<table>
<tr><td colspan="3">Comments Template on
Discussion Paper on Sponsor Support Technical Specifications</td><td>Deadline
31 October 2013
18:00 CET</td></tr>
<tr><td>Name of Company:</td><td colspan="3">Institute and Faculty of Actuaries (IFoA)</td></tr>
<tr><td>Disclosure of comments:</td><td colspan="2">Please indicate if your comments should be treated as confidential:</td><td>Public</td></tr>
<tr><td></td><td colspan="3">Please follow the following instructions for filling in the template:
⇨ <u>Do not change the numbering</u> in the column “reference”; if you change numbering, your comment cannot be processed by our IT tool
⇨ Leave the last column <u>empty</u>.
⇨ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>.
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Please send the completed template, <u>in Word Format</u>, to <u>DP-13-001@eiopa.europa.eu</u>
Our IT tool does not allow processing of any other formats.
The numbering of the questions refers to Discussion Paper on Sponsor Support.</td></tr>
<tr><td>Reference</td><td colspan="3">Comment</td></tr>
<tr><td>General Comment</td><td colspan="2">The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to comment on this discussion paper. The IFoA endorses the principle of applying robust risk management techniques to IORPs. However, it is axiomatic in actuarial science that the appropriate choice of methods and assumptions depends on the purpose for which the</td><td></td></tr>
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	information is to be used. We therefore need to understand the purpose to which the proposed measure of the value of sponsor support will be put and, in particular, the supervisory actions that may flow from it before we are able to give a properly considered opinion on the validity of the proposals. The IFoA believes that it will be difficult for EIOPA to find a single valuation method that is both sufficiently broad to be of practical use for smaller IORPs and sufficiently sophisticated to properly capture the nuances of the nature of the covenant. The UK in particular, and potentially now also Ireland following the Hogan case[1], has a high dependence on sponsor support in comparison to other European countries and, therefore, needs a comprehensive approach to assessing it. In the UK this is being addressed directly by the Pensions Regulator. Each Member State, and the UK and Ireland in particular bearing in mind the high number of IORPs in these two Member States, will have specific market experience and will have considered how best to balance proportionality (relative to the resources available to the IORP) with ensuring there is sufficient detail. What additional security does EIOPA envision that a harmonised European approach will bring? In our view, any European regulations in this area should be restricted to general principles, with detailed implementation left to Member States. We believe this	

[1] InfoCuria – Case-law of the Court of Justice. C-398/11 Hogan and Others

	approach will be more likely to achieve greater security for members' benefits without disproportionate administrative cost for IORPs. Does EIOPA agree? While the IFoA is aware that there is a commitment to introducing a solvency regime in the recitals to the Solvency II Directive, we would ask EIOPA to refer to our response to its July 2012 consultation (CP-12-003 – Draft Technical Specifications QIS IORP II); which suggested the treatment of sponsor support as a balancing item that enables trustees and managers of IORPs to consider the extent to which they are satisfied that the covenant is secure, given the specific nature and circumstances of the IORP. This could be supplemented by additional governance measures requiring trustees to explain how they have struck the balance and why, given the specific circumstances of the IORP and the sponsor, they consider this balance to provide appropriate protection to their members. The IFoA believes that a form of holistic balance sheet could have the potential to form a useful enhancement to the tools currently available for risk management of IORPs. However, we also believe that the case for adopting Solvency II-based measures for this purpose has yet to be made satisfactorily and that the implementation of a holistic balance sheet that attempts to specify detailed methodology would be undesirable, not least because it is essential that the risk management approach is proportionate to the size of the IORP. For example, for smaller IORPs it may be sufficient to maintain a risk register which is then monitored. In the UK context we would envisage that a key part of the risk management framework would be disclosure by the managers/trustees of how how they have protected the entitlements of IORP members.	

