

**Comments to EIOPA's
Discussion Paper on a Methodological Framework for Stress-Testing IORPs**

EIOPA-21-399

21st June 2021

Responding to this paper

EIOPA welcomes comments on the "Second Discussion Paper on Methodological principles of insurance stress testing".

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA in the provided Template for Comments, by email to CP-21-003@eiopa.europa.eu by **22nd September 2021**. Contributions not provided in the template for comments, or sent to a different email address, or after the deadline will not be considered.

Publication of responses

Contributions received will be published on EIOPA's public website unless you request otherwise in the respective field in the template for comments. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

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¹ Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43).

² Public Access to Documents (See link: [https://eiopa.europa.eu/Pages/SearchResults.aspx?k=filename:Public-Access-\(EIOPA-MB-11-051\).pdf](https://eiopa.europa.eu/Pages/SearchResults.aspx?k=filename:Public-Access-(EIOPA-MB-11-051).pdf)).

³ Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39).

Reference	
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Disclosure of comments	
<p>EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential.</p> <p>Please indicate if your comments should be treated as confidential, by deleting the word "Public" in the column to the right and leaving only the word "Confidential".</p>	Public

General comments		
reference	Comments	[EIOPA response]
General comments	<p>We would like to thank EIOPA for the constructive dialogue with us on the EIOPA 2015, 2017 and 2019 IORP stress test exercises and how to improve EIOPA stress testing methodology for IORPs. We would like to also thank EIOPA for good cooperation and communication as well as its timely updates in regard to the preparation of EIOPA Discussion Paper on Methodological Framework for Stress-Testing IORPs. In our stakeholder feedback, we make recommendations on the toolbox of common methodological principles and guidelines but also suggestions for its use in the next IORP Stress Test exercise in 2022.</p>	
General comments	<p>We welcome the EIOPA Discussion Paper on a Methodological Framework for Stress-Testing IORPs and that it recognises</p> <ul style="list-style-type: none"> • the heterogeneity of the IORP sector; • the important characteristics of IORPs, particularly their long-term horizon and ability to pass through risks to the ultimate risk bearers; • multiple and various criteria for future IORP stress tests; • the usefulness for EIOPA, NCAs and IORPs themselves. <p>We support the consideration by EIOPA of the creation of a Toolbox consisting of 3 main parts (balance sheet instruments (both national balance sheets and EIOPA's common balance sheet), projections (e.g. internal rate of return, cash flow analysis and retirement income) and surveys (being a mixture of qualitative and quantitative instruments). We believe that in relation to the objectives of the stress test, the Toolbox can allow introducing further proportionality and create a better cost-benefit ratio as taking into account the specific pension scheme/ IORP characteristics in the different Member States.</p> <p>In general terms it is positive that EIOPA aims to implement horizontal approaches in future stress tests both across various types of IORPs (DB, hybrid, DC) and Member States. Next to the recognition of numerous (technical) challenges with the horizontal approach, the point</p>	

	<p>that DB, hybrid, and DC schemes are (fundamentally) very different with each other (and across the EEA) adds to the complexity.</p> <p>The broad heterogeneity of the IORP sector will make the horizontal approach likely more complex and less comparable than one should hope for. We think that, if practically doable, such approach would undoubtedly increase the added value of the results of these stress tests for both European and national policymakers and national supervisory authorities and IORPs. But EIOPA should recognise the shortcomings and incomparability between scheme types and countries and the results of the application of a horizontal approach should be interpreted with caution due to the great heterogeneity across schemes and Member States. On top of that, EIOPA and NCAs should take care that the horizontal approach does not create an excessive administrative burden nor an unbalanced cost-benefit ratio, especially for small and medium sized IORPs.</p> <p>We find it of utmost importance how EIOPA communicates the stress test results to the wider public. In the past, the wording of EIOPA press release has not always been fully in line with the stress test report itself.</p> <p>Finally, we are not in favour of disclosing the names of participating IORPs, as we do not recognise the arguments in favour of the disclosure of the names of participating IORPs and it is not clear what would be the benefits. The focus of the stress test is a.o. on financial stability, not on the solvency of individual IORPs. General EU communication might differ from national context or situation, and we fear this approach might damage public opinion and lead to mistrust for members and beneficiaries concerned; this happened in 2019 in some countries after publication of the stress test report. In our view the best way to disclose the achievements of the Stress Test is on a national base, without reference, neither direct nor indirect, to the list of participating schemes.</p> <p>We are looking forward to continuing good and constructive dialogue with EIOPA on appropriate stress testing methodologies for IORPs.</p>	
<p>General comments</p>	<p>The cash flow analysis is mentioned in the discussion paper, but it can be brought up more extensively in several sections, and especially in the paragraphs related to risks. At the same time, although the paper advocates the advantages of the Common Balance Sheet (CBS), it does not mention its various shortcomings. We do not believe that the CBS can be implemented in an effective way, especially for small and medium sized IORPs, for a number of reasons linked to its complexity and interpretation difficulty.</p> <p>To assess members' and beneficiaries' benefits, not the risk-free return but the long term expected return should be used as the basis. A calculation at the risk-free return can only come at</p>	

