

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

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

Name of Company:	National Association of Pension Funds (NAPF)	
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 in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, in Word Format, to DP-13-001@eiopa.europa.eu</p> <p>Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the questions refers to Discussion Paper on Sponsor Support.</p>		
Reference	Comment	
General Comment	<p>The NAPF The National Association of Pension Funds (NAPF) is the leading voice for UK workplace pensions. The NAPF's members operate almost 1,300 pension schemes, providing pensions for nearly 16 million people and managing over €1 trillion of assets. Our membership also includes a wide range of over 400 providers of essential advice and services to the pensions sector. This includes accounting firms, solicitors, fund managers, consultants and actuaries.</p>	

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Key points of this response

- **Wrong priorities.** EIOPA is pursuing the wrong priorities in continuing to develop the Holistic Balance Sheet concept. 60 per cent of EU citizens have no access to workplace pensions, so ensuring the regulatory system supports the extension of workplace saving should be the priority, rather than increasing regulatory burdens for existing pension schemes that have been set up voluntarily by employers. This should include extending the use of IORPs to those Member States with no tradition of second-pillar pension saving.
- **Holistic Balance Sheet should be dropped.** The NAPF does not believe the Holistic Balance Sheet is necessary for the prudential regulation of IORPs and recommends that all such proposals are dropped i.e. they should not feature in any new Directive.
- **Wrong order.** If EIOPA insists on continuing with the Holistic Balance Sheet project, then it is going about it in the wrong order. It is impossible to provide reasoned comment on the Holistic Balance Sheet without knowing whether it would be used as the basis of a new funding regime or how.
- **No Single Market case.** There are no Single Market or freedom of

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movement issues which require or justify the Holistic Balance Sheet. Occupational schemes confine their membership to employees of their sponsoring employers. Many are closed to all new entrants. They are not open to consumers, and there is accordingly no need for standardised EU-wide methodology to facilitate informed consumer choice between IORPs in different Member States. Pension protection should be left to Member States under the principle of subsidiarity, as long as they comply with other requirements of EU law (such as the Insolvency Directive).

- **Pensions not like insurance.** Occupational schemes are not in competition with insurance products. Moreover the impact of the closure and wind-up of an IORP is not potentially systemic in the way that failure of an insurer can be. There is no need for the same regulation to be applied to a company pension scheme and to an insurance company.
- **Subsidiarity.** The UK has a well-developed system for assessment of sponsor support, which takes full account of the very wide range of factors involved. There would be no benefit to pension schemes or their members from an additional assessment that would add cost extra cost but would not facilitate further insight into the strength of the scheme's covenant (placing a single number on sponsor covenant does not achieve this). EIOPA should allow flexibility at national level, so that Member States with well-developed systems for assessing sponsor covenant are not required to add extra complexity or change systems that are effective for their national

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circumstances.

- **Sponsor support more than finance alone.** EIOPA should recognise that covenant assessment based purely on financial data is bound to be inadequate. The Pensions Regulator in the UK recommends that trustees take account of a wide range of factors when assessing sponsor support, including the sponsor's future business plans, its ability to draw on contingent assets and the strength of the relationship between scheme and sponsor.
- **Extra cost.** The NAPF considers that the proposed methodology for the Holistic Balance Sheet is unlikely to add to member security but will increase cost and complexity.
- **High-level principles preferable.** If EIOPA disregards the advice from stakeholders and presses ahead with its work on the Holistic Balance Sheet, then it should be aware that making this new approach sufficiently complex to give an accurate assessment of the scheme's strength would lead to a methodology that would be unworkable. Attempting to capture the strength of sponsor support in a single number is bound to be unsatisfactory, given the complexity of the issues involved. High-level principles would be far preferable.
- **Non-profit and multi-employer.** The methodology in the discussion

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document would be impossible to operate for many classes of IORP, including those in the not-for-profit sector, for which credit ratings and data derived from corporate bonds and credit default swaps are completely inappropriate. It would also be difficult to apply EIOPA's new method to many industry-wide and multi-employer schemes, which would find it impossible to pull together the data that EIOPA would require.

