

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

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

Name of Company:	Barnett Waddingham LLP	
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>Barnett Waddingham LLP is a UK based firm of actuaries and consultants. In particular, we provide a range of actuarial, administration and consultancy services to trustees and sponsoring employers of pension schemes.</p> <p>The following represents the views of many, but not necessarily all, of the consultants working at Barnett Waddingham, and the partners of the firm.</p> <p>This consultation ignores the considerable progress that has been made by IORPs in recent years under the current funding regime. We remain fundamentally opposed to the holistic balance sheet approach as envisaged by EIOPA. We are unconvinced of the rationale for setting</p>	

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	<p>harmonised solvency requirements at European level while there remain key differences between the level and type of benefits in member states. These differences are driven primarily by social and labour law and so it is more appropriate for solvency requirements to be set by national regulators who understand the background.</p> <p>Furthermore, any proposals to increase funding requirements for IORPs should not be taken lightly given their impact on the companies sponsoring IORPs and, therefore, prospects for economic growth, employment and long-term investment.</p> <p>While we have provided comments on some specific questions asked by EIOPA, this should not be taken as support for EIOPA's general approach.</p>	
Q1	The word "contract" does not adequately reflect the UK position whereby benefits are provided through a trust separate to the employment relationship. We would urge EIOPA not to copy terminology for Solvency II as this will not be well understood by IORPs.	
Q2	We would urge EIOPA not to copy terminology from Solvency II as this will not be well understood by IORPs.	
Q3	We believe that any solvency requirements should be set by national regulators who will have an understanding of the appropriate terminology.	
Q4	We believe that any solvency requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q5	Yes, a joint exercise of rights or rights exercised unilaterally by another party should be reflected. This is common in the UK, for example in relation to a right to modify benefits.	
Q6		
Q7		
Q8		
Q9	Payments which have been agreed to be made to the sponsor relating to an IORP should not be recognised in technical provisions. However, an IORP in surplus will not always choose to make a payment to the sponsor, even if the scheme documentation permits this – the IORP may choose	

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	to retain the surplus in the scheme, or provide additional benefits to members. In these cases, the surplus should be recognised.	
Q10	In the UK, entitlement to benefits under defined benefit IORPs does not necessarily arise as a result of the commencement or payment of contributions (either by the sponsor or the member). Instead, benefits often begin to accrue based on a defined service date.	
Q11	This would be more appropriate for UK IORPs.	
Q12	Proportionality will be key for smaller IORPs as there will be many possible cashflows that may be rarely, or never, paid in practice. Considering all potential cashflows will lead to additional costs for little or no benefit.	
Q13	Pure discretionary benefits should not be included within technical provisions.	
Q14	The definitions do not appear to allow for both benefits and contributions to be modified at the same time, which may occur in the UK. We believe that any necessary definitions should be set by national regulators who will have an understanding of the appropriate terminology.	
Q15		
Q16		
Q17	We believe that any necessary definitions should be set by national regulators who will have an understanding of the appropriate terminology.	
Q18		
Q19	Rights of the sponsor should be included in the definition. In particular, for the UK, the employer has the right to modify or cease future accrual and we would not expect the technical provisions to include cashflows in respect of benefits arising from future service.	
Q20		
Q21		
Q22	We believe that any necessary conditions should be set by national regulators who will have an understanding of the appropriate background.	
Q23		
Q24	We believe that any necessary definitions should be set by national regulators who will have an understanding of the appropriate terminology.	

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Q25		
Q26	We do not believe this is possible. There will be other factors than the funding position which influence the decision-making process including members' expectations, views of different decision-makers, and the legal and economic environment.	
Q27	Pure discretionary benefits should not be included within technical provisions. As such, a best estimate of expected future payments should not be necessary.	
Q28	We believe that any solvency requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q29	We believe that any solvency requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q30		
Q31		
Q32	Yes, surplus funds should be included at their nominal value.	
Q33		
Q34		
Q35		
Q36	While we do not support the holistic balance sheet approach as envisaged by EIOPA, we would prefer an approach where the value of sponsor support is simply taken as the balancing item. If a method is required to value sponsor support, we would support a principles-based approach, preferably set by national regulators who will have an understanding of the appropriate background.	
Q37	We believe that any valuation requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q38	We would prefer an approach where the value of sponsor support is simply taken as the balancing item.	
Q39	Yes, we support an approach where the value of sponsor support is simply taken as the balancing item.	
Q40	We believe that any conditions should be set by national regulators who will have an	

