is always likely for employers to be able to stop sponsoring a particular form of IORP (apart from some compulsory defined contribution schemes) although the required steps might be more laborious (for example, changing employment contracts).	
197.	National Association of Pension Funds (NAPF)	Q8.	Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)? It is not clear which cash flows should be taken into account in calculating the best estimate of Technical Provisions. Clearer definitions are required of unconditional, conditional and discretionary benefits.	Noted.

			Projecting cash flows in respect of each individual member would be so costly and time consuming as to make it very difficult – particularly for smaller schemes.	
198.	Punter Southall	Q8.	Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)? No comment.	Noted.
199.	Railways Pension Trustee Company Limited (RPTCL)	Q8.	Yes, although please note the comments provided in Q5 with regard to the valuing of future service rights.	Noted.
200.	RWE Pensionsfonds AG	Q8.	The differences between unconditional, pure conditional, mixed and pure discretionary benefits remain unclear – this is even admitted by the QIS specification (HBS.4.28).	Noted.
203.	Tesco Plc	Q8.	We require more time to explore this element further. It is important, however, that salary increases to 'past service' benefits are considered 'discretionary', where an employer has the option to cease the salary link in the future.	Noted. The section on inflation and salary growth was changed.
204.	Towers Watson B.V.	Q8.	Is it clear enough from the technical specifications what cash flows	Noted.

			should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)? The cash flows to be considered for the best estimate valuation will be clear in the Dutch context, although the stochastic valuation of these cash flows (and in particular the non-unconditional ones) will prove complicated and diverse in nature. Furthermore, we question whether the cost of performing calculations for conditional, mixed and discretionary benefits is commensurate with the benefits of doing so. The cash flows arising from expenses might need more detail. It is our understanding that future expenses should only be taken into account to the extent that they relate to accrued benefits and assuming no future accrual. Based on this assumption, it should be determined what share of overhead expenses relates to the accrual of benefits.	
205.	Towers Watson GmbH, Germany	Q8.	The principles appear clear. The issue of unbundling unconditional, conditional, mixed and discretionary benefits is not, however. Furthermore, we question whether the cost of performing calculations for conditional, mixed and discretionary benefits is commensurate with the benefits of doing so.	Noted.

			We welcome the specification in HBS.4.53, that defined benefits paid until the death of the beneficiary are not regarded as an implicit financial guarantee which would have to be valued separately as part of the technical provisions.	
206.	Towers Watson UK	Q8.	Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)? The principles appear clear, but we reiterate our concerns that different IORPs and different Member States may interpret what constitute unconditional, conditional, discretionary and mixed benefits differently. Using a stochastic approach could be onerous; as could unbundling liabilities into the different categories (discretionary, unconditional etc..) and doing separate SCR calculations for each category.	Noted.
207.	Universities Superannuation Scheme Limited	Q8.	Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)?	Partially agreed. The section on inflation and salary growth was changed.

			It is not clear which cash flows should be taken into account in calculating the best estimate of Technical Provisions, and specifically whether benefits relating to future salary increases are scheme cashflows which should be reflected in the calculations.	
208.	UVB Vereinigung der Unternehmensverbände in Berlin	Q8.	No, it is not clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate. There is a clear case for more guidance, to assure some utility and comparability of the outputs. For example, more guidance is required for: • When projected benefit obligations (PBO) should be taken into account; • Definitions of conditional, discretionary and mixed benefits are not clear and it is therefore very hard to make a distinction between those; • Difference between "ex post" and "ex ante" benefit reductions; • Definition and use of conditional benefits and contractual options. Pension plans in Germany typically provide defined death and disability benefits. The valuation of these is integrated with the valuation of retirement benefits, therefore, it may not be feasible to value these as a separate plan.	Partially agreed. The section on inflation and salary growth was changed. The definition of ex ante benefit adjustment mechanism has been made clearer.
209.	vbw – Vereinigung der	Q8.	No, it is not clear enough from the technical specifications what	Partially agreed. The