Covenant

In practice, an approach based on covenant ***risk*** rather than covenant ***value*** may be more helpful, certainly in a UK context. There is an important distinction, which the discussion paper fails to make, between:

(i) *Covenant Risk:* which tries to quantify the IORPs exposure to loss i.e. unrecovered S75 debt in the UK context; and

(ii) *Covenant Support:* which tries to quantify the reasonable expectation of the sponsor being able to fund additional contributions, investment underperformance and/ or future increases in liabilities.

We have elaborated on this general point in our specific answers to the questions asked.

Credit Ratings

The IFoA is aware of, and understands, paragraph 42 of the recitals to Regulation (EU) No. 575/2013 and appreciates that EIOPA must investigate the alternatives to credit ratings and that for most IORPs credit ratings are unavailable. Even so, we believe that the EIOPA discussion paper is unduly dismissive of credit ratings. While circumspection is required in the use of credit ratings, they do embody a large collection of statistically significant data and are used extensively throughout the banking and investment industries. For these reasons, and in the absence of a viable and robust alternative, we would not agree that they should be dismissed by the pensions sector.

The discussion paper seeks alternatives to linking default probabilities to credit ratings.

	We acknowledge that alternatives are needed where credit ratings cannot be obtained, but this is a service already available from the rating agencies. Default Probability It is well known that probabilities of sponsor default typically increase over time. It is therefore potentially misleading to assume an average default rate over any extended period. We would advocate that any method adopted includes a realistic allowance for the evolution of default risk over time. The ideal approach would be stochastic, however the IFoA appreciates that this will not be feasible in many cases. In these instances a deterministic approach that captures the expected evolution of default risk over time would be appropriate. Any further proposals from EIOPA should ensure that there is enough flexibility to allow IORPs that have the resources to implement a stochastic approach to choose to do so, without placing unrealistic requirements on smaller IORPs. It is noted that sponsor support values are highly sensitive to sponsor default probability. This is the economic reality which no amount of simplification of methodology will alter. Unlike stock market investments or liability risks, the values of business entities are much more difficult to quantify. Prudential Supervision We note that the discussion paper “does not take into account any modelling for	

	supervisory responses." Unless the regulatory framework is clear as to how it may be used when the holistic balance sheet does not balance, it is more difficult to comment in isolation on the technical issues of sponsor covenant. Our specific responses should be read in light of our high-level concerns.	
Q01.	We would suggest that if the European Commission, the European Council and European Parliament agree that it is essential to place, by means of a highly specified stochastic valuation, a single value on this complex concept, then it is theoretically attractive to use stochastic calculations. Does EIOPA believe that such a consensus exists between the European Commission, European Council and European Parliament? Stochastic calculations are expensive relative to the alternative, particularly for small IORPs. As the funding for such work must ultimately come from a limited pot of funds available to provide employee retirement benefits, increasing the regulatory burden is likely, in due course, to limit the funds available to make benefit payments. Our preference would therefore be for an approach based on high level principles but with flexibility in their implementation, including scope to use non-stochastic approaches where appropriate. As such, we would question whether the provision of any additional guidance is needed. If it is determined that additional guidance is essential, the guidance should be clear and it should create a consistent methodology across all IORPs, reflecting the specific characteristics of sponsor support in each case. In our view this is likely to be extremely	

	challenging. The IFoA would support an approach where principles were determined at the European level but detailed requirements were determined locally. EIOPA will be aware that the pensions sector is in a very different position from that of the insurance sector in relation to the use of complex models. Insurance companies across Europe are already accustomed to using stochastic modeling for solvency purposes, which means Solvency II is building on established best practice. By contrast, in most Member States stochastic modelling of sponsor support for IORPs is in its infancy.	
Q02.	The administration costs of assessing different options from a pre-determined menu of highly specified approaches would be an additional overhead for IORPs. As the funding for such work must ultimately come from a limited pot of funds available to provide employee retirement benefits, increasing the regulatory burden is likely, in due course, to limit the funds available to make benefit payments. As stated above our preference would therefore be for an approach based on high-level principles but with flexibility in their implementation. In particular, we would support an approach where principles were determined at the European level but detailed requirements were determined locally. Our understanding of the QIS is that only a very small proportion of Europe’s 20,000+ IORPs provided IORP-specific figures. Although it appeared as though a large number of UK cases were covered by the QIS, in practice the UK submission was prepared by the	