- **Role of social partners.** IORPS are managed and negotiated in collaboration with the social partners, and EIOPA should avoid interfering in this social dialogue.
- **Risk to GDP growth.** The NAPF remains very concerned about the potential impact on GDP growth and job creation if the Holistic Balance Sheet were to require employers to divert more resources into pension scheme funding rather than research, development and investment. EIOPA should press the European Commission to re-start the two economic impact studies it commissioned from the European Central Bank and the Joint Research Centre, which we understand have been cancelled.

Q01.

Should IORPs be provided with additional guidance for conducting stochastic valuations of sponsor support?

The NAPF does not support EIOPA's work on developing the Holistic Balance

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	<p>Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.</p> <p>We are not aware of any UK pensions schemes which conduct stochastic valuations and there would be no practical benefit from requiring them to do so.</p>	
Q02.	<p>Should IORPs be provided with additional guidance for conducting valuations of sponsor support using either Simplification 1 or 2? Should either of these simplifications be removed or should any other simplification be developed?</p> <p>The NAPF does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.</p> <p>If further calculations are required in addition to the assessments that UK schemes already carry out, then they must be kept as simple as possible.</p> <p>The simplifications within the discussion document need considerable further development work. Alternative approaches must also be considered.</p>	
Q03.	In the stakeholders' view what role should the concept of maximum	

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sponsor support play in the general valuation principles for sponsor support?

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

The NAPF agrees with EIOPA that maximum sponsor support can be virtually impossible to value, particularly for smaller, non-listed companies and for multi-employer schemes.

The NAPF feels that no benefit is gained by calculating maximum sponsor support and agrees that EIOPA should look for alternative bases for valuing sponsor support.

Q04.

Is wage an appropriate additional measure for estimating the maximum amount of sponsor support? If so, please explain why? Are there any other measures which could be used to assess the maximum sponsor support?

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

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Given that the NAPF feels no value would be added by calculating maximum sponsor support, we would not support an additional measure for calculating it.

Q05.

Are stakeholders comfortable with the concept of linking default probabilities, credit ratios and sponsor strength?

The NAPF does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

Obtaining data on default probabilities, credit ratios and sponsor strength can be particularly difficult for industry-wide and multi-employer schemes. If EIOPA is determined to press ahead with the Holistic Balance Sheet, then it should provide an alternative method that these schemes may use.

In any event, we doubt whether such an approach is suitable as a basis for regulatory action.

Q06.

Do stakeholders agree with exploring the possibility of including a standard table in the technical specifications that links credit ratios

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with default probabilities?

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

As explained in our ‘General Comments’ at the start of this response, every pension scheme and employer is different. Therefore, a full assessment of sponsor support should take account of a much wider range of factors than the credit ratios and default probabilities set out in the standard table. These further factors would include the sponsor’s ability to provide extra cash for the scheme, forecasts of future performance and contingent assets.

A standard table based on credit ratios would be – at best – no more than a proxy for this full assessment, and would give misleading results for some sponsors. Furthermore, credit ratios are necessarily backward-looking, and do not necessarily provide a useful guide to the future prospects of the sponsor or scheme.

EIOPA should also note that credit ratios are not appropriate measures for sponsors in the not-for-profit sector.

Q07.

Do stakeholders have other suggestions to derive default probabilities

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of the sponsor and to reduce reliance on credit ratings?

The NAPF does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

Full assessment of sponsor support should not focus solely on the likelihood of the sponsor becoming insolvent. Trustees should also have an understanding of the sponsor's ability to increase cashflow in the event of new pressures on the scheme, such as an increase in longevity projections or a reduction in gilt yields. Trustees should also look to understand the sponsor's future business plans and have a view on their viability.

As this answer demonstrates, the trustees of each scheme have a responsibility to find a way of assessing sponsor support that is appropriate for their scheme. No single approach will work for all schemes.

