



Informal consultation on EIOPA's supervisory opinions on IORP II governance and risk assessment provisions

Fields marked with * are mandatory.

About the informal consultation

EIOPA is working on four supervisory opinions regarding the implementation of IORP II governance and risk assessment provisions. Alongside the opinions which will be addressed to National Competent Authorities (NCAs), EIOPA has developed a short Q&A on the proportional supervision of IORPs.

Before finalising the documents, EIOPA would value technical feedback and practical comments from your organisation. Please be advised that EIOPA shared these documents on a confidential basis. Any distribution of the documents or its contents to parties outside your organisation is not permitted.

The questionnaire is divided into six sections:

1. Opinion on governance documents (including annexes on SIPP and ORA principles) and illustrative ORA template
2. Opinion on the practical implementation of EIOPA's Common Framework on risk assessment and transparency for IORPs (including annex on principles / technical specifications) and SRA calculation tool
3. Opinion on operational risk (including annexes on illustrative classification, outsourcing risk, cyber risk)
4. Opinion on ESG risks (including annex with illustrative ESG mapping)
5. Q&A on proportional supervision of IORPs
6. Final comments

Each section contains a set of technical questions upon which we would welcome comments and suggestions.

All questions are open-ended. So please consider concise technical responses with practical examples.

Please be advised that the final section on final comments which has a limit of **3,500 characters**.

All questions, with the exception of information about your organisation, are optional.

Remarks on completing the questionnaire

Choice of internet browsers

Please use preferably Firefox or Chrome for best speed of the online questionnaire whilst ensuring use of the latest version of the browser.

Saving a draft questionnaire

After you start filling in responses to the questionnaire there is a facility to save your answers.

HOWEVER, PLEASE NOTE THAT THE USE OF THE ONLINE SAVING FUNCTIONALITY IS AT THE USER'S OWN RISK. This is because successfully saving answers online depends on the IT security settings (e.g. cookies clearance setting).

As a result, it is strongly recommended to complete the online questionnaire in one go (i.e. all at once). A pdf version of the questionnaire can be downloaded (see on-screen link "**Download PDF version**") to facilitate internal discussions, collection and finalisation of answers within your organisation.

Should you still proceed with saving your organisation's answers, the online tool will immediately generate and provide you with a new link from which you will be able to access your organisation's saved answers.

It is also recommended that you select the "**Send this Link as Email**" icon to send a copy of the weblink to your email - please take care of typing in your email address correctly. This procedure does not, however, guarantee that your answers will be successfully saved.

Printing your response

You will have the possibility to print a pdf version of your organisation's final response after submitting it by clicking on "**Download PDF**".

You will automatically receive an email with the pdf file. Do not forget to check your junk / spam mailbox.

Technical issues or other questions

For technical issues or questions about the questionnaire, please contact carine.pilot-osborn@eiopa.europa.eu

About your organisation

* 1 Please select the relevant type of organisation

- ☐ National Competent Authority
- ☒ External stakeholder organisation

* 6 Please select the relevant stakeholder group / organisation

- ☒ AAE
- ☐ AEIP
- ☐ OPSG

Governance documents

This section is divided into five parts:

- Supervisory opinion
- Annex on SIPP principles
- Annex on ORA principles
- Illustrative ORA policy
- Illustrative ORA results report

Objective: To seek technical feedback on proportionality aspects regarding information consistency between governance documents, transparency of NCAs' requests and disclosure as well as gather practical examples and other suggestions in particular regarding the illustrative ORA template

1) Supervisory opinion

7 Do you have any comments in relation to the non-exhaustive list of governance documents (see para 3.5-3.7), including practicalities for IORPs to maintain information consistency across documents (see para 3.15)?

We agree that all of the documents listed may be appropriate for the purpose of supervision of IORPs, but we do not think that it should be mandatory for IORPs to prepare them as is suggested by the wording of 3.5 “NCAs should ensure that IORPs prepare the following documents...” A proportionate approach should be adopted; some of the documents listed may not be appropriate or necessary given the size, nature, scale and complexity of the activities of the IORP. The additional benefit of requiring a specific document to be produced should be considered relative to the cost of producing it, from the perspective of the IORP, and the additional resources required by the NCA to review it. We agree that NCAs should be given flexibility to request additional documents where appropriate (3.8) but this should be balanced by flexibility not to require one or more of the documents listed at 3.5 and 3.7 if inappropriate.