	Pensions Regulator (tPR) in a single assessment. We doubt that all the UK IORPs would follow the approach adopted by tPR and we, therefore, believe that it would be inappropriate for EIOPA to use the evidence from the first QIS to determine which approaches to the calculations might be most attractive to individual IORPs. We comment below on specific technical aspects of each of the simplifications discussed in case they are relevant to a future QIS. Simplification 1: Whilst theoretically desirable, the practical aspects of determining the correlation between assets and liabilities with the default risk of the sponsor remain the most challenging part of the assessment. This is an area where EIOPA could usefully undertake further research. Simplification 2: EIOPA uses the phrase “risk-free interest rate”. The IFoA would suggest that EIOPA should provide clarity in its definition of this concept as providers find it difficult to agree a definition, particularly now that it is clear that sovereign debt is not always risk-free. Substantial effort has been expended in defining risk-free interest rates for insurance companies as part of Solvency II with limited success despite the fact that insurers are more homogeneous that IORPs. Even for firms for which the default risk is observeable in the market place, that implied default risk is heavily influenced by short-term considerations (0-5 years). It can be argued that this means that the market-implied	

	default risk is a misleading assessment of the likelihood of sustainable sponsor support over the future life of the IORP, as even for a relatively mature IORP this future life might be 40 years or more. As the duration of IORP liabilities exceeds the availability of sovereign debt in many of the currencies in which IORP promises will be determined, the construction of risk-free rates will always be subjective and, by definition, not market-consistent. The IFoA advises that further work is required on how the assumptions underlying these simplifications may be set in practice.	
Q03.	As stated in our general comments, the IFoA finds it difficult to comment on the technical issues raised without knowing what supervisory actions might ensue. Different approaches would be appropriate depending on how the figures will be used in practice for supervisory, disclosure and/or other purposes. Subject to this, we believe that the concept of maximum sponsor support is less helpful than the concept of affordability and that the latter might form the basis of an approach that would enable EIOPA to move away from the concept of maximum sponsor support. Either approach needs to involve financial analysis of the sponsor's cash flow and liquidity available to meet pension contributions but, by placing the focus on affordability, many of the extraneous issues, such as equity market valuation or the nature of the sponsor’s balance sheet, can be left aside.	
Q04.	IORPs will have a varied and diverse provenance and, in general, there is no reason to	

	believe that the total wages of active members would be correlated to the liabilities of the IORP. In the UK for example, in many IORPs the bulk of liabilities are for pensioners not employees. The wage roll of the IORP sponsor is therefore not correlated to the ability to meet those liabilities. Neither would we expect the level of wages to be directly linked to the ability of the sponsor to afford contributions to the IORP: the extent to which this is the case will depend on the nature of the sponsor's business e.g. how labour-intensive it is. Even so, the IFoA recognises that there may be collective IORPs involving tens of thousands of participating employers for which wage is the only reliable metric around which to base an assessment of sponsor support.	
Q05.	The IFoA agrees that, properly used, and considered alongside other factors, credit ratios can provide an insight into the financial strength of a business, and its ability to meet its obligations. However, the IFoA is concerned that the methods which attempt to link default probabilities, credit ratios and sponsor strength as a mathematical process lose sight of important contextual information that will be relevant to each specific IORP. The real risk is that, at best, such methods are spuriously accurate; but, at worst, they could give false understanding of and reliance on the ability of sponsors to support the IORP. This is a particular risk given the very simplistic nature of the alternative simplified approach outlined in the discussion paper. Has EIOPA back-tested the alternative approach?	