	<p>the second place to give an indication of the risk ('a stress scenario') but not to calculate the expected benefit or the expected replacement income at retirement. IORPs do not invest in a risk-free world, but as long-term investors they receive a risk premium (as well as an illiquidity premium) for the risk (and illiquidity) they accept. This should be correctly reflected in the results of the projection of the cash flows as well as in the results of the stress test. First applying stress on investments in combination with the use of a risk-free rate is a contradiction in terminis. In particular, assuming a risk-free return in the cash flow analysis (open modelling) and applying a shock would be an unrealistic double hit scenario. If acted upon, such assumptions might prevent IORPs from long-term investments into sustainable real assets, which seems counter to the aims of the CMU.</p> <p>We strongly agree with the proposed focus on climate risk within broader field of potential environmental risks. The risk is seen as most material by the sector and risk management tools and models developed by the market are more advanced than for other types of environmental risks. We agree with EIOPAs view that the environmental stress is just a specific type of "traditional" stress test, so that in consequence the same tools should be used to limit the burden for IORPs by introducing new approaches. The climate risk itself, however, is by no means a traditional type of risk. There is no historical data, low certainty about likeliness scenarios and timing, as well as a debate about if climate risk to some degree is already priced in. A broad spectrum of models exists in the market but there is a lack of consensus. Importance of climate change warrants inclusion in the stress test, but this uncertainty should be reflected in conclusions and communication by EIOPA.</p>	
<p>Chapter 2</p>	<p><u>Recognition of heterogeneity</u></p> <p>We welcome the fact that EIOPA's discussion paper recognises the heterogeneity of the IORP sector and the need to incorporate type of obligation but also the relationship between the IORP and the sponsor. At the same time, we welcome the recognition of important characteristics of IORPs, most notably their long-term horizon and ability to pass through risks to the ultimate risk bearers.</p> <p>We also agree with the dual overarching perspective and two objectives of the ST, which stem from EIOPA's Regulation (EU) No 1094/2010. On the one hand, the ST aims at assessing the impact of an adverse scenario on the financial position of an IORP and, on the other hand, it aims at assessing the transmission effects of adverse economic scenarios via the IORP sector onto financial stability.</p> <p>However, in regard to financial stability, the discussion paper could recognize more clearly that IORPs involve smaller risks in comparison to other institutions, such as banks. At the same time, the stabilizing role of the IORP sector (e.g. rebalancing) could also be mentioned. For instance, the results of EIOPA's 2019 IORP stress test confirmed again IORPs' countercyclical behaviour and their important role in stabilising financial markets. As long-term investors, IORPs are able to mitigate financial shocks and</p>	

	<p>collectively work as a stabilising factor for the financial sector. IORPs' long-term investment horizon and their ability to follow countercyclical investment strategies support the observation that IORPs can act as 'shock absorbers' in the economy by providing liquidity and by not being forced to sell assets, when asset prices are squeezed, but buying these to rebalance their strategic asset allocation. The 2019 results support the results of EIOPA's previous IORP stress tests and confirm that IORPs have rebalancing asset strategies, buying equity related investments after they dropped. It is in our opinion therefore important that both EU and domestic legislation continues to allow IORPs' countercyclical behaviour.</p>	
<p>Par.24, 27</p>	<p>Assessments of the resilience, systemic risk and transmission effects of IORPs</p> <p>Par.24: "Assessments of the resilience of financial institutions to adverse market developments" are not relevant in the situation of pensions funds, because there is no risk of a bank run there and every shock will ultimately be borne by the members and beneficiaries and sponsors.</p> <p>"Potential for systemic risk posed by", or to, financial markets participants" does neither play a role in the case of pension funds; At the contrary, the rebalancing policies implemented by pension funds contribute to stabilising of financial markets. In the respect we also refer to our position papers on previous IORP stress tests exercised by EIOPA (see PensionsEurope Position Paper on EIOPA 2019 IORP Stress Test (March 2020)).</p> <p>Par.24: we have the same comment in relation to the notion of "Assessing the transmission effects of adverse economic scenarios via the IORP sector onto financial stability."</p>	
<p>Par. 47, 48, 180</p>	<p><u>The toolbox and the selection criteria including the cost benefit ratio and the usefulness for IORPs</u></p> <p>We welcome the fact that EIOPA recognises multiple and various criteria for future IORP stress tests like practical considerations, the proposed cost-benefit ratio tool and the insightfulness and usefulness for NCAs and IORPs themselves. The potential benefit of participating in EIOPA's stress test for IORPs can only be the case though, if and when the tools applied in the stress test are fully aligned with national practices and supervision and not based on stress test tools that are not fit for national policy setting and supervision. The benefit refers to the insightfulness of the results provided by a tool, while the cost has to do with the tool's practicability for the parties involved (EIOPA, NCAs and IORPs).</p> <p>The consideration by EIOPA of the creation of a Toolbox consisting of 3 main parts (balance sheet instruments (both national balance sheets and EIOPA's common balance sheet), projections (e.g. internal rate of return (IRR), Cashflow analysis (CFA) and Retirement Income (RI) and surveys (being a</p>	

