

**Comments Template on  
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline  
31 October 2013  
18:00 CET**

Name of Company:

**The Hundred Group of Finance Directors**

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Disclosure of comments:

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The numbering of the questions refers to Discussion Paper on Sponsor Support.

**Reference**

**Comment**

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General Comment

**About the Hundred Group**

The Hundred Group represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the FTSE 100, collectively employing over 7% of the UK workforce and in 2011 paid, or generated, taxes equivalent to 13% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

**The timing of this consultation is inappropriate**

Given that the EU Commissioner indicated in May 2013 that he did not intend to proceed with Pillar I funding requirements as part of the current review of the IORP directive, we are very disappointed that EIOPA is nevertheless continuing with work on the QIS and the holistic balance sheet.

We do not believe that this is the right priority for EIOPA to be pursuing at the present time. EIOPA's focus should be on ensuring that citizens across the EU have access to adequate and sustainable pensions, not on devising a methodology that could impose substantial cost burdens on one particular type of pension scheme found in only some member states (namely defined benefit IORPs).

We are also concerned that, by carrying out this consultation at a time when the EC has explicitly stated that Pillar I funding requirements is not on its agenda, EIOPA is likely to get only a limited response to its discussion paper. If Pillar I does return to the EC's agenda at some point in the future, EIOPA and the EC should not assume that this current consultation process constitutes a full discussion of the issues relating to the valuation of sponsor support for the purpose of the holistic balance sheet. Further, more detailed, consultation would be needed if the EC decided to proceed at some future date with the valuation of sponsor support as part of the holistic balance sheet.

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**Solvency funding would be very damaging for pensions**

The Hundred Group remains opposed to the idea of applying a regime based on Solvency II to IORPs. We believe that this will be damaging to the provision of pensions to employees, leading to the closure of defined benefits IORPs to future accrual and the provision of lower quality pensions in future. We believe that this cuts directly against the EC's goal of ensuring adequate pension provision across the EU.

The application of a solvency regime to pensions would also have very damaging consequences for employers sponsoring pension schemes, who could see increased funding deficits and higher contribution demands, which would leave them with lower assets to invest in growth and jobs. Furthermore, if European companies are compelled to divert a substantial amount of their capital into funding their pension schemes on a solvency basis, it is likely to mean that they will be unable to compete effectively with non-European companies.

As well as the effect on individual sponsors, the introduction of a solvency regime could also have substantial impacts on the economy as a whole with pension schemes likely to reduce their holdings in equities in favour of debt investment.

EIOPA should therefore not be continuing to work on a holistic balance sheet designed to implement a solvency funding methodology for pensions.

**The purpose of the QIS is unclear**

The current discussion paper is concerned with the calculation of sponsor support as part of the technical specifications for the QIS on IORPs. However, the purpose of the figures calculated for the QIS remains completely opaque. It is not clear whether the holistic balance sheet is simply intended as a theoretical construct or whether it will feed into additional funding requirements in the event that the balance sheet does not balance or new supervisory actions in the event that certain triggers are breached.

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It is therefore impossible to provide a meaningful response on the calculation methodologies proposed for valuing sponsor support when we do not know how the results of the calculations will be used in practice.

This reinforces the view we expressed above that the timing of this discussion paper is inappropriate. A meaningful consultation on the methodology for valuing sponsor support can **only** be undertaken once it is clear how that calculation will feed into the holistic balance sheet as a whole, and how the holistic balance sheet will be used in practice.

**Sponsor support cannot be valued as a single figure**

The fundamental aim of the discussion paper is to arrive at a methodology to put a single number on the support provided to an IORP by an employer. We believe that this is an essentially misguided aim.

The support provided by an employer to a scheme varies depending on the individual scheme, the individual employer and on the situation of both the scheme and the employer. For example, the support provided in the event that the scheme is to be wound up is different from that being provided where the scheme is being run on an ongoing basis with contributions continuing to come in.