	The IFoA has previously highlighted how credit ratios can reflect primarily short-term concerns and are, by their nature, volatile. In the UK at least, support for existing pension commitments normally ranks alongside unsecured debt. Credit ratios are designed to measure the security of debt issued by the sponsor employer and it is not clear that pension liabilities fit into the same order of prioritisation on wind up. Nevertheless, there is no doubt that the data underlying credit ratings are the most useful basis for assessing default risk for IORPs and we would encourage EIOPA to engage with the rating agencies to address any concerns rather than simply propose less satisfactory alternatives.	
Q06.	The IFoA has reservations regarding the methods used to populate the default probabilities in Table 7 and questions the suitability of these probabilities for use over the term of IORP cashflows, which may be 40 years or more. By contrast EIOPA has focused on a 10-year horizon and so these probabilities do not appear to us to reflect the terms over which IORPs operate. We suggest considering the use of a double entry table that considers both the credit rating and the term over which the IORP is expected to finance the liabilities. For the purposes of the QIS it may be appropriate to use a simplification such as the average term of the liabilities, which would likely increase confidence in the figures.	
Q07.	Although credit ratings have their limitations, where they are available (which we appreciate is the case for relatively few IORPs) they do provide a relatively robust way to derive assumed probabilities of default. The alternative approaches proposed are seeking to fill a very similar role in a simpler fashion and in the absence of the historical record	

	available in relation to credit ratings. Such approaches are therefore almost inevitably going to be less robust. We do not therefore think the use of credit ratings should be dismissed in the cases where they are available and we believe that professional judgement has an important role to play in using simpler approaches. The problems with using credit ratings, and the absence of robust alternatives, are illustrative of the fundamental problem of the approach adopted by EIOPA. In these methods, any attempt to calculate a market consistent value of the sponsor support based solely on observable market inputs is, in reality, futile. Fundamentally, the nature of the support sponsors give an IORP is not tradeable and therefore it is not possible to observe prices for this support in the market. Pragmatic approximations will be required and it should be recognised that, whatever proxies are chosen, they will have weaknesses, and may give misleading results in some circumstances. As noted earlier, we believe that any further proposals should be retricted to general principles and we would therefore suggest an approach that requires trustees to identify the sponsor support required and then consider, in a general way, the ability of the sponsor to provide that support and then justify their decision in the context of their objective to maximise the delivery of pension benefits to members. As a general comment, all the proposed approaches involve the use of assumed default probabilities that are unchanging over time. As the analysis in Annex 2 of the paper makes clear, the data available indicates that observed default rates are not stable over	

	time. Our view is that a robust methodology should reflect in some way expected changes in default probabilities over the period over which it is expected that the liabilities of the IORP will be funded.	
Q08.	We recognise that affordability of contributions is an important consideration in balancing interests of various parties involved in an IORP. We would encourage EIOPA to undertake further research on timing.	
Q09.	We believe that limited conditional support has some value. From a theoretical perspective some allowance should be made for this. However, as the paper sets out, there are considerable practical difficulties in doing so. Further, the nature of the support is not compatible with the market consistent valuation process because it is impossible to observe in the market and in the trading of these commitments. Until policy objectives are made more explicit, the benefit of valuing limited sponsor support where the sponsors are not under obligation to provide ongoing support for the IORP is unclear. The IFoA recognises that the importance of limited conditional support varies by Member State and therefore suggests that the appropriate treatment of this feature should be determined at the national level. For example, consideration as to how this would affect the UK for defined ambition IORPs would be best done at national level.	
Q10.	The IFoA believes the approach proposed by EIOPA is vulnerable to failure as it will be difficult to find a single valuation method that is both sufficiently broad to be of practical use for smaller IORPs and sufficiently sophisticated to properly capture the nuances of	