	Bayerischen Wirtschaft e. V.		cash flows should be taken into account in the calculation of the best estimate. There is a clear case for more guidance, to assure some utility and comparability of the outputs. For example, more guidance is required for: • When projected benefit obligations (PBO) should be taken into account; • Definitions of conditional, discretionary and mixed benefits are not clear and it is therefore very hard to make a distinction between those; • Difference between "ex post" and "ex ante" benefit reductions; • Definition and use of conditional benefits and contractual options. Pension plans in Germany typically provide defined death and disability benefits. The valuation of these is integrated with the valuation of retirement benefits, therefore, it may not be feasible to value these as a separate plan.	section on inflation and salary growth was changed. The definition of ex ante benefit adjustment mechanism has been made clearer.
210.	Vereinigung der hessischen Unternehmerverbände (Vh	Q8.	No, it is not clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate. There is a clear case for more guidance, to assure some utility and comparability of the outputs. For example, more guidance is required for: • When projected benefit obligations (PBO) should be taken into account;	Partially agreed. The section on inflation and salary growth was changed. The definition of ex ante benefit adjustment mechanism has been made clearer.

			• Definitions of conditional, discretionary and mixed benefits are not clear and it is therefore very hard to make a distinction between those; • Difference between "ex post" and "ex ante" benefit reductions; • Definition and use of conditional benefits and contractual options. Pension plans in Germany typically provide defined death and disability benefits. The valuation of these is integrated with the valuation of retirement benefits, therefore, it may not be feasible to value these as a separate plan.	
211.	Zusatzversorgungskasse des Baugewerbes AG	Q8.	No, the Technical Specifications do not provide enough guidance regarding what cash flows should be taken into account in the calculation of the best estimate and how the projections should be made. The information about regarding a benefit as unconditional, conditional, discretional or mixed is imperfect. All benefits paid under a last resort benefit reduction clause or a familiar security concept could be regarded as conditional from the IORP's point of view. If there is a irrevocable sponsor guarantee it is unclear if this same pension promise can bei conditional from the IORP's but unconditional from the sponsor's point of view. How should the promise be valued in terms of IORP's liability – which is the starting point of the best estimate calculations.	Noted.

			Secondly the draft Technical Specifications do not provide information concerning the handling of PAYG elements that our partly funded partly PAYG financed IORP operates with. Given that the PAYG-"liabilities" are discretional could the PAYG part of the contribution that the sponsors provide every month be valued as additional buffers that the IORP or the sponsors dispose of?	
212.	OPSG	Q9.	According to the OPSG, the possibility to reduce benefits in the valuation of the best estimate of technical provisions should be taken into account, under the condition that benefit steering is a regular steering instrument, which has been properly communicated to the members. If benefit steering is only an "ex-post" steering instrument and has not been properly communicated to the members the possibility to reduce benefits should not be taken into account. However, the OPSG wants to point out that this question is intertwined with social and labour law. In some Member States, pension reduction or benefit steering is a clear part of social and labour law; in others sponsoring companies are always required to guarantee the pension promised.	Noted
213.	aba Arbeitsgemeinschaft für betriebliche Altersver	Q9.	Many IORPs have the ability to reduce benefits in the event that the sponsor discontinues supporting the scheme, independent of whether a PPS exists or not, therefore it does not seem consistent to differentiate here. In some instances sponsor default is not a necessary condition for	Noted.

