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EIOPA Consultation on supervising the liquidity risk management of IORPs

AAE Consultation Response: Main Messages





Consultation Summary Note

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<p>Purpose of the consultation</p>	<p>The consultation focused on the supervision of liquidity risk management for Institutions for Occupational Retirement Provision (IORPs). It sought feedback on EIOPA’s draft opinion which aimed at enhancing supervisory convergence to protect pension fund members and beneficiaries. The goal of the opinion was to ensure IORPs can manage risks such as early withdrawals, collateral calls, and outgoing transfers while maintaining overall financial stability.</p>
<p>Issuing Authority</p>	<p>European Insurance and Occupational Pensions Authority (EIOPA)</p>
<p>Brief Overview of AAE Response</p>	<p>The AAE was broadly supportive of EIOPA's Opinion on the supervision of liquidity risk management for IORPs, commending its alignment with the Financial Stability Board's (FSB) recommendations and its comprehensive approach to addressing diverse liquidity risks. The AAE acknowledged the importance of expanding the scope beyond margin and collateral calls to include other significant liquidity risk sources, such as illiquid investments, benefit payments, and cashflow volatility. While endorsing the broader framework, the AAE emphasised the critical role of proportionality, advocating for risk-based application that avoid undue burdens on IORPs with minimal or immaterial liquidity risks.</p> <p>The AAE’s response highlighted the importance of integrating liquidity risk management into the broader risk governance frameworks of IORPs, ensuring consistency with Own Risk Assessments (ORA) and other regulatory requirements. It stressed the value of contingency planning, dynamic liquidity metrics, and standardised reporting templates to enhance risk oversight and mitigate administrative complexity. Additionally, the AAE called for clearer definitions of liquidity and material liquidity risks, emphasising systemic and long-term financial impacts, while cautioning against over-regulation that may dilute efficiency and resource allocation for IORPs.</p>
<p>List of volunteers/contributors</p>	<p>Pensions Risk Management Working Group, Samuel Achord (Economics and Finance Working Group), Society of Actuaries Ireland (submitted by Richard Clossick).</p>
<p>Assigned Committees WGs</p>	<p>Pensions Risk Management Working Group: Pensions and Risk Management Committees</p>
<p>Board Reviewers</p>	<p>Malcolm Kemp and Hartwig Sorger</p>
<p>EIOPA deadline</p>	<p>20 December 2024</p>
<p>Submission date</p>	<p>18 December 2024</p>

AAE Response Highlights

1. Support for a Comprehensive Approach

- The AAE endorses EIOPA's broad scope for liquidity risk, beyond margin and collateral calls.
- Suggestion to incorporate other sources of liquidity risks from benefit payments, illiquid investments, and funding sources.

2. Proportionality in Application

- Advocated a risk-based framework allowing tailored approaches for IORPs with minimal or immaterial liquidity risks.
- Supported simplified requirements where derivatives use or liquidity risk is negligible.

3. Risk Definitions: Suggested refining definitions of "liquidity risk" and "material liquidity risks" to account for systemic and long-term financial impacts.

4. Contingency Planning

- Agreed that IORPs with material liquidity risks should establish tailored contingency plans.
- Stresses the need for flexibility to prevent undue burdens on smaller IORPs.

5. Data Collection and Reporting

- Emphasised the importance of consistent, usable reporting templates to avoid administrative burdens.
- Highlighted challenges with pooled funds and external asset managers in collecting derivative data.

6. Liquidity Risk Indicators: Recommended dynamic and stress-focused metrics, such as cash flow sensitivity indicators.

7. Governance and Integration

- Supported embedding liquidity risk within overall risk management, aligning with ORA processes.
- Recommended integrated policies to ensure coherence across all risk areas.

8. Avoidance of Over-Regulation: Advocated on focusing on material liquidity risks without introducing unnecessary regulatory costs.



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