	Comments Template on **CP-12-003 – Draft Technical Specifications QIS IORP II**	**Deadline** **31 July 2012** **18:00 CET**
Name of Company:	**Groupe Consultatif Actuariel Européen**	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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Reference	**Comment**	
General Comment	Groupe Consultatif is a keen advocate of risk-based supervision, strong governance and transparent reporting. We also share the view of both EIOPA and the Commission that action to address unsustainability where it exists cannot be deferred indefinitely. Intergenerational fairness is essential and deferral of action will inevitably lead to cutbacks for future retirees/current workers whilst those who have already retired on good pensions will not be impacted. The affordability of the possible capital requirements and the knock on effects on investment, capital markets and the Europe 2020 growth agenda must all be considered fully in the Commission's impact assessment (as distinct from the QIS). Moreover, this must take place before a proposal for a Directive is made. In relation to concerns around the affordability of possible capital requirements, we note that this	

could be ameliorated by calibrating initially to the current (average) level and/or appropriately designed transitional arrangements.

If a new IORP regime is to be based on the principles underpinning Solvency II for insurers, EIOPA and the Commission must not lose sight of the fact that some elements of that regime, in particular the "market consistent" approach, remain under review. The use of market-consistent valuation techniques in financial reporting and solvency assessment for long-term liabilities has, over the last decade, emerged as a global standard in insurance and it has the appeal of offering the most objective measure of an entity's economic reality. However, experience in the insurance sector has highlighted that there is inevitably significant expert judgment required in applying market-consistent valuation principles to highly illiquid, long-term liabilities. This will apply to pension liabilities even more so than to insurance and, while not a reason to abandon market consistency, it is clear that further work is required in this highly technical area before decisions on IORPS are reached. It should also be noted that regulators in a number of countries – Netherlands, Denmark and USA for example – have all recently considered it appropriate to reassess the approach to be used to discounting the liabilities of pension plans.

In our view, the timescale that the EC has imposed upon EIOPA is unrealistic and risks a set of conclusions based on unclear, incomplete and unreliable QIS answers; it would be unwise and potentially damaging to produce a proposal based on these. We acknowledge the benefit of having in place challenging targets, but do not support the Commission's insistence that a proposal for a review of the Directive will be published by June 2013. This would allow time for a single QIS only, which would need to consider in detail all of the aspects which may or may not be included in such proposal. Any such specification would need to be comprehensive (most likely, to the point of not being understandable to most IORPs).

The draft QIS on which EIOPA is consulting does not fulfil this criterion. In some places (where it has been possible to copy and paste directly from QIS 5 for Solvency II) it is very detailed. In others – notably the new elements specific to IORPs – thinking appears to be at an early stage and often the rationale for the calculations is not

| | given. IORPs will find it difficult to understand or engage with the process and this is likely to be exacerbated by the fact that EIOPA intends to provide a "black box" spreadsheet to calculate some of the numbers.

The QIS will be conducted in 8 countries, which represent a majority (but not all) of those with defined benefit IORPs in Europe. However, actual IORPs will participate in the exercise only in a few States, with the relevant pensions' supervisors undertaking or obtaining "aggregate" calculations in others. Although this is a pragmatic approach, the study would yield far more reliable and informative results if IORPs in each Member State were exposed to the process at this early stage.

We suggest that EIOPA should give serious consideration to staging of the QIS. A staged process would allow an initial QIS to be extended to all relevant Member States, focusing on key issues such as discount rates, longevity, asset volatility and (where relevant) sponsor support. Results would then help to inform policy makers on the high level impact of policy alternatives and, once decisions had been taken on these, further QIS(s) could explore details of the proposed direction and provide information on the calibration necessary to achieve any desired implementation result.

Conceptually, the merits of the Holistic Balance Sheet (HBS) are clear – to enable IORPs to be regulated in a consistent manner, and provide the same level of security for pension promises, across Europe. However, differences in the national systems (and social and labour law and cultures) will present serious challenges to delivering on these. The HBS endeavours to bolt on the quantification of sponsor support, benefit adjustment mechanisms and pension protection schemes to the Solvency II framework so that these IORP-specific issues can be addressed. However, these features do not apply in all Member States and can even vary between different types of IORP within a single Member State. This adds considerable complexity.

It is undoubtedly important to recognise sponsor covenant as a key contributor to the security of the pension promise where there is recourse to the employer (either contractual or "moral") but there are many concerns about the validity of calculating a single number which can be slotted into the HBS to quantify this. Any calculation | |

	which attempts to place a present value on cash flows that are potentially available over the medium to long term should take into account the likely future potential of the sponsor to generate sufficient income to finance its pension and other commitments. This will depend, among other things, on the quality of the sponsor's business, the prospects for the sector in which it operates and its position within it, the prevailing economic conditions in its key markets, and the risk that these cash flows will not be available to the IORP due to other claims on the company or in extremis, its insolvency. It is reasonable, therefore, to question whether such factors can be captured in sufficiently robust terms to enable a single, reliable figure to be calculated for comparison with the liabilities (the latter of course being subject to many assumptions themselves). Conversely, concern has been expressed that if a single figure is calculated, this could lead analysts and shareholders to factor it into their assessment of the company, or to give rise to demands from workers for pension enhancements based on that amount being available for this purpose. Transparent communication with all stakeholders can help to protect against this. Inevitably, a balance will be needed and the choice may be eased by a better understanding of the purpose and the policy options that may flow from the results. There are also other methods of valuing sponsor support that we believe EIOPA should consider; some might be simpler and perhaps less market consistent, others more fit for purpose but requiring further research. The Groupe would be happy to elaborate on these separately. The proposal to include pension protection schemes in the HBS is justifiable if one is considering the members' perspective: clearly promises are more secure if such an arrangement exists than if there is no such protection and benefits could be reduced on IORP and/or sponsor default. However, from a scheme management perspective, it might be more practical to consider these as tools to mitigate the effect of default if it happens, rather than lowering the regulatory hurdles in cases where they may potentially come into play. Such an approach would also eliminate the moral hazard of IORPs and/or sponsors taking excessive risks because of the safety net which is available.	

| | Similarly, we question whether the ability to reduce benefits ex post or as a last resort should feature within the HBS. In the absence of constraints (such as where an adjustment is conditional on obtaining prior regulatory approval, or union support) it would always be possible to balance the HBS by assuming that benefits would be reduced to the level which could be supported. Even where there is a formula that limits this power, the message "your benefits are secure because we can cut them" would appear much less meaningful than "your benefits are not fully secure, and it may be necessary to cut them". Conditional benefits which can be adjusted in a manner set out ex ante are a different matter and it seems appropriate that such a "steering mechanism" should be incorporated in the HBS.