We agree that it is important that the governing documents of an IORP are internally consistent, and we do not see any particular practical difficulty with this.

8 Do you have any comments on setting out clear requirements for the submission of governance documents to NCAs, in particular with respect to the proportionality principle?

We strongly support the requirement (3.1 and 3.2) that NCAs should specify how each document requested is integrated in their supervisory framework as this will encourage buy-in from IORPs and will also identify any documents which are in fact not necessary. We have no comments on the text in 3.10 to 3.14, other than to stress the importance of a proportionate approach and we agree that it would be appropriate for NCAs to consider first, and in greater detail, IORPs which are considered to be high-risk or complex (3.14).

2) Annex on SIPP principles

9 Do you have any comments regarding the structure and content of the SIPP (principles 1-8)?

We note that Article 30 of the Directive requires “Member States shall provide for [the SIPP] to contain, at least, such matters as the investment risk measurement methods, the risk-management processes implemented and the strategic asset allocation with respect to the nature and duration of pension liabilities and how the investment policy takes environmental, social and governance factors into account.”

3.4 which acknowledges that the level of detail required in the SIPP should correspond to the size, nature, scale and complexity of the activities of the IORP is to be welcomed but could be developed to give more guidance to the NCA’s on how to apply this principle of proportionality.

The draft Opinion recognises that different approaches have been taken in different MS to the existing requirement to have a SIPP, and 3.21 refers to the possibility of having a “more comprehensive governance document” than the SIPP.

In our view, the primary objective of the SIPP is to state the investment policy principles which might be considered to be the “vision” or “mission statement” of the governing body of the IORP in relation to investment of the IORP’s assets. It would therefore be a principles-based, high level, concise document which would be suitable for disclosure to members and beneficiaries, and could be understood by them. A more granular document(s) setting out processes, approach to measuring and monitoring risk, appointment of investment managers etc. is necessary to guide the governing body in implementing the principles and it is appropriate that the NCA should be able to request this document(s), and to seek confirmation of compliance by the IORP with the processes outlined. However, this document(s) is likely to be of limited value to members and beneficiaries (as is recognised in 9.5 and 9.6), although they could be advised of its availability (i.e. a layered approach).

In this context, we note that some of the information listed as being appropriate for a SIPP would normally be included in other documents e.g. membership details, funding position.

The wording of 5.3 is quite loose potentially requiring even very minor investment decisions to specify the recommending body, decision-making body and oversight body etc. Is this intentional?

Where members bear investment risk, and are given investment options, it is essential that they are given clear information on the options available, including risks, expected returns and charges, but this information should be provided separately from the SIPP.

As noted in Q7, the additional benefit to members and beneficiaries of requiring a particular item to be included in the SIPP (or other governance document) should be considered relative to the cost of doing it.

Some of the language of the Annex would need refinement for occupational Trust- structured DB and DC pension schemes:

- Foot notes 9 and 10, page 7/21. Focus on rate of return above a benchmark index is not appropriate for DB pension schemes, return needs to be considered relative to the liabilities. Focus on positive performance only is not appropriate for any pension scheme. The appropriate response to negative performance is unique to each pension scheme and needs to be contextualised in terms of asset class, liabilities, duration and the wider circumstances of the scheme/member.
- Paragraphs 2.8, 2.9, 4.2 (last bullet) The wording might be tightened to capture that in a defined contribution context, members are responsible for their own investment decisions. Trustees are required to make available a suitable range of investment options but are not responsible for the success or failure of the investment decisions members make.

10 Do you have any comments regarding the public disclosure and signposting of the SIPP (principle 9)?

It is unclear what is meant by “publicly disclosed” – the Annex refers only to disclosure to members and beneficiaries rather than being on an open website where it can be accessed by the general public, journalists, analysts, members of other schemes, advisers etc. The opinion also makes a number of references to further information being included in other documents but it is not clear if these are all intended to be “publicly available”.

We consider that the method of disclosure of the SIPP to members and beneficiaries should be a matter for the IORP to decide; this may be as a separate document available on its website (if one exists), or by its inclusion in the annual report sent to members, or with the PBS. Different methods will be appropriate for different IORPs.

If “public disclosure” is required, we recommend that this be done via the NCA’s website.