			benefit reductions. It is unclear how this would be taken in to account in the valuation. We, therefore, urge EIOPA to conduct further research on the various adjustment mechanisms that exist in practice as the current model does not seem to adequately take them into account.	
214.	AEIP – The European Association of Paritarian Inst	Q9.	AEIP does agree that ex-post benefit reductions are taken in consideration in the QIS, even when the sponsor support is not backed by a pension protection scheme. As mentioned in Q2, the pension promise itself, the conditions to gain a pension, the contribution rate, any raises of latter and even benefit reductions are agreed upon during collective bargaining processes. The powers to fix and – if needed due to cases of distress – adjust these conditions of the schemes stem from the collective bargaining powers of the social partners as laid down in national social and labour law too. AEIP stresses that the QIS should provide opportunities to transport and value this kind of information.	Noted.
217.	Aon Hewitt	Q9.	It is particularly difficult to comment on this issue without knowing how the calculations might ultimately be used. In addition, it is not completely clear how benefits which can be reduced in the event of sponsor default are dealt with under the definition of 'pure conditional benefits'. If the sponsor defaults, there is not likely to be any additional funding so benefits may well be reduced, irrespective of whether the IORP documentation says so or not. Is this intended to mean that for every IORP the value placed on Technical Provisions can be reduced to make the balance sheet	Noted

			balance? If so, this would appear to make the whole exercise pointless. We also have some difficulty in understanding what results allowing for a pension protection scheme would mean in practice, given that the purpose of the exercise is presumably to ensure (in some way) that pension schemes are adequately funded.	
218.	Association of British Insurers	Q9.	The IORP framework will need to allow for the economic reality faced by the pension fund and its beneficiaries in each member state. For the UK this would mean that the IORP framework should allow for the effect of the Pension Protection Fund. This means that where there is the ability to reduce technical provision levels, this could be treated as a risk absorbing liability and so reduce or even eliminate the capital requirement.	Noted.
219.	Association of French Insurers (FFSA)	Q9.	FFSA is of the opinion that - if and only if an IORP has the contractual ability to reduce claims levels, it should be appropriately taken into account and properly disclosed to members and beneficiaries. We ask EIOPA to pay attention to the risk of having a null capital requirement if that security mechanism was to be inappropriately dealt with.	Noted.
220.	Barnett Waddingham LLP	Q9.	We believe clarification is required on when a reduction in benefits can be taken into account. It is not clear from the consultation document whether this adjustment will apply to circumstances common in the UK. We note that if this adjustment cannot be made, then sponsor support may never be sufficient to balance	Noted.

			the holistic balance sheet due to the adjustment for default. The possibility to reduce benefits in the event of sponsor default should apply in the case of sponsor support in general.	
221.	BASF SE	Q9.	EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general? We agree that all steering mechanisms of IORPs (such as for example the possibility of reducing benefits) should be taken into account in the regulatory framework. However, we believe that the HBS is not the right approach for doing this, because we do not believe that it is possible to develop for all specifics of IORPs a "one size fits all" approach.	Noted.
222.	Bayerischer Industrieverband Steine und Erden e.V.	Q9.	The possibility to reduce benefits in the valuation of the best estimate of technical provisions should be taken into account, under the condition that benefit steering is a regular steering instrument, which has been properly communicated to the members.	Noted.
223.	BDA Bundesvereinigung	Q9.	The possibility to reduce benefits in the valuation of the best	Noted.

	der Deutschen Arbeitgeberver		estimate of technical provisions should be taken into account, under the condition that benefit steering is a regular steering instrument, which has been properly communicated to the members.	
224.	BdS – Bundesverband der Systemgastronomie e.V.	Q9.	The possibility to reduce benefits in the valuation of the best estimate of technical provisions should be taken into account, under the condition that benefit steering is a regular steering instrument, which has been properly communicated to the members.	Noted.
225.	Belgian Association of Pension Institutions (BVPI-	Q9.	This is a question that needs further investigation and discussion. In any case, if this is taken into account, the need for the QIS/HBS calculations can be simplified significally. There is in fact a 100% loss absorbing capacity installed. This will put ultimate default risk with plan members, thus making IORP II regulations much more simple: non existent.	Noted.
226.	BlackRock	Q9.	Please see our General Comment above.	Noted.
227.	BT Group plc	Q9.	EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general?	Noted.