	<p>mixture of qualitative and quantitative instruments) can be fully supported as, in relation to the objectives of the stress test, it allows to introduce further proportionality and create a better cost-benefit ratio as taking into account the specific pension scheme/IORP characteristics in the different Member States.</p> <p>In this context, we also are of the opinion that the Tables presented by EIOPA in Section 3 of the consultation document provide for a good overview of possible tools. These tables could in our view even be further improved, amongst others by also including horizontal applicability (see also further in these general comments) and practical considerations in general.</p>	
<p>Par. 42, 43, 44, table 3.7b</p>	<p><u>Focus on fit for purpose</u></p> <p>In the context of the cost-benefit ratio, we also consider it as positive that EIOPA is aiming at a tailored approach, in the sense that the tools to be used in future stress tests should be chosen in relation to the objective(s) of such tests.</p> <p>This also goes for the recognition by EIOPA of the importance of the possible use by IORPs of stress test tools, for example in the context their own ORAs.</p> <p>Furthermore, the observation of EIOPA of the existence of the large variety in pensions scheme types in EU Member States (DB, hybrid, DC) and its intention to distinguish between these types in its choice for the use of different stress testing tools – being fit for the purpose – can in our view contribute to an adequate costs-benefits balance as it might introduce further proportionality and create a better cost-benefit ratio for the stress tests exercise.</p>	
<p>Chapter 3.5</p>	<p><u>Selection criteria</u></p> <p>In our view, another factor could also contribute to such (an adequate costs-benefits) balance, namely avoidance by EIOPA of the use of an overload of multiple and simultaneous stress tools. In this respect, we appreciate that EIOPA announces that it wants to select relevant tools for relevant purposes. We would like to suggest elaborating more on this selection process of relevant tools (e.g. how will EIOPA select tools from toolbox? And which criteria will be considered as relevant and why?).</p> <p>In addition, we would like to suggest that EIOPA should make explicit that for specific goals one or more tools might not be needed (for certain IORPs and/or certain Member States). For example, stress testing the liquidity impact on sponsor main interests seems not to be logic for IORPs without any sponsor support. The potential result/advantage of this possible example of a tailored approach would</p>	

	<p>be that certain IORPs do not unnecessarily have to participate in such stress test or should not apply a specific tool if not relevant.</p> <p>In respect of the selection process of suitable stress test tools for specific purposes, we furthermore wonder if a limitation of the simultaneous use of at maximum two or three tools in the one and same stress test would be a useful suggestion.</p>	
Par. 46, 47	<p><u>Horizontal approach</u></p> <p>In general terms it is positive that EIOPA aims to implement horizontal approaches in future stress tests both across various types of IORPs (DB, hybrid, DC) and Member States. Next to the recognition of numerous (technical) challenges with the horizontal approach, the point that DB, hybrid, and DC schemes are (fundamentally) very different with each other (and across the EEA) adds to the complexity. As mentioned above, we are happy to see that EIOPA recognises this heterogeneity and this will make the horizontal approach likely more complex and less comparable than one should hope for. We think that, if practically doable, such approach would undoubtedly increase the added value of the results of these stress tests for both European and national policymakers and national supervisory authorities and IORPs. But EIOPA should recognise the shortcomings and incomparability between scheme types and countries and the results of the application of a horizontal approach should be interpreted with caution due to the great heterogeneity across schemes and Member States.</p> <p>On top of that, EIOPA and NCAs should take care that the horizontal approach does not create an excessive administrative burden nor an unbalanced cost-benefit ratio, especially for small and medium sized IORPs.</p>	
Chapter 3.2	<p><u>Focus on materiality</u></p> <p>We advocate that EIOPA should avoid demanding very specific and detailed information with no or only little added value for stress test goals. This would lead to unnecessary costs and administrative burdens for IORPs and would as a consequence mean a distortion of a proper costs-benefits balance of such exercise. More specific, EIOPA should realise that more complex models not always lead to better insights, and therefore we would like to plead amongst others for a focus by EIOPA on material aspects in modelling.</p>	
Chapter 3.2	<p><u>Cash flows are the starting point of many tools</u></p> <p>In some cases, differences between models are smaller than the document seems to suggest. For almost all methods mentioned, IORPs will for example have to use the underlying cash flows to perform</p>	