	the nature of the covenant. The IFoA does not support EIOPA's assumption that attempting to value sponsor support in a market consistent way by using tables or matrices of arbitrary factors is useful in the context of discretionary benefits but, rather, believes that such an approach is likely to be misleading in individual cases. It would be safer to assume that discretions are always exercised for the benefit of shareholders of the sponsor(s) at the expense of IORP members/participants. However, we recognise that there may be a case for adopting an approach that is consistent with the approach for valuing limited conditional support.	
Q11.	The IFoA recognises that the alternative approach takes a much simpler and more pragmatic approach than the approach set out in the original QIS technical specification and we welcome this. We think that the application of professional judgement in using the alternative approach will be the key to ensuring that the results are robust and urge EIOPA to encourage the use of such judgement. We observe that the alternative approach, like the approach set out in the QIS, only values the planned deficit payments rather than valuing the support available from the sponsor in an holistic way (i.e. by looking at the combined balance sheet of the sponsor and the IORP(s)). We would ask EIOPA to explain the rationale for preferring the former. <u>Market-Consistency</u>	

	In reference to paragraph 2.2 of the discussion paper, we agree that if the approach adopted to assess the adequacy of sponsor support is to be quantitative, it is reasonable to want the value placed on sponsor support to be "market-consistent". However, we consider that other approaches (that are not necessarily wholly quantitative) would be more consistent with both: • the historic background to the establishment of IORPs and the corresponding legislative framework; and • the social and employment context within which they operate. We would suggest an approach that requires trustees to identify the sponsor support required and then consider, in a general way, the ability of the sponsor to provide that support. We would ask EIOPA to give its rationale for not recommending such an approach. Both under the QIS and under the approach set out in this discussion paper, the schedule of payments to be valued has been defined as an arbitrary set of cashflows that have no links to the cashflows actually expected or required to be paid by the sponsor to the IORP. The value placed on those cashflows may then be a market-consistent value of the specified cashflows but that set of cashflows has no link to the expected sponsor support. The value is therefore not a market-consistent value of sponsor support. The IFoA recognises that the approach could be refined by starting from the cashflows actually expected, or planned, or required, rather than the arbitrary cashflows specified	

by the QIS. We believe that this would be an improvement but such an approach would still not be complete as the expected payments from the sponsor would be treated in exactly the same way as the expected payments under the IORP's bond assets which will have been issued by entities with no connection to the IORP. It still would not properly reflect the nature of the sponsor's support for the IORP which, for example, would include the value of the option to increase contributions in future.

The proposed approach is equivalent to placing a (market-consistent) value on the solvency of a block of insurance businesses, but it ignores the insurer's strength in excess of the *planned* support.

Did EIOPA consider approaches to placing a market consistent value on sponsor support that did not start from the cashflows required to eliminate the deficit implied on the QIS technical provisions basis? If so, what other approaches has EIOPA considered to assessing the adequacy of sponsor support?

Solvency Capital Requirement Calculations

We acknowledge that additional sponsor support is valued under the loss absorbing elements of the solvency capital requirement calculations (SCR) but again note that this is equivalent to reflecting wider insurer capital only to the extent of changes to the *planned* internal transfers to/from the block of insurance business under the SCR for the insurer.

The equivalent of recognising the wider insurer strength would be to reflect the value of

	the sponsor entity (rather than just the value of the *planned* deficit payments). This would then represent a recognisable value of sponsor support for the purposes of a "holistic balance sheet" of the IORP. In light of the above, why does EIOPA believe that treating sponsor support in the same way as the expected receipts from a bond issued by an unrelated entity is appropriate? How does EIOPA justify the calculation as being "holistic"?" Covenant Risk To quantify covenant risk requires a default probability and loss on default (unrecovered S75 debt in a UK context). For *default probability,* while we appreciate paragraph 42 of the recitals in regulation (EU) no 575/2013 as mentioned previously, the discussion paper seems to us very critical of credit ratings but then puts forward its own simplified internal rating system to rate unrated entities that have no statistical support (in the interests of low cost application to smaller IORPs). Market methods for rating an unrated entity rely heavily on financial analysis/judgement. Is EIOPA's intention that judgement should be used to apply appropriate adjustments to the proposed rating system? Identifying an appropriate recovery rate in order to determine the *loss on default* also requires financial analysis but this is also not provided for in the proposal in the interests of low cost application to smaller IORPs. We think this is potentially unfortunate as we anticipate that material recovery will be possible for a significant number of IORPs, so that assuming no recovery may substantially understate the sponsor support. We also have a concern that there is no consideration of the implications of *affordability*	