In the UK, the assessment of sponsor support forms a key part of funding negotiations. Trustees will have access to information of various kinds to enable them to assess that support, ranging from quantitative metrics to more qualitative assessments of the employer's future business prospects and commitment to the pension scheme. Any attempt to reduce this complex array of information to a single number is bound to produce results that are spurious and misleading.

**The valuation of sponsor support will be expensive**

As noted above, trustees of IORPs already carry out often extensive work to assess

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the sponsor covenant. They are likely to continue to need to do so, even if a single figure approach is introduced by EIOPA (given that the single figure approach will not be able to replace the sophisticated assessments that currently take place).

If the proposals in this discussion paper were adopted, IORPs would therefore face the additional expense of having to carry out a separate single figure valuation of the sponsor support to plug into the holistic balance sheet. Such calculations would be time-consuming and use resources that could be better applied in improving the funding position of the IORP rather than in paying the costs of advisers.

EIOPA must carry out an impact assessment on the costs of carrying out calculations of sponsor support along the lines proposed in the paper before it can consider including this as part of the holistic balance methodology.

**Our response**

We have commented on a few of the specific questions asked by the consultation, but have not focused on the technical detail. Our silence on a particular question should not be taken as assent, nor should the fact of us responding to this consultation at all be taken as us consenting to the application of a Solvency II regime to pensions, the use of the holistic balance sheet or the placing of a single value on sponsor support.

Q01.

Q02.

Q03.

Q04.

Q05.

Q06.

Q07.

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Q08.		
Q09.		
Q10.		
Q11.	<p><b>Please provide your general comments on the alternative approach.</b></p> <p>As noted under 'General Comments' above, we believe that any attempt to place a single value on sponsor support is deeply flawed. The alternative approach set out here will, at best, produce spurious results, and at worst, produce figures that give a damagingly misleading view of the sponsor covenant. This could damage the sponsoring employer if they appear to give a lower valuation of the business than that placed upon it by markets but equally could damage the scheme (and its members) if the sponsor support calculation gives an inappropriately high value so that trustees or scheme managers do not seek additional funding because they are relying on that inappropriate value.</p>	
Q12.	<p><b>Does the alternative approach address the concerns raised during the previous consultation on the technical specification ?</b></p> <p>No. Our fundamental concerns have not changed. We do not believe that the holistic balance sheet is an appropriate tool for valuing pension schemes, or that any of the methodologies proposed provide an appropriate assessment of sponsor covenant for the purposes of the QIS or the holistic balance sheet, let alone for the regulation of IORPs.</p>	
Q13.		
Q14.		
Q15.		
Q16.		
Q17.		
Q18.		

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Q19.		
Q20.		
Q21.		
	<p><b>Do you agree that time periods for contributions for the QIS calculations for sponsor support should be based on affordability or should they be based on willingness/obligation to pay ?</b></p> <p>We are very concerned at the inclusion in the discussion paper of a set of standard periods in which shortfalls are to be met. Whilst we understand that these recovery periods are only provided in this document for the purposes of devising a QIS methodology, there is a real risk that these arbitrary recovery periods could become part of the supervisory regime surrounding the holistic balance sheet.</p> <p>The decision as to an appropriate recovery period is one that is highly specific to individual scheme and employer circumstances and so setting out standard periods is entirely inappropriate.</p>	
Q22.		
Q23.		
Q24.		
Q25.		
Q26.		
Q27.		
Q28.		
Q29.		
Q30.		
Q31.		
Q32.		
Q33.	<p><b>What additional work should be carried out if this methodology was to be used for determining sponsor support in a regulatory or supervisory</b></p>	

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	<p><b>environment ?</b></p> <p>We believe that EIOPA is exceeding the remit of this discussion paper in asking this question.</p> <p>The question of how the holistic balance sheet methodology should be used for the purposes of regulation and supervision is a key question that needs to be addressed fully in a separate consultation (not slipped in at the end of a long consultation paper on a highly technical issue).</p>	
Q34.		
Q35.		
Q36.		