

Review of IORP II Directive

Presentation to Pensions Committee, Bratislava, 20 April 2023

Background

Article 62 of the IORP Directive

1. *By 13 January 2023, the Commission shall review this Directive and report on its implementation and effectiveness to the European Parliament and to the Council.*
2. *The review referred to in paragraph 1 shall in particular consider:*
 - (a) the adequacy of this Directive from a prudential and governance point of view;*
 - (b) cross-border activity;*
 - (c) the experience acquired in applying this Directive and its impact on the stability of IORPs;*
 - (d) the Pension Benefit Statement.*

Deferred due to late transposition of IORP II in some (many) MS

European Commission [Call for Advice](#) in June 2022 (originally by 1 July 2023 but put back to 1 October 2023)

Effective deadline for agreement taking account of 2024 EP elections and new Commission

Call for Advice

The Commission asked for views on the issues set out in Article 62

- prudential and governance issues; in particular *“whether the administrative burdens caused are justified in view of the benefits for members and beneficiaries as well as for the proper functioning of occupational pension systems and the stability of IORPs. In this context, particular attention should be paid to the situation of pure DC schemes..”*
 - cross-border activity; *“assess the implementation and effectiveness of these rules and analyse obstacles where identified”*
 - the Pension Benefit Statement *“Assess to what extent the current framework has delivered on the objectives including having regard to digitalisation and transparency of costs and charges”*
- and also on
- adapting the regulatory framework to the shift from DB to DC schemes
 - strengthening the sustainability aspects of the fiduciary duties and stewardship rules
 - including requirements to include diversity and inclusion in management bodies

EIOPA Consultation

Topics set out in 6 sections

- *Governance and prudential standards*
- *Cross-border activities and transfers*
- *Information to members and beneficiaries and other business conduct requirements*
- *Shift from defined benefit to defined contributions*
- *Sustainability*
- *Diversity and inclusion (D&I)*

Document gives background, provides analysis of issues, and set out policy options

- *EIOPA welcomes comments on all parts of the consultation paper. The consultation paper includes specific questions on some review items. ...stakeholders can respond to those specific questions and provide any other comments on all parts of the paper.*

Webinar 11 May

Deadline for submission (via online survey tool) is 23.59 on 25 May

AAE Process

Task Force :

- Philip Shier, Tatiana Bitunska, Philippe Demol, Jean-François Gavanou, Susanna Adelhardt, Richard Clossick, Giampaolo Crenca, Stefano Visintin, Jeroen van den Bosch, Anders Munk

Also participating:

- Falco Valkenburg, Karel Goossens, Martin Melchior, Luigi Di Falco

Issued a survey of MAs to inform position on key issues

Draft submission – to Pensions Committee members for comment by 5 May

To Board for review by 11 May (defer to enable us to reflect on EIOPA webinar?)

Deadline for submission to EIOPA is 25 May

Survey of Member Associations

Very short deadline – thanks to the 10 associations who responded (so far)

- Bulgaria
- Croatia
- Denmark
- Estonia
- Germany
- Ireland
- Italy
- Norway
- Slovakia
- UK

Responses considered in the following slides

Governance and prudential standards (1)

Proportionality

- Increase threshold for MS option (Article 5) to exempt “small” IORPs from most of the requirements to 1,000 members/beneficiaries and €50m assets? **67% agree**
- Remove references to “size” and “internal organisation” in proportionality provisions so focus on “nature, scale and complexity”?
- Define low risk IORPs and give MS options to exempt them from certain requirements. **90% agree** Must satisfy all of
 - gross value at risk not more than 5% of TPs
 - cross border activity not more than 5% of members/beneficiaries
 - assets not more than €1billion
 - investments in non-traditional investments not more than 20% of total
- Application of proportionality measures

Governance and prudential standards (2)

Liquidity risk

- Requirement to address in ORA if material derivative exposure?

Conflicts of Interest

- NCA must carry out prudential assessment on authorisation/registration
- Relationship between IORP and service providers

Standardised Risk assessment

- Common framework? **50/50 split**

Investment Rules

- Expand definition of “regulated markets”

Own Risk Assessment

- Require IORP to have a written ORA policy
- Take into account risk tolerance limits (of members if they bear investment risk)

Cross-border activities and transfers

- Very small number of cross border arrangements
 - Scope for supervisory arbitrage if no assessment carried out
- Under Article 12, cross border transfers are subject to approval of the majority of members and of beneficiaries as defined in national law
 - Different approaches in different MS; propose common definition
 - Higher bar than for domestic transfers; propose to level-up so that domestic transfers would require majority approval

Information to members and beneficiaries

Projections (DC)

- Principles-based **40% agree**
- EU standardisation **no**
- MS templates **60% agree**

Include

- Summary information on sustainability
- Past performance (DC)
- Information on investment options (where member has a choice)

Digitalisation

- Default to digital with member right to paper copy on request? **90% agree**
- Assist members to make choices

Information on costs and charges (if member bears risks/makes choice) **80% agree**

Information to members and beneficiaries (2)

Pensions Benefit Statements:

- Include at least 3 scenarios (i.e. add a “favourable” scenario)
- Show estimated benefits in real terms
- Information on retirement benefits
- Use same approach as risk management modelling i.e use stochastic model for projections if you are already using it for internal purposes **90% agree ?**

Should members be given projections showing estimated outcomes on alternative investment options?