The NAPF would also question the assumption that 'default probabilities' as derived from credit ratios, credit ratings or credit default swaps are a valid proxy for the probability that the sponsor will default on its obligations to the pension scheme. This is not necessarily true even in cases where the numbers can be obtained. For example, where there are multiple sponsoring companies (even if in the same group of companies) then just because one has poor ratings and defaults on its debt, this does not mean that other companies in

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the group may do so.

The NAPF recommends that EIOPA conducts further research into these issues in order to develop a more rounded understanding of the wide range of factors involved in assessing sponsor support.

Q08.

Do stakeholders agree that timing of sponsor support reflecting the affordability of making additional payments could be an improvement to the general principles for valuing sponsor support?

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

The timing of contributions is a significant consideration in any assessment of sponsor support. However, it should be for the national supervisor to make recommendations on how this factor should be taken into account by trustees – in particular on how they should strike the right balance between affordability for the sponsor and adequate funding for the scheme.

A number of other factors should also be taken into account when valuing sponsor support. These will vary from scheme to scheme, but will generally include:

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- strength of the sponsor's balance sheet;
- forecasts of the sponsor's future performance;
- sponsor's ability to provide increased cashflow if necessary;
- sponsor's ability to draw on contingent assets;
- extent of 'negative pledges' from the sponsor – ie, commitments from the employer that they will not grant new security without the agreement of the pension scheme trustees;
- the order in which creditors could make a claim on the employer's remaining assets in the event of insolvency;
- the sponsor's future business plans;
- potential developments in the environment in which the sponsor does business;
- the shape of scheme benefits;
- where the scheme sits in the sponsor's global network or structure; and

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- the relationship between the scheme and the sponsor.

Trustees should also ensure that the sponsor reports to them – at least quarterly – on whether there has been any significant change in the factors to be taken into account.

The level of complexity is significantly greater in multi-employer and industry-wide schemes.

Q09.

Do stakeholders think that limited conditional sponsor support should be valued and included on the holistic balance sheet? Should it be included separately?

No comments.

Q10.

Should more detailed guidance be provided in future technical specifications to value sponsor support that is subject to discretionary decision-making processes? If yes, please explain in what way. Could the suggested detailed guidance also be applied to benefit adjustment mechanisms that contain discretionary elements?

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The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

The area of discretionary benefit adjustments is challenging and more work would be required to develop an adequate way of assessing these mechanisms as part of any EU-wide approach to valuing sponsor support.

Please provide your general comments on the alternative approach.

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

One of the NAPF’s key concerns is that it remains unclear how the Holistic Balance Sheet would be used in practice. In the absence of clarity on this crucial point it is impossible to provide complete answers to EIOPA’s questions about how the Holistic Balance Sheet should work.

However, on the basis of the informaton currently available, it is clear that the Holistic Balance Sheet:

Q11.

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	<ul style="list-style-type: none"> - would generate extra costs, especially if schemes have to run this process alongside existing covenant assessment work; - would not deliver any extra insight into the strength of sponsor support; and - would generate spurious results, and could, therefore, lead to actions that would be negative for the scheme and sponsor. 	
Q12.	<p>Does the alternative approach address the concerns raised during the previous consultation on the technical specifications?</p> <p>The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.</p> <p>The alternative approach still does not address the NAPF’s concerns.</p> <ul style="list-style-type: none"> - It is still unclear how the Holistic Balance Sheet would be used. - It would still be inappropriate for multi-employer and industry-wide schemes and for those in the not-for-profit sector. 	

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- It would still generate spurious results that would lead to actions that could be damaging for the scheme and sponsor.

Furthermore, the alternative approach runs contrary to the advice of The Pensions Regulator in the UK, where trustees are given extensive guidance on monitoring sponsor support.¹ Due to the great variety of schemes and sponsors, The Pensions Regulator’s guidance warns of the dangers of using standardised or ‘boiler-plate’ methods for covenant assessment.

There is a risk that EU policy-makers could fall into this trap if EIOPA were to design a system for covenant assessment that provides little flexibility.

The concept of placing a single value on sponsor support is not fit for the purpose of specifying capital requirements.

