

**Comments Template on
Consultation Paper on Further Work on Solvency of IORPs**

**Deadline
13 January 2015
23:59 CET**

Name of Company:	Aon Hewitt	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ 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 <u>empty</u>. ⇒ Please fill in your comment/response in the relevant row. If you have <u>no response</u> to a question, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments/responses which do not refer to the specific numbers below. <p>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.</p> <p>The numbering of the questions refers to Consultation Paper on Further Work on Solvency of IORPs.</p>		
Reference	Comment	
General Comment	<p>Aon Hewitt is a leading pensions and actuarial adviser in all major IORP locations, and provides advice to over 3,000 IORPs and their sponsors across the EIOPA. Aon Hewitt is part of Aon plc, the leading global provider of risk management, insurance and reinsurance brokerage, and human resource solutions and outsourcing services. Within Europe, Aon has around 9,000 employees in over 30 countries. Globally, Aon has 66,000 colleagues in 120 countries. Aon subsidiaries also sponsor a number of EEA IORPs with total assets of around €5bn at the end of 2013 (of which the most material are in the UK and Netherlands).</p> <p>From our understanding of the various papers and discussion documents published, Aon Hewitt, as an organisation, has formed the following overall position, which we summarise in the</p>	

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following statements. More detailed reasoning is given in our responses below and reflects our current position; this position may be subject to change as there are further developments in this area.

A number of senior leaders from Aon Hewitt's European retirement practice have been involved in preparing this response, including leaders from Aon Hewitt in the UK, Ireland, Netherlands, Germany, Belgium, Nordics and Aon's cross-border team. Our responses are provided from a general European perspective (rather than, for example, a pure UK or pure German perspective or pure Belgian perspective). Needless to say, differences of opinion have emerged depending on where individuals are based and current approaches to retirement provision in each country. In the limited time available to respond to this consultation, we have not been able to resolve all differences in order to come up with answers which every country agrees with. This demonstrates that trying to adopt a common framework under a 'one-size-fits all' approach could be very difficult. Aon Hewitt leaders have also been involved in the drafting of responses from national organisations. To the extent there are differences of opinion, these are largely picked up in the national responses we have been involved with.

Given QIS1 showed that there was a total shortfall of €450bn (under Benchmark Set 3A) for IORPS in the EEA, we do not think EIOPA should carry out further QIS work until the issue of how to deal with current deficits has been resolved. In its consultation, EIOPA has raised the possibility of an exemption, or long transition, for existing arrangements. We think that most of our clients would be unwilling to invest significant time, cost and resources in further QIS work if there is a realistic expectation that they might be exempted from any potential new rules. We think that, in the short-term, EIOPA should advise the EC on how a long transition or exemption could work in practice. We believe that this would be supported by the EEA pensions industry, and then there is more likely to be greater engagement in any subsequent QIS work.

The case for adopting the replacement of existing prudential frameworks with the Holistic Balance Sheet (HBS) has not been strongly articulated, and it will be very difficult to adopt a common approach for all EEA member states. Our clients are telling us that they do not support the

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concept of the Holistic Balance Sheet , especially for Pillar 1 purposes, and that this is likely to result in reduced allocations to long-term return-seeking assets (eg equities) as well as the closure of even more defined benefit pension schemes.

We therefore do not support proposals for the Holistic Balance Sheet to be applied to existing IORPS. However, in order to provide constructive feedback to EIOPA, we provide responses to the consultation. Responses to the questions should not be viewed as an endorsement of any of the options.

Our response adopts the following overall principles:

- We believe that in many countries (especially large mature IORP markets such as UK, Netherlands and Germany) existing methods of regulation work well and, under EU Principles of Subsidiarity, that it should be left to national member states to determine appropriate solvency rules. If there are concerns over the method of regulation in certain countries, we would like EIOPA to make it clear which countries it is concerned about
- Given the very large number of small and medium sized IORPs in the EEA, it is essential that a proportionate approach is adopted and which can be readily used and understood by this group. There is a risk that an approach designed for large IORPs could prove unworkable for the large number of smaller IORPs, and discourage sponsors from providing pension benefits.
- We support proposals which could give exemptions to existing arrangements and/or very long transition, encourage investment in long-term assets, and allow for an economically efficient approach to funding of long-term liabilities
- We support the use of principle-based methods and proportionality particular for IORPs backed by strong sponsors

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- We do not support proposals resulting in potentially large one-time sponsor payments and/or benefit cuts for members
- To ensure IORP resources are used carefully, we suggest more work should be done on exemptions/transitional arrangements before requiring IORPs to take part in another QIS
- We are still not convinced that the HBS offers a fully transparent view of the extent to which obligations can be supported by assets and other mechanisms. The HBS tries to combine, and mix up, the position upon insolvency as well as on a going concern. At the very least, these ought to be separated. If an insolvency event actually occurs, then the HBS would have potentially given a misleading position. If it does not, then an excessive surplus could arise (leading to inefficient use of company capital).