			Any framework needs to allow for all the features of each Member State's pension system, including the Pension Protection Fund in the UK and the protections provided through being set up under Trust law. We note that there are also many other additional protections provided by employers in the UK to IORPS that provide no value in the HBS. As these tend to be highly valued by trustees, it seems inconsistent that they are not included in the HBS. These include (amongst others): negative pledges, restrictions on shareholder distributions, parent company guarantees and contingent cash contributions.	
228.	BTPS Management Ltd	Q9.	This does not seem appropriate in the UK. While the HBS should reflect the realistic level of liabilities and should take account of scope within the IORP to reduce benefits, within the UK this does not seem relevant as a reduction in benefits occurs only following default – it is not an ongoing mechanism.	Noted
229.	Consiglio Nazionale degli Attuari and Ordine Nazio	Q9.	About the possibility to reduce benefits in case of sponsor default in the valuation of the best estimate of technical provisions: The draft provides as risk mitigation mechanism the possibility of ex-post benefits reduction in case of need. This instrument, peculiar to occupational pensions and not available for insurance	Noted.

			company, allows to differentiate significantly the level of technical provision of pension funds. It should be better defined how to use this tool. One might think, instead, to an explicit differentiation of the security level of 99,5.	
230.	Deloitte Total Reward and Benefits Limited (UK)	Q9.	We believe that, under the holistic balance sheet approach, benefit reductions should be taken into account irrespective of whether a pension protection scheme exists or not. The conditionality described in paragraph HBS 4.46 of the consultation document is satisfied whether or not a pension protection scheme exists, hence an allowance for this option seems appropriate. However, it appears that, in practice, this component is likely to become a 'balancing item' which ensures that the holistic balance sheet can always balance. This leaves the question of the practical relevance of the holistic balance sheet if, ultimately, this feature will always act as a balancing item.	Noted.
231.	Deutsche Post DHL	Q9.	Yes, a legally possible option to reduce benefits should be taken into account.	Noted.
232.	Dexia Asset Management	Q9.	Q9. EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general?	Noted.

			We agree to take the possibility of benefit reduction in case of sponsor default even when there is no PPS because when the sponsor of an underfunded scheme defaults there is no choice but to reduce benefits. However, the possibility to reduce benefits should be enforced in Social and Labor Law as a security mechanism for the sustainability of the pension promise and communicated to the members. This issue goes beyond current consultation but underlines the interaction between Social and Labor Laws and prudential regulation. We do not understand the "option for benefit reduction in case of sponsor default" valuation in the case where no PPS exists. The benefit reduction is necessarily equal to the difference between what the IORP promised and what he can afford to pay without sponsor support. What the IORP can afford to pay without sponsor support for its members is the market value of assets plus any amount recovered from the sponsor so we would use the same value as when a PPS exists (assuming a PPS actual coverage rate of 0%).	
233.	EEF	Q9.	We agree that the Holistic Balance Sheet should reflect the realities of the economic environment, including the possibility of benefits being reduced in the event of a sponsor defaulting.	Noted.
234.	European Federation for Retirement Provision (EFRP	Q9.	Q9. EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of	Noted.

			the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general? Yes, these adjustment mechanisms should be taken into account, under the condition that benefit steering is a regular steering instrument, which has been properly communicated to the members. The adjustment of pension benefits is strongly intertwined with Social and Labour Law in some Member States. In some Member States, the cutting of pension benefits is not possible and the employer is responsible for paying the benefit or guaranteeing a minimum return. This highlights the question if the supervision should apply to the IORP to the pension scheme (since IORPs can offer multiple pension schemes with different employers or different parts of a single pension promise can be managed by different pension institutions (eg DB plan with a DC part)).	
235.	Federation of the Dutch Pension Funds	Q9.	Only if benefit steering is a regular steering instrument, which has been properly communicated to the members.	Noted.
236.	Financial Reporting Council – staff response	Q9.	We do not agree that, in measuring technical provisions, allowance should be made for reducing benefits in the event of sponsor default. This is inconsistent with using a risk free discount rate to measure the value of future cash flows and appears equivalent to allowing for own credit in the assessment of technical provisions. Such an approach leads to the position that as the sponsor's credit	Noted.