	constraints reflecting the open-ended nature of pension obligations as compared to the concrete nature of debt obligations. We presume this is because EIOPA has been unable to identify a simplified approach to deal with affordability, but would welcome EIOPA's confirmation that this is, indeed, the case.	
Q12.	The alternative approach is certainly simpler; however, it is still trying to express a complex concept in a single number, which is implausible. As implied earlier, the IFoA questions whether the European Commission (EC) is supported by the European Council and European Parliament in their assumption that a stochastic valuation which attempts to calculate a single value is essential. Many respondents to the consultation on the QIS specification expressed concern that it was not clear how to: • allow for sponsor support to an IORP with multiple participating employers (unless each sponsor is responsible only for liabilities in relation to its own employees, we do not believe that simple addition of the values calculated for each sponsor is appropriate); or • adjust the calculation of sponsor support for a sponsor (or group of sponsors) which is responsible for more than one IORP. These issues do not appear to have been addressed in this latest discussion paper. How does EIOPA believe that allowance should be made for these issues?	
Q13.	We would require more information on how the holistic balance sheet will be used in practice to answer this question properly. As noted in our general comments IFoA believes that a form of holistic balance sheet could have the potential to form a useful	

	enhancement to the tools currently available for risk management of IORPs. However we also believe that the case for adopting Solvency II-based measures for this purpose has yet to be made satisfactorily. In particular, the appropriate approaches to valuing sponsor support will vary according to how the outputs will be used. We would be grateful for further clarity on the areas EIOPA is aiming to address so that we can comment fully. As noted earlier, the IFoA advocates that EIOPA restricts any future proposals to general principles, with detailed implementation left to Member States. The IFoA urges EIOPA to consider the following : • allowing for a practical and agreed system for evaluating sponsor support; • an orderly and long transitional regime (of some 20 – 30 years) • a comprehensive and detailed impact assessment; and • clarity on the regulatory actions, the expectations on regulators/supervisors operating the new regime and the information that will be required to be disclosed to regulators/supervisors.	
Q14.	The additional process of calculating a maximum value of sponsor support is expensive and costly. IORPs will not want to engage if they cannot see a value and benefit in doing so. However, if the calculated maximum value gives more room to manoeuvre in the prudential regulation framework IORPs may wish to calculate this maximum value. In addition, if the purpose of the exercise is to demonstrate a high level of maximum	

	sponsor support so that an IORP can reduce its regulatory requirements, calculating this figure *may* be beneficial for IORPs.	
Q15.	This question recognises that the difficulty is the aspiration for a single value and the application of a single methodology to the valuation of employer support. The IFoA remains concerned that a one-size-fits-all approach imposed by the Commission and/or EIOPA will prove unable to reflect nuances of specific IORPs. It would be possible to specify several additional factors to consider if additional complexity were acceptable. The use of methods based on historic accounting data may be a practical shortcut, however, the reasoning is fundamentally different from the market consistent frameworks that EIOPA has considered to date. We note the suggestion that metrics might be relaxed for non-profit organisations but would point out that not-for-profit organisations have not been (and are not) immune from making poor judgements about how to invest operating capital and understanding credit risks attached to that. We therefore find this suggestion is questionable.	
Q16.	We believe that more could be done to articulate the valuation principles but otherwise we do believe that there is enough information to calculate a credit strength that is proportionate for a further QIS. However, in forming this view, we are assuming that few	

