

<b>Comments Template on Consultation Paper on Further Work on Solvency of IORPs</b>		<b>Deadline 13 January 2015 23:59 CET</b>
Name of Company:	CEEP	
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"> <li>⇒ Do <b>not</b> change the numbering in the column "reference"; <b>if you change numbering, your comment cannot be processed by our IT tool</b></li> <li>⇒ Leave the last column <u>empty</u>.</li> <li>⇒ 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>.</li> <li>⇒ Our IT tool does not allow processing of comments/responses which do not refer to the specific numbers below.</li> </ul> <p><b>Please send the completed template, in Word Format, to <a href="mailto:CP-14-040@eiopa.europa.eu">CP-14-040@eiopa.europa.eu</a> . Our IT tool does not allow processing of any other formats.</b></p> <p>The numbering of the questions refers to <b>Consultation Paper on Further Work on Solvency of IORPs</b>.</p>		
Reference	Comment	
General Comment	<p>I. We agree with the general aim of the Commission in the Call for Advice of April 2011, according to which a risk-based supervisory system for IORPs should be developed – but for this purpose the IORP Directive should be the starting point. Thus we continue to be of the opinion that the supervision of IORPs requires a sui generis regulatory regime that truly accounts for the differences of IORPs and insurance companies. Due to the differences of pension schemes all over the EU, we suggest respecting these differences among occupational pension systems in the different member states when amending the regulatory framework.</p> <p>The development of a supervisory regime sui generis, which in particular differs from the Solvency II regime for insurance undertakings, is justified due to the basic differences between IORPs and insurance undertakings, as EIOPA itself has identified several times (in particular in the second</p>	

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

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

consultation document on the review of the IORP Directive, EIOPA-CP-11/006, see 9.3.6 a – h as well as in other EIOPA documents and communications). We have reservations that, in spite of this commitment, the current Consultation Paper on further work on solvency of IORPs as well as EIOPA’s discussion paper on sponsor support of 2013, the technical specifications for the IORP QIS of 2012 as well as EIOPA’s previous consultations on the IORP review are built on the Solvency II principles and structure.

II. The current Consultation Paper (CP) makes an attempt to improve on the shortcomings of the holistic balance sheet (HBS) in particular on the valuation of sponsor support by delivering further valuation approaches (i.e. the balancing item approach) and it tackles the urgent question of how the HBS is going to be used as a regulatory instrument. We want to underline the following points prior to the statements to the concrete questions::

- We welcome that EIOPA for the first time is addressing in detail the central question of the regulatory function of the HBS (trigger points, funding requirements and EU-wide Solvency Capital Requirement (SCR), tiering of assets, recovery period) although we think that should have been answered at a much earlier stage before the in-depth-analysis of the HBS elements.
- We are still of the opinion that the concept of the HBS should not be applied to IORPs. The reason is that the HBS and the calculation of the SCR fully rest on the Solvency II structure regarding the market-consistent valuation of assets and liabilities and the measuring and quantifying of risks which we regard as unsuitable for IORPs (see also part IV of this introduction below). By maintaining this structure, the HBS itself is not an appropriate approach for IORPs. The fact that security mechanisms of IORPs are considered at a later stage may not solve this general problem.
- In general we are of the opinion that the qualitative requirements as proposed in the 4th IORP II Compromise Draft of the Italian Presidency (in particular Art. 29 Risk Evaluation for Pensions) sets accurate and sufficient requirements with respect to risk management of IORPs. Further risk management requirements are not necessary. Minimum funding requirements and

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

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

valuation standards should continue to be determined according to the current IORP directive. Regulatory consequences of the HBS analysis in risk management should only be determined by national supervisors (i.e. recovery plans with long recovery periods). It must be clearly understood that the use of the HBS will not be broadened: in a first step an introduction as risk management tool followed by the second step to use the HBS for strict harmonization of valuation and funding.