Are there any areas that have not been addressed adequately enough?

Q13.

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the

¹ See <http://www.thepensionsregulator.gov.uk/guidance/monitoring-employer-support.aspx>

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NAPF is supplying comments on the technical detail of the issues.

As we argued in the General Comments above, the proposed methodology does not take account of a range of significant factors that have a direct bearing on the strength of sponsor support. These include:

- application of the Holistic Balance Sheet to multi-employer and industry-wide schemes;
- application of the Holistic Balance Sheet to schemes in the not-for-profit sector;
- strength of the sponsor's balance sheet;
- forecasts of the sponsor's future performance;
- sponsor's ability to provide increased cashflow if necessary;
- sponsor's ability to draw on contingent assets;
- extent of 'negative pledges' from the sponsor – ie, commitments from the employer that they will not grant new security without the agreement of the pension scheme trustees; and

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- the order in which creditors could make a claim on the employer's remaining assets in the event of insolvency.

In addition, more work is needed to develop the valuation principles in a way that makes them easy to apply to non-standard situations, which are common.

Are IORPs still likely to want to calculate a maximum value of sponsor support (even if not required under the alternative approach)? If so, for what purpose?

The NAPF does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

There are cases where the maximum possible value of sponsor support might be relevant. For example, trustees would surely want to know if their scheme had a deficit bigger than the maximum amount a sponsor could ever contribute. This would also frame possible negotiations.

However, most schemes in that position would already know it; there is no need for a new formula.

Q14.

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<p>Q15.</p>	<p>Do stakeholders have other suggestions to adjust these ratios to cater for different sectors?</p> <p>The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.</p> <p>Although EIOPA have clearly put thought into designing a system that draws on existing information, it remains the case that the sponsor support calculation would require a detailed piece of work by the scheme’s professional advisers.</p> <p>If this is to be <i>additional</i> to existing work, then it would be a significant increase in the scheme’s overheads.</p> <p>EIOPA should recognise that there is no simple or single formula that would deliver a robust and accurate assessment of sponsor support across all sectors and types of schemes.</p>	
<p>Q16.</p>	<p>Does Stage 1 contain enough information and guidance for IORPs to calculate a credit strength that is proportionate for QIS purposes?</p> <p>The NAPF does not support EIOPA’s work on developing the Holistic Balance</p>	

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Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

There is no simple or single formula that would deliver a robust and accurate assessment of sponsor support.

- In paragraph 54, more clarity is needed on whether IORPS will define the ratios or whether EIOPA will define a list from which IORPs will select two ratios. It is not clear why the choice of the ratios would vary by industry.
- In paragraph 57, the IORP would be best placed to define Table 2.

IORPs should always be allowed the option of developing their own alternative approach based on a 'comply or explain' approach. Pension trustees in the UK already do exactly this – developing their own approach to assessing sponsor support in a way that works for their own scheme.

Does Stage 1 contain enough guidance for IORPs to do their own calculations if they believe this is appropriate for them to do so?

Q17.

The NAPF does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the

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	<p>NAPF is supplying comments on the technical detail of the issues.</p> <p>It will be necessary for practitioners to interpret the guidance, but this is preferable to making the guidance far more prescriptive.</p>	
Q18.	<p>Are Income Cover and Asset Cover suitable credit ratios to use for Stage 1?</p> <p>No comments.</p>	
Q19.	<p>Are the parameters used to determine sponsor strength in Table 4 appropriate?</p> <p>The NAPF does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.</p> <p>The NAPF is concerned that the approach set out in Table 4 may lead to inaccurate or incomplete information being used. If credit ratios are based on local Generally Accepted Accounting Principles (GAAP), the outcomes could be biased because:</p> <ul style="list-style-type: none"> - local GAAP differ from IFRS; 	

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- some sponsors do not follow IFRS; and
- local GAAP differ across EU countries.

What other definitions of earnings or net assets could be used in sectors where the standard definitions are not appropriate?