	IORPs will participate in a such a QIS. For the avoidance of doubt, it really isn't possible to form a judgement about what may or may not be proportionate for other purposes without knowing what the results may be used for and the regulatory responses that may arise from them.	
Q17.	As in our answer to question 15 this question implicitly recognises that the difficulty is the aspiration for a single value and the application of a single methodology to the valuation of employer support. The IFoA remains concerned that a one-size-fits-all approach imposed by the Commission and/or EIOPA will prove unable to reflect nuances of specific IORPs. We note that it would be possible to specify several additional factors to consider but this would inevitably introduce additional complexity, which may be an unacceptable consequence.	
Q18.	Both income cover and asset cover are relevant financial ratios to consider when assessing covenant strength. However, the IFoA challenges whether the use of these credit ratios on their own is sufficient for understanding the quality of income and assets that a sponsor covenant provides. The present financial crisis will have brought to EIOPA's attention the danger of relying on quoted historic statistics for income and assets and the fact that such statistics can hide a multitude of potentially important information about income and assets.	
Q19.	Table 4 has the advantage of being simple and easy to read and we welcome EIOPA's	

	attempt to bring proportionality to this difficult question, however, the reservations we have expressed in response to Q15-18 remain relevant here. It is not clear to us that simply considering these two ratios at a single point in time is sufficient to assess the strength of the covenant which may be very volatile over time. Moreover, we would expect the appropriate benchmarks for these ratios to vary by industry among other factors. In our view further research is required to understand and reflect the dynamics in a better way, if one was going to proceed with this methodology and as noted elsewhere in this response, we believe that the application of professional judgement is ley to ensuring that results of the alternative method calculations are robust. For example, sponsors with either very strong income cover or asset cover will hopefully be able to meet their commitments over the short term. However, in the long run the viability of a firm's business model and the management's ability to adapt to a rapidly changing business environment is likely to play a bigger part in the support required for the long term sustainability of the pension promise.	
Q20.	It is premature to respond to this in view of our reservations on the overall approach.	
Q21.	Would EIOPA please clarify whether there is to be a QIS? If so, yes.	
Q22.	The IFoA would suggest that they should be based on both affordability **and** obligation to pay.	
Q23.	tPR is best placed to answer this for the UK.	
Q24.	The IFoA does not consider this to be appropriate. It is essential to allow for evolution of default rates over time. Annual averages are potentially misleading as they may lose important information about increasing rates of default over time. There is a danger in	

	using them for QIS purposes if this point is not addressed.	
Q25.	This is an acceptable simplificaton for a QIS. However, we would note that contributions paid uniformly over a payment period may not be optimal in the case of a weak covenant and that contributions tailored to the sponsor's ability to pay may not be uniform.	
Q26.	The IFoA does not consider this to be reasonable. This could significantly underestimate the value of sponsor support in many cases. The extent of recovery in default is a very complex area and is crucial to determining sponsor support where the sponsor is weak. It cannot be assumed to be zero in all cases, but the extent of recovery will vary considerably from case to case. This is a serious limitation of attempting to apply a single methodology across a wide variety of IORPs in differing circumstances.	
Q27.	We do not believe that it is appropriate to ignore the support that is expected to be available from other group companies. We note that where this support is not legally enforceable, there may be challenges in developing a robust approach to placing a market consistent value on such support. However, we believe that this should be seen as a challenge to the concept of only considering a market-consistent quantitative approach as much as to the appropriateness of allowing for support from the wider corporate group. We consider that this is an issue for which the application of professional judgement is particularly relevant. How would EIOPA justify ignoring the expected support from other group companies? Where there is a legal obligation on other group companies to support the IORP, this obligation should be reflected in the valuation of the covenant.	