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	understanding of the appropriate background.	
Q41		
Q42		
Q43	We believe that this should be determined by national regulators who will have an understanding of the appropriate background.	
Q44	We believe that this should be determined by national regulators who will have an understanding of the appropriate background.	
Q45	We believe that any minimum funding requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q46	We would prefer an approach where the value of sponsor support is simply taken as the balancing item.	
Q47		
Q48		
Q49	We would prefer an approach where the value of sponsor support is simply taken as the balancing item.	
Q50		
Q51	We would prefer an approach where the value of sponsor support is simply taken as the balancing item.	
Q52		
Q53	We would prefer an approach where the value of sponsor support is simply taken as the balancing item.	
Q54	No, EIOPA should not produce spreadsheets.	
Q55	We would prefer an approach where the value of sponsor support is simply taken as the balancing item.	
Q56	No, EIOPA should not produce spreadsheets.	
Q57	We agree that a one-size-fits all approach for the calculation of maximum sponsor support is not possible. As such, we would prefer an approach where the value of sponsor support is simply taken as the balancing item.	

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Q58	No, EIOPA should not set parameters for calculating sponsor support.	
Q59		
Q60	Notwithstanding that our preference is for sponsor support to be used as a balancing item in the EIOPA's suggested approaches to the calculation of sponsor support do not appear to recognise the complete array of different sponsoring entities that exist in the UK (in particular, there are many that are not required to produce statutory accounts as such).	
Q61		
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Q69	We believe that this should be determined by national regulators who will have an understanding of the appropriate background.	
Q70	We believe that this should be determined by national regulators who will have an understanding of the appropriate background.	
Q71	We would prefer that sponsor support is used as the balancing item. However, if EIOPA chooses to require a calculation of sponsor support, a pension protection scheme could in principle be considered a balancing item.	
Q72	<p>We are unconvinced of the rationale for setting harmonised solvency requirements at European level and remain fundamentally opposed to the holistic balance sheet approach as envisaged by EIOPA.</p> <p>We consider that current funding requirements strike an appropriate balance between security and flexibility. The introduction of EU-wide capital/funding requirements would likely accelerate the current decline in defined benefit pension provision and result in pensions in which the</p>	

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	member bears more risk – i.e. the security of members’ benefits would be compromised.	
Q73	No. The current draft of the revision to the IORP Directive contains sufficient provision on risk evaluation. We would prefer risk management requirements to be determined by national regulators who will have an understanding of the appropriate background, taking into account proportionality for smaller schemes.	
Q74	We do not believe that this information would be well understood by members and IORPs should not be required to disclose this information beyond their membership (and potential membership).	
Q75	We remain fundamentally opposed to the holistic balance sheet approach as envisaged by EIOPA.	
Q76		
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Q84		
Q85	We remain fundamentally opposed to the holistic balance sheet approach as envisaged by EIOPA. Given the options, we prefer the minimum requirement to be based on the Level B best estimate of technical provisions rather than the Level A “risk-free” rate as this will better reflect an IORP’s circumstances.	
Q86		
Q87	Level B as this will better reflect an IORP’s circumstances.	
Q88		
Q89	We believe that any solvency requirements should be set by member states who will have an understanding of the appropriate background.	

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Q90	No, we do not believe there is scope for harmonising the recovery period. We believe that any requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q91	We believe that any requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q92	We believe that any requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q93	We believe that any requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q94	We believe that any requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q95	We believe that any requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q96	We believe that any requirements should be set by national regulators who will have an understanding of the appropriate background.	
Q97	The introduction of EU-wide capital/funding requirements would likely accelerate the current decline in defined benefit pension provision. Any additional funding costs would result in some employers closing or modifying schemes and if employers need to cut costs in other areas there may be job losses and a decline in investment in the business which will impact the wider economy.	
Q98	We are unconvinced of the rationale for setting harmonised solvency requirements at European level and remain fundamentally opposed to the holistic balance sheet approach as envisaged by EIOPA. If such an approach is to be taken, we strongly support the use of transitional arrangements to reduce the immediate impact, preferably excluding current schemes or allowing a long transitional period.	
Q99		
Q100		

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Q101		
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Q107		
Q108		
Q109		
Q110		
Q111	<p>We are unconvinced of the rationale for setting harmonised solvency requirements at European level and remain fundamentally opposed to the holistic balance sheet approach as envisaged by EIOPA. The proposals are complex and will not aid understanding by managers or members of IORPs, nor will they improve security for members. While there may be ways to simplify the proposals, such as allowing sponsor support to be used as a balancing item, we do not believe that this would represent a significant improvement over the current regime, particularly given the additional costs to IORPs and their sponsors.</p>	