Q1

The use of the phrase 'contract boundaries' is unsuitable for most of the defined benefit IORPs of the EEA. The phrase has its origins in the insurance industry, and does not reflect the nature of the agreements made between employers, employees and the corresponding IORP. It also does not take account of, in many cases, a sponsor's ability to terminate or change future accrual.

Rather than start with insurance language, we suggest EIOPA considers the wording and techniques used undercurrent methods of prudential regulation and by the IFRS in IAS19. Employers, IORPS, actuaries and investors are very familiar with the wording used in these areas, and employers are likely to be more supportive of terms and methods if these are the same as used in accounting standards. These include use of the terms Accrued Benefits, Defined Benefit Obligation, Service Cost and Future Benefit Accrual, as well as methods for the attribution of benefits to different periods of service, and the treatment of a "constructive" obligation.

The treatment of benefits for past and future service should be dealt with separately and in a transparent way. Including future service benefits in technical provisions (and contributions to

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	<p>cover future service benefits in sponsor support) would, in most cases, be inappropriate and inconsistent with the way that provisions are calculated under IAS19.</p> <p>Aon Hewitt suggested looking at IAS19 terminology in previous EIOPA consultation responses. Although EIOPA noted our comments, we encourage EIOPA to consider this in more detail, and provide its reasoning as to whether it is suitable or not.</p>	
Q2	We refer to the general principles in our response to Q1.	
Q3	We refer to the general principles in our response to Q1.	
Q4	We refer to the general principles in our response to Q1.	
Q5	We refer to the general principles in our response to Q1.	
Q6	We refer to the general principles in our response to Q1.	
Q7	We refer to the general principles in our response to Q1; Distinctions should also be made to contributions to cover future benefit accrual and future administration expenses; contributions to meet deficits or shortfalls under a recovery plan; and one-off contributions in respect of transfer payments to and from other IORPs.	
Q8	We refer to the general principles in our response to Q1.	
Q9	We refer to the general principles in our response to Q1.	
Q10	We refer to the general principles in our response to Q1.	
Q11	We refer to the general principles in our response to Q1.	
Q12	We refer to the general principles in our response to Q1.	
Q13	We refer to the general principles in our response to Q1.	
Q14	We refer to the general principles in our response to Q1.	
Q15	We refer to the general principles in our response to Q1.	
Q16	We refer to the general principles in our response to Q1.	
Q17	We refer to the general principles in our response to Q1.	
Q18	We refer to the general principles in our response to Q1.	

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Q19	We refer to the general principles in our response to Q1.	
Q20	We refer to the general principles in our response to Q1.	
Q21	We refer to the general principles in our response to Q1.	
Q22	We refer to the general principles in our response to Q1.	
Q23	<p>In our experience, Examples 1 to 7 are relatively unusual in the IORP sector.</p> <p>Example 8 is an example of a promise commonly found in the UK and Ireland (with the proviso that it is sometimes the employer, and not the IORP, that has the right to terminate the contract). The approach suggested for Example 8 is in line with approaches under the current IORP Directive (ie technical provisions are based on pension rights earned for service to the valuation date).</p>	
Q24	<p>We think these terms will still lead to confusion, especially where they are not currently used in current member states. For example, in the UK and Ireland, the use of the term "discretionary benefits" is common.</p> <p>We also think EIOPA should consider terms used by the IASB in IAS19. We are surprised that EIOPA has not paid any attention to methods used by IORP sponsors when producing sponsor accounts – in particular the IASB methods are widely used by actuaries, sponsors and IORP boards when calculating obligations for different purposes (including risk management purposes).</p> <p>IAS19 has the concept of "constructive obligations" as well as "legal obligations". An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.</p> <p>We suggest EIOPA also considers consistency with these accounting definitions as these will be helpful for employers who sponsor IORPS (and so are used to these definitions already).</p>	
Q25	With the potential exception of the Netherlands, some of the Nordic IORPS and maybe some	