	<p>the calculations. The CBS, NBS, CFA and to a lesser extent also RI do all depend on projections for like 100 years forward, with assumptions on management actions, legislation, (insolvency) measures and so on.</p>	
<p>Chapter 3.2.1, Chapter 3.3</p>	<p><u>Balance sheet tools</u></p> <p>The present value in a balance sheet (market consistent (or not)) does not give insight in the question whether an event will happen in the future and of the future 'damage'. Conditional cash flows like extra sponsor support, contributions and/or lower benefits/indexations can happen but can also be 0. There is no certainty that these will happen, but still, they will have a (positive) present value (in CBS/NBS).</p> <p>As EIOPA seems to recognise (table 3.1), the present value (i.e. balance sheets) does not give insight in timing, size and likelihood of using security mechanisms.</p> <p>Balance sheet tools (CBS and NBS) have limited potential in assessing the capacity to maintain in business as well as assessing the transmission of risks. Balance sheets give no insights in timing nor in effects on different participants (like age cohorts).</p>	
<p>Chapter 3.2.1</p>	<p><u>Inherent limitations of the Common Balance Sheet</u></p> <p>The 2019 stress test for IORPs reconfirmed in our view the inherent limitations of the concept of the CBS. The CBS is not an appropriate instrument to cover the wide range of diversity of IORPs in Europe as it has many shortcomings. By way of examples, the CBS (i) is too complex, (ii) market consistent valuations in the CBS are unreliable and too dependent on arbitrary assumptions and approximations/simplifications, (iii) contains the misconception that option values (e.g. of benefit reductions) should be considered as expected values, and its execution is too expensive. Contrary to the CFA, the CBS looks only at (an approximation of) market values and does not take into account future developments indicating the likelihood, timing and severity of events. See for more detail previous responses and papers:</p> <ul style="list-style-type: none"> • AEIP first response to the EIOPA 2019 IORP Stress Test' from 17 December 2019; • Pensions Europe Position Paper on EIOPA 2019 IORP Stress Test, PensionsEurope Position Paper on appropriate IORP stress testing methodology and EIOPA IORP Stress Test 2017; • PensionsEurope Position Paper on EIOPA's IORP Stress Test 2015; 	

	<ul style="list-style-type: none"> • PensionsEurope Position Paper on EIOPA’s IORP Quantitative Assessment 2015 and EIOPA’s opinion for Risk Assessment and Transparency for IORPs. 	
Chapter 3.2.2. Par. 71.	<p><u>Use of the long term expected return</u></p> <p>To assess members’ and beneficiaries’ benefits, not the risk-free return but the long term expected return should be used as the basis. A calculation at the risk-free return can only come at the second place to give an indication of the risk (‘a stress scenario’) but not to calculate the expected benefit or the expected replacement income at retirement.</p> <p>IORPs do not invest in a risk-free world, but as long-term investors they receive a risk premium (as well as an illiquidity premium) for the risk (and illiquidity) they accept. This should be correctly reflected in the results of the projection of the cash flows as well as in the results of the stress test. First applying stress on investments in combination with the use of a risk-free rate is a contradiction in terminis. In particular, assuming a risk-free return in the cash flow analysis (open modelling) and applying a shock would be an unrealistic double hit scenario. If acted upon, such assumptions might prevent IORPs from long-term investments into sustainable real assets, which seems counter to the aims of the CMU.</p>	
Par. 81-96	<p><u>The background survey</u></p> <p><i>The background survey is aimed at collecting some context information from the NCAs and IORPs to shed light on the stress test results in terms of comparability, robustness and completeness of the results.</i></p> <ul style="list-style-type: none"> • We are supportive of the introduction of a background survey and are convinced it is an excellent tool to introduce appropriate proportionality in the stress test exercise, as it can show which risks are important (or less important) in different Member States: it allows to put the stress test results in the right perspective especially when trying to compare the results of different Member States. Next to that, it allows to identify the appropriate tools and to assess the cost/benefit/relevance of each stress test exercise. This tool can also be used to take into account proportionality triggers (see detailed comments for some suggestions). 	
Chapter 3.4.1	<p><u>The horizontal applicability of balance sheet tools</u></p> <p>In the same reasoning that not all tools suggested by EIOPA will be logic to be applied, attention should also be paid to the fact that for example tools like balance sheets (NBS, CBS) are not applicable/relevant for DC and are therefore (also) not well suited for a horizontal approach between DB</p>	

