

# Pensions Update - IORP II Directive

Presidents' Meeting

27 August 2015

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- Existing Directive passed in 2003
  - Minimum Harmonisation
  - High level principles
  - Defined Benefit focus
  - Introduced cross border plans
- Review process commenced 2010
  - Commission keen to “copy and paste” Solvency II
- EIOPA advice after consultation – yes but needs “amendment for specificities of IORPs”
  - Suggested Holistic Balance Sheet (HBS)
  - QIS in 2013 – significant capital required: technical issues raised
  - Political opposition – UK, Germany, Netherlands etc.
- Commissioner Barnier accepted that this could not be progressed in the short term, so decided in 2013 to bring forward a proposal which would **not** include quantitative measures

# What is in the IORP Directive?

- Proposal published by Commission on 27 March 2014
- 4 key objectives:
  - Protect pension scheme members and beneficiaries:
    - new governance requirements on risk management, internal audit and, where relevant, actuarial function
    - new provisions on remuneration policy
    - self-assessment of risk-management system (Risk Evaluation for Pensions)
    - requirement to use a depositary
    - enhanced powers for supervisors
  - Inform pension scheme members and beneficiaries
    - EU standardised Pension Benefit Statement
  - Remove obstacles for cross-border occupational pension funds
    - but the “fully funded at all times” requirement remains unchanged
  - Allow occupational pension funds to invest in assets "with a long term economic profile" which are not traded.

- Council agreed their negotiating mandate under the Italian Presidency in November 2014 making significant amendments e.g.
  - “social purpose” not just financial institutions
  - fit and proper requirement for those managing an IORP: collective requirement to be fit (and removal of the word "professional" before qualifications)
  - removes power for Commission to make Delegated Acts
  - risk evaluation for pensions – power to national supervisors to lay down what must be included e.g. now includes "an assessment of the overall solvency needs in accordance with national law" rather than detail around technical provisions, sponsor support etc.
  - Pension Benefit Statement; remove 2 page limit, should be "written in a concise way" and "easy to read" and requires additional information e.g. 5 year history of returns for DC, structure of costs where borne by members, details of guarantees and protections for DB schemes

- Parliament began their consideration of the Commission proposal at the start of 2015, appointing rapporteurs and shadows – the ECON Committee takes the lead and their rapporteur is Brian Hayes (Ireland)
- Hayes report published in July
  - Not “one size fits all” – should take account of Member State traditions
  - Recommends that work on the HBS is stopped (but not in Directive anyway)
  - Extends proposed cross border transfer requirements (including fully funded at time of transfer) to all bulk transfers?
  - Suggests changes to the process for approval of bulk transfers
  - “Risk assessment” rather than “risk evaluation”
  - Simplification of Pension Benefit Statement
  - Generally aligned with Council position in many areas
- ECON will finalise its position, Parliament will discuss in plenary and agree its position (by end 2015?)
- Trilogue in first half of 2016 under Dutch Presidency?
- Passed in mid-2016, to be implemented in national legislation in 2018?

# What is the AAE position?

- AAE focus has been on quantitative measures i.e. HBS
  - Falco will comment on this
- Introduction of “actuarial function” for DB IORPs
  - Copy/paste from Solvency II – not all functions appropriate for IORPs
  - Interaction with existing requirement for technical provisions to be calculated and/or certified by an “actuary” ?
  - No requirement for actuarial function holder to have appropriate expertise
  - How will this interact with position in some states where it is a requirement of local legislation that the actuary is a member of/holds a practising certificate issued by the local association?
  - Should there be an actuarial function for DC IORPs (as in Spain)?
- Risk Evaluation for Pensions (ORSA without the S) – actuarial input?
- Cross border plans – no reason for these to be treated differently to domestic plans in relation to establishment of recovery plans
- Have met with MEPs and Commission and will seek to influence final version and produce a position paper