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	other member states, we think attempts to potentially quantify the relation between discretionary elements and the funding position could be overly complex and of limited value to IORPS.	
Q26	We refer to our response to Q25. Given the potential importance of this to NL IORPs, we suggest that the NL industry could be asked to produce examples that work for NL pension funds.	
Q27	<p>We do not agree with the assertion that discretionary benefits should be recognised in the Holistic Balance Sheet. However we note that, should a best estimate be required, many IORPS are already used to calculating best estimates, as best estimates are required for employer accounting purposes.</p> <p>EIOPA has also stated that discretionary benefits do not need to be protected. Pension scheme members in a number of countries may be relying on discretionary benefits or discretionary pension increases for a major part of their future income, and it may be unwise to state that these do not need to be protected. IORP members may have a different view, and, if they had a reasonable expectation to receive discretionary benefits/increases, then EIOPA may need to investigate how best to manage these expectations.</p>	
Q28	<p>We do not agree with the assertion that discretionary benefits should be recognised in the Holistic Balance Sheet. However we note that, should a best estimate be required, many IORPS are already used to calculating best estimates, as best estimates are required for employer accounting purposes.</p> <p>EIOPA has also stated that discretionary benefits do not need to be protected. Pension scheme members in a number of countries may be relying on discretionary benefits or discretionary pension increases for a major part of their future income, and it may be unwise to state that these do not need to be protected. IORP members may have a different view, and, if they had a reasonable expectation to receive discretionary benefits/increases, then EIOPA may need to investigate how best to manage these expectations.</p>	
Q29	For many IORPs/Employers, non-legally enforceable sponsor support may form an important part of sponsor support. To ignore it from the Holistic Balance Sheet risks completely understating balance sheet assets. We agree that non-legally enforceable sponsor support should be included,	

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	but it should be shown separately from legally enforceable sponsor support. This can then help IORPS (and supervisors) assess how much non-legally enforceable sponsor support could be available and whether some of this could be converted to legally enforceable sponsor support (eg through the use of a parent guarantee).	
Q30	In our experience, there is limited use of off-balance sheet capital instruments for IORPs. We can see arguments for using either Option 1 or Option 2. Therefore, rather than be prescriptive, it may be useful to have a principles-based approach; the Option for each IORP to be determined on a case by case basis.	
Q31	In our experience, there is limited use of off-balance sheet capital instruments for IORPs. We can see arguments for using either Option 1 or Option 2. Therefore, rather than be prescriptive, it may be useful to have a principles-based approach; the Option for each IORP to be determined on a case by case basis.	
Q32	In our experience, the concept of surplus funds is also unusual. Although there are some IORPS which have similar structures to insurance vehicles, the vast majority in the EEA do not. Consequently the use of the phrase "surplus funds" is not widely used. Instead the word "surplus" is used to describe any excess of assets over technical provisions. In this case the value of the surplus is equal to the difference between two other items on the Holistic Balance Sheet.	
Q33	In our experience, the use of subordinated loans is also unusual. We can see arguments for using Option 1, Option 2 or Option 3. Therefore, rather than be prescriptive, it may be useful to have a principles-based approach; the Option for each IORP to be determined on a case by case basis.	
Q34	In our experience, the use of subordinated loans is also unusual. We can see arguments for using Option 1, Option 2 or Option 3. Therefore, rather than be prescriptive, it may be useful to have a principles-based approach; the Option for each IORP to be determined on a case by case basis.	
Q35	We can see merits with the Direct Approach. The Balancing Item Approach might end up with a calculated value of benefit reductions far in excess of what might happen in practice (for example, additional sponsor support might become available, eg from a parent company). If the Holistic Balance Sheet does not balance then this shows there is a potential lack of resources available to	