Finally, while we understand the reason for its omission, we regret the absence of any indication of the supervisory actions that might be taken based on an IORP's HBS. The answers to many of the specific questions in this consultation depend on a clearer understanding of how the HBS will be used and it is those same answers that will be key to determining the impact of the capital requirements within the broader macro-economic assessment. | |
| Q1. | *Do stakeholders agree with the general set-up of the QIS exercise as put forward in the Introduction (Chapter 1)? What improvements do stakeholders suggest?*

In our opinion, the timescale imposed upon EIOPA by the EC is too ambitious. While many of the issues within the QIS have already been considered within Solvency II for insurers, the extent to which these need adjustment for application to IORPs requires detailed consideration. Moreover, and presenting a greater challenge, there are many new concepts, such as security mechanisms, to consider. These are complex - a complexity compounded by interdependencies - and it is clear that some of the thinking around these is at an early stage. This is in stark contrast to the elements taken from Solvency II, which have been developed over years through a process of iterative QISs. However, even with these it is unclear that all of the elements that have been imported from QIS 5 of Solvency II need to be included. Indeed, in some cases their relevance to IORPs, at least in some countries, is questionable. | |

| | Undoubtedly, there will also be unforeseen issues that arise during the QIS and these will require further time if they are to be considered appropriately.

We suggest that EIOPA gives serious consideration to some staging of the QIS as happened in the development of Solvency II. The initial QIS could be extended to IORPs and/or supervisory authorities in all relevant Member States, focusing on key issues such as discount rates, longevity, asset volatility, the valuation of conditional and discretionary benefits and (where relevant) sponsor support. The results would help to inform policy makers on the high level impact of policy alternatives and, once decisions have been taken on these, further QIS(s) could explore details of the proposed direction and provide information on the calibration necessary to achieve any desired implementation result. This approach would also help to maximise the robustness and applicability of any simplifications and, ultimately, ensure that outputs are as useful as possible for supervisory authorities.

It will be important to consider the overall aggregate capital impact of any regulatory framework that might be introduced. We therefore strongly urge EIOPA and the European Commission to include at least a first draft or outline of the prudential framework envisaged.

There is a serious risk that pension funds will not have enough time or resource to reply to the consultation on this technical specification, let alone the QIS itself. The resources needed to run a QIS-style solvency process will be expensive to the vast majority of IORPs. If, as seems likely, the sample of IORPs that reply to the consultation is biased towards only the largest pension plans, those responses will not be representative and the concept and usability of the proposals will remain untested/unreliable | |
| Q2. | *Do stakeholders believe that the adjustment (discretionary and conditional benefits, last resort benefit reductions) and security mechanisms (sponsor support, pension protection schemes) IORPs dispose of are taken into account adequately?*

We agree that the adjustments and security mechanisms represent ***one*** approach of taking these features into account. However, there appears to be considerable scope | |

| | for different Member States (or, within an individual country, different IORPs) to make their own judgements as to whether a particular benefit is unconditional, conditional, discretionary or mixed. Inconsistency in this area could bring into question the reliability of the results. A more iterative process – staging of the QIS - would help to ensure greater consistency and reliability.

In our view, the issue of valuing 'sponsor support' in particular would benefit from further consideration. Sponsor structures are complex and the valuation methodology proposed does not deal with this adequately. For example –

· the IORP sponsor might be one of a group of associated (and even non-associated) undertakings;
· there may be several IORPs sponsored by various entities within the group;
· within groups, there may be explicit or implicit cross-entity guarantees
Where the IORP stands in priority of creditors in the event of sponsor support will vary from country to country and even from one IORP to another .

All these facets need to be assessed in placing a value on sponsor support.

Furthermore, the proposed approach to valuing sponsor support seems technically complex and precise. A number of seemingly arbitrarily-determined variables are included in certain critical points, such as the

• Maximum of 50% recovery rate (HBS 6.17);
• assessment of future profits and sponsors' earnings (HBS 6.36);
• proportion of shareholder funds available for the IORP;

leaving the output open to claims of spurious accuracy.

We suggest that other methods of taking account of these adjustments and mechanisms should be considered also and we will be happy to elaborate on these separately, but we have been unable to do so within the timescale for this consultation. | |

Q3.	*Do stakeholders believe that the draft technical specifications provide enough information and are sufficiently clear and understandable? Which parts could be improved upon?* We consider that the technical specification is too complex to be widely understood, e.g. the arithmetic involved in calculating the net and gross SCR and the use of loss distributions (SCR.6.14. In addition, the derivation of many of the parameters and formulae is not explained adequately, e.g. the parameter in the risk margin, the correlation matrices in the SCR, the parameter used in the calculation of the intangible assets SCR and the parameters in the simplifications for the risk adjusted value of collateral. Without background information on these parameter choices, it is difficult to assess their reasonability for IORPS. In our view, rather less detailed information would be more appropriate, since we believe that for the review to result in a regime flexible enough to apply across the EU, it would be better to set out higher level principles to be interpreted according to local circumstances. There are also several very detailed subsections, requiring complex calculations, where the risks that these computations seek to consider might be insignificant. Staging of the QIS could help to address these issues also.	
Q4.	*Do stakeholders believe that the calculations proposed in the technical specifications are feasible at appropriate costs and with appropriate accuracy within the given timeframe of the QIS?* We expect that only a small number of the largest IORPs would be able to undertake the calculations themselves and, even then, they would undoubtedly need to employ significant simplifications and approximations (quite probably with insufficient time to analyse their impact). This could introduce biases into the results of the QIS that could make the results difficult to interpret meaningfully. In addition, certain elements of the calculations are formulaic with some elements of the formulae appearing to be	

	arbitrary and/or subjective. These include • Maximum of 50% recovery rate (HBS 6.17); • assessment of future profits and sponsors' earnings (HBS 6.36); • proportion of shareholder funds available for the IORP; • 50 bp adjustment to allow for the illiquidity premium (HBS 8.12); • inflation and salary increase assumptions (HBS 8.23 and 8.24, respectively); • mortality and longevity shocks of 15% and 20 % (SCR 7.17 and 7.29, respectively); and • figures in the counter-party default risk module There is no certainty that arbitrary elements used for the purpose of the QIS will be carried through to the final regime and so the results of the QIS appear likely to require subjective adjustment before they are appropriate for making policy decisions. This again militates in favour of a staged QIS process. The approximate methods that must inevitably be adopted for the QIS risk materially understating both the results and the resources required to provide results under the new regime, as implied by the QIS specification.	
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?* 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. | |
| 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 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.	
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 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.	