	<p>and DC. We foresee that this will continuously become more obvious in the future, given the international trends to move from DB to DC.</p> <p>Balance sheet tools (CBS and NBS) are less insightful for DC schemes with no guarantees (funding ratio is always 100%) and therefore less appropriate for horizontal approaches across scheme types. With a European trend towards more DC schemes, we suggest that EIOPA reconsiders the future role of balance sheets for stress test purposes.</p> <p>Too a lesser extent, similar arguments can play a role in the horizontal applicability of projection tools. This is also due to the difference in scheme type, benefits and contract boundaries and the resulting cash flows stemming from these.</p>	
<p>Chapter 3.4.1</p>	<p><u>A preference for complexity?</u></p> <p>The document gives the perception that EIOPA favours complex, stochastic, multi-period models (like CBS or stochastic CFA) over simpler models. Complex models, if and when complete correct calibrated, can give richer information. But more complex models, by definition require more assumptions and calibration, which make the outcomes very sensitive for these assumptions. Proper calibration can be too complex (and difficult to apply for medium sized IORPs) and are more costly.</p> <p>Since more complex models will not always lead to better insights, we would like to plead amongst others for a focus by EIOPA on material aspects in modelling and a focus on models which give more useful information to IORPs' board members.</p>	
<p>Table 3.5</p>	<p><u>Definition of a DC pension scheme</u></p> <p>The paper is deviating from commonly used definitions for DC schemes. We would strongly advocate to continue using the current internationally recognised definitions. See, for instance, OECD (2005) 'Private Pensions: OECD Classification and Glossary', p. 13/96: "Defined Contribution (DC) Occupational Pension Plan: Occupational Pension Plans under which the plan sponsor pays fixed contributions and has no legal or constructive obligation to pay further contributions to an ongoing plan in the event of unfavourable plan experience".</p> <p>The definitions used in this discussion paper are also used in EIOPA's regular information requests towards NCAs regarding provision of occupational pensions information (10 April 2018).</p> <p>The introduction of the concepts of unprotected and protected DC schemes is confusing. It is unclear where the different terms of pension plan, scheme and fund refer to. The table amalgamates the</p>	

	<p>pension plan, the funding vehicle and the underlying investments (e.g. when talking about a protected DC IORP). It introduces also a new concept of “plan provider” without any definition.</p> <p>We would like to urge EIOPA to stick to international definitions which are in line with market practice and contract boundaries.</p>	
152.	<p><u>Use of contract boundaries</u></p> <p>152 seems to introduce the assessment of cash flows which are inconsistent with contract boundaries. In some cases, contract boundaries make clear that only accrued benefits are relevant, so new accruals and contributions should not be included for these IORPs. The section describing the best estimate of technical provision (2.5.8. and 2.5.9.) of the annex to IORP Stress Test 2019 Specifications (Technical Specifications- Common Balance Sheet) had appropriate definitions of contract boundaries. These definitions are consistent with market practice and have been working well in previous stress test exercises and we would prefer to keep them unchanged.</p> <p>In the detailed comments, we elaborate on the clarification of the classification.</p>	
Chapter 4.4; Par. 206.	<p><u>Market coverage</u></p> <p>Scope of EIOPA’s ST: we welcome EIOPA’s suggestion to reduce minimum market coverage requirement for proportionality reasons (relevant passage in the consultation paper: “For example, if there is, compared to other Member States, a very large number of similar IORPs in a Member State, in particular of small IORPs, this could be taken into account by reducing the required minimum market coverage for this Member State”).</p>	
Chapter 5.2; Par. 212	<p><u>Regulatory burden on IORPs and Stress Test requirements</u></p> <p>We note that introducing extra work for IORPs in the form of stress test requirements (and possibly regulation derived from this in the further future) risks driving IORPs out of competition, especially on those markets where IORPs only cover a small part of occupational pension provisioning and especially for those entities which are rather small.</p> <p>Due to the increase of regulatory requirements, we notice in some Member States a consolidation is taking place on the market. Not-for-profit organisations with a triangular relation putting sponsor, member and IORP close together and making use of a fully tailor-made service approach are -due to cost efficiency reasons- switched for more commercial solutions with a product approach, generating higher costs resulting in lower benefits. The first group is ruled by IORP II, the second by SII, where the latter</p>	

