

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

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

Name of Company:	Lincoln Pensions Limited	
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>		
<b>Reference</b>	<b>Comment</b>	
General Comment	<p>Lincoln Pensions Limited is the largest leading independent provider of employer covenant advice to sponsors and trustees of pension schemes in the UK. Our clients are responsible for more than £100bn of assets in aggregate. We advise on all aspects of the employer covenant, including assessments, monitoring and advice on corporate transactions. Lincoln Pensions is a division within the global firm, Lincoln International LP.</p> <p>We welcome the direction of travel in the consultation, with a move to full implementation of requirements set and supervised at EU Member level. However, we believe that implementation should follow a 3-stage process, as outlined below (at question 36). We also encourage EIOPA to consider the impact of any new regime in conjunction with proposed changes in International</p>	

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	Accounting Standards reporting, which could result in significant additional stress on sponsors if not correctly coordinated.  As EIOPA’s plans develop, we hope that EIOPA will reduce their reliance on one or two third parties and will either develop their own model or undertake specific consultation on the appropriate model to be used in determining sponsor support.	
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Q36	<p>Do stakeholders agree that at the EU level, there should only be a principle based approach to valuing sponsor support with the specifics being left to member states/supervisors and/or IORPs?</p> <ul style="list-style-type: none"> <li>• We welcome the proposal that IORPS adopt an approach where the specifics are determined largely by member states/supervisors. Such an approach would provide supervisors with increased comparability while allowing more mature markets with large material defined benefit obligations like the UK to retain the features that are most helpful to IORPS themselves.</li> <li>• The UK approach to the assessment of sponsor support is advanced and provides a robust, flexible and scheme specific basis from which IORPS can adopt appropriate</li> </ul>	

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recovery plans and asset allocation decisions. While the UK approach may not be appropriate throughout the EU, the ability to retain this flexibility at member state level is highly appropriate.

- Our experience providing assessments of sponsor support since 2008 has shown that an overly prescriptive approach runs the risk of being either very complicated (as demonstrated by the complexity of options set out in this consultation) or lacking in utility for individual IORPS.
- In order to understand the impact of the HBS on IORPS, it is necessary to understand what the options for remedial action will be if the HBS test is failed. As has been recognised, there is still limited information available to understand the impact of any particular approach. Therefore, we would advocate a first stage of disclosure under a principles-based approach which would allow the data to be gathered across the various jurisdictions so that the HBS methodology and supervisory response can be assessed properly.
- Our recommended way forward would therefore fall into three stages, namely:
  - **Stage 1**
  - Disclosure by IORPS under a set of prescribed, simplified tests set and supervised at EU Member level.
  - Under these disclosures, IORPs would be required by the relevant EU Member supervisory authority to use the HBS as part of their risk-management framework.
  - This Stage 1 would last 5 years to ensure that the calculation and implementation of the HBS is sufficiently understood by both supervisors, IORPs and sponsors.
  - After this period, a two year review of the full data could then be used to inform and set the principles for full implementation with HBS to set minimum funding requirements and solvency capital requirements.
  - **Stage 2**
  - Following the publication of the final HBS rules and supervisory responses a transitional period of 15 years should be put in place, during which the revised principles for the HBS will drive the minimum funding requirements within each EU Member State but NOT solvency capital requirements.

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	<ul style="list-style-type: none"> <li>○ Our experience of the implementation of the current UK regime suggests that sponsors across the EU member states will struggle to adjust budgeting and operations to meet revised targets in much less than the suggested 15 year period.</li> <li>○ <b>Stage 3</b></li> <li>○ At the end of the transitional period, full compliance with the HBS could drive minimum funding and solvency requirements with harmonisation of capital requirements between IORPS and EU insurers/financial institutions.</li> </ul>	
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Q39	<p>What is the general view of stakeholders with regard to sponsor support as a balancing item?</p> <ul style="list-style-type: none"> <li>● We consider sponsor support as a balancing item to be helpful if the aim of the HBS is to provide a guide for supervisors. On the other hand, if the aim is for the holistic balance sheet to be useful to IORPS or drive funding requirements, then sponsor support as a balancing item does not seem to provide additional insight or support for an individual IORP to use in decision making.</li> <li>● Various regimes in the EU (including the UK) recognise this distinction between supervisory oversight and the needs of IORPs by using different benchmarking methods for sponsor support in the different situations.</li> <li>● The implementation of the HBS and the possible requirements for IORP funding levels should therefore drive the implementation of such considerations as sponsor support as a balancing item.</li> </ul>	
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Q55	<p>Do stakeholders believe that this approach is a suitable method for determining sponsor support? In what circumstances is it appropriate? In what circumstances is it not appropriate?</p> <ul style="list-style-type: none"> <li>• The Alternative Simplified Approach (“ASA”) might prove to be a helpful method for small and medium sized IORPs, supported by one sponsor, to use in responding to supervisory queries about sponsor support.</li> <li>• Our concern is that, in seeking to adopt a simplified approach that can be applied uniformly, much of the utility in an assessment of sponsor support is lost. The output across IORPs may be easily comparable but, due to the simplifications and assumptions adopted, may well inaccurately reflect the actual strength of that sponsor support.</li> <li>• We believe the approach adopted by the UK pensions industry already provides a good basis for individual IORPs to make effective decisions in respect of sponsor support. However, such an approach may be too extensive and individual for supervisors. The UK Pensions Regulator and Pension Protection Fund recognise this by using their own benchmarking methods that are separate from those used by individual IORPs.</li> <li>• If the aim is for the holistic balance sheet to be useful to IORPS or drive funding requirements then additional consideration would be needed from EIOPA around the way</li> </ul>	

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	IORPs should incorporate non-standard but common considerations (e.g. where there are multiple sponsors, conditional support structures or unusual trading) into the ASA.	
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