| 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 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?
• 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. | |
| 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 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.	
Q10.	*The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose?* We agree with the intention to calculate the security mechanisms on a market-consistent basis. However we are not convinced that the present proposals achieve	

	this aim – for example, there is room for very different interpretations of the parameters, such as the expected future profits.	
Q11.	*Do stakeholders have suggestions for the parameters-_ such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)?* No we do not at this stage have suggestions for parameter values. It would help if EIOPA were to explain the rationale behind the particular parameters they have chosen. We believe more research is needed not just on the methods for sponsor valuation, but also on the parameters associated with each. If the purpose of the initial QIS is to inform the high level strategic decisions on the structure of the IORPII framework then we would support a simplified valuation of the sponsor covenant as a first stage (with a corresponding reduction of detail and complication on the liability side for proportionality), followed by subsequent QISs to improve the level of sophistication as appropriate.	
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.* We agree with the spirit of the proposed calculations. However, the proposed calculations do appear to be overly complicated with many subjective assumptions about projected cash flows, discount rates and the correlation of IORP/sponsor survival probabilities. We believe other methods should also be considered – some simpler and perhaps less market consistent, and others more fit for purpose but requiring further research. It would be helpful to have greater clarity on the circumstances in which sponsor support should be included in the HBS. For example, in Ireland there is no statutory requirement on the employer to fund any shortfall in the IORP but in practice the employer will use "best endeavours" to do so. Should this be considered as "limited" or "conditional" sponsor support which would perhaps be subject to an additional	

	discount factor?	
Q13.	*The draft technical specifications propose performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under conditions – to apply the so-called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long-term nature of pension liabilities?* We understand that this remains a contentious political issue within Solvency II and suggest that this should be considered for IORPs in light of changes that are introduced within Solvency II. A staged IORP QIS process would facilitate this. In relation to the specific upward shift contemplated, we are concerned that this does not support the market consistency of the valuation of the liabilities. However, if this approach were to be followed, consideration should be given as to whether 50 bps is appropriate to cover both the matching and countercyclical premium. A third measure contemplated in relation to long-term – such as pension – liabilities is the use of an Ultimate Forward Rate (UFR) as the extrapolation method where the interest rate markets are less liquid. We fully support the need for an extrapolation method that provides stability to the illiquid part of the interest rate curve as, without such a method, large volatility can result from small transactions in the markets with substantial consequences for the valuation of technical provisions. However, the UFR method is not the only means of achieving greater stability and, as currently contemplated, it has some important shortcomings, for example: • The UFR presents a difficult balance between 'regulatory' hedging and 'economic' hedging, since it deviates from market prices. To set up a 'regulatory' hedge, IORPs are likely to incur large transaction and operational costs because of the need for dynamic hedging. Setting up an 'economic' hedge may lead to incompliance with regulation. • The UFR can lead to severe market imbalances due to the huge demand for 20-year interest rate (the last liquid point). This may, in itself, exacerbate market illiquidity beyond this 20-year point.	

	• IORPs with existing liability hedges might be impacted detrimentally throughout any transition to an UFR. • The method is rather complex, taking a detour via forward rates in order to stabilize spot rates. This detour is, and leads to, less transparency. A method that directly affects the spot rates relevant for valuation might prove to be more appropriate and transparent. Our view is that, if the UFR features in this QIS, EIOPA should confirm that this is for the purpose of this QIS only and not does imply any preference for a discount rate within any new IORP Directive. We suggest that considerably more research is needed on this point.	
Q14.	*Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?* EIOPA has made it clear that the parameters proposed for the purpose of this QIS for determining the Level B discount rate are to provide a first insight into the magnitude of the deviation of Level A versus Level B technical provisions . For this purpose, we think that the proposed simplification of grouping assets in a limited number of categories is acceptable. If a dual-level approach is to be used within a new regime, the approach to deriving the discount rate will need to be reviewed.	
Q15.	*Do stakeholders agree that the draft technical specifications specify a fixedyearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expected inflation implied by financial markets? Could you explain?* Ideally these should not be constant but where possible set by reference to suitable market observables and/or consistent with other economic factors such as the discount yield curve applicable to the member state in question. We suggest that this should be by taking break-even inflations implied by financial markets. These will lead to valuations consistent with financial markets, a requirement that EIOPA itself asks of IORPs in HBS.3.1, HBS.3.8 and further.	

	However, we understand that using break-even inflation may lead to valuation issues as there is not always a liquid market available for all inflation rates. We therefore suggest EIOPA should prescribe a procedure much like the Smith-Wilson procedure used for the interest rate curve for break-even inflation. For wage inflation an add-on of 1% on price inflation seems reasonable, but it seems logical that Member State specific differences can occur. We therefore suggest that this specific add-on is to be set by the national supervisor.	
Q16.	*Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?* We think that it would be helpful for the QIS to explain those parts of the computation that have been lifted from the corresponding Solvency II (insurance) series of QIS and those that are new to this (IORP) QIS. Some of the sections are difficult to follow and the calculations are not very clear (e.g. in section SCR 2.15 to 2.27). Not all variables are properly defined.	
Q17.	*Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks that should be considered in the calculation of the SCR?* We believe a number of the risk modules may not be material for many IORPs, and it would be appropriate to require calculation of these risk modules only where there is reason to believe there is a material risk exposure for the IORP. We believe this should apply to the Operational Risk, Intangible Asset Risk and Disability-Morbidity Risk. In relation to pension longevity risk, there appears to be an element of double, or even triple, counting. The SCR requires a 20% decrease in mortality rates to be	

	assumed, yet the best estimate used in calculation of the technical provisions already includes allowance for future improvements in longevity. In addition, it seems that IORPs may have to include a risk margin in the valuation of their technical provisions to provide for uncertainty around the longevity trend included. We believe also that the capital charge for pension disability-morbidity risk could be lower compared to insurers as IORPs do not have the potential disadvantage of adverse selection. We believe that EIOPA might usefully consider additional SCR modules for • Consumer price inflation and salary inflation – these may be material risks for some IORPs • Sponsor support (separate from any SCR module relating to other counterparty exposure types).	
Q18.	*Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?* These appear to be very similar to the corresponding modules proposed for Solvency II. However, we believe there are some specific additions that could be made to this section. It may be appropriate for some IORPs for increases in employee contributions to be included as a form of security mechanism.	
Q19.	*Do stakeholders believe that the calculation of SCR in the Operational risk module (Section 3.3) is adequate for IORPs?* These appear to be very similar to the corresponding modules proposed for Solvency II. It is not clear to us that inclusion of this Risk Module is a useful element of the QIS. The operational risk of IORPs is likely to be at a lower level than that for insurance companies (and therefore lower than the proposed parameter in the consultation document) – • as not-for-profit organisations, IORPs do not have the operational risks of a profit-seeking strategy	

	• the cost of operational failure may be met by third parties e.g. the sponsor or outsourced service provider, mitigating any financial loss to the IORP.	
Q20.	*Do stakeholders believe that the simplifications provided for the calculation of the SCR (for spread risk on bonds in section 3.5, value of collateral in section 3.6 and mortality, longevity, benefit option and catastrophe risk in section 3.7) are adequate? Do stakeholders have any concrete suggestions for additional simplifications?* These appear to be very similar to the corresponding modules proposed for Solvency II.	
Q21.	*Do stakeholders believe that the treatment of sponsor default risk in the counterparty default risk module of the SCR calculation (Section 3.6) is appropriate? If not, what improvements would stakeholders suggest?* Given the significance of sponsor support within the HBS, we believe that sponsor default risk warrants its own SCR module, separate from the counterparty default risk module. The valuation methodology for the HBS being proposed in HBS.6 by EIOPA implicitly assumes that IORP members will view this 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 IORP by the time they retire and may have other assets that provide diversification. For these members the appropriate SCR concentration charge may be	

close to zero for any given IORP benefit to which they are entitled. 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 may also not be the same for IORPs and for, say, insurers or other financial services entities.

More justifiable is to build in some dependency on credit rating. We would expect any concentration add-on to be lower for more highly rated exposures, as the risks involved are then less likely to materialise.