Should IORPs be required to ensure that they are designed to meet members' needs?

Should IORPs have a duty of care to members?

Shift from defined benefit to defined contributions

- EC CfA expressed the view that the IORP Directive was developed for DB and is not adapted to the requirements for DC.
- Consider risks from the perspective of members rather than the IORP
 - Long term projections of outcomes
 - Common principles for projections?
- Supervisory reporting on costs and charges
- IORP must demonstrate member/beneficiary involvement – MS designed
- Fit [and proper] requirements for Boards/function holders in DC IORPs?

Sustainability

Integration of sustainability factors in investment decisions

Currently IORPs are allowed to consider sustainability factors under the prudent person principle

Proposals:

- Require IORPs to consider sustainability in investment decisions
- Require IORPs to consider double materiality (“inside out” impact)
- Include in remuneration policy and in the ORA
- Disclosure of sustainability risks as per SFDR **80% agree**

How can this be applied in a proportionate manner?

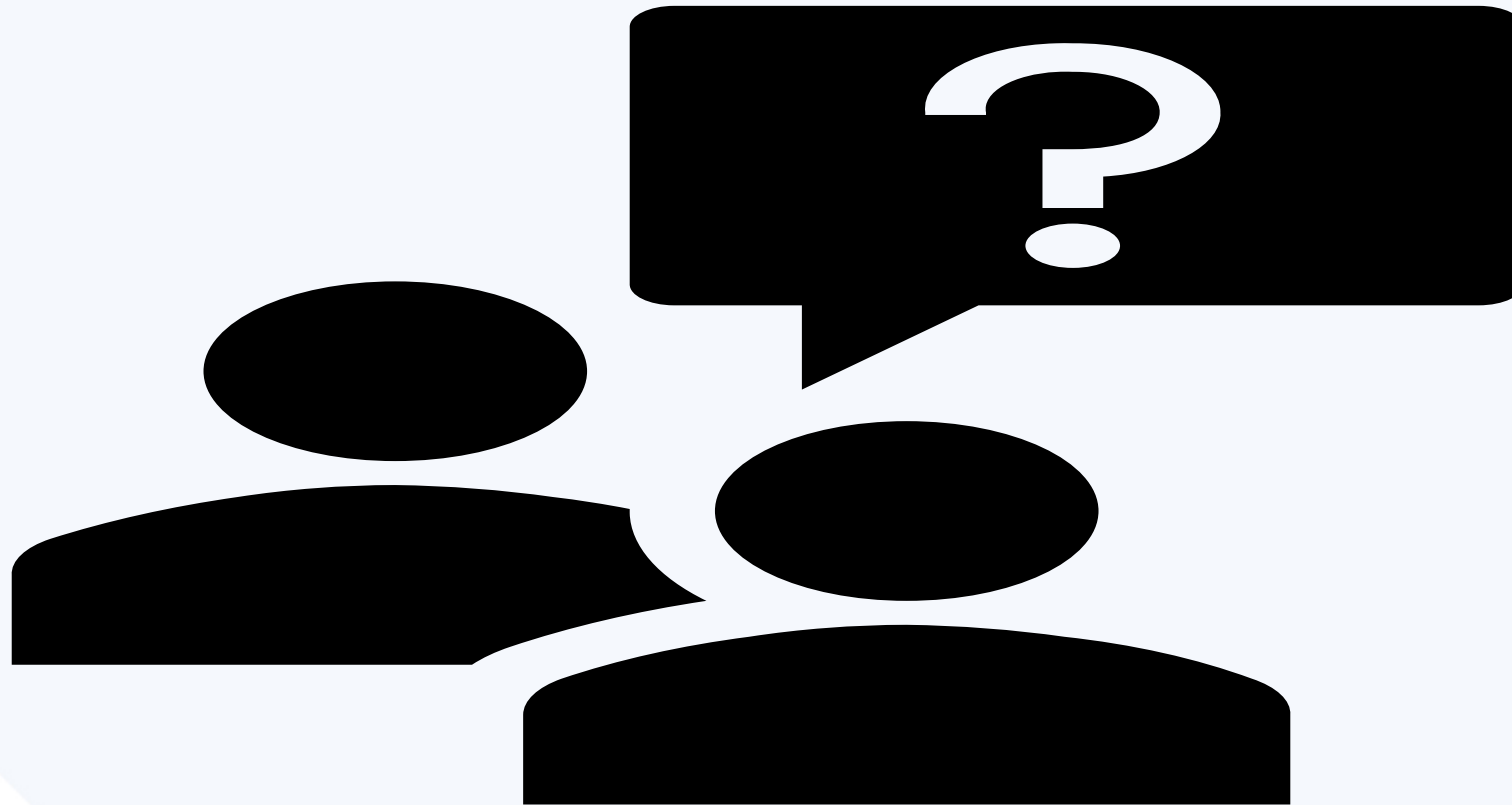
How to allow for sustainability preferences of members?

Views on requiring a stewardship/engagement policy?

Diversity and inclusion (in Boards)

- Recruitment should incorporate D&I
- Remuneration should be gender neutral
- Target for underrepresented gender and how to meet it? **60% agree**
- Definition of diversity and inclusion at European level?
- Reporting

Comments and Questions?



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