11 What other practical examples or tools would be useful in relation to the SIPP?

Nothing else occurs to us at this time.

3) Annex on ORA principles

12 Do you have any comments regarding the structure and content of the ORA documents (principles 1-4)?

We have no specific remark on principles 1 to 4 as stated in the Annex 2 of the Draft Opinion, except on item 2.7. We are not sure to understand why, in multi-employer DC schemes, the proportion of active members is key to the sustainability of the DC IORP, which is managing individual DC accounts for both actives and inactives and can levy fees on both types of account independently of the overall demography of the scheme.

Regarding the scheme in page 20 – it would be interesting to integrate a business plan and a value dimension next to risk dimension. The forward-looking approach should be present in the assessment in line with the business plan, not only to support any early trigger for review.

13 Do you have any comments regarding the disclosure of the ORA documents (principle 5)?

We agree with principle 5 on disclosure in the Annex 2 of the Draft Opinion and especially on sub principle 5.5 around ORA documents to be actively shared only with engaged stakeholders and members.

14 What other practical examples or tools would be useful in relation to the ORA documents?

In line with our previous opinions, the AAE believes that the use of a cash-flow approach using realistic projections of all cash-flows relating to the respective pension plans managed by the IORPs would be particularly relevant in the ORA framework. This would provide a more realistic basis for assessing the impacts of the various risks on the schemes managed by the IORP than the common balance sheet. We regret that EIOPA in its draft opinion seems to promote only the EIOPA concept of “common balance sheet” as a “common” framework. IORPs in the EU use various types of cash flow approach to analyse their risks but no concept such as the “common balance sheet”.

4) Illustrative template: ORA policy

15 Please describe any elements that are not currently listed in the ORA policy but which IORPs would find useful?

The AAE has the following suggestions for the ORA policy document:

- The AAE strongly believes that the cash-flow approach should be included in the various possible risk assessment methods listed in section 2, as the use of a cash-flow approach using realistic projections of all cash-flows relating to the respective pension plans managed by the IORPs would be particularly relevant in the ORA framework. It would certainly provide a more realistic basis for assessing the impacts of the various risks on the schemes managed by the IORP than the common balance sheet.
- In the risk mitigation and adjustment mechanisms (section 4), increase in employee contributions as well as changes to biometric parameters such as conversion rates are not listed.
- The acronym “pps” should be clearly defined (Pension Protection Schemes)

16 Do you have any other comments to improve the development of an illustrative template for the ORA policy?

In order to ease implementation and early adoption of the ORA framework, AAE suggests that EIOPA clearly states that the “common balance sheet” approach is not compulsory and that IORPs are free to use any other quantitative approach, which will provide the same benefits in terms of governance and risk management. Otherwise, IORPs in the EU will have a long and difficult learning curve with a quantitative framework which is not currently used in the EU.

5) Illustrative template: ORA results report

17 Please describe any elements that are not currently listed in the ORA results report but which IORPs would find useful?

AAE has the following remarks:

- Section 1: we don't believe that deviation from the target asset allocation is the main investment risk of any given IORP : the main risk is more to have investment returns which are not in line with return expectations and/or evolutions of pension obligations to be funded.
- “for ALM / mismatching risk” is not clear.
- Section 7: we are not sure to understand what strategy risks should exactly cover.

18 Do you have any other comments to improve the development of an illustrative template for the ORA results report?

We would like to highlight that even though the templates are not very elaborated, the headings are useful as a checklist of risks which should be considered, perhaps not so much the content inside them. We recognise this is a first draft and that it could be more developed in the future.

Common Framework on risk assessment and transparency for IORPs

This section is divided into the following parts:

- Supervisory opinion

- Annex - Principles and Technical Specifications
- Annex - Standardised Risk Assessment (SRA)

Objective: To seek technical feedback and comments so as to enhance the clarity and practicalities of the opinion, principles, technical specifications, SRA calculation tool and proposed simplifications and; to identify any potential inconsistencies and errors as well as suggestions of further simplifications without material change to EIOPA's 2016 Opinion on Common Framework. Stakeholders should be aware that further simplifications suggested in the questions on SRA calculation tool section have not been tested. Furthermore stakeholders should be aware that the calculation tool and the technical specifications are not yet fully consistent. Also the technical specifications include many cross-references. These have not yet been fully updated.