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	fund existing technical provisions – however this may not always be the case, eg if financial assets achieve better than expected investment returns. Simply reducing expected benefits to make the balance sheet balance does not seem like the right answer.	
Q36	Yes – we strongly support a principles-based approach and allowing IORPS/national supervisors to determine actual sponsor support on a country-by-country basis.	
Q37	Yes – a market consistent approach is preferable. However, in practice, there are few market indicators available for many sponsor parameters including company valuations, credit ratings, probabilities of default, recovery rates, etc. Also, coming up with a single figure for sponsor support could be dangerous if this figure is then relied upon for decision making – this is because there could be so many different methods that could be used, and the calculated value could depend on actual methods, assumptions and judgement applied.	
Q38	Yes – where a calculation is necessary, expected cash flows should take account of affordability and credit risk (unless including these items would be spurious, eg for very strong sponsors).	
Q39	The Balancing Item approach would work well for many sponsors, especially strong sponsors. However it may well be inappropriate for weak sponsors and further work would then be needed to assess what sponsor support is available from weak sponsors.	
Q40	This is likely to need to be determined on a case by case basis. It will depend on the underlying industry and nature of the sponsor's business activities.	
Q41	If, overall, most IORPS in a member state are backed by strong sponsors; national supervisors could be allowed to decide to have sponsor support in that country treated as a balancing item for all IORPS. Member states could then look closely at actual sponsor support on a case by case basis.	
Q42	Not at this stage – we think that prescribing this level of detail is inappropriate for a principles based approach. It will also introduce cliff-edges.	
Q43	Few member states have pension protection schemes. Where they do exist, they are there to protect members of pension schemes in the event that a sponsor becomes insolvent with an under-funded pension scheme. It is also possible that allowing for pension protection schemes when determining future funding could, in some states, be inconsistent with local legislation. Consequently, we do not think sponsor support should be treated as a balancing item in the case	

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	of the existence of a pension protection scheme. Exceptions could be made for very strong sponsors or where 100% of benefits are guaranteed. However such exceptions should be made on a case by case basis.	
Q44	We are not convinced that a pension protection scheme should be used as a balancing item (except in cases where it covers 100% of accrued benefits). To do so would create the possibility that pension schemes would be under-funded in the event of employer insolvency, and this would then put pressure on the financing of the pension protection scheme itself. This could then push up the cost of the pension protection scheme, resulting in higher premiums to other pension funds.	
Q45	We are not convinced that a pension protection scheme should be used as a balancing item (except in cases where it covers 100% of accrued benefits). To do so would create the possibility that pension schemes would be under-funded in the event of employer insolvency, and this would then put pressure on the financing of the pension protection scheme itself. This could then push up the cost of the pension protection scheme, resulting in higher premiums to other pension funds.	
Q46	Yes – based on our experience of working with numerous defined benefit IORPs and sponsors across the EEA, we agree that there should be a principles-based IORP specific valuation of sponsor support. We believe this is particularly true in the UK (the largest IORP market in the EEA) where IORPs already have to allow for sponsor support when determining the level of future contributions. Moving away from a principles-based approach would, in our opinion, be a backwards step for member protection in the UK.	
Q47	<p>We believe member states and specific industries should be allowed to develop their own guidance as they are likely to have the closest insight into how sponsor strength (in relation to pension schemes) can be assessed for various industries in each country.</p> <p>To help with this, EIOPA could expand on the areas in the 2013 discussion paper on sponsor support. Key areas for more guidance would be for multi-employer/industry-wide IORPs; sponsors with multiple IORPs; IORPs supported by sponsors that are part of large or complex international groups; IORPs supported by sponsors in the non-profit sectors; IORPs supported by governments and/or local authorities.</p>	

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Q48	Stochastic models can be very complex, and give different results depending on the underlying models used. It could be helpful for EIOPA to explore potential issues that IORPs should be aware of when developing stochastic models. We strongly favour an approach in which there is no compulsory requirement to use stochastic models (especially for smaller and medium sized IORPs).	
Q49	No. We think QIS Simplification 1 was not useful and not widely used. It was also not clear where the inputs came from. If inputs are inappropriate then results will be unreliable, ie "rubbish in equals rubbish out". We think that the Alternative Simplified Approach should be developed further.	
Q50	We do not think EIOPA should encourage use of this approach. We think that the Alternative Simplified Approach should be encouraged.	
Q51	No. We think QIS Simplification 2 was overly simplistic and it was not clear where the inputs came from. If inputs are inappropriate then results will be unreliable, ie "rubbish in equals rubbish out". We think that the Alternative Simplified Approach should be developed further.	
Q52	We do not think EIOPA should encourage use of this approach. We think that the Alternative Simplified Approach should be encouraged.	
Q53	Partly. However it suffers from a major weakness in that there is no affordability check. In order to determine sponsor support, it is essential that affordability is taken into account. We also think that, with the exception of some of the largest IORPs in EEA, it is too complex for most IORPs in the EEA to understand and implement. This is particularly the case for a QIS exercise – requiring the use of a stochastic model in a QIS is not likely to encourage participation.	
Q54	No – we think that this method is unlikely to be used except by some of the very largest IORPs. These may potentially come from only a handful of member states. We do not think EIOPA should spend time producing spreadsheets which may only end up being used by a handful of IORPs in a few member states. (We think that the IORPs or competent authorities in these states may be better placed to develop tools for use locally). We think EIOPA's time would be better spent developing guidelines and spreadsheets which are more likely to be used by the mass population of smaller and medium sized IORPs across the EEA.	
Q55	Yes – we believe that it is a suitable method, and could be used by the vast majority of IORPS	