	<p>only focuses on solvency at the level of the institution without looking at the efficiency at the level of the pension scheme nor the risk from the perspective of the member and beneficiaries.</p> <p>To avoid a further detrimental effect on i) pension provisioning for many members and beneficiaries and ii) on the cost efficiency of especially small and medium sized IORPs, we ask to be very careful not to introduce measures which further distort the internal market and which risk to make disappear the IORP sector in some MS.</p>	
Chapter 3.2	<p><u>Proportionality</u></p> <p>EIOPA should allow IORPs to do the calculations themselves, but at the same time we need to have a more simplified and proportionate approach to different IORPs. Most likely, this can lead to a more prudent model, with poorer reflection, but also less burdensome for IORPs. In that regard, bigger IORPs can make the extended computations while smaller ones can have a simplified approach. This would be in line for example with the approach for the Common Balance Sheet, where some IORPs use stochastic, risk neutral valuation and others take a simplified approach. Furthermore, this would make communication between IORPs and EIOPA easier when clarification requests arise for example on computation and results of the ST.</p>	
Chapter 3.2.1	<p><u>Cash flow Analysis and the Common Balance Sheet</u></p> <p>The Cash Flow Analysis (CFA) is mentioned in the discussion paper, but it can be brought up more extensively in several sections, and especially in the paragraphs related to risks. At the same time, although the paper advocates the advantages of the Common Balance Sheet (CBS), it does not mention its various shortcomings. We do not believe that the CBS can be implemented in an effective way, especially for small and medium sized IORPs, for a number of reasons linked to its complexity and interpretation difficulty. In particular, market consistent valuations of liabilities are unreliable and too dependent on arbitrary assumptions, approximations and simplifications. Thus, we question whether market consistency will provide for a realistic picture of the financial soundness of an IORP due to its long-term horizon. Notably, the execution of the CBS is linked to high costs for IORPs. Given the current shift trend from DB to DC, balance sheets will become less appropriate over time as ST tools.</p>	
Chapter 3.5.3; Table 3.7.b	<p><u>Assessment of the possible use of indicated Stress Test tools</u></p> <p>As seen in its concise assessment of candidate relevant tools, EIOPA recognizes the practicability and possible use of the indicated Stress Test tools by IORPs, e.g. in the context of their Own-Risk Assessment (ORAs).</p>	

<p>Chapter 3.4:</p>	<p><u>Lack of consistent definitions</u></p> <p>In relation to the horizontal approach, we would like to stress that there should be a consistent applicability of definitions throughout the paper. In some cases the paper can be clearer when horizontal is applied to ‘across Member States’ and when to ‘across scheme types’ (and different definitions of DC). In addition, we remark that the definition of DC schemes in table 3.5 is different than previous ones, so we call for sound, existing and commonly accepted definitions also in this exercise. Finally, we recognise that Table 3.4 gives a good overview, but the horizontal approach could be clearer, especially in regard to a horizontal approach across Member States.</p>	
<p>Chapter 5</p>	<p><u>Proportional granularity approach</u></p> <p>We recognize that, compared to last time, EIOPA’s discussion paper made substantial improvements on the scenario design, risk factor selection and shock application. In regard to granularity, we underline that too much granularity won’t improve the results of the stress test, but on the contrary, more granularity can make the stress test more cumbersome. Therefore, we would like to suggest a hybrid approach with proportionate granularity levels, which takes into consideration the stress scenario and composition of the pension fund.</p>	
<p>Chapter 5</p>	<p><u>Several noticed improvement points</u></p> <p>Overall, we consider this a great improvement on descriptions of scenario design, risk factor selection, and shock application.</p>	
<p>Chapter 5, 5.6.2</p>	<p><u>Inflation</u></p> <p>Inflation is an important consideration for IORPs, and an important risk for beneficiaries. In countries with guaranteed pension benefits linked to inflation, it could be an important risk for employers as well. We think the section on inflation deserves more consideration than currently is the case: what should be assessed regarding inflation, and what tools to use for that assessment?</p> <p>From a perspective with countries using market valuation of the liabilities (using interest rates), the effect of extremely loose monetary policy to stimulate inflation has had a strong impact on interest rates and thus the market value of liabilities and on assets. Thereby, it has had a strong impact on both IORPs and beneficiaries, and seems much more relevant than the impact of inflation on operational costs.</p>	

