Comments Template on Consultation Paper on Further Work on Solvency of IORPs		Deadline 13 January 2015 23:59 CET
Name of Company:	EEF, the manufacturers' organisation	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment/response in the relevant row. If you have no response to a question, keep the row empty. ⇨ Our IT tool does not allow processing of comments/responses which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to CP-14-040@eiopa.europa.eu . Our IT tool does not allow processing of any other formats.** The numbering of the questions refers to **Consultation Paper on Further Work on Solvency of IORPs**.	
Reference	**Comment**	
General Comment	**About EEF** EEF, the manufacturers' organisation, is the voice of manufacturing in the UK, representing all aspects of the manufacturing sector including engineering, aviation, defence, oil and gas, food and chemicals. With 6,000 members employing almost 1 million workers, EEF members operate in the UK, Europe and throughout the world in a dynamic and highly competitive environment.	

The subject matter of the EIOPA Consultation Paper significantly affects EEF member companies, who have a long history of providing Defined Benefit pension schemes.

Such companies have long-worked in partnership with their employees' representatives and the trustees of their pension schemes to provide greater income security in retirement for their workforce. This represents a considerable investment by employers, who see the provision of pensions as an important positive contribution made for the benefit of their workers.

EEF's views on the direction of travel set out in the Consultation Paper

EEF strongly disputes that there is any need for further EU-level reform on the solvency of IORPs.

We also believe that, given the diversity of pension arrangements across the EU, it is inappropriate to search for one approach at EU-level. In line with the subsidiarity principle a revision of the IORP Directive or the supervisory regime in the direction of a Holistic Balance Sheet (HBS) would not be appropriate.

Also, EIOPA has acknowledged that occupational pension schemes and insurance products are different. The providers of IORPs do not operate in the same market as insurers; occupational pensions are accessed by the labour market not the financial product market. They generally operate on a not for profit basis and represent a benefit provided to employees whilst employed by a specific employer. They also have a very different risk profile and there are mitigating mechanisms for managing that risk.

However, instead of drawing the conclusion that there is logically no inherent difficulty in them having different supervisory regimes, the direction of travel set out in the very fabric of the HBS approach is still towards a Solvency II pathway despite the amendments made to the original HBS proposal. Whilst we welcome the amendments they do not go far enough; our preference remains for the HBS proposal to be dropped.

In our view the Consultation Paper proposes a solution to an ill-defined problem with

	enormous financial implications. We note that EIOPA's Quantitative Impact Assessment demonstrated that the original Holistic Balance Sheet proposal would have increased UK scheme deficits by £150 billion. EEF does not support any approach that without a very good business case requires IORPs to raise the amount of funding. UK employers are dismayed that a revised approach to the regulatory regime along the lines set out in the Consultation Paper would lead to a very significant rise in the technical provisions. The prospect of further revision to the funding regime is leading to a sense of intolerable instability. This climate of uncertainty, stretching over years, undermines employers' confidence in their ability to plan for the long-term and leads to employers revisiting their commitment to continuing to offer Defined Benefit schemes. For these employers, and those who have already closed their schemes to future accrual of benefits, they are also concerned about the impact on their investment plans for jobs, growth and capital infrastructure. Further, continuing uncertainty about the scale of revisions to the supervisory regime itself has the potential to have a significant detrimental impact upon wider economic activity and risks triggering changes in employer behaviour as they anticipate the worst. By way of example, we have had a number of years of highly prescriptive pension regulation in the UK based on the existing IORP Directive. Such have been the transformation costs towards the current regime that many employers have closed their DB schemes to future accrual. Consequently, and in summary, EEF reiterates its long-held view that further reform of the supervisory and funding arrangements runs a real risk of an illusory 'pension security', as employers will be compelled to close the remaining DB schemes to future accrual. Also, the financial impact on many companies, even those that have already closed their DB schemes to future accrual, could result in companies ceasing to be profitable, risking reduced investment in jobs and Research and Development, and even closure. The overall impact will be one of reduced overall employer investment in workplace pensions.	