1) Supervisory opinion

19 Do you consider that the draft Opinion clearly describes EIOPA's expectations with regard to the practical implementation of the common framework as a tool for risk assessment? Please explain

The AAE does not support the implementation of a common framework as a tool for risk assessment. We agree with the statement in Recital 77 of the Directive:

“The further development at Union level of solvency models, such as the holistic balance sheet (HBS), is not realistic in practical terms and not effective in terms of costs and benefits, particularly given the diversity of IORPs within and across Member States. No quantitative capital requirements, such as Solvency II or HBS models derived therefrom, should therefore be developed at the Union level with regard to IORPs, as they could potentially decrease the willingness of employers to provide occupational pension schemes.”

The usefulness of a common framework as a tool for risk assessment, taking into account all the specificities of the different IORPs, could be quite limited. We prefer an approach which focuses on the important features of the IORP of each country. There will be of course some common principles, but the AAE is not in favour of a common framework.

20 Do you consider that the monitoring by EIOPA should be consistent with the 3-year ORA cycle, and therefore conduct its first review after a 3 year period? Please explain

The monitoring consistent with the 3-year ORA cycle seems reasonable to us.

21 Do you consider the common framework as a beneficial supplement to the national regulatory frameworks (2.4 in the opinion)? If no, please indicate what simplifications and / or changes would be needed to make it more so?

No, as stated above we are not in favour of the common framework.

2) Annex - Principles and Technical specifications

Principles

22 Do you consider that the principles cover all aspects of the valuation of the common balance sheet and the risk assessment? Please provide details when you consider that it does not cover all aspects.

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

Technical specifications

23 Do you consider that the technical specifications are sufficiently detailed for using the common framework in practice? Please provide details when you consider that the technical specifications are not sufficiently detailed.

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

24 Do you consider that the simplifications included in the draft are sufficient for applying the common framework in a proportionate manner? Please provide details when you consider that the simplifications do not allow the proportionate application of the common framework. Please describe further possible simplifications.

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

25 Do you consider that the list of definitions is sufficiently developed to understand the principles and technical specifications ? Please provide details on missing definitions.

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

3) Annex - Standardised Risk Assessment

Objective: To seek technical feedback on and other suggestions of possible simplifications to the SRA calculation

Expense risk and interest rate risk

26 Do you consider that it is relevant to take into account the inflation risk element within these two risk modules? (par. 3.41(b) and section 'IORPs which dispose of inflation-linked obligations', par. 3.78 to 3.90). Please explain

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

Spread risk

27 Do you consider that the specific treatment for securitisation could be deleted, meaning that they would be treated in the same way as bonds and loans? (section ‘Spread risk on securitisation positions’, par. 3.122 to 3.129). Please explain

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

28 Do you consider that the specific treatments for insurance and reinsurance undertakings, credit institutions and financial institutions for which a credit assessment by a nominated ECAI is not available could be deleted? (par. 3.137 to 3.140). Please explain

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

Concentration risk

29 Do you consider that the specific treatments for insurance and reinsurance undertakings, credit institutions and financial institutions for which a credit assessment by a nominated ECAI is not available could be deleted? (par. 3.158 to 3.161). Please explain

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

Counterparty default

30 Do you consider that the specific case where reinsurance arrangement is with an insurance or reinsurance undertaking or a third country insurance or reinsurance undertaking and 60 % or more of that counterparty's assets are subject to collateral arrangements could be deleted? (second part of par. 3.201). Please explain

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

31 With regard to the calculation of loss-given-default, do you support the replacement of the deduction of F or F' multiplied by the risk-adjusted value of collateral by 75% of the market value of the collateral? (par. 3.201 and 3.202). Please explain

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

32 With regard to the probability of default, do you agree with the following rules for counterparties for which a credit assessment by a nominated ECAI is not available:

- i) Unrated insurance or reinsurance undertaking, but solvency ratio $\geq 400\%$, PD = 0,05% (par. 3.229)**
- ii) Unrated Bank, subject to the Capital Requirements Regulation (575/2013), PD = 0,5% (par. 3.232)**
- iii) Other unrated counterparties, PD = 4,175% (par. 3.230, 3.231)**

Please explain

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

Intangible asset risk

33 Do you consider that it is relevant to take into account intangible asset risk or could this module be deleted from SRA? Please explain

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

Loss-absorbing capacity of deferred taxes

34 Do you consider that, as simplification, the loss-absorbing capacity of deferred tax, could be calculated as 15% of the BSCR and operational risk? Please explain

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

Other simplifications

35 Do you have any suggestions on other simplifications that could be introduced into the SRA?

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

Structure and content of the SRA calculation tool

36 Do you have any comments on the structure and content of the calculation tool?

We have not provided answers to Q26 to 36 because it would not have been possible to develop an AAE position on these detailed questions in the time available, given that this is a new area for actuaries advising IORPs in many Member States. In addition, as noted above, we do not support the use of the common framework for the purpose of the own risk assessment.