In the light of the above we would suggest that EIOPA is open-minded on what capital charges are most appropriate for such concentrations. 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 (%)	σ (%)	$SCR_{def,1}$ (% of loss given default 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

Whilst the way in which the add-on rises as credit rating falls may be reasonable, it is

	less clear to us given the above comments that the overall scale is appropriate. For the lowest rated category and for most unrated sponsors the proposed add-on seems to be about the same as the LGD after allowing for recoveries, which seems onerous, especially as there may be many unrated sponsors for smaller IORPs. Of course the SCR is only one part of the overall capital base that any IORP would need to possess to demonstrate adequate solvency. If EIOPA has not already done so, we suggest that it estimates the overall position of a range of hypothetical IORPs all with access to contractual sponsor support but with different sponsor credit ratings, different levels of coverage of tangible assets versus accrued liabilities and different average accrued liability cash flow durations. This should help EIOPA to identify whether this aspect of the SCR computation as currently specified could produce unacceptable answers for a material number of IORPs.	
Q22.	*Do stakeholders believe that the calculation of SCR in the Benefit option risk sub-module (Section 3.7) is adequate for IORPs?* We believe that IORPs should only be required to complete these sub-modules where there is reason to believe they have material exposures to the risks being measured in the given sub-module. Where IORP members exercise options such as early or late retirement, commuting pension for cash or transferring out a cash sum to another IORP (or insurance policy) on leaving employment this could – but need not - increase the level of technical provisions and hence the solvency capital required. Member options such as those described above would normally be exercised on terms which are either fixed in advance or terms decided at the time. Where the terms have been pre-set and there would be a strain if the number exercising the option exceeds the best estimate built into the cash flows, or a surplus is expected unless the number exercising the option is lower than the best estimate, then solvency capital seems reasonable.	

	However, where terms have not been set in advance, these are normally determined with a view to ensuring that the IORP does not suffer a strain (or the member gain a benefit) by exercising the option. In those circumstances, it would seem unnecessary to require any SCR for this risk.	
Q23.	*Do stakeholders believe that the descriptions of financial and insurance risk mitigation (Section 3.9 and 3.10) are sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?* The descriptions of financial and insurance risk mitigation need clarification if they are to be readily understood by IORPs. However, for smaller IORPs they are unlikely to be relevant, anyway.	
I.1.1.		
I.1.2.		
I.1.3.		
I.1.4.		
I.1.5.		
I.2.1.		
I.2.2.		
I.2.3.		
I.2.4.		
I.2.5.		
I.2.6.		
I.3.1.		
I.3.2.		
I.4.1.		
I.4.2.		

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I.4.3.		
I.4.4.		
I.4.5.		
I.4.6.		
I.4.7.		
I.4.8.		
I.4.9.		
I.4.10.		
I.4.11.		
I.4.12.		
I.4.13.		
I.4.14.		
I.4.15.		
I.4.16.		
I.4.17.		
I.4.18.		
I.4.19.	We would be interested in knowing how EIOPA proposes to adjust the results to reflect lower confidence levels – we would caution against assuming a normal distribution.	
I.4.20.		
I.4.21.		
I.4.22.		
I.5.1.		
I.5.2.		
I.5.3.		
I.5.4.		

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I.5.5.		
I.5.6.		
I.5.7.		
I.5.8.		
I.6.1.		
I.6.2.		
I.6.3.		
I.7.1.		
I.7.2.		
I.7.3.		
I.7.4.		
I.7.5.		
I.8.1.		
I.8.2.		
I.8.3.		
I.8.4.		
I.8.5.		
I.8.6.		
I.9.1.		
I.9.2.		
I.9.3.		
I.10.1.		

I.10.2.		
I.10.3.		
I.10.4		
I.11.1		
HBS.1.1.		
HBS.2.1.		
HBS.2.2.		
HBS.2.3.		
HBS.2.4.		
HBS.2.5.		
HBS.2.6.	We understand that the only reason for including pure DC here given its exclusion in I.3.1 is because EIOPA is expecting some IORPs to include both DB and DC elements.	
HBS.2.7.		
HBS.2.8.		
HBS.3.1.		
HBS.3.2.		
HBS.3.3.		
HBS.3.4.		
HBS.3.5.		
HBS.3.6.		
HBS.3.7.		
HBS.3.8.		
HBS.3.9.		
HBS.3.10.	There is no guidance on the calculation of balance sheet items if there is not a relevant market price.	
HBS.3.11.	If the IORP has contingent, non-linear cash flows, these assumptions require using a	

	complex option model (risk-neutral valuation) to do the calculations. Not many IORPs will have these models. Moreover, many pension consultants do not seem to have the required models and expertise (and therefore it is possible that this 'lack' extends to local supervisors).	
HBS.3.12.		
HBS.3.13.		
HBS.3.14.		
HBS.3.15.		
HBS.3.16.		
HBS.3.17.		
HBS.3.18.		
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HBS.3.27.		
HBS.3.28.		
HBS.3.29.		
HBS.4.1.		
HBS.4.2.		
HBS.4.3.		
HBS.4.4.		
HBS.4.5.		

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HBS.4.6.		
HBS.4.7.		
HBS.4.8.		
HBS.4.9.		
HBS.4.10.		
HBS.4.11.		
HBS.4.12.	It may be helpful for EIOPA to clarify the definition of the benefits it wants to be valued.	
HBS.4.13.	How should unconditional increases of accrued rights (uncapped 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 contributions also be valued as an asset?	
HBS.4.14.		
HBS.4.15.		
HBS.4.16.	It would be helpful for this to specify whether the value should be gross or net of expenses in cases where expenses are typically met by others, e.g. sponsor.	
HBS.4.17.		
HBS.4.18.		
HBS.4.19.		
HBS.4.20.		
HBS.4.21.		
HBS.4.22.		
HBS.4.23.	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).	
HBS.4.24.		
HBS.4.25.		
HBS.4.26.		

HBS.4.27.		
HBS.4.28.		
HBS.4.29.		
HBS.4.30.		
HBS.4.31.		
HBS.4.32.		
HBS.4.33.		
HBS.4.34.		
HBS.4.35.		
HBS.4.36.		
HBS.4.37.		
HBS.4.38.		
HBS.4.39.		
HBS.4.40.		
HBS.4.41.		
HBS.4.42.		
HBS.4.43.		
HBS.4.44.		
HBS.4.45.		
HBS.4.46.		
HBS.4.47.		
HBS.4.48.		
HBS.4.49.	This needs clarifying. In general IORPs will not be able to pay more benefits than their asset base permits, if there is no one else available to meet the shortfall. So, in the event of a catastrophic fall in asset values (e.g. due to fraud, an excessive market risk is taken that goes sour etc.) and in the absence of other benefit security mechanisms a ‘last resort’ benefit reduction will always be triggered. If this power is fully	