<p>Chapters 3.4.3. and 5: 300, 309, 318-320</p>	<p><u>A pragmatic approach</u></p> <p>We welcome several proposals of EIOPA which reflect a practical approach and the recognition of the diverse pension schemes landscape across the EU as well as of the resulting differences in the use of stress testing tools. We also agree with EIOPA's pragmatic approach on the liquidity risk and operational risk (qualitative analysis) as well as on the climate stress test, which takes into account only transition risk.</p>	
<p>Chapter 6</p>	<p><u>General comments on Chapter 6</u></p> <ul style="list-style-type: none"> • The EIOPA Regulation mandates EIOPA to incorporate environmental risk in the stress test. We strongly agree with the proposed focus on climate risk within broader field of potential environmental risks. The risk is seen as most material by the sector and risk management tools and models developed by the market are more advanced than for other types of environmental risks. • We agree with EIOPAs view that the environmental stress is just a specific type of "traditional" stress test, so that in consequence the same tools should be used to limit the burden for IORPs by introducing new approaches. • The climate risk itself, however, is by no means a traditional type of risk. There is no historical data, low certainty about likeliness scenarios and timing, as well as a debate about if climate risk to some degree is already priced in. A broad spectrum of models exists in the market but there is a lack of consensus. Importance of climate change warrants inclusion in the stress test, but this uncertainty should be reflected in conclusions and communication by EIOPA. • We agree with the proposed focus on transition risks at this moment due to limited data availability to assess physical risks. We also agree for not considering legal risk due to limited information available. <ul style="list-style-type: none"> <input type="checkbox"/> The methodology document suggests a strong focus on carbon dioxide, but this might not fully capture the main sources of climate-related transition risk (e.g. also technology risk). However, as a first approach, a focus on carbon emission seems sensible, given the current data and modelling challenges inherent in climate risk ST. 	
<p>Chapter 6</p>	<p><u>EIOPA's mandate regarding ESG risks</u></p> <p>As for normal risks mandate could be micro-prudential (financial resilience of IORPs) and macro-prudential (systemic). Due to the heterogeneity of European IORPs, their different practices (such as</p>	

	<p>asset allocation and pay-out-methods), and their respective financial assessment frameworks and steering mechanisms we agree with focus on the micro-prudential perspective in order to shed light into the impact of climate change on individual pension funds. These insights could inform participating IORPs and help them improve the incorporation of climate change in their risk management and asset management policies. The macro-prudential perspective would examine second order effects and therefore add another layer of uncertainty. It is unclear how climate change risks transpose from IORP's balance sheet and investment behaviour into the real economy or the wider financial system.</p> <p>The design of the stress test should mean that it is insightful for participating IORPs. In particular larger IORPs could be interested to conduct the exercise, at least in part, in-house in order to fully understand the outcomes and avoid a 'black box'. On the other hand, smaller IORPs are concerned by the administrative burden this would entail. While the stress test exercise may certainly help to raise awareness and understanding of the potential financial impact of climate changes amongst IORPs, this is not mentioned as an objective of the stress test exercise in the EIOPA Regulation. As such, EIOPA should strive to keep the administrative burden of the climate element proportionate. EIOPA has demonstrated in its previous analysis for the insurance sector that it can conduct such an exercise in-house, provided it has the required data.</p>	
<p>Chapter 6.2.2.</p>	<p><u>Observations on scenario granularity</u></p> <ul style="list-style-type: none"> We agree with EIOPA's assessment that the assessment as to made at the asset level, or potentially even lower (i.e. more granular). Asset-level information provides insights that can be incorporate in an investment policy. Insights at the sectoral level are less useful. This would not show the impact of climate change on best and worst performers within sectors, that IORPs who use ESG integration (e.g. with ESG ratings) aim to select or avoid. <p>If analysis is done based on the NACE sectors, the most granular level of NACE codes should be used. The analysis conducted in the 2019 stress test into 'investments prone to significant greenhouse gas emission intensity' did not provide deep insights as it, for example, lumped together renewable and non-renewable electricity production.</p>	
<p>Chapter 6.2.3.</p>	<p><u>Data availability</u></p> <p>We welcome the recognition of the limited availability of data. The stress test will need to account for this challenge. It would indeed be best if the stress test would be aligned as much as possible with existing reporting formats. For this reason, we welcome the introduction of the European Single Access Point and we believe that it will be crucial to improve data quality</p>	

	<p>The discussion paper mentions that certain regulatory initiatives are underway to improve data availability. Whilst we welcome the development of sustainability-related reporting by companies under the Taxonomy Regulation, EIOPA should assess the merits of inclusion of this information in the climate model. Whereas it will provide useful information to investors about companies' contribution to climate change mitigation and adaptation, it was not designed to implement a shock scenario onto a portfolio. Currently, it covers only a small 'green' part of the portfolio and may not provide insights into the full portfolio even with the envisaged extension to harmful and other types of activities.</p>	
<p>Chapter 6.2.4.</p>	<p><u>Timing of the shocks</u></p> <p>We welcome the suggestion to use an instantaneous shock. Rather than the exact time at which specific shocks occur, the moment at which these shocks are priced in is relevant. Future shocks can be accounted for by discounting their effect to the present and incorporating them into an instantaneous shock. The stress test should be clear about the exact assumptions used in determining these shocks.</p>	
<p>Chapter 6.3.</p>	<p><u>The design of the climate stress test</u></p> <p>As mentioned, we broadly agree with the considerations on the design of the climate stress test. We have the following recommendations for the development of the actual stress test.</p> <ul style="list-style-type: none"> • Tool selection: balance sheet but assets only. As the effects of climate change on macroeconomic variables such as GDP and interest rates are currently difficult to estimate, we recommend not to focus on liabilities. The same applies to mortality and longevity. As the shock will be modelled in an instantaneous fashion, the balance sheet tool seems to make most sense. • Predefined shocks: we would recommend EIOPA define the shocks, ideally on an asset level (ISIN). This will allow IORPs to perform the stress test efficiently as most IORPs have the ISIN codes of their portfolio readily available. This would cover most liquid assets. Shocks should cover different asset categories and take into account different effects of climate change on the equity and debt of companies. It would be necessary to provide proxies for asset categories for which no ISIN mapping is available (e.g. mortgages, private equity, etc.) or guidance how otherwise to incorporate these in the stress test. • Link with 'Fit for 55' package: according to the new Sustainable Finance strategy of 8 July, there should be an additional climate stress test aligned with the Fit for 55 package. EIOPA could assess whether it can implement through the upcoming 2022 stress test. For IORPs it would not make 	