- The HBS should not be used to lead to EU-wide harmonization of calculation of technical provisions (Level A technical provisions), especially for the reason of putative comparability for an internal market of pensions, if this leads to a higher cost burden for employees and employers and detrimental effects for the entire IORP sector in consequence. As EIOPA clearly analyses the result would be negative effects for occupational pensions, sponsors and economic growth (i.e. 5.86, 5.177, 5.179 and 5.188) – thus the result isn't worthwhile especially as stakeholders do not see any need for an intensification of an internal market for occupational pensions. (see also Q 85 or 97 / 99 for additional cost due to funding requirements and consequences for employers and the (European) economy >> i.e. a relevant study by CBI and Oxford Economics)
- Within the hypothetical discussion surrounding the HBS and its introduction we in general welcome the official introduction of the "balancing item approach" (BIA) in combination with the simplified and heuristic check of sponsor strength by using PwC's "M" approach. But we strongly suggest – if the HBS should be introduced at all – that in case of a strong sponsor (or other security mechanism) or multi-employer-scheme (MES) IORPs this should constitute a truly exceptional case that should release from explicitly setting up a holistic balance sheet or Solvency II-like risk based solvency capital requirements.  
The rationale is that in the cases of the application of the BIA the strength of the security mechanisms / sponsor support is actually proven and thus market consistent valuation (incl. using risk free interest rates) is not needed anymore because the strength of the sponsor avoids the necessity of a transfer of the IORP's assets and liabilities and further concrete quantifications seem to be superfluous. Especially in the case of MES the BIA captures the notion that a large number of sponsors in the end is in charge of the settlement of pension claims (= HBS) and also serves as cushion for adverse developments (=SCR). This illustrates the flexibility of the sponsor

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

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

support of MES IORPs and delivers a flexible protection of pension claims with solidarity.

III. We welcome that EIOPA still explicitly recognizes that the non-standard case of non-corporate sponsors, especially public sector entities and charities which are in addition mostly multi-employer-schemes (MES), deserves specific considerations. However the range of suggested valuation approaches (except for the balancing item approach) are still not suitable / workable for not-for-profit and public sector sponsors, as EIOPA has not yet further developed solutions for quantifying the sponsor support in a reasonable and feasible way related to these kinds of sponsors compared to EIOPA’s Sponsor Support Consultation and the following Sponsor Support Conference in 2013 - these problems are still unresolved. (see Q67)

With respect to the use of the balancing item approach for valuing sponsor support, we suggest that multi-employer schemes with large number of employers, legally enforceable sponsor support and joint financing should automatically qualify for applying the balancing item approach without reference to the strength of the individual sponsor (in addition to the listing in no. 4.4 of the consultation document). The rationale for this is that MES with a sufficient number of employers and joint financing could be seen as a means of collective pooling of default risk of individual sponsors – in analogy to the suggestions of EIOPA regarding pension protection schemes (PPS) in 4.248 of the consultation paper.

IV. We want to express our general concern with the HBS as presented in the IORP QIS of 2012. As the present consultation paper (as well as earlier consultations) does not offer the possibility to address this general issue, we are taking this opportunity to present our general reservations about applying the Solvency II principles, the SCR structure and the HBS concept to IORPs. It is not possible to answer EIOPA’s question in the discussion paper on the details of the sponsor support without being able to refer to this argumentation.

- The Solvency II regime is not necessary for IORPs. The already existing security mechanisms have proven to be safe during the past crisis.
- IORPs have specific inbuilt security mechanisms that ensure the solvency position of pension schemes. In some pension schemes, contributions and the main benefit

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

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

- parameters can be modified by employers and employees’ representatives.
- Many pension schemes, especially of the public sector in the Netherlands, Scandinavian countries or in Germany, foresee paritarian management. Paritarian management involves social partners on the Board of Directors of the IORP or in similar internal supervisory bodies. Due to paritarian representation, the interests both of the employers and of the employees and beneficiaries are well-balanced and the benefit security can therefore be ensured.
  - Due to the fact that IORPs in the public sector are social institutions and therefore not chiefly for profit organizations, the possibility of a potential conflict of interests between member protection and profit maximizing behaviour and dividend payments is minimised.
  - For DB- and hybrid DB-/DC-schemes, in at least some Member States, employers have the ultimate responsibility to fulfil the respective pension commitment
- The structure of Solvency II is not appropriate for the regulation of IORPs due to the differences between IORPs and insurance undertakings. We consider the market value based approach inadequate for liabilities with such long durations as well as for valuing assets: No transfer of liabilities and assets must be permanently possible due to the tri-party-relationship (employee, employer and IORP). Because of the long-term nature of pensions, the actual risks IORPs are facing differ from those of insurance undertakings. As it is not necessary that liabilities and assets of IORPs may permanently be sold at market prices (because of the relation to sponsors) the way risk is financially measured under Solvency II (i.e. the SCR standard formula or the way the risk margin is derived) are not appropriate. Because of the long term nature of pensions, the actual risks IORPs are facing differ from those of insurance undertakings. Indeed the stable and long-term character of IORPs’ liabilities has various risk mitigating effects. The methods of measuring and quantifying financially the risks of IORPs as laid out in Solvency II do not fit the nature of IORPs. These aspects should be taken into consideration when redesigning the regulatory framework for IORPs.
- Additionally we are of the opinion that the HBS is not able to reach the intended goal of the European Commission namely to precisely assess and quantify the “true risk position” of