	The HBS initiative is, therefore, highly unlikely to foster more sustainable pension saving and provision. Therefore, we urge EIOPA to pause the work which is the subject of this Consultation Paper, and which is being undertaken without a clear political mandate from the EU. We are also mindful that a robust system of risk management and protection for scheme members' benefits is already in place in the UK. It has been stress-tested by valuation rounds against the backdrop of a deep recession and has withstood that challenge. We do not advocate a fundamental review of a system that has been tried and tested through such difficult times without a clear rationale for doing so.	
Q1	As the Consultation Paper states (paragraph 4.22) the concept of 'contract boundaries' is often considered to not be suitable for IORPs. Given that the task underpinning collation of the Holistic Balance Sheet is to identify which cash flows (in and out) should be counted in the HBS we do not support the principle of introducing another technical concept on top of cash flows. The proposed approach unnecessarily adds another level of complexity without adding any benefit.	
Q2	No. See our response to Q1.	
Q3	As we commented in our response to Q1, the focus should simply be on the cash flows in and out to be captured by the calculations.	
Q4		
Q5	The debate in this section of the Consultation Paper underlines the point that insurance products and DB pension expectations are so fundamentally different in nature that it is difficult to adapt the principles/definitions from one regime to the other.	

	The challenge in the case of IORPS too is that, as in the UK, there may be statutory prohibitions that govern the curtailing of rights or which shape how they are to be exercised. As a result, a contractual boundary approach to defining the scope of the HBS exercise would need to be sufficiently flexible to take out account of overriding statutory protective regimes.	
Q6		
Q7	In the UK there is a well-established conceptual distinction between regular contributions financing the accrual of benefits and sponsor contributions under a deficit-reduction plan. It would be important to continue making the distinction.	
Q8	Yes - see our answer to Q7.	
Q9		
Q10	This question underlines the difficulty of using an insurance-based model as a supervisory tool for Defined Benefit schemes where the 'benefit' does not usually relate to payment of a 'premium' by the beneficiary or where the size of the benefit may not relate to the size of the premium (because in DB schemes benefits are generally based on service of the scheme member not the level of contributions).	
Q11	See our response to Q1	
Q12		
Q13		
Q14	Theoretically yes but in the current UK pension regime, as underpinned by statutory protection arrangements, it would be unusual for there to be a cash flow that is not related to a risk.	
Q15		
Q16		

Q17	No – see our response to Q1. We do not accept that a definition based on contract boundaries is appropriate.	
Q18		
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Q20	Yes.	
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Q36	We agree that if there is to be an EU-level approach to valuing sponsor support it should be principles-based only - with the specifics being left to Member States to determine. Any other approach would be problematic given the wide variety of regimes in place across the EU and the multiple problems (identified in the Consultation Paper) with defining a single approach to valuing sponsor support, particularly in complex corporate structures.	

	This approach would also allow for greater flexibility and adaptability at Member State level. A good example of the need for adaptability and responsiveness is the way in which, in the UK, employers are increasingly looking to contingent assets to provide additional security. The national regulator is able to respond quickly to such trends.	
Q37		
Q38		
Q39	We agree with the principle of sponsor support being used as a balancing item. Indeed, we think it should be the default. There is a paradox at the heart of the proposal that it is only in cases where sponsors meet certain criteria (the ‘proportionality principle’ criteria) that their support can be treated as a balancing item on the HBS (thus avoiding the complexity and cost of the HBS calculations). However, it is likely that these are the organisations most likely to be able to afford the costs of the exercise; smaller sponsors will have to find those resources and manage those complexities. It would be preferable therefore to identify criteria for when a sponsor’s support ought not to be used as a balancing item, rather than the other way round. This approach would decrease the number of occasions when the highly expensive HBS methodology needs to be applied.	
Q40	See our response to Q39. The decision as to which conditions should apply for sponsor support to be treated as a balancing item should be left to Member States/ the national supervisory regime. National level supervisors are best placed to determine within a national context which framework best applies and how best to take account of pension protection arrangements applicable in each Member State. This approach would be especially important in the UK where there is a well-developed	

	pension protection regime.	
Q41		
Q42		
Q43	See our response to Q40	
Q44	We think that a pension protection scheme that protects less than 100% of member benefits (as in the UK) should not be excluded from possible use as a balancing item.	
Q45	We do not agree that a new funding level should be developed. There are already too many funding bases and the development of another one would cause disproportionate complexity in management of funding. The pension protection scheme should simply be used as a balancing item; there is no need for a further level.	
Q46	The shift to a scheme (or IORP-) specific approach in the UK has achieved a more sustainable balance between protection of pension benefits in the short and long term and the long-term future of the sponsor. This IORP-specific approach also makes it easier to accommodate the variety of complex corporate structures. Any EU-developed principles should be very high-level and national regulators should be able to determine the most appropriate approach for that particular Member State.	
Q47	Any EU-developed principles should be very high-level only and national regulators should be able to determine the most appropriate approach to valuing sponsor support for that particular Member State. EIOPA guidance is not therefore necessary.	
Q48		
Q49		
Q50		
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Q53		
Q54	Any EU-developed principles should be very high-level only and national regulators should be able to determine the most appropriate approach to valuing sponsor support for that particular Member State. EIOPA guidance is not therefore necessary.	
Q55		
Q56	Any EU-developed principles should be very high-level only and national regulators should be able to determine the most appropriate approach that particular Member State. EIOPA spread sheets are not, therefore, necessary.	
Q57	EEF agrees that a simplified one-size-fits-all approach is not possible, particularly for large or complex IORPs. We believe any EU-developed principles should be very high-level only and national regulators should be able to determine the most appropriate approach for that particular Member State.	
Q58	We believe national regulators should be able to determine the most appropriate approach for that particular Member State taking into account all circumstances.	
Q59		
Q60	The UK has undertaken a major exercise in relation to the Pension Protection Fund to develop a pensions-specific model for estimating sponsor default risk. Much can be learned from the UK's experience in this regard. Also, transition to the new system is a complex exercise in itself and we would not support the development of yet another approach to determine the risk of sponsor default. We would support an approach that permits Member States to use 'fit for purpose' systems that are already in place.	