	recognised in the HBS balance sheet as is suggested by the current wording then it means that all IORPs are and will always be 'fully' solvent irrespective of their current or future financial health. This doesn't seem likely to be what EIOPA envisages.	
HBS.4.50.	It is not very clear what EIOPA perceives as the difference between ex-ante and ex-post benefit reductions. Although there is the option to exclude ex-post benefit reductions from the TP (HBS 4.50), what is the difference if these are to be included?	
HBS.4.51.		
HBS.4.52.		
HBS.4.53.		
HBS.4.54.		
HBS.4.55.		
HBS.4.56.		
HBS.4.57.		
HBS.4.58.		
HBS.4.59.		
HBS.4.60.		
HBS.4.61.		
HBS.5.1.		
HBS.5.2.	In some member states, e.g. UK, part of the role of the IORP's actuary is to estimate the discontinuance position of the IORP, usually understood to be the probable buy-out cost were the IORP's liabilities transferred to an insurer. (i) It would be helpful for EIPOA to clarify whether these estimates if available and sufficiently reliable could replace the best estimate + risk margin computation, on the grounds that such a value can be viewed as corresponding to the market consistent value of the (accrued wind-up) liabilities. (ii) If these values are not considered appropriate to replace the best estimate + risk margin then it would be helpful to analyse how they 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. Also, it is not clear what the approximation of 8% is based upon. It would be helpful to receive additional clarification on this.	
HBS.5.3.		
HBS.5.4.		
HBS.5.5.		
HBS.6.1.		
HBS.6.2.		
HBS.6.3.		
HBS.6.4.		
HBS.6.5.		
HBS.6.6.		
HBS.6.7.		
HBS.6.8.		
HBS.6.9.		
HBS.6.10.		
HBS.6.11.		
HBS.6.12.		
HBS.6.13.		
HBS.6.14.		
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HBS.6.16.		
HBS.6.17.		
HBS.6.18.		

HBS.6.19.		
HBS.6.20.		
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HBS.6.30.		
HBS.6.31.		
HBS.6.32.		
HBS.6.33.		
HBS.6.34.		
HBS.6.35.	In this section, EIOPA has clearly tried to provide a practical alternative for multi-employer IORPs. However, large industry-wide IORPs often have several thousands of small non-associated companies. In order to make calculations for a representative sample, the number of calculations would still be too large. We would encourage EIOPA to formulate clearer guidance on this issue	
HBS.6.36.		
HBS.6.37.		
HBS.6.38.		
HBS.6.39.		
HBS.6.40.	EIOPA provides a simplification to calculate sponsor support. It seems however that there is no base calculation for which this is a simplification.	

HBS.6.41.		
HBS.6.42.	The description of *rho* in the formula seems to be different from what is intended. The value of assets and pension liabilities always has some co-movement if a market-consistent risk-free interest rate is used to discount the pension liabilities. The intended correlation seems to be the correlation between assets and projected benefit cashflows to participants. In a pure DB scheme, these cashflows shouldn't change if the value of assets changes (although their present value will fluctuate because of changes in market interest rates). However, this does not mean that the correlation is necessarily 0, as part of the assets can be subject to the same changes as the liabilities, e.g. when the IORP is investing in offsetting fixed income or undertakes a liability hedging programme. The value of *rho* should in that case be substantially higher than 0. Indeed, an IORP with a DB scheme could choose to hedge all of its liability risk, in which case *rho* approaches 1 if some minor basis risk would still be assumed.	
HBS.6.43.		
HBS.6.44.		
HBS.6.45.		
HBS.6.46.		
HBS.6.47.		
HBS.6.48.		
HBS.6.49.		
HBS.6.50.		
HBS.6.51.		
HBS.6.52.		
HBS.6.53.		
HBS.6.54.		
HBS.6.55.		
HBS.6.56.		

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HBS.6.57.		
HBS.6.58.		
HBS.6.59.		
HBS.6.60.		
HBS.6.61.		
HBS.6.62.		
HBS.6.63.		
HBS.6.64.		
HBS.6.65.		
HBS.6.66.		
HBS.6.67.		
HBS.6.68.		
HBS.6.69.		
HBS.6.70.		
HBS.6.71.		
HBS.6.72.		
HBS.6.73.		
HBS.6.74.		
HBS.6.75.		
HBS.6.76.		
HBS.6.77.		
HBS.6.78.		
HBS.6.79.		
HBS.6.80.		
HBS.6.81.		
HBS.6.82.		

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HBS.6.83.		
HBS.6.84.		
HBS.6.85.		
HBS.6.86.		
HBS.6.87.		
HBS.6.88.		
HBS.6.89.		
HBS.6.90.		
HBS.7.1.		
HBS.7.2.		
HBS.7.3.		
HBS.7.4.		
HBS.7.5.		
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HBS.7.8.		
HBS.7.9.		
HBS.7.10.		
HBS.7.11.		
HBS.7.12.		
HBS.7.13.		
HBS.7.14.		
HBS.7.15.		
HBS.7.16.		
HBS.7.17.		
HBS.7.18.		

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HBS.7.19.		
HBS.7.20.		
HBS.7.21.		
HBS.7.22.		
HBS.7.23.		
HBS.7.24.		
HBS.7.25.		
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HBS.7.27.		
HBS.7.28.		
HBS.7.29.		
HBS.7.30.		
HBS.7.31.		
HBS.7.32.		
HBS.7.33.		
HBS.7.34.		
HBS.7.35.	This article is unclear. In our view, where there are very few objective data on which to estimate default probabilities, it seems unavoidable to have to rely on judgement. In other cases, where there is sufficient objective data, the reliance on judgement should be restricted.	
HBS.7.36.		
HBS.7.37.		
HBS.7.38.		
HBS.7.39.		
HBS.7.40.		
HBS.7.41.		
HBS.7.42.		

HBS.8.1.		
HBS.8.2.		
HBS.8.3.		
HBS.8.4.		
HBS.8.5.		
HBS.8.6.		
HBS.8.7.	The parameters here are copy pasted from Solvency II but are still the subject of debate and we would urge EIOPA to take into account the feedback from the consultation on risk free rates for the purpose of the QIS.	
HBS.8.8.		
HBS.8.9.		
HBS.8.10.		
HBS.8.11.		
HBS.8.12.	We note that the Commission has requested EIOPA to obtain an approximation for the impact of the counter cyclical premium, but no justification is given for the use of a vertical 50 bps shift for this purpose.	
HBS.8.13.		
HBS.8.14.		
HBS.8.15.		
HBS.8.16.	We think that including both a Level A and a level B computation may in many cases overcomplicate the QIS. A higher return as per Level B based on an assumed simplified strategic asset mix implicitly involves higher risk of non-delivery other than in relation to conditional benefits that are themselves dependent 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 and any applicable pension protection scheme in the HBS. It would be helpful if EIOPA could provide more guidance on the way it intends to use	

	the different Liability levels.	
HBS.8.17.		
HBS.8.18.		
HBS.8.19.		
HBS.8.20.		
HBS.8.21.		
HBS.8.22.		
HBS.8.23.	Ideally these should not be constant but where possible set by reference to suitable market observables and/or consistent with other economic factors such as the discount yield curve applicable to the member state in question. We suggest taking break-even inflations implied by financial markets. These will lead to valuations consistent with financial markets, a requirement that EIOPA itself asks of IORPs in HBS.3.1, HBS.3.8 and further. However, we understand that using break-even inflation may lead to valuation issues as there is not always a liquid market available for all inflation rates. We therefore suggest EIOPA to prescribe a procedure much like the Smith-Wilson procedure used for the interest rate curve for break-even inflation.	
HBS.8.24.	For wage inflation an add-on of 1% on price inflation seems reasonable, but it seems logical that Member State specific differences can occur. We therefore suggest that this specific add-on is to be set by the national supervisor.	
HBS.9.1.		
HBS.9.2.		
HBS.9.3.		
HBS.9.4.		
HBS.9.5.		
HBS.9.6.		
HBS.9.7.		
HBS.9.8.		