	In practice, where the sponsoring employer forms part of a multinational group, its finances will be interlinked with other group companies. Looking at the covenant of the sponsoring employer in isolation would therefore give a misleading picture. On the other hand, to assume that the entire financial resources of a large multinational group would be made available to support the pension plan of a single group company when there is no legal obligation requiring this would also be unrealistic. Our view is therefore that some allowance should be made for group support of pension plans where this is no legal obligation. The judgement that is required is how much allowance. In our view it is not possible to give a view on this, or whether these elements of the covenant should be shown as separate items, without a better understanding as to the intended purpose of the holistic balance sheet, and how it will be used in practice. For completeness we again make the point that the IFoA believes that a form of holistic balance sheet could have the potential to form a useful enhancement to the tools currently available for risk management of IORPs. However, we also believe that the case for adopting Solvency II-based measures for this purpose has yet to be made satisfactorily. Again, we consider the approach is best left to Member States, according to the relevant legislation and established supervisory practice in each case.	
Q28.	The issue of whether or not to allow for support from other entities of the group is a fundamental issue of principle that needs to be addressed before addressing technical calculation issues.	

	We think EIOPA should engage with multi-nationals who may be affected by these decisions. Multi-employer IORPs raise a different range of issues that we would have hoped to see addressed by EIOPA as part of this consultation. The IFoA would be interested to see EIOPA's specific proposals regarding multi-employer IORPs and how the multi-dimensional nature of employer support in such IORPs could be supported.	
Q29.	This should be driven entirely by the legal position in the Member State and by the circumstances of the IORP.	
Q30.	This question cannot be answered in the absence of greater clarity over the purpose of the proposals and supervisory implications. We think it is more helpful to consider the extent of sponsor support needed to balance the holistic balance sheet.	
Q31.	The IFoA is surprised that EIOPA has not asked whether the sensitivities proposed are helpful. In the absence of a defined prudential regulatory framework it is difficult to understand what use would be made of them and they do not appear to reflect the major risks that exist to IORPs in the UK. The scenario that causes us the most concern is the one in which weak economic growth, combined with further quantitative easing, drives inflation in the IORP liabilities without corresponding growth in the assets and allows the IORP sponsor to increase the value of their covenant though higher prices and greater profits. What is EIOPA's purpose in requiring the QIS to allow for these sensitivities? If it is merely to consider how reliable the proposals are, they are already sufficiently complex.	

Q32.	No comment	
Q33.	As noted earlier, we suggest that EIOPA should first address the issue of what regulatory or supervisory action might be taken in relation to any Holistic Balance Sheet issues, so that an appropriate methodolgy can be designed. It is unhelpful to propose a methodology before deciding its purpose.	
Q34.	The discussion in paragraphs 106 and 107 demonstrate the difficulty with the adoption of this approach to multi-employer IORPs. Paragraph 107, in part, suggests the use of an arbitrary proxy (i.e. income to splitting the liability). This is a good example of the difficulty in adopting the methods suggested to the specifics of individual IORPs. The arguably entirely arbitrary numbers that would be produced by such a method would have a lower value to IORP members, sponsors or regulators. We again make the point that the application of professional judgement has a key role to play on this issue. Either a cost-benefit analysis of this approach needs to demonstrate the value that comes from doing these calculations in a way that is consistent with the operations of the specific IORP, or EIOPA should consider a fundamental re-think on how the benefits of sponsor support are reflected in a holistic risk management framework. (For the avoidance of doubt we repeat our earlier comment that we believe that a form of holistic balance sheet could have the potential to form a useful enhancement to the tools currently available for risk management of IORPs. However, we also believe that the case for adopting Solvency II-based measures for this purpose has yet to be made satisfactorily).	
Q35.	The benefits of the suggested approach are unclear, as discussed above, it appears to us	

	to be arbitrary and of little value to IORP members, sponsors or regulators. What does EIOPA think are the benefits of the approach?	
Q36.	Assessment of the average financial strength of an industry is different depending on whether it is subject to competition from other jurisdictions or replicable in some other form. In any case, the IFoA is convinced that the methods outlined in paragraphs 108 and 109 would not give any useful information about the practical operation of a IORP in the event that one of the employers is no longer able to meet its liabilities.	