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	including for QIS purposes. We note that stakeholders gave positive feedback on this method in response to the 2013 discussion paper, and it was acknowledged that the method is more suitable for small and medium sized IORPs and provides a way to work with non-rated sponsors.	
Q56	<p>Most of the disadvantages can be overcome by introducing additional guidance from national supervisors which would be consistent with a principles-based approach, and also allowing for the use of judgement when checking whether results are reasonable (for example if, for some sponsors, the reliance on income cover is inappropriate). Indeed, some of the other methods appear to have much greater disadvantages than this method (for example, the B&H stochastic methods have no affordability check at all). The problem of cliff edges is not unique to this method – in fact cliff edges can be found in other areas of EIOPA's work (eg SCR parameters for dealing with bonds with different credit ratings). In any case, cliff edges can easily be dealt with by having more credit quality buckets (eg 10 rather than 5).</p> <p>We think EIOPA or national supervisors could produce spreadsheets to enable IORPs to use this simplification. Inputs could be taken from data in the most recent financial accounts for the sponsor. However, due to the wide range of accounting terms in use, it would also be important for users to be aware that judgement should be made to check inputs are reasonable. Since we support a principles-based approach, it would be important for IORPs to be aware that they need to apply principles to ensure outputs are also reasonable.</p>	
Q57	Yes – we agree that a simplified one-size-fits-all approach is not possible given the complexity of the issue and the wide range of characteristics of sponsors across the whole of the EEA. Any attempt to turn the valuation of maximum sponsor support into a simple calculation which can then be applied to any single sponsor is unlikely to be successful.	
Q58	We do not think that maximum sponsor support is needed. Maximum sponsor support, in theory, represents how much a sponsor can afford to pay over a period of many years. This requires judgement, and the Alternative Simplified Approach already takes account of affordability.	
Q59	We think that this is already addressed by the affordability measures in the Alternative Simplified Approach.	
Q60	Given the lack of credit ratings for many sponsors, other approaches could be to use data from external credit scoring companies. NB this may be appropriate for assessing short-term credit risk	

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	(trade credit), but not long-term credit risk.	
Q61	The appropriate payment period ought to be the period over which payments ought to be, or could be paid. It may be inappropriate to use a short time period if there was no expectation that sponsors could afford to pay contributions quickly. However a short time period could be appropriate in cases where contributions could be paid quickly (even if sponsors reach agreement with the IORP to pay over a longer period).	
Q62	We don't think it is appropriate to calculate maximum sponsor support. Our preference would be to see a calculation of sponsor support that takes account of affordability.	
Q63	A principles-based approach would allow IORPS to make their own judgement on what is the most appropriate option. Such approaches are already used by UK trustees when assessing sponsor support for different UK schemes that have the same sponsor.	
Q64	The proposed approach contains principles that could work in practice. However it's likely that many IORPs will need additional guidance (especially in member states that are not used to dealing with sponsor support). Such approaches are already used by UK trustees when assessing sponsor support for IORPs with multiple sponsors.	
Q65	Not at this stage. We suggest it is left for IORPs to develop an approach with national supervisors that fits with a principles-based approach.	
Q66	We would support this method (as it allows the strength of the guarantor to be taken into account).	
Q67	IORPs in this sector would no doubt welcome more guidance. However, under a principles-based approach, the suggested approach is a good starting point. We think it would be hard to develop a 'one-size-fits-all' approach that could deal with all types of not-for-profit entities across all EEA states.	
Q68	Not at this stage.	
Q69	Given that only 3 member states have significant PPS's (Germany, UK, Sweden), we think it is more appropriate for member states to determine how to allow for pension protection schemes. There is also a danger that undue reliance could then be placed on pension protection schemes, and this may not be in members' interests (especially in countries where the PPS does not guarantee 100% of all benefits).	