HBS.9.9.		
SCR.1.1.	In case EIOPA is looking for possibilities to simplify the QIS and to lay more focus on the impact of the new elements in the QIS (especially the holistic balance sheet with the valuation of steering mechanisms, sponsor support and PPS), we suggest reducing or even removing the following parts of the calculation of the SCR: • 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 and it takes a lot of time and effort to determine the SCR's.	
SCR.1.2.		
SCR.1.3.	Any circularity in the calculations would only occur when the risk margin is calculated according to the Solvency II method. However, the simplification of a fixed risk margin is presented as the standard method for the purpose of this QIS. So, in general, does EIOPA consider it appropriate to calculate the SCR without inclusion of the risk margin for the technical provisions? We would support this, and in this case advise EIOPA to remove the words « to avoid circularity in the calculation»	
SCR.1.4.	Please insert a specific reference to the appropriate section	
SCR.1.5.		
SCR.1.6.		
SCR.1.7.		
SCR.1.8.	« Furthermore, the liabilities should not include subordinated liabilities ». It is not clear what is meant by subordinated liabilities, as this term has not been introduced before, nor is it defined within this section.	
SCR.1.9.		
SCR.1.10.	This description needs greater clarification. Future management actions could also be	

	dependent on the prudential framework, which is still unknown.	
SCR.1.11.		
SCR.1.12.	We would like EIOPA to share the common method to be developed in order to derive results on a 97,5% and 95% security level from results based on a 99,5% security level. In our opinion, this is not possible without recalculating all modules, as the effects of the different steering mechanisms are not linear. Given that EIOPA intends to perform only one QIS before the EC presents a draft guideline, we think that explicit calculation of at least the 97,5% and 95% security levels should be included in this QIS and asked to be calculated by the IORPs themselves.	
SCR.1.13.		
SCR.1.14.		
SCR.1.15.		
SCR.1.16.	The requirements for proportionality are themselves complex. The proposed process on when to apply proportionality seems to be more labour-intensive than doing actual calculations and for this QIS the level of detail seem superfluous.	
SCR.1.17.		
SCR.1.18.		
SCR.1.19.		
SCR.1.20.	The individual components Adj1 and Adj2 are not defined. The formula should be SCR = BSCR + Adj + Op It's only in SCR 2.25 that Adj2 is suddenly described	
SCR.1.21.		
SCR.1.22.		
SCR.1.23.		
SCR.1.24.		
SCR.1.25.	The positive correlation between pension liability risk and market risk is surprising. The most important determinant of pension liability risk is the longevity risk. Another relevant risk is the Expenses risk. A positive correlation between longevity and market risk seems not logical (lower market returns will imply higher longevity). For expenses	

	risk, lower returns will lead to a pressure on expenses, so you should expect a negative correlation. For the UK, inflation risk is a major issue.	
SCR.2.1.		
SCR.2.2.		
SCR.2.3.		
SCR.2.4.		
SCR.2.5.	Also, increased employee contribution can be a form of security mechanism. This should be included.	
SCR.2.6.		
SCR.2.7.		
SCR.2.8.	We propose that EIOPA should also allow for only one net calculation for IORPs that cannot separate the loss absorbing capacity of security mechanisms from those of technical provisions. See also our comment in section SCR 2.10	
SCR.2.9.		
SCR.2.10.	Regarding the phrase « The net SCR relating to loss-absorbency of technical provisions can then be established by assuming that the value of security mechanisms has not changed. The net SCR relating to loss-absorbency of security mechanisms can then be established by assuming that the value of technical provisions has not changed as a result of the scenario. » this may result in an unfair representation of the loss-absorbing capacity of both the security mechanisms and the technical provisions, as both may be interrelated. We propose that EIOPA should also allow for only one net calculation for IORPs that cannot separate the loss absorbing capacity of security mechanisms from those of technical provisions. Also, it is not possible to calculate the net SCR relating to loss-absorbency of security mechanisms by assuming the value of technical provisions has not changed as a result of the scenario : when it comes to the interest rate scenario , if one assumes that the value of the technical provisions does not change, there would be no effect on the funding ratio, and thus no effect on the value of the security mechanisms. This seems to imply that security mechanisms would only be counted in the equity or property scenario and not in the interest rate scenario. This proposal has consequences for most of the text in section SCR.2.15 until	

	SCR.2.27	
SCR.2.11.		
SCR.2.12.		
SCR.2.13.	« Adj1 » should probably be « Adj », pending the changes to be made in the definition in SCR1.20 We propose EIOPA should also allow for one calculation of the adjustments for both security mechanisms and technical provision. The calculation formula therefore will become: $Adj = Adj_{SM+TP} + Adj_{DT}$	
SCR.2.14.		
SCR.2.15.	General comment regarding the sections SCR2.15 until SCR 2.27: these sections are difficult to follow and the calculations are not very clear. Not all variables are properly defined. It would be helpful if the same structure of Description, Input, Output, Calculation would be followed.	
SCR.2.16.		
SCR.2.17.		
SCR.2.18.		
SCR.2.19.	The term DCL is not properly defined	
SCR.2.20.	$MSS_{available}$ does not always exist: in a case where there is no sponsor covenant, but there is the possibility to increase employee contribution, this definition is not appropriate.	
SCR.2.21.		
SCR.2.22.		
SCR.2.23.		
SCR.2.24.	Net over all modules, this implies that IORPs are always allowed to always take account of the maximum value of sponsor support, pension protection scheme and DCL as loss absorbing capacity, even if in the market risk, pension liability risk and counterparty default risk were not capped ? Please clarify.	
SCR.2.25.		

SCR.2.26.		
SCR.2.27.		
SCR.2.28.		
SCR.2.29.		
SCR.2.30.		
SCR.2.31.		
SCR.2.32.		
SCR.2.33.		
SCR.2.34.		
SCR.2.35.		
SCR.3.1.	Given some of the earlier simplifications (i.e. for the risk margin) and the low expected impact of operational risk for IORPs, the calculation proposed here is overly complicated.	
SCR.3.2.	As stipulated in SCR.1.3, the technical provisions are to be understood as excluding risk margin. This section is superfluous, and only leads to doubt as to whether in other sections technical provisions are to be calculated including risk margin. We propose EIOPA should delete, or amend the text to reflect that this only stresses the same point made in SCR1.3	
SCR.3.3.		
SCR.3.4.		
SCR.3.5.		
SCR.3.6.	It is not clear why EIOPA has chosen the stated formula to calculate capital requirement for operational risk. It is not clear why operational risk is increasing if the amount of contributions has grown in excess of 20%. Also, it is not clear why the parameter 4% has been chosen.	
SCR.4.1.		
SCR.4.2.		
SCR.4.3.		