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

It is for trustees to judge what are the best measures to use when assessing sponsor support. The UK’s regulatory system allows trustees to conduct more in-depth investigations into particular aspects of the sponsor covenant when they judge it appropriate to do so.

Q20.

Are the periods shown in Stage 2 appropriate (bearing in mind this is for QIS work only, and not to determine a policy response)?

The NAPF does not support EIOPA’s work on developing the Holistic Balance

Q21.

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Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

Under the UK's current system, the length of a recovery plan is determined by negotiation between the scheme and the employer (and approved by The Pensions Regulator), so the resulting timeframe is appropriate to their particular circumstances.

The UK's Pensions Regulator also considers the pension scheme's investment strategy, so the approach to managing risks is fully integrated.

There must be a concern that EIOPA's proposed approach to determining payment periods would not reflect the particular circumstances of the scheme and employer, and would inevitably generate payment periods that would place undue pressure on one party or both.

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?

Q22.

The NAPF does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

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Affordability must come ahead of willingness to pay, but forcing sponsors into contribution schedules based purely on ability to pay risks ignoring other – perfectly legitimate – areas in which the sponsor may wish to invest, such as innovation, research or expansion and job creation.

It is better to allow employers and IORPs to come to an agreement – approved by the national supervisor – over the length of payment schedules.

To what extent are there any IORPs whereby sponsor contributions cannot exceed certain limits (even if contributions are affordable)?

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

The vast majority of sponsors will need to find a balance between the needs of the IORP(s) they sponsor, investment in the growth of the business (which will benefit the IORP in the long term), other strategic opportunities (which could benefit the IORP in the long term), and the rights, obligations and expectations of other financial and contractual stakeholders, including lenders and existing as well as future equity investors.

Q23.

<p style="text-align: center;">Comments Template on Discussion Paper on Sponsor Support Technical Specifications</p>		<p style="text-align: right;">Deadline 31 October 2013 18:00 CET</p>
	<p>In the UK, the Railways Pension Scheme (RPS), for example, operates on a “shared cost” basis for most of its sections, with the cost of meeting both future benefit accrual and shortfall recovery in each section often, but not always, being met 40% by member contributions and 60% by the sponsoring employer(s) in that section. Therefore, shared cost schemes, such as the RPS, need to consider member as well as sponsor affordability.</p>	
<p>Q24.</p>	<p>Are the annual probabilities of default appropriate for future QIS purposes? If not, why not?</p> <p>The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.</p> <p>The NAPF also has a wider concern that EIOPA’s proposed approach would deliver an assessment of sponsor support based on just a handful of data about credit ratios, whereas the UK’s current system allows trustees to take account of the full range of relevant information.</p> <p>The weakness of the specific proposals on default risk is that they are – by definition – approximations.</p>	

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Assuming the same probability applies independently from one year to the next is a very strong assumption that is, in many cases, unlikely to be market consistent.

The nature of the default event whose probability is reflected in market measures is almost always significantly different from the nature of a default in sponsor support that would limit an IORP's likelihood of paying the pension promised.

Do stakeholders have any comments on stage 3?

The NAPF does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

The approach proposed in stage 3 would generate some perverse consequences. The hypothetical contributions are calculated with no allowance for default. This reflects common practice but has the consequence that when these contributions are valued with an allowance for default, that value will be less than the value of shortfall. Potentially, any IORP with a shortfall on this basis will appear undercapitalised despite the sponsor support.

Q25.

We are also concerned that 'strong' and 'very strong' sponsors would be

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	<p>penalised through very short recovery periods – maximum 5 years. This kind of recovery period might be inappropriate for strong sponsors.</p> <p>As argued in the NAPF’s answer to Q22, it is better to come to scheme-specific agreements on the length of recovery plans.</p>	
Q26.	<p>Is it reasonable to not allow for any recoveries from sponsor defaults? Please provide examples where this could increase the calculated value of sponsor support.</p> <p>The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.</p> <p>The proposal not to allow recoveries would not be reasonable at all. Individual IORPs should be allowed to make their own decisions on what recovery period would be appropriate for them. And, of course, this decision would then be subject to approval by The Pensions Regulator.</p>	
Q27.	<p>Is it appropriate to do separate calculations to allow for sponsor support from other group companies (both for legally enforceable and not legally enforceable support by group companies)?</p>	

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The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

Individual IORPs will be best placed to decide whether it is appropriate for them to factor in support from other companies in the same group. For example, there may be a legal or contractual obligation on other group companies to support the IORP.