Operational risk

This section is divided into four parts:

- Supervisory opinion
- Annex on illustrative classification
- Annex on outsourcing risk
- Annex on cyber risk

Objective: To seek technical feedback on the illustrative classification in the context of ORA, specificities of operational, outsourcing and cyber risks for IORPs including relevant practical examples

1) Supervisory opinion

37 Does the opinion strike the right balance between principles for the supervision of IORPs' management of operational risk and clarity/detail of what is specifically expected of NCAs? If no, please explain how the opinion could be improved.

We generally welcome the Supervisory Opinion on the Supervision of the Management of Operational Risk by IORPs. It should assist NCAs and hence IORPs in defining expectations in this area of risk management. We particularly appreciate the emphasis on outsourcing, as we expect many IORPs (particularly smaller ones or ones closed to new entrants) to outsource many of their day-to-day activities.

The scope of operational risk should be further defined: sections 3.1 and 3.3 appear to give a limited definition of operational risks whereas 3.5 includes compliance/legal risk and 3.24 w.r.t. periodic review of risk management policies includes emerging risks.

Areas where some additional detail might be helpful include:

- (a) In Section 3.10 it might be helpful to indicate how NCAs might practically stimulate IORPs to improve their operational risk management. For example, the NCA could require the ORA to include a sector exploring what enhancements it would be desirable for the IORP to consider and/or there could be a recommendation to the NCA to develop ways of sharing good practice.
- (b) In Section 3.15 it might be useful to add that a strong risk management culture is also supported by a good interaction between the different stakeholders and their contribution to the ORA
- (c) In 3.25 – 3.27 there could be greater clarity on how these risk tolerance statements link to the broader risk appetite statement / policy that the IORP is presumably also expected to establish and agree. A further link to operational risk as part of the ORA would also be welcome in line with the required qualitative assessment (art. 28 of IORPII directive)
- (d) It might also be helpful to provide more guidance on how to develop an operational risk register and specify some structure (see section 3.31) so that the losses could be consolidated at a national and European level in a huge database. This would allow some back testing and a general experience sharing to improve future mitigation

38 Does the opinion strike the right balance between principles for IORPs' management of operational risk and clarity/detail of what is specifically expected of IORPs? If no, please explain how the opinion could be improved.

The opinion could perhaps explore in more detail what the risk management function is supposed to do. For insurers, the risk management function commonly interacts a lot with the actuarial function (and many risk managers are actuaries). We may see similar developments with IORPs. The opinion might also therefore explore in more detail what might be expected from the actuarial function in this area of risk management.

39 Does the opinion sufficiently take into account the specificities of IORPs? If no, please explain how the opinion could be improved in this respect.

We agree that it is helpful for EIOPA to consider and draw on existing principles and guidelines in the area of operational risk for other parts of the financial sector (see 2.7). However, we would suggest that EIOPA also

consider:

- (a) Whether there are any relevant insights available from beyond the financial sector, or if not why not. For example, some member states have listing requirements and other corporate codes that include sections on risk management. If not already done so, it may be helpful to seek to validate the contents of this Opinion against these sources, if only because it may help make terminology used as meaningful as possible to operational risk managers from outside the financial sector.
- (b) Whether there are any features of IORPs that differentiate them from other financial sector entities. Many IORPs might be akin to special purpose vehicles in that they may have a single purpose (to pay benefits to beneficiaries when they fall due). This could influence their operational risk profiles, e.g. making them keener to outsource activities than the typical financial sector player.
- (c) The operational risk related to communication from and to members should be further taken into account.

2) Annex - illustrative classification of operational and related risk

40 Do you consider it useful that strategic and political/regulatory risks are excluded from operational risk but acknowledged as being closely related to operational risk? Please explain

Yes. See also our answer to Question 39 about seeking to make terminology as inclusive as possible for those who may not have a financial sector centric perspective on operational risk.