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Q70	For the reasons in Q69, it may not be appropriate to allow for pension protection schemes (especially in countries where these do not cover 100% of accrued benefits).	
Q71	For the reasons in Q69, we do not think they should be used as a balancing item (other than in cases where 100% of benefits are guaranteed).	
Q72	We are still not convinced that the HBS offers a fully transparent view of the extent to which obligations can be supported by assets and other mechanisms. The HBS tries to combine, and mix up, the position upon insolvency as well as on a going concern. At the very least, these ought to be separated. If an insolvency event actually occurs, then the HBS would have potentially given a misleading position. If it does not, then an excessive surplus could arise (leading to inefficient use of company capital). An alternative approach, which we would like EIOPA to consider, is to show a range of HBS figures at different points in time under 2 scenarios: (1) Going concern and (2) Insolvency. The HBS upon insolvency would show the position if insolvency were to occur on the valuation date; the HBS for a going concern would show the position assuming no future insolvency. Projections of the HBS could then be made, say, 5 and 10 years into the future and, at these dates, the position upon insolvency and upon going concern is also shown. Separating the position upon insolvency and a going concern basis would allow users to see the potential amount of assets available were an insolvency event to occur at these dates. Users could combine this with estimates of insolvency at these dates to see if there is adequate protection.	
Q73	The HBS could be used, but it should not be the only risk management tool. We note that the proposed new IORP Directive contains a number of measures in relation to risk management. We do not see a specific need for new legislation to require the use of the HBS. If the HBS can be seen to be a useful risk management tool, then we see no need why it cannot be used by IORPs and supervisors in current legislative environments.	
Q74	We can see merits in public disclosure of information providing it is in a format that is useful for members. However we think that the actual disclosures should be allowed to vary on a member state by member state basis, taking into account the nature of pensions arrangements in each state.	
Q75	The proposed new IORP Directive contains new powers for competent authorities to take supervisory action based on their own risk assessments. We think that providing a specific requirement to take action based on the Pillar 2 assessment of the HBS is therefore unnecessary.	

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Q76	We think Option 1 should be included ie include non-legally enforceable sponsor support on the HBS. This will help to facilitate greater understanding of the potential assets available to the IORP, and so generate better informed decision making by IORPs and competent authorities. We also think it would be appropriate for non-legally enforceable sponsor support to be shown separately from legally enforceable sponsor support.	
Q77	At the moment this is specific to only a handful of member states. We think that the inclusion of pension protection schemes in risk assessments and supervisory authorities should be left to member states. Therefore Option 2: Exclude is most appropriate (other than in countries where 100% benefits are guaranteed), as it allows a PPS to provide an additional layer or protection beyond the level of confidence aimed at by supervisory framework. In the UK for example, it would then mean that financing decisions are not influenced by the presence of a PPS, and this would then be in line with the requirements of existing UK legislation.	
Q78	Discretionary benefits can form an important part of a pension promise to members and beneficiaries. They may also be allowed for in a sponsor's financial statements as a constructive obligation. We therefore think there are cases for them to be included on the balance sheet on a country-specific basis. This should depend on the relative importance of the discretionary benefits. For example, in some countries pension increases are financed out of surpluses. If the technical provisions do not allow for pension increases, but members expect to receive pension increases, then members' expectations may not be met if pension increases are not included.	
Q79	Option 3: Treat as pure discretionary or as pure conditional on a country-specific basis seems most appropriate.	
Q80	Options 1 and 3 may not make sense. If allowance is made for reductions upon sponsor default/insolvency, then the HBS will almost certainly balance. However the level of benefits included in the liabilities may then be far below what members expect to receive, and provide a false sense of security. Option 2 seems more appropriate, as it then allows decisions to be made on a country by country basis. If the Holistic Balance Sheet does not balance under Option 2 (ie liabilities exceed financial assets	