Q61	The UK has been through an extensive period of engagement on this critical question which balances the need to fund the IORP but not at such a pace that it threatens the viability of the sponsoring employer. What is an appropriate recovery period should not be considered in isolation. In the UK, the relationship between the strength of sponsor support, the length of the recovery periods and the inputs into the technical provisions is of central concern and should be considered as a coherent whole. Also, we support a Member-State level approach, that is scheme specific, under the auspices of the national regulator taking into account the specific circumstances prevailing in that particular Member State.	
Q62	See our response to Q62.	
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Q70		
Q71	We believe it is logical to rely on sponsor support as the primary balancing item and the pension protection fund arrangements as a ‘top up’ if necessary as a balancing item, rather than as a separate item as such. However, we do not support any approach that involves a complex calculation of the value of the protection fund arrangements, which will be a disproportionate activity for SMEs in particular.	

Q72	We are fundamentally opposed to any suggestion of establishing capital/funding requirements. The effect would be to increase the funding liabilities so much for UK companies they are no longer profitable. Such a regime would lead to a major increase in the employer cost of providing DB schemes - even if closed to future accrual. So additional solvency requirements would act as a further incentive for employers to stop providing DB schemes. Also, there would be a significant effect on financial markets if pension schemes were to move away from riskier investments (such as equities) into safer investments (such as gilts). There would be a major impact on growth, as the resources available for jobs and investment, etc would be reduced.	
Q73	If EIOPA and the European Commission were to insist on pressing ahead with the Holistic Balance Sheet, then the least worst option would be for it to be used as a risk management tool. However, there are already well established and adequate tools performing the same function and the case has not been made for duplicating that work.	
Q74	Pension schemes are already subject to extensive disclosure and transparency arrangements. Disclosure and transparency do not, therefore, provide the business case for developing / implementing the HBS approach given such obligations already exist.	
Q75	If they are not, it begs the question of what is the purpose of developing the HBS process and requiring organisations to transition across to using the HBS. At the very least, national regulators should have the powers to ask questions about the results.	
Q76		
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Q82	Yes. Contingent assets are becoming increasingly important in balancing the need to fund	

	the pension scheme but at a pace and in a way that does not threaten the viability of the sponsor. They should be reflected in the HBS approach therefore.	
Q83		
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Q89	We support the continuing focus on national prudential regimes rather than hardwiring provisions within national and social labour law. This approach is more adaptable to rapidly changing economic circumstances and crises as experience following the recession that started in 2008 demonstrated. This approach is already well-bedded down in the UK and would be the least disruptive for the future.	
Q90	No. We strongly oppose such harmonisation. We would not support any reduction in the amount of flexibility available for determining what the recovery period should be. This flexibility works well in the UK, under the supervision of the Pensions Regulator. It has helped the UK undertake the difficult task of balancing improved pension security but not at the risk of reducing significantly job security.	
Q91	The relationship between sponsor support, sponsor viability, the duration of a recovery period and the inputs into the technical provisions are a complex equation that needs to be considered at IORP (scheme-specific) level. A single off the shelf answer (whether it is ‘short’ or ‘extensive’) is not appropriate for such a complex issue.	

Q92	See our response to Q92. Also, we believe that in order to have such flexibility it is appropriate that the exercise of it should be subject to the oversight of the national supervisor, working to high level principles.	
Q93		
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Q96		
Q97	There are significant measures that could be taken to mitigate the impact of such a major change, including: • as the Consultation Paper suggests, a 'very long' transition period, and • limiting the application of the regime to future accruals only.	
Q98	See our response to Q97.	
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Q109		

| Q110 | | |
| Q111 | | |