41 Please explain whether the classification of operational risk in the seven sub-categories is helpful for the supervision of IORPs' management of operational risk.

It may be helpful to highlight which categories EIOPA perceives as likely to be most important.

It may also be helpful to give greater focus to legal risks (e.g. misinterpretation of what benefits the IORP needs to provide and/or who is liable if some operational process fails) as these are perhaps more likely to give rise to large losses than many other types of operational risk .

42 Please provide any other comments you may have on the classification of operational risk (vertical axis) and/or the origins of operational risk (horizontal axis).

No comment.

43 Do you have any other suitable examples of operational risk? If yes, please provide other suitable examples.

No comment.

3) Annex - outsourcing risk

44 Does the annex strike the right balance between principles for the supervision of IORPs' management of outsourcing risk and clarity/detail of what is specifically expected of NCAs? If no, please explain how the annex could be improved.

This part of the opinion is quite detailed. This may be appropriate for larger IORPs given the likely importance of outsourcing for IORPs. However, it raises the question of proportionality for smaller IORPs. It may therefore be helpful to highlight areas to focus on for smaller IORPs.

45 Does the opinion strike the right balance between principles for IORPs' management of outsourcing risk and clarity/detail of what is specifically expected of IORPs? If no, please explain how the annex could be improved.

See answer to Question 44.

The accountability of the IORP w.r.t. outsourcing should be subject to proportionality especially w.r.t. approving the outsourcing of an important and critical function or activity (see section 4.2): the approval might need specific expertise or qualification that is not necessarily internally available for smaller IORPs. Would a third party approval provide a solution? Specifying the approval requirements and how those differ from validation would also be welcome.

46 Does the annex sufficiently take into account the specificities of IORPs? If no, please explain how the opinion could be improved in this respect.

See answer to Question 44.

4) Annex - cyber risk

47 Does the annex strike the right balance between principles for the supervision of IORPs' management of cyber risk and clarity/detail of what is specifically expected of NCAs? If no, please explain how the annex could be improved.

As per our answer to Question 44, proportionality is likely to be an issue. Is the intention to encourage NCAs to create or point to checklists or other tools that could assist smaller IORPs in addressing this risk? Even for bigger IORPs and given the very nature of cyber risk ("The chain against cyber risk will only be as strong as its weakest link"), a joint effort from all stakeholders in a holistic approach is required.

Experience has already shown that it is important to share the attacks in a confidential basis to learn collectively so that some weakness of the system has been solved.

The resilience of IORP system against cyber risk requires both a global approach at industry and international level together with an appropriate IORP risk management to prevent insider threats and rely on appropriate IT systems. There should therefore be some consistency between the IORP and macro approach on cyber risk. Cooperation and information sharing as described in section 4 should be more structured to assist all IORPs against cyber risk.

48 Does the opinion strike the right balance between principles for IORPs' management of cyber risk and clarity/detail of what is specifically expected of IORPs? If no, please explain how the annex could be improved.

See answer to Question 47.

Some guidance on risk tolerance statement related to cyber risks would be welcome.

49 Does the annex sufficiently take into account the specificities of IORPs? If no, please explain how the opinion could be improved in this respect.

See answer to Question 47.

ESG risks

This section is divided into two parts:

- Supervisory opinion
- Annex on illustrative ESG mapping

Objective: To seek technical feedback on the illustrative mapping in the context of ORA, specificities of ESG risks for IORPs including relevant practical examples

1) Supervisory opinion

50 Does the opinion strike the right balance between principles for the supervision of IORPs' management of ESG risks and clarity/detail of what is specifically expected? If no, please explain how the opinion could be improved.

Yes, we consider the balance between principles and detail is appropriate overall.

For ease of reference, we summarise below what is included in Section 3 of the document, which sets out EIOPA's opinion with regard to the supervision of IORPs' assessment of ESG risks. This Section states, inter alia, that NCAs should

(3.1) Interpret ESG by reference to the UNPRI

(3.2) Recognise that ESG risks are part of traditional risks e.g. market risk

(3.5) Consider IORPs' assessment of ESG risks as an integral (sic) part of their supervisory activity

(3.6) Review whether IORPs consider ESG risks, and include ESG risks in their own (presumably NCAs') risk assessment

(3.10) Use a range of supervisory techniques and tools most appropriate to the circumstances of the IORP

(3.11) Ensure that outsourcing does not prevent effective implementation of ESG risk management

(3.12) Encourage IORPs to continually improve their management of ESG risks

(3.13) Exercise proportionality in determining frequency/depth of their supervisory activity.

