Press Release

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EIOPA RECOMMENDS TO ENHANCE RISK ASSESSMENT AND TRANSPARENCY OF PENSION FUNDS

- *EIOPA recommends a common framework for risk assessment and heightened transparency for pension funds.*
- *EIOPA's recommendations would strengthen the European regulation of pension funds and contribute to the sustainability of occupational pension promises and the protection of members and beneficiaries.*
- *Pension funds to conduct a standardised risk assessment to calculate the impact of common, pre-defined stress scenarios on their financial situation.*
- *Pension funds to enhance transparency through public disclosure of a market-consistent balance sheet and the outcomes of a standardised risk assessment.*
- *EIOPA recommends a proportionate approach to smaller pension funds through certain exemptions, the use of simplified methods and a lower frequency of risk assessments.*

Frankfurt, 14 April 2016 – Today the European Insurance and Occupational Pensions Authority (EIOPA) published its Opinion on a Common Framework for Risk Assessment and Transparency for Institutions for Occupational Retirement Provision (IORPs).

The Opinion concludes a cycle of almost three years of EIOPA's own-initiative work and is addressed to the EU co-legislators (European Parliament and Council) and the European Commission.

EIOPA recommends strengthening the European regulation applicable to IORPs with a standardised risk assessment to calculate the impact of common, pre-defined stress scenarios on the common framework's balance sheet of a pension fund. The common framework sets out that assets and liabilities on the balance sheet – which is set up for the very purpose of the standard risk assessment - have to be valued on a market-consistent basis and include all available security and benefit adjustment mechanisms, such as sponsor support, pension protection schemes and benefit reductions. However, at this point in time, EIOPA does not advise on harmonising capital or funding requirements.

EIOPA is of the opinion that IORPs should be transparent towards plan members, sponsors and other interested parties through regular public disclosure of the market-consistent balance sheet and the outcome of standardised risk assessment. Consequently, national supervisors should be provided with sufficient powers to act in response to the conclusions of the standardised risk assessment.

To minimise the burden on smaller IORPs, EIOPA recommends that the standardised risk assessment is applied in a proportionate manner, allowing for simplified methods and approaches. In addition, EIOPA's Opinion allows for the possibility to exempt small IORPs and to lower the frequency of their risk assessment from annually to once every three years.

Gabriel Bernardino, Chairman of EIOPA, said: "*This Opinion presents a major step forward towards realistic, risk-sensitive information on the financial situation of pension funds. EIOPA's recommendations to modernise the European regulation of pension funds aim at supporting the occupational pensions sector to meet its current and future challenges.*

Relevant transparent disclosure will trigger a dialogue on the long-term sustainability of occupational pension promises and encourage timely adjustments. As such, our recommendations contribute to the protection of pension scheme members and beneficiaries and to a fair distribution of shortfalls between generations".

The Opinion to the EU Institutions on a Common Framework for Risk Assessment and Transparency for IORPs can be accessed from EIOPA's website: https://goo.gl/xX8awz

Note for Editors:

The Opinion on a Common Framework for Risk Assessment and Transparency for Institutions for Occupational Retirement Provision (IORPs) is the result of three years of further work on solvency of IORPs after EIOPA's advice on the further development of the IORPs Directive (https://goo.gl/5J8A4i). EIOPA initiated this work in 2013 to resolve issues identified in the quantitative impact study (QIS) on IORPs, which was conducted at the request of the European Commission.

In 2014, EIOPA launched a **public consultation** putting forward improved methods and simplifications for the valuation of technical provisions and sponsor support as well as several possibilities to enhance quantitative rules for IORPs, ranging from supervisory regimes with harmonised capital requirements to common framework for risk assessment and transparency. EIOPA received 77 responses to the consultation, of which 12 on a confidential basis. EIOPA's reasoned feedback on stakeholders' general comments and comments on the supervisory responses part of the consultation paper has also been published on EIOPA's website today. All non-confidential responses as well as the reasoned feedback on stakeholders' responses to the valuation part of the consultation paper were already published last year, together with the launch of the quantitative assessment.

A **quantitative assessment** was conducted in 2015 to collect data on the supervisory frameworks discussed in the consultation paper and to test the improved valuation methods and simplifications. Six countries (BE, DE, IE, NL, PT and UK) took part in that exercise, covering 95% of the European defined benefit IORP sector. In total 101 IORPs participated in the assessment, representing a market coverage of 41% in terms of assets. The results of the quantitative assessment are described in Annex 2 to the Opinion.

The **European Insurance and Occupational Pensions Authority (EIOPA)** was established on 1 January 2011 as a result of the reforms to the structure of supervision of the financial sectors in the European Union.

EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union.

EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.