			deteriorates the technical provisions of the IORP would also appear to decrease. This might give the impression that the financial position of the IORP is improving. We consider that sponsor covenant should only be taken account of in the asset side of the holistic balance sheet and not the liability side. The existence of a pension protection scheme is better represented as an asset in the holistic balance sheet. Its value might be measured taking account of the level of possible claims on the protection scheme and the probability of sponsor default. It might be useful for the best estimate component of the technical provisions to be split between the value of benefits guaranteed by a pension protection scheme and benefits provided by the IORP which are not guaranteed by a pension protection scheme. We found paragraphs HBS.4.46 to HBS.4.48, considering how to allow for a reduction in benefits in the case of sponsor default, opaque.	
237.	German Institute of Pension Actuaries	Q9.	The possibility of reducing benefits should be considered in the valuation of the best estimate of liabilities. This is true for any contingent reduction of benefits which is allowed according to national law, irrespective of whether a pension protection scheme exists or not.	Noted

238.	GESAMTMETALL - Federation of German employer	Q9.	The possibility to reduce benefits in the valuation of the best estimate of technical provisions should be taken into account, under the condition that benefit steering is a regular steering instrument, which has been properly communicated to the members.	Noted.
239.	Groupe Consultatif Actuariel Européen	Q9.	EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general? We believe this question should be considered alongside the question of how the holistic balance sheet is to be used. Ultimately, when all other avenues have been exhausted (eg pension protection schemes or any other guarantees from third parties) and there are still insufficient assets to cover the full benefits then there remains no option but to reduce members' benefits. Therefore the mechanism suggested has the potential to show that every holistic balance sheet will always balance which raises other questions about its usefulness. However, the question as currently framed seems to envisage circumstances whereby the pension systems in some member states provide sound reasons for benefits to be reduced but not in	Noted.

			others. It would help to clarify the reasons – is, for example, a distinction being made between say the UK where solvent sponsors cannot 'walk away' from their obligations , and say Ireland where the Pensions Act provides for the reduction of accrued benefits (with certain restrictions) with the approval of the Pensions Board where the scheme is unsustainable, as an alternative to wind-up in deficit. Pension protection schemes may not protect the full benefits, and in any case they may not be appropriate to take them into account for regulatory purposes, therefore we would urge EIOPA to consider this question in terms of sponsor support in general.	
240.	Hundred Group of Finance Directors	Q9.	EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 26). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general? Yes, we believe that the possibility of reducing benefits in the event of sponsor default should be included. We do not think that the consultation makes clear exactly how this possibility would be taken into account in practice.	Noted.
241.	IBM Deutschland	Q9.	Many IORPs have the ability to reduce benefits in the event that	Noted.

	Pensionsfonds AG		the sponsor discontinues supporting the scheme, independent of whether a PPS exists or not, therefore it does not seem consistent to differentiate here. In some instances sponsor default is not a necessary condition for benefit reductions. It is unclear how this would be taken in to account in the valuation. We, therefore, urge EIOPA to conduct further research on the various adjustment mechanisms that exist in practice as the current model does not seem to adequately take them into account.	
242.	Institute and Faculty of Actuaries	Q9.	EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general?It is difficult to comment on this without knowing the regulatory actions that would flow from the corresponding calculations but we can see a rationale for not allowing for benefit reduction features in any measures that are used to drive actual cash payments to the IORP and only allowing for the facility to reduce benefits in any wider risk management measures. However we would not support a proposal to allow for such measures if their sole effect was to make the holistic balance sheet balance, as this would undermine the usefulness of the holistic balance sheet.	Noted.

