

First thoughts AAE Pensions Committee
On
EIOPA's Opinion to EU Institutions
on a Common Framework or Risk Assessment and Transparency for IORPs

- We welcome the development of good practices for an own risk assessment and transparency for IORPs, sponsors and members/beneficiaries
- We note that technically/legally most IORPs cannot default as there are mechanisms in place to prevent this, such as:
 - Sponsor Support
 - Pension Protection Schemes
 - Benefit Reductions
- This being the case, we would interpret 'Risk Assessment and Transparency for IORPs' on the basis of a 'look through' as Risk Assessment and Transparency for Sponsors and Members/Beneficiaries
- In our view this makes a lot of sense as the pension arrangement is developed and agreed by both the sponsor and the Members (Employees)
- A Risk Assessment can be done in different ways. We have been discussing the suggested approach by EIOPA based on a Valuation and quantification of the risks in Solvency Buffers as well as analyzing Cash Flows. Both are possible. This may also depend on the specific circumstances and characteristics of both the pension arrangement as the investments. We will give this more thought and we will take some time to work on the view from the European actuarial profession on what we find important and in what ways that could be addressed.
- Taking the 'look through' principle we would suggest to include DC in the risk assessment and transparency. We understand that this has not much relevance for IORPs, nor for the sponsor, but is extremely relevant for the members/beneficiaries.
- We see great value of good and objective information to IORPs, Sponsors, Members/Beneficiaries and Supervisors. For Members/Beneficiaries this would be in the first place to those who are representing the Members/Beneficiaries in the discussions with the Sponsor on the pension arrangement and those represented in the management of the IORP. For all other Members/Beneficiaries it is important to find a way of communicating that is relevant and helps them understand their position, their risks and what they can do about it. As we have suggested in other papers and responses we think that layered communication could be very functional: some key information to everyone and the possibility for the individual to go one or

two levels deeper and get more detail on request. Also the way of communication is important as it should be done in an easy to understand way.

- Example: the result of a bad weather scenario could be communicated in terms of 'you would have to work 3 years longer in order to get the outcome that was anticipated' rather than 'this outcome is 23% less', or 'the replacement ration will now be 47% instead of 63%'.
- With regard to public disclosure we think that what is legally mandated should be disclosed, but not necessarily more than that. In general this would be the publication of the annual accounts and annual report. We don't believe it should be mandated that the results of the risk assessment should be publicly available. All information should be available to those who are taking part in the discussions of the set up or amending of the pension arrangement, to those who are managing the IORP and to the supervisors. The results should be available for the wider group of members/beneficiaries in what it would mean for them and this in a meaningful way as discussed before. It wouldn't be necessary and perhaps not even allowed to communicate all information.
 - Example: It could be known that this infrastructure investment is dealing with great difficulties. This information should be included in the own risk assessment and the limited group of people that we indicated should be aware of this, but this cannot be disclosed publicly and would probably even not allowed to disclose publicly.
- We further believe that the discussion on what to communicate to members/beneficiaries could be informed by the work that has been done in relation to the PRIIPS Directive. Seen in this perspective we would support to include in the risk assessment and communication the aspect of costs and fees as well as an assessment of ESG principles.
- Proportionality and simplifications are very important. Our view is that the theoretical 'right' approach should always be taken as the starting point of thinking. Especially where the theoretical right approach would be costly, simplifications could and should be considered. We would use the condition that a simplification would in principle be such that the result is approximately the same (or perhaps somewhat more prudent) as compared to applying the (theoretical) full approach. Expert judgement might be needed here and this is an area where we believe that actuaries could make important contributions.
- The, last but not least, we are not sure whether a Common European Framework is needed in order for IORPs to do an own risk assessment. We would suggest to identify possibilities where the own risk assessment is done on a local basis and overseen by the national supervisor and where the results could be made comparable in a rather easy way in order to be able to present a consolidated European picture on a common basis. This would do justice to both the principle of subsidiarity and the aim for cost efficiency. We would be happy to think this through further and help finding practical solutions that would satisfy all needs, both locally as for Europe as a whole. We could think of a common European framework for X-border IORPs, especially those that are open for multiple employers and where the employers are participating together in one and the same compartment of the IORP (not ring-fenced compartments)