SCR.4.4.	It is not clear why EIOPA assumes the value of 80% of the exposure to be appropriate for thecalculation of the capital requirement for intangible assets	
SCR.5.1.	We understand that this is taken from Solvency II but it appears excessively complex and we would urge EIOPA to simplify if possible.	
SCR.5.2.	As stated earlier in SCR.2.10, allowing for the necessary simultaneous calculation of the loss absorbing capacity of both security mechanisms and technical provisions, also requires changes to these and following sections.	
SCR.5.3.		
SCR.5.4.		
SCR.5.5.		
SCR.5.6.		
SCR.5.7.		
SCR.5.8.		
SCR.5.9.	This is potentially very burdensome and simplification would be welcome.	
SCR.5.10.		
SCR.5.11.		
SCR.5.12.		
SCR.5.13.		
SCR.5.14.		
SCR.5.15.	In I.4.11, EIOPA states that it is still considering inserting an inflation risk module. While this is currently still missing, we suggest deleting the sentence « This applies to both real and nominal term structures. » As the real term structure can be considered to be derived from the nominal and inflation term structure, without any inflation term structure and inflation risk module, it is not possible for IORPs to consider real interest term structure.	
SCR.5.16.		
SCR.5.17.		
SCR.5.18.		

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SCR.5.19.		
SCR.5.20.		
SCR.5.21.		
SCR.5.22.	Are the shocks supposed to be multiplied on the market interest rate curve including or excluding the Smith Wilson procedure for extrapolation ?	
SCR.5.23.		
SCR.5.24.		
SCR.5.25.		
SCR.5.26.		
SCR.5.27.	« Where data regarding maturities is not available ». Does EIOPA refer here to data regarding cash flows or regarding interest rate maturities? The latter is redundant given the Smith-Wilson extrapolation procedure, pending the answer on our question under SCR.5.22.	
SCR.5.28.		
SCR.5.29.		
SCR.5.30.	The percentage of assets invested in each equity category is also needed as input	
SCR.5.31.		
SCR.5.32.		
SCR.5.33.		
SCR.5.34.		
SCR.5.35.		
SCR.5.36.		
SCR.5.37.		
SCR.5.38.		
SCR.5.39.		
SCR.5.40.		
SCR.5.41.	The index ‘x’ is redundant and leads to confusion	

SCR.5.42.		
SCR.5.43.		
SCR.5.44.		
SCR.5.45.		
SCR.5.46.	The idea of the duration-based approach can be supported. However, it is inconsistent to decrease to stress only for equity investments and not for the other asset categories (especially alternative investments). Furthermore, it is debatable why there is a hard boundary on the average duration of 12 years. More different levels of average durations with associated stress levels would be more appropriate. For example an equity stress of 25% for an average duration which exceeds 8 years, a stress of 22% for an average duration which exceeds 12 years and an equity stress of 15 years for an average duration which exceeds 16 years. Unless EIOPA clearly indicates that the boundary is purely for the purpose of this QIS and is not intended as a basis for further parameterization, we suggest amending this part	
SCR.5.47.		
SCR.5.48.		
SCR.5.49.		
SCR.5.50.		
SCR.5.51.		
SCR.5.52.	The percentage of assets invested in property is also needed as input	
SCR.5.53.		
SCR.5.54.		
SCR.5.55.		
SCR.5.56.		
SCR.5.57.		
SCR.5.58.		
SCR.5.59.		

SCR.5.60.		
SCR.5.61.		
SCR.5.62.	”Non-listed equity and property should be assumed to be sensitive to the currency of the country where it is located or the currency of the country where the issuer of the equity has its main operation, respectively.” Because of the use of the term ‘respectively’, the items non-listed equity and property should be changed to avoid confusion.	
SCR.5.63.	The percentage of assets subject to currency risk for each of the relevant currencies is also needed as input	
SCR.5.64.		
SCR.5.65.		
SCR.5.66.		
SCR.5.67.		
SCR.5.68.		
SCR.5.69.		
SCR.5.70.		
SCR.5.71.		
SCR.5.72.	What if $nMKT_{fx,c,TP} = nMKT_{fx,c,TP}^{UP}$ and $nMKT_{fx,c,SM} = nMKT_{fx,c,SM}^{DOWN}$?	
SCR.5.73.		
SCR.5.74.		
SCR.5.75.		
SCR.5.76.		
SCR.5.77.		
SCR.5.78.		
SCR.5.79.		
SCR.5.80.	is. ?????	
SCR.5.81.		

SCR.5.82.	There is no subsection V.1	
SCR.5.83.		
SCR.5.84.		
SCR.5.85.		
SCR.5.86.		
SCR.5.87.		
SCR.5.88.	Without performing the actual calculations, as will only be done during the actual QIS, it is impossible for us to assess whether the proposed shocks indeed lead to a 99.5% VaR, as stated in section SCR.5.87. We therefore reserve the liberty to comment on this during the QIS. Furthermore, it is not clear what EIOPA intends with the Duration cap. Does this mean that a duration equal to duration cap should be assumed in the case of a higher duration, or that the calculation is not allowed for higher duration bonds ? If the latter, please specify what the calculation should be. In addition, as in section SCR.5.94, the factors for government bonds are given, please refer to 'corporate bonds' here, instead of simply 'bonds'. It's questionable why companies – with a same credit rating – are assumed to be more risky than governments with the same credit rating.	
SCR.5.89.		
SCR.5.90.		
SCR.5.91.		
SCR.5.92.		
SCR.5.93.	We understand that this derogation also applies in Solvency II, but it can be argued that EU Government bonds and similar exposures should be treated in the same way as any other assets in relation to spread risk. For Ireland this could be an important issue given the existence of sovereign annuities backed by EU Government bonds where the default risk is passed to the pensioners.	
SCR.5.94.	In SCR.5.93, reference is made to bonds issued by the European Central Bank only, while reference is made here to 'Central banks' in plural. Are national central banks	

	also includedd or not ?	
SCR.5.95.		
SCR.5.96.		
SCR.5.97.	The formula is not complete. What does the formula result in ?	
SCR.5.98.		
SCR.5.99.	The formula is not complete. What does the formula result in ?	
SCR.5.100.		
SCR.5.101.		
SCR.5.102.		
SCR.5.103.		
SCR.5.104.		
SCR.5.105.		
SCR.5.106.		
SCR.5.107.		
SCR.5.108.	The formula refers to F^{up}, while the explanation refers to F'^{up}. Which one should be used ? Furthermore, F^{up} has been defined twice, both in section SCR.5.88 and in SCR.5.94. It is not clear which one to use. More precision in the definition is needed here.	
SCR.5.109.		
SCR.5.110.		
SCR.5.111.		
SCR.5.112.		
SCR.5.113.		
SCR.5.114.		
SCR.5.115.		
SCR.5.116.		
SCR.5.117.		

