Pension Committee

2nd European Stress Test

Málaga, 7 April 2017

Scope, objectives and practicability

- Scope both DB/hybrid and DC
- Objectives for both DB/hybrid and DC
  - o Resilience of IORPs to adverse market scenario
  - o 2nd round effects on real economy and financial stability
    - Smoothing of shocks over time by prudential mechanisms
    - Consequences of additional pressure put on sponsors

⇨ EIOPA conclusion in 2015 IORP stress test report (Jan 2016)

⇨ ESRB recommendation in low interest rate report (Nov 2016)

- Practical and proportionate exercise minimising burden and encouraging participation

Participation and disclosure

- Market coverage
  - Ambition is coverage of at least 50% of assets
  - NCAs may choose to aim for 50% of assets (DB/hybrid) and 50% of plan members (DC)
  - Minimum threshold of EUR 500 million (19 countries):
    - AT, BE, CY, DE, DK, ES, FI, GR, IE, IT, LI, LU, NL, NO, PT, SE, SK, SI, UK
  - NCAs aim to achieve representative sample
- Exercise to be completed by participating IORPs
- No names of IORPs or data that can be linked to individual IORPs will be disclosed/published

High-level contents DB/hybrid stress test

- One ESRB adverse market scenario ('double hit')
  - National balance sheet
  - Common balance sheet
  - Cash-flow analysis *new*
- Implications real economy and financial markets
  - Absorption of shocks over time *new*
    - Qualitative description (national) smoothing mechanisms
  - Impact on sponsors *new*
    - Compare sponsor support with measures of sponsor strength (like earnings, book and/or market value)
    - Qualitative assessment by IORPs
  - Effects of investment behaviour on financial markets

High-level contents DC stress test background

- One ESRB adverse market scenario *new*
  - Impact on IORPs' overall assets
- Implications real economy and financial markets
  - Impact on retirement income DC members
    - outcomes three representative plan members
    - extrapolate to future retirement at IORP level *new*
  - Effects investment behaviour on financial markets *new*

Envisaged timeline

- 1st half April : Informal consultation with stakeholders
- Mid-May : Launch of stress test exercise
- June : EIOPA Q&A during exercise
- Mid-July : Submission of results by IORPs to NCAs
- Mid-July-end-Aug: National validation
- End-Aug–end-Sep: EIOPA validation
- Mid-Dec : Publication 2017 IORP stress test report

1rst informal consultation in January

EIOPA did invite

- Actuarial Association of Europe
- European Association of Paritarian Institutions (AEIP)
- Pensions Europe

for a 1rst informal consultation in January

Two topics:

- Collecting cash flow data
- Impact on sponsors

AAE Working Group - participants

- Susanna Adelhardt, Germany
- Helmut Aden, Germany
- Teresa Blanco, Spain
- David Bogataj, Slovenia
- Daphné de Leval, Belgium
- Philippe Demol, Belgium
- Paul Kelly, UK
- Malcolm Kemp, UK
- Aidan Kennedy, Ireland
- Chinu Patel, UK
- Philip Shier, Ireland
- Falco Valkenburg, The Netherlands

AAE Working Group - activities

- Extensive exchange of thoughts and views via e-mail
- Three conference calls
  - 17 January
  - 27 January
  - 3 February
- Meeting with Pensions Europe and AEIP on 2 February
- Meeting with EIOPA on 6 February
- High level written response submitted on 14 February

2nd informal consultation in April

EIOPA did invite

- Actuarial Association of Europe
- European Association of Paritarian Institutions (AEIP)
- Pensions Europe
- Occupational Pensions Stakeholder Group

for a 2nd informal consultation in April

Topic: **Technical review** of

- Draft Technical Specifications
- Reporting spreadsheets
- Qualitative Questionnaire

AAE Working Group - activities

- 30 March: materials received from EIOPA
- 31 March: Falco had briefing conference call with EIOPA

- Three conference calls scheduled
  - 4 April
  - 12 April
  - 24 April (de-briefing)

- Written response to be delivered to EIOPA on 13 April

- Meeting with EIOPA on 19 April