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	and sponsor support), then it will be clear that additional support is needed. This could be in the form of supervisory intervention or potential allowance for support that could become available if investment returns are higher than assumed in the calculation of the technical provisions.	
Q81	No.	
Q82	Yes – however, we think that the use of off-balance sheet capital instruments is relatively uncommon across IORPS in the EEA, so this could be determined on a case-by-case or member-state by member-state basis.	
Q83	Yes – however, we think that the use of surplus funds/own funds is relatively uncommon across IORPS in the EEA, so this could be determined on a case-by-case or member-state by member-state basis.	
Q84	Yes – however, we think that the use of subordinated loans is relatively uncommon across IORPS in the EEA, so this could be determined on a case-by-case or member-state by member-state basis.	
Q85	Level B should be used. This would encourage investment in long-term assets and allow for a more economically efficient approach to the funding of long-term liabilities. Requiring a higher level of funding under Level A could weaken sponsors and restrict their ability to invest in the growth of the business. This could particularly be the case for sponsors owned by foreign parents. For example, US multinationals could be discouraged from investing in businesses in Europe if they are faced with tougher pension funding requirements in Europe (and tougher requirements than they face for their main pension plans in the USA).	
Q86	As a minimum, IORPS should be able to use Level B. It would also be important for IORPS to be able to show that they have adequate sponsor support available. If this is not the case, then it would be reasonable for national supervisors to review financing plans to ensure that they are appropriate and adequate.	
Q87	It should be based on the same level of technical provisions as for any minimum funding requirement measure which, in our opinion, should be Level B.	
Q88	As a minimum, IORPS should be able to use Level B. It would also be important for IORPS to be able to show that they have adequate sponsor support available. If this is not the case, then it	

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	would be reasonable for national supervisors to review financing plans to ensure that they are appropriate and adequate.	
Q89	<p>We agree that the full-funding requirements have contributed to the low level of cross-border activity. This has been a factor in preventing many companies extending IORPs in their head office location to include employees in other countries. However another reason for the low level is the difficulty in gaining supervisory approval to transfer assets and liabilities between IORPS in different member states.</p> <p>Since financing is linked to prudential regimes, it is more appropriate to allow member states to specify additional requirements through national prudential regimes rather than social and labour laws.</p>	
Q90	No. Pension schemes vary enormously across the EEA, and their relative importance to members also varies (depending on the level of state and other mandatory plans). Therefore, we do not think recovery periods should be harmonised given the lack of harmony in other areas.	
Q91	A long period should be allowed, subject to the discretion of member states. This would reduce the cash flow burden on sponsors and also allow investment in longer-term assets. We note that US pension schemes allow deficits to be funded over a minimum period of 7 years, and US Congress has granted additional relief due to current low interest rates. Any attempts to have a shorter period would potentially put sponsors of EEA pensions schemes at a disadvantage compared to US counterparts. It may also discourage US multinationals from investing further in European businesses if faced with higher EEA pension contributions. We would also expect that many more defined benefit schemes would close if deficits needed to be funded over a short period, as sponsors would want to reduce the risk of further cost increases in the future.	
Q92	This should be at the discretion of member states, but we would suggest a minimum length of at least 7 or 8 years. We note that the average period in the UK is currently around 8 years; and the minimum period in the US is 7 years. NL pension funds have 15 years to reach long-term targets.	
Q93	No. Pension schemes vary enormously across the EEA, and their relative importance to members also varies (depending on the level of state and other mandatory plans). Therefore, we do not think recovery periods should be harmonised given the lack of harmony in other areas.	