These all seem to be appropriate and it is to be hoped that good practice will emerge as IORPs and NCAs become more familiar with ESG risks. We would not recommend providing more prescriptive guidance to NCAs at this time.

We would comment that the text, particularly in 3.8, provides helpful discussion as to how IORPs might fulfil their responsibilities in relation to ESG risks. We have three specific comments on this paragraph:

- In addition to gauging the views of members and beneficiaries, it would seem appropriate for the IORP to engage with the sponsoring employer(s).
- We do not understand, or agree with, the comment that acting as a responsible investor through engagement will contain reputational risk. If this is EIOPA's view, it would be helpful if it could be clarified. We accept that there may on occasions be conflicts of interest e.g. in relation to the IORP's position in relation to ESG risks on the activities of the sponsoring employer.
- The last bullet is most relevant for directly held equity which would not be the case for smaller IORPs e.g. most Irish pension schemes. In practice, the engagement would be through the asset managers and we suggest the text be amended to cover this.

We note that Annex 1 focuses on risks which are normally relevant to insurer liabilities, and indeed the document as a whole reads as if it were at least in part copy/pasted from a document relevant to ESG risks in insurance e.g. geographical distribution of assets is a good indicator of physical risks, which is more relevant to insurer liabilities, i.e. areas with increased chances of hurricanes / flooding, etc.

We note in passing that there is no mention in the document of "stranded asset risk" which is highlighted in Recital 57 of the Directive.

51 ~~Does the opinion strike the right balance between principles for the supervision of IORPs' management of ESG risks and clarity/degree of detail what is specifically expected? If no, please explain how the opinion could be improved.~~

Please do not respond to this Question as it is a duplication to Question 50

2) Illustrative ESG mapping

52 Do you find it useful, for the supervision of IORPs' assessment of ESG risks, to translate these risks into traditional prudential risk categories, like market risk, credit risk, operational & reputational risk and business & strategic risk? Please explain.

Yes – we consider that this is helpful as it gives more context to the risks.

53 Would the ESG mapping benefit from a further refinement of social risk into possible categories, like reputational, consumer, political & law (or possibly divide them over UN Sustainability goals like, “3 good health and well being”; ”8 Decent work and economic growth” “12 responsible consumption and production”)? If yes, please explain

No. We think that this would be overly refined and might lead to omission or miscategorisation of one or more risks.

54 Please provide any other comments you may have on the classification of ESG risks (vertical axis) and /or the classification of traditional prudential risks.

As noted above some aspects seem to be insurer related rather than pension-scheme specific.

55 Do you have other suitable examples for the ESG mapping? If yes, please provide other suitable examples.

Nothing else occurs to us at this time.

Proportional supervision of IORPs

This section relates to the Q&A including Annex on illustrative indicators

Objective: To seek technical feedback on illustrative supervisory practices and indicators

56 Do you have any comments on the proposed prudential and regulatory conditions to proportional supervision set in Question 2?

These seem reasonable although there appears to be some contradiction in the statement that “Effective proportional supervision should indirectly help maintain the diversity of the IORP sector and level-playing (sic) field at both national and European levels.”

57 Do stakeholders have any comments and suggestions of indicators listed in the Annex and explained in Question 3?

We support the approach of identifying indicators and segmenting the IORP sectors along the lines described for the purposes of supervision, and agree that it would not be appropriate to have a one-size-fits-all approach.

We appreciate that the list of possible indicators in the Annex is not exhaustive, but we would suggest that a couple of additional factors might be considered relevant

- The financial strength of the employer and relevant related companies (for defined benefit IORPs)
- The perceived quality and experience of the advisors or service providers used by the IORP.

58 Do you have any comments on the proposed supervisory practices set in Question 4 and additional suggestions of practices?

These seem reasonable although AAE does not have an insight into NCAs’ supervisory processes.

Final comments

59 Please feel free to use the commentary box to provide practical examples, additional suggestions

3500 character(s) maximum

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