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

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

	<p>IORPs (CfA 4.1 from March 2011), because of the design and the valuation of the HBS. The valuation methods specified for the QIS still involves a high degree of arbitrariness and leads to pseudo-certainty which contradicts the notion of a neutral, objective and informative balance sheet. This problem arises in case of the various suggested ways of quantification: Stochastic modelling strongly depends on the (often arbitrary) choice of parameters and models which make results hard to compare. With respect to the (simplified) deterministic valuation approaches it is not clear if the suggested simplifications are appropriate or even correct. Therefore, the results of stochastic modelling and the simplified deterministic approaches are not comparable. This task becomes even more complex when it comes to evaluating the financial soundness of a public sector institution as employer and sponsor.</p> <ul style="list-style-type: none"> <li>In those cases where the HBS includes existing security mechanisms such as sponsor support, pension protection schemes, benefit reductions and where the HBS is used to trigger regulatory actions (recovery plans) the question remains: which regulatory options are available within a recovery plan at all in case of a shortfall within the HBS since all security mechanisms are already included? Which option other than determination remains?</li> </ul>	
Q1		
Q2		
Q3		
Q4		
Q5		
Q6		
Q7		
Q8		
Q9		
Q10		
Q11		

<b>Comments Template on Consultation Paper on Further Work on Solvency of IORPs</b>		<b>Deadline 13 January 2015 23:59 CET</b>
Q12		
Q13		
Q14		
Q15		
Q16		
Q17		
Q18		
Q19		
Q20		
Q21		
Q22		
Q23		
Q24		
Q25		
Q26		
Q27		
Q28		
Q29		
Q30		
Q31		
Q32		
Q33		
Q34		
Q35		
Q36	Support of a principle based and IORP specific approach to regulating IORPs instead of an inadequate „one-size-fits-all“-approach for all types of IORPs that leaves the specifics to be set by member states. This enables to cover a broad range of different types of IORPs and sponsors as	

<b>Comments Template on Consultation Paper on Further Work on Solvency of IORPs</b>		<b>Deadline 13 January 2015 23:59 CET</b>
	well as country specific differences and to find suitable solutions. Thus the regulatory specifics should be set by member states including a variety of equivalent approaches and leaving it up to the IORP to decide which approach to choose	
Q37		
Q38		
Q39		
Q40		
Q41		
Q42		
Q43		
Q44		
Q45		
Q46	Support of a principle based and IORP specific approach to regulating IORPs instead of an inadequate „one-size-fits-all“-approach for all types of IORPs that leaves the specifics to be set by member states. This enables to cover a broad range of different types of IORPs and sponsors as well as country specific differences and to find suitable solutions. Thus the regulatory specifics should be set by member states including a variety of equivalent approaches and leaving it up to the IORP to decide which approach to choose	
Q47		
Q48		
Q49		
Q50		
Q51		
Q52		
Q53		
Q54		
Q55		

<b>Comments Template on Consultation Paper on Further Work on Solvency of IORPs</b>		<b>Deadline 13 January 2015 23:59 CET</b>
Q56		
Q57		
Q58		
Q59		
Q60		
Q61		
Q62		
Q63		
Q64		
Q65		
Q66		
Q67		
Q68		
Q69		
Q70		
Q71		
Q72		
Q73		
Q74		
Q75		
Q76		
Q77		
Q78		
Q79		
Q80		
Q81		

<b>Comments Template on Consultation Paper on Further Work on Solvency of IORPs</b>		<b>Deadline 13 January 2015 23:59 CET</b>
Q82		
Q83		
Q84		
Q85		
Q86		
Q87		
Q88		
Q89	General Position towards the “balancing item approach” and the use within the HBS (in the cases of the application of the BIA the strength of the security mechanisms / sponsor support is actually proven and thus solvency II-like market consistent valuation of assets and liabilities (incl. using the risk free interest rates) is not needed anymore because the BIA is a flexible asset that fills any gap if needed. So this approach would simply think out consequently the concept of the BIA which is also described by EIOPA, see 4.114.)	
Q90		
Q91		
Q92		
Q93		
Q94		
Q95		
Q96		
Q97		
Q98		
Q99		
Q100		
Q101		
Q102		
Q103		

<b>Comments Template on Consultation Paper on Further Work on Solvency of IORPs</b>		<b>Deadline 13 January 2015 23:59 CET</b>
Q104		
Q105		
Q106		
Q107		
Q108		
Q109		
Q110		
Q111		