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Q94	A long period should be allowed, subject to the discretion of member states. This would reduce the cash flow burden on sponsors and also allow investment in longer-term assets. We note that US pension schemes allow deficits to be funded over a minimum period of 7 years, and US Congress has granted additional relief due to current low interest rates. Any attempts to have a shorter period would potentially put sponsors of EEA pensions schemes at a disadvantage compared to US counterparts. It may also discourage US multinationals from investing further in European businesses if faced with higher EEA pension contributions. We would also expect that many more defined benefit schemes would close if deficits needed to be funded over a short period, as sponsors would want to reduce the risk of further cost increases in the future.	
Q95	This should be at the discretion of member states, but we would suggest a minimum length of at least 7 or 8 years. We note that the average period in the UK is currently around 8 years; and the minimum period in the US is 7 years. NL pension funds have 15 years to reach long-term targets.	
Q96	Yes – we see no problem with IORPS submitting a recovery plan if funding requirements are not met. This works well in many states including the UK and the Netherlands at the moment. We see no need for additional EU responses, other than in respect of states that do not currently require recovery plans. However, we think that the EU then needs to find a way of dealing with states that do not require plans, rather than impose additional burdens on those that do.	
Q97	We note that the QIS showed EEA IORPs had a shortfall of over €450bn. The impact of any new framework could be significant, and would not necessarily adequately address the issue of how to finance existing shortfalls. We think it may be appropriate to consider the financing of existing promises separately from new promises.	
Q98	We would be very supportive of long transitional measures or grandfathering. From our discussions with a number of our clients, we think this would be widely supported across the EEA and sponsors around the world (including sponsors with head offices in non-EEA locations).	
Q99	Using this method, including the use of Level A as a minimum, could have an unwelcome material impact on sponsors of IORPs. It would also discourage investment in long-term assets, which would go against other EU growth objectives.	
Q100	No – as noted already, this could trigger additional significant short-term cash calls. It would also discourage investment in long-term assets. For example, if the value of equity holdings reduced	

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	by €100m to €90m in one financial year, it would seem that this method would require IORPs to pay an additional €10m of contributions in the following year. This method therefore results in too much volatility.	
Q101	No – the description seems workable. More details are needed on the minimum time period for recovery plans. If members expect to receive discretionary/mixed benefits, or receive pension increases that are financed from surplus funds, it may be appropriate to include discretionary/mixed benefits in the technical provisions (particularly if there is a policy to provide such benefits).	
Q102	Yes.	
Q103	Non-legally enforceable sponsor support should also be allowed to be taken into account. Prescribing the actual risk management tool for supervisors seems too prescriptive. Also, basing the risk management tool and second trigger point on Level A technical provisions, appears inconsistent with the use of Level B in the technical provisions. We note EIOPA states that the Pillar 2/3 balance sheet would have an impact on national IORP systems that allow IORPs to provide unsustainable pension promises, and supervisors could require such IORPs to modify pension promises. Based on our practical experience of working with supervisors in countries with large IORP markets, we think that supervisors are potentially well equipped to do this already without requiring them to use the holistic balance sheet as a risk management tool.	
Q104	Only if supervisors have flexibility to develop their own risk management tools that can take account of national specificities.	
Q105	Basing the risk management tool and second trigger point on Level A technical provisions, appears inconsistent with the use of Level B in the technical provisions.	
Q106	Basing the risk management tool and second trigger point on Level A technical provisions, appears inconsistent with the use of Level B in the technical provisions.	
Q107	Using this method, including the use of Level A as a minimum, could have an unwelcome material impact on sponsors of IORPs. It would also discourage investment in long-term assets, which would go against other EU growth objectives.	
Q108	Potentially yes, if Level B is used for the second trigger point as well as the first trigger point, and	

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	the SCR is not set at an onerous level. For example, use of 99.5% confidence level in the SCR calculation would be especially onerous particularly for IORPs that invest in long-term assets and have a sponsor support that is neither strong nor weak.	
Q109	<p>We would anticipate that this financing method would be widely supported by IORPs and sponsors across the EEA. It would also allow member states to impose additional requirements if appropriate for their state – we think it is reasonable that this can be decided at a member level, especially for countries with very large IORP markets with significant local legislation.</p> <p>However prescribing the actual risk management tool appears overly prescriptive.</p>	
Q110	Yes – providing there is flexibility over the choice of risk management tool, and that member states and IORPs have the ability to determine what is most appropriate on a case-by-case or country-by-country basis.	
Q111	<p>EIOPA should also consider retaining existing methods as an option. Since the case for the holistic balance sheet has yet to be fully made, and appears to have very limited support, ignoring the use of existing methods would seem inappropriate at this stage.</p> <p>The main area for simplification is making sure that this can all be done in a proportionate way for IORPs that are backed by very strong sponsors.</p> <p>We are still not convinced that the HBS offers a fully transparent view of the extent to which obligations can be supported by assets and other mechanisms. The HBS tries to combine, and mix up, the position upon insolvency as well as on a going concern. At the very least, these ought to be separated. If an insolvency event actually occurs, then the HBS would have potentially given a misleading position. If it does not, then an excessive surplus could arise (leading to inefficient use of company capital). Therefore, given these concerns, any approach to simplification could still result in issues.</p>	