243.	Insurance Europe	Q9.	Insurance Europe agrees that the reduction of benefits should be taken into account in the QIS. However, it should be a contractual ability to reduce claims levels. However, for purpose of the QIS, it might be useful for further discussions to also assess the effect of a benefit reduction when it would not be a contractual ability. Additionally, although outside the scope of the QIS, Insurance Europe wants to stress that this feature of IORPs should be appropriately communicated to the employee. Furthermore, this ability should be not shown as a reduction in the liabilities but as an additional asset in the HBS. This automatically leads to more transparency. Additionally the possibility of reduction of the benefits is not independent of additional sponsors support or other protection mechanisms. It could be a Pro and not a Con to deal it as an asset. Otherwise you have to model the interdependencies of the liability reduction and the other protection mechanisms very carefully (define what comes first: reduction of claims or sponsor support). E.g. in Germany there are court decisions that if the IORP reduces its pension payments (which is allowed) the sponsor has to fill this gap. If you just reduce the liabilities you have to shorten the asset of sponsors support in an appropriate way, so you have to calculate the reduction amount anyway. We think if there are no interdependencies, i.e. the IORP can reduce its obligation without any effect to the sponsor or the pension protection mechanisms, it might be reasonable to have a reduction in liabilities. But even there - for the purpose of this QIS - a quantification would be beneficial (and could be shown as an asset) With respect to the solvency capital requirements it should not	Noted.

			matter whether to show this reduction as an asset or to reduce the liabilities - from the point of transparency we believe it might be better to show it as an asset in the HBS in this QIS. However, although outside the scope of the QIS, Insurance Europe wants to stress that this feature of IORPs should be appropriately communicated to the employee.	
244.	KPMG LLP (UK)	Q9.	We do not fully understand the purpose of this question. In the UK it appears to try to define the benefits whose security is being assessed, i.e. is it full benefits or those secured with whatever funds the IORP has available?	Noted.
245.	Mercer Ltd	Q9.	EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor defaults in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support n general? In our view, good plan management would require those responsible for benefit provision to target funding relative to the benefits they are expected to provide rather than those that might be provided were the sponsor or plan to default. So, although we agree that the existence of pension protection funds, which might provide for lower benefits than those intended under plan rules, should be taken into account as a contingent asset, we do not think they are relevant to the measurement of the liabilities.	Noted

			In any case, allowing for the possibility that benefits could be reduced in certain contingencies will increase the complexity of the measurement without producing much more useful information. However, if the regulatory standard is to measure IORPs against a discontinuance position, it might be more reasonable to allow for this deduction in benefits and IORPs should be allowed to regardless of the nature of their sponsor support.	
246.	National Association of Pension Funds (NAPF)	Q9.	EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general? The Holistic Balance Sheet calculation should take account of the	Noted.

			possibility of reducing benefits where a pension protection scheme does not guarantee the full level of benefits, under the condition that benefit reduction is a regular steering instrument and has been properly communicated to members.	
247.	Pension Protection Fund, UK.	Q9.	As the QIS notes, it is very important that the structure of funding requirements and incentives for sponsors and IORPs is such that there is not a moral hazard risk of sponsors only funding benefits up to the level provided by pension protection schemes. While we recognise that these issues are outside the scope of EIOPA's work, it will be vital to ensure that the final proposals adequately prevent moral hazard risk.	Noted.
248.	Punter Southall	Q9.	EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 26). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general? Yes, we believe this possibility should be taken into account. However, it is not clear from the consultation how this possibility would be taken into account in practice.	Noted.

249.	Railways Pension Trustee Company Limited (RPTCL)	Q9.	RPTCL does not agree with making an allowance for reductions in benefits in the event of sponsor default within the best estimate calculation. Given that one of the objectives stated in 2011 for the review of the IORP Directive was to 'enhance protection of members and beneficiaries', it would seem counter-intuitive to make allowance within the technical provisions for benefit reductions in the event of sponsor default. As an example, members of RPTCL's pension schemes which are eligible for entry to the UK's Pension Protection Fund may typically have their benefits reduced by 10% with effect from the date of any sponsor default and receive limited or no indexation in benefits from that point. In value terms, benefits paid by the pension protection scheme may equate to around 70% of those available from the IORP. However, RPTCL would not consider it appropriate to make any allowance for benefit reductions of this level within the technical provisions of one of our IORPs, even if the possibility of sponsor default seemed a possible or likely outcome.	Noted.
250.	RWE Pensionsfonds AG	Q9.	If the QIS is conducted as complicate as it is then yes, EIOPA should take into account the possibility to reduce benefits as this will be the minimum pension which needs to be safeguard by regulation. That is also why a pensions protection scheme is no precondition for such option.	Noted.
253.	Towers Watson B.V.	Q9.	EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not	Noted.

			guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general? We would consider the approach theoretically interesting and academically justifiable. We question whether the effort in being so mathematically precise here is commensurate with the cost.	
254.	Towers Watson GmbH, Germany	Q9.	We would consider that the approach is theoretically interesting and academically justifiable. We question whether the effort in being so mathematically precise here is commensurate with the cost.	Noted.
255.	Towers Watson UK	Q9.	EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general? In terms of the best estimate of technical provisions, we think this should depend on the extent of (and evidence for) the contractual	Noted.

			agreement between IORPs and their members regarding the circumstances in which benefits might be reduced. In general, where benefit reductions in the case of sponsor default only occur as a practical reality then we see no justification for making an allowance for such reductions in the best estimate calculation. On the contrary, one of the purposes of the solvency regime is to minimise the circumstances in which benefits need to be cut back due to default of the sponsor and this would be frustrated if the technical provisions made allowance for benefit reductions in the event of sponsor default. Having said this, we believe that there is a strong case for removing the requirement for additional capital in respect of sponsor support in the counter-party default risk module where benefit reductions are possible in the event of sponsor default, or where there is a pension protection scheme in place. We also believe that the capital requirement in respect of sponsor support in the counter-party default risk module needs to be re-examined as we are concerned that there could be an element of double-counting.	
256.	Trades Union Congress (TUC)	Q9.	We understand EIOPA's rationale for taking into account in the QIS the possibility to reduce member benefits in the case of sponsor default where, as in the UK, generally speaking, the pension protection scheme does not guarantee the full level of member benefits. However, we are concerned that the proposals implicitly prescribe the adjustment of member benefits more generally, a mechanism which for various reasons is not common in the UK.	Noted.

257.	Universities Superannuation Scheme Limited	Q9.	EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example, when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general? Whilst this argument may seem correct from a technical perspective, it is our view that this theory demonstrates the mis-match between theory and practice. In the UK it is only in the event of employer insolvency that the pension protection scheme would provide assistance, and it does not in that event provide full benefits. Nevertheless, it is not a funding target for IORPs to deliver benefits at the level of those which would not be provided by the pension protection scheme, and an IORP's trustees do not take this into account in funding planning. If the QIS wishes to reflect an additional credit in the holistic balance sheet for the presence of a pension protection scheme that may be appropriate, but the concept of allowing for the benefit reductions which would	Noted.

			apply in these circumstances is, in our view, inappropriate.	
258.	UVB Vereinigung der Unternehmensverbände in Berlin	Q9.	The possibility to reduce benefits in the valuation of the best estimate of technical provisions should be taken into account, under the condition that benefit steering is a regular steering instrument, which has been properly communicated to the members.	Noted.
259.	vbw – Vereinigung der Bayerischen Wirtschaft e. V.	Q9.	The possibility to reduce benefits in the valuation of the best estimate of technical provisions should be taken into account, under the condition that benefit steering is a regular steering instrument, which has been properly communicated to the members.	Noted.
260.	Vereinigung der hessischen Unternehmerverbände (Vh	Q9.	The possibility to reduce benefits in the valuation of the best estimate of technical provisions should be taken into account, under the condition that benefit steering is a regular steering instrument, which has been properly communicated to the members.	Noted.
261.	Zusatzversorgungskasse des Baugewerbes AG	Q9.	ZVK-Bau is convinced that ex-post benefit reductions have to be taken into consideration in the QIS, even when the sponsor support is not backed by a pension protection scheme.	Noted.