SCR.5.118.		
SCR.5.119.		
SCR.5.120.		
SCR.5.121.		
SCR.5.122.		
SCR.5.123.		
SCR.5.124.	It is not clear what the last sentence means. Does EIOPA mean to say that government bonds should be included in the calculation of 'total assets' ?	
SCR.5.125.		
SCR.5.126.		
SCR.5.127.		
SCR.5.128.	We understand that this derogation also applies in Solvency II, but it can be argued that EU Government bonds and similar exposures should be treated in the same way as any other assets in relation to market risk concentrations. For Ireland this could be an important issue given the existence of sovereign annuities backed by EU Government bonds where the default risk is passed to the pensioners.	
SCR.5.129.	In SCR.5.128, reference is made to bonds issued by the European Central Bank only, while reference is made here to 'Central banks' in plural. Are national central banks also included or not ?	
SCR.5.130.		
SCR.5.131.		
SCR.6.1.		
SCR.6.2.		
SCR.6.3.		
SCR.6.4.		
SCR.6.5.		
SCR.6.6.		

SCR.6.7.		
SCR.6.8.		
SCR.6.9.		
SCR.6.10.		
SCR.6.11.		
SCR.6.12.		
SCR.6.13.		
SCR.6.14.	EIOPA should be aware that most IORPs will not be familiar with calculations involving loss distribution functions, as this is currently not pension practice. The specifications laid out in this section will be hard if not impossible to set up for IORPs with little or no experience in this.	
SCR.6.15.	See our comment on section SCR.6.14 Also, IORPs will most likely be unfamiliar with the terms, meaning and calculation of V_{inter} and $V_{intra.}$	
SCR.6.16.		
SCR.6.17.		
SCR.6.18.		
SCR.6.19.		
SCR.6.20.		
SCR.6.21.		
SCR.6.22.		
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SCR.6.26.		
SCR.6.27.		
SCR.6.28.		

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SCR.6.29.		
SCR.6.30.		
SCR.6.31.		
SCR.6.32.		
SCR.7.1.		
SCR.7.2.		
SCR.7.3.		
SCR.7.4.		
SCR.7.5.	Again, please also allow for an integral calculation of the loss absorbing capacity in(?) both security mechanisms and technical provisions.	
SCR.7.6.		
SCR.7.7.	The index 'x' is redundant and leads to confusion More generally, this appears to be copied directly from Solvency II, which begs the question as to whether the same correlations etc are appropriate for an insurance company selling products in the market and an IORP providing benefits for an employed workforce.	
SCR.7.8.		
SCR.7.9.		
SCR.7.10.		
SCR.7.11.		
SCR.7.12.		
SCR.7.13.		
SCR.7.14.		
SCR.7.15.	The fact that no input is required to calculate the capital requirement for mortality risk seems strange. If EIOPA means that no input is required, because all required information is already available from previous sections, it would be advisable to state so. However, this is not entirely clear from the specifications.	
SCR.7.16.		

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SCR.7.17.		
SCR.7.18.		
SCR.7.19.		
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SCR.7.22.		
SCR.7.23.		
SCR.7.24.		
SCR.7.25.		
SCR.7.26.		
SCR.7.27.		
SCR.7.28.		
SCR.7.29.	In SCR.1.11, EIOPA states that all parameters and shocks are calibrated to yield a 99.5% VaR. Given the fact that mortality and longevity are complementary risks, it cannot be compatible that for mortality risk, as stated in SCR.7.17, this calibration yields a shock of 15% and for longevity this same calibration yields 20%. This is especially strange since EIOPA asks IORPs in HBS.4.2 to take into account any foreseeable trend in longevity. Given the fact that this trend is taken into account, deviation around this trend is symmetric. The assumed stress scenario is very huge and unrealistic.	
SCR.7.30.		
SCR.7.31.		
SCR.7.32.		
SCR.7.33.		
SCR.7.34.		
SCR.7.35.		
SCR.7.36.		

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SCR.7.37.		
SCR.7.38.		
SCR.7.39.	This appears to be copied directly from Solvency II, which begs the question as to whether the same risks arise for an insurance company selling disability products in the market and an IORP providing disability benefits for an employed workforce.	
SCR.7.40.		
SCR.7.41.		
SCR.7.42.		
SCR.7.43.		
SCR.7.44.		
SCR.7.45.		
SCR.7.46.		
SCR.7.47.		
SCR.7.48.		
SCR.7.49.		
SCR.7.50.		
SCR.7.51.		
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SCR.7.53.		
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SCR.7.56.		
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SCR.7.58.		
SCR.7.59.		
SCR.7.60.		

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SCR.7.61.		
SCR.7.62.		
SCR.7.63.		
SCR.7.64.		
SCR.7.65.		
SCR.7.66.		
SCR.7.67.		
SCR.7.68.		
SCR.7.69.		
SCR.7.70.		
SCR.7.71.		
SCR.7.72.		
SCR.7.73.		
SCR.7.74.		
SCR.7.75.		
SCR.7.76.		
SCR.7.77.		
SCR.7.78.	We consider that catastrophe risk is unlikely to be material for IORPs but if it is to be considered, the risks arising for an insurance company selling products in the market and an IORP providing benefits for an employed workforce are likely to be different.	
SCR.7.79.		
SCR.7.80.		
SCR.7.81.		
SCR.7.82.		
SCR.7.83.		
SCR.7.84.		

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SCR.7.85.		
SCR.7.86.		
SCR.7.87.		
SCR.8.1.		
SCR.8.2.		
SCR.8.3.		
SCR.8.4.		
SCR.8.5.		
SCR.8.6.		
SCR.8.7.		
SCR.9.1.		
SCR.9.2.		
SCR.9.3.		
SCR.9.4.		
SCR.9.5.		
SCR.9.6.		
SCR.9.7.		
SCR.9.8.		
SCR.9.9.		
SCR.9.10.		
SCR.9.11.		
SCR.9.12.		
SCR.9.13.		
SCR.9.14.		
SCR.9.15.		
SCR.9.16.		

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SCR.9.17.		
SCR.9.18.		
SCR.9.19.		
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SCR.9.21.		
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SCR.9.29.		
SCR.9.30.		
SCR.9.31.		
SCR.9.32.		
SCR.9.33.		
SCR.9.34.		
SCR.10.1.		
SCR.10.2.		
SCR.10.3.		
SCR.10.4.		
SCR.10.5.		
SCR.10.6.		
SCR.10.7.		
SCR.10.8.		

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SCR.10.9.		
SCR.10.10.		
SCR.10.11.		
MCR.1.1.		
MCR.2.1.		
MCR.2.2.		
MCR.2.3.		
MCR.2.4.		
MCR.2.5.		
MCR.2.6.		
MCR.2.7.		
MCR.2.8.		
MCR.2.9.		
PRO.1.1.		
PRO.2.1.		
PRO.2.2.		
PRO.2.3.		
PRO.2.4.		
PRO.2.5.		
PRO.2.6.		
PRO.3.1.		
PRO.3.2.		
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PRO.3.7.		
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PRO.3.28.		
PRO.4.1.		
PRO.4.2.		
PRO.4.3.		
PRO.4.4.		

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PRO.4.5.		
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PRO.4.7.		
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PRO.4.14.		
PRO.4.15.		
PRO.4.16.		
PRO.4.17.		