EIOPA should note that distinguishing ‘legally enforceable’ and ‘not legally enforceable’ is far from straightforward. It may not be clear whether support is enforceable until the point has been tested in court. For example, in principle any company in a group can be forced to pay under UK Law, wherever they might be based. In practice, the chance of actually getting contributions this way is short of 100%.

Should any other guidance be included on how to allow for sponsor support from other group companies?

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

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Separate calculations could be needlessly complex. However, if EIOPA intends to move forward on this point, then they should recognise the difficulty of getting access to relevant, accurate and consistent information, notably for multi-national companies.

What could be other valid reasons why the IORP should or should not take the financial position of the wider sponsor group into account when assessing the sponsor’s financial position?

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

Valid reasons for or against taking account of the wider sponsor group would depend very much on the specific circumstances of the scheme and sponsor.

In some groups, a credit rating might only be available at group level. In others there might be inter-company loans or other transactions which would provide a valid reason for assessing support at the consolidated level.

Q29.

Q30.

Is the approach to determining the loss_absorbing capacity

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appropriate?

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

The NAPF does not see a need for a Solvency Capital Requirement (SCR) in the case of IORPs. There is, therefore, no need for calculation of loss-absorbing capacity.

Although we share the EC’s wish to ensure robust protection for members’ benefits, the assumptions on which technical provisions are calculated are already designed to provide for the risks that IORPs and their sponsoring employers face. Adding a completely new element in addition to these tried and tested arrangements would simply pile prudence upon prudence.

Should any other sensitivity analysis be considered?

The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.

Q31.

The sensitivity analysis is already too wide and burdensome - especially if it

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	has to be combined with the SCR approach.	
Q32.	<p>Are there any other types of sponsors that should be included?</p> <p>No comments.</p>	
Q33.	<p>What additional work should be carried out if this methodology was to be used for determining sponsor support in a regulatory or supervisory environment?</p> <p>The NAPF does not support EIOPA's work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.</p> <p>The valuation of sponsor support for all situations differing from a 1-1-1 (one sponsor / one pension institution / one pension promise) scenario as well as for IORPs in the public or not-for-profit sector and cross-border situations remains a very poorly understood area.</p> <p>Given that one of the goals of the Holistic Balance Sheet is to increase the number of cross-border schemes, it seems surprising that this situation is not addressed in more detail in the Discussion Paper.</p> <p>In the meantime, EIOPA would be well advised to put this work on hold until</p>	

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	<p>the new IORP Directive, which will focus on governance and disclosure, has been approved. Many IORPs do not have the resources to consider both sets of issues and there is a risk that the debate on sponsor support and the Holistic Balance Sheet will distract attention from securing the best possible outcomes on governance and disclosure.</p>	
Q34.	<p>What other improvements could be made to the suggested approach?</p> <p>The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.</p> <p>A proportionate approach must be taken to ensure the Holistic Balance Sheet is manageable and affordable for smaller IORPs.</p>	
Q35.	<p>Are there any aspects of the suggested approach which are unclear?</p> <p>The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.</p> <p>It is unclear how the output of the suggested approach would be used and</p>	

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	thus impossible to consider whether the methodology and the corresponding results will be proportionate and fit for purpose.	
Q36.	<p>How could the average financial strength of an industry be determined?</p> <p>The NAPF does not support EIOPA’s work on developing the Holistic Balance Sheet concept. However, given that EIOPA is continuing with this work, the NAPF is supplying comments on the technical detail of the issues.</p> <p>Scheme managers from industry-wide IORPs would be well placed to advise EIOPA on this point.</p>	