	Comments Template on **CP-12-003 – Draft Technical Specifications QIS IORP II**	**Deadline** **31 July 2012** **18:00 CET**
Name of Company:	ICAEW - The Institute of Chartered Accountants in England and Wales	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
Reference	**Comment**	
General Comment	The draft QIS aims to obtain information about each component of the holistic balance sheet and then to quantify them. However, it is not clear from the consultation how it is proposed that the holistic balance sheet will be used in practice by the parties involved (including national regulators and pension scheme trustees). For instance, it is not clear what the **consequences** would be if the holistic balance sheet ‘does not balance’, nor what recovery periods would be imposed. It is also not clear whether it would replace, or run alongside, existing domestic regimes (such as scheme specific funding in the UK). This means that the possible impact/implications are not being considered or assessed and therefore, in our view, the QIS (as currently proposed) does **not** constitute a proper impact assessment. We are supportive of outcomes-based regulation – it is not clear what actual benefit for scheme members will come from the costly exercise of the QIS or of preparation of holistic balance sheets going forward. We also remain concerned about the process and timetable for the development of these proposals. In our view, the aim of introducing draft legislation by summer 2013 will not allow sufficient time for proper development and assessment of the proposals. Furthermore, in respect of the current consultation, a period of less than seven weeks during the summer holiday season is not sufficient to develop responses to 160 page document comprising highly technical content, and may therefore not give rise to a sufficiently representative response. Also, in our view the assumption that there only needs to be one QIS is unrealistically optimistic; there should be a higher level consultation considering more options, followed by consultation at a more detailed level once the high level options had been whittled down. No time has been factored in for further consultation that might be needed, especially if there is significant revision to the methodology. As we stated in our previous response (ICAEW REP 127/11[1]), we query the need for harmonisation of capital requirements in respect of IORPs, as we believe they are	

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	fundamentally different from insurers (due to the sponsor support) and in our view there is no need for a 'level playing field' for IORPs across Member States. We also note that the Solvency II regime has not yet been settled for insurers and we believe that regime should be properly assessed before its provisions are extended to other entities. We have not commented on the areas of detail in this consultation, except in relation to the proposed approach to calculating a value for the employer covenant, which in our view is overly complex (see our comments at question 12 below). However, we support the more detailed comments submitted by the Institute and Faculty of Actuaries. [1] *ICAEW REP 127/11 is available from http://www.icaew.com/en/about-icaew/what-we-do/consultations-and-representations/representations/2011-representations*	
Q1.		
Q2.		
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Q10.	See Q12 below.	
Q11.	See Q12 below.	
Q12.	*Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations.* The QIS proposes a 'maximum' value approach which includes an assumption that 50% of shareholder funds are available to the pension scheme. However, no justification is	

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	given as to why this arbitrary figure would be an appropriate percentage. Similarly, the assumptions that 50% of expected future discounted net profit and 25% of EBTDA are available seem arbitrary with no underlying justification and therefore it is difficult to comment on them meaningfully. These are projected over the number of future years for which the sponsor support is included in the assessment and, for the purposes of the QIS, this is taken as the average duration of the expected future cashflows of the IORP relating to obligations at the valuation date. This timeframe could be fairly long (likely to be in excess of 20 years) and it would be difficult to project over such a period. This approach to valuing the covenant appears to be a formulaic regulatory exercise not based on established valuation 'mark to market' approaches, and therefore there is little scope for accountants to comment on it. Two approaches are described for calculating an 'actual' value which both use an element of stochastic modelling. In our view, rather than requiring that a completely new methodology is used, it would be better to include further options for taking sponsor support into account, including: a) for the employer covenant to be included as a balancing figure, discounted for solvency, and b) use of existing valuation approaches that have been developed in the market over the past decade. We would be happy to provide further information on these possible alternative approaches if that would be helpful, either by way of correspondence or meetings. We also note that the methodology in the proposed QIS also does not deal with situations where the sponsor is not a corporate entity, nor where the pension scheme is a multi-employer scheme.	
Q13.		
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Q19.		
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