	<p>sense to conduct two climate change stress tests shortly after another with slightly different assumptions.</p> <ul style="list-style-type: none"> • Global approach: Institutional investors such as IORPs in general invest worldwide, for this reason we believe that in many cases the European economy (including activities therein) might not be representative for worldwide economic activities. The design of the Stress Test should incorporate this parameter as well. • Incorporation of qualitative elements. Due to the many assumptions and uncertainties in a quantitative climate stress test, there could also be a role for an accompanying qualitative element. This would enable IORPs to put the quantitative results into the right context, for example by describing planned management actions and changes in strategic asset allocation. 	
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Detailed comments		
reference	Comments	[EIOPA response]
Par. 4.	We agree that EIOPA should not increase the complexity of different stress testing tools for the future IORP stress test exercises.	
Par. 5.	We agree that the dividing line between DB and DC pension obligations have become more and more blurred in recent years, whilst numerous fundamental differences between them remain.	
Par. 9.	We agree that the EIOPA paper focuses solely on bottom-up (institution-run) supervisory STs, which resemble the EU-wide IORP ST exercises conducted so far by EIOPA, whilst we recognise that especially for the smallest IORPs participating in the stress test exercise can be very burdensome and costly, and in that respect possibly they could benefit from a (limited) top-down approach at least in some parts of the stress test.	
Par. 13.	We agree that STs can be used to achieve different objectives including micro-prudential and macroprudential objectives. However, we find that the natural home of micro-prudential supervision is at the NCAs, whereas EIOPA should have a more important role to play in macro-prudential supervision from the perspective of financial stability.	
Par. 20.	We welcome that the EIOPA paper recognises that IORPs are very different from other financial institutions e.g. because their obligations and set-up are integrated in the national social security systems to provide retirement income.	
Par. 21.	We fully agree that due to their long-term obligations, IORPs take a long-term perspective on their operations, i.e. investments, sponsor relations, members and beneficiaries.	
Par. 22.	We agree that IORPs typically pass on risk to ultimate risk bearers.	

<p>Par. 23.</p>	<p>We welcome that the EIOPA paper recognises that various aspects of IORPs differ (sometimes markedly) across EU countries, partly as a result of the different prudential and social and labour law frameworks present in each Member State.</p>	
<p>Par. 26.</p>	<p>The analysis of the IORPs landscape carried out by EIOPA does not seem exhaustive. As regards DC plans two additional features should be considered. The first refers to the activities managed by DC IORPs. If they manage both accumulation and decumulation, IORPs have to accrue technical provisions for the purpose of the pay-out, meaning that they are under the DB framework. If DC IORPs are only focused on the accumulation phase, they do not manage longevity risks, moreover solvency issues do not matter. Such feature has a relevant effect on the practicability of the horizontal approach. Projections tools are neither insightful for such IORPs nor easily interpretable by EIOPA/NCAs. As regards the cash flows analysis, out-flows are not in scope as not managed by such IORPs; being in-flows affected by economic turmoil rather than financial shocks, they are out of scope for the stress test purpose. If the scope of projections of future retirement income is to assess the effect on financial stability through real economy, such analysis may be effective where IORPs account for a relevant share of retirement income, otherwise it is negligible (it is the case in MS where DC are more developed).</p> <p>The second missing element is the option for members of DC IORPs to select the investment option and to change it during the accumulation phase (even to change the IORP if they are not satisfied). It means that it is up to the members to manage the risks coming from the accumulation phase. Also in this case, some concerns on the practicability of the horizontal approach arise. If, for example, the projection should end up showing a shortage of the future retirement income for group members (aside from the way in which such groups are defined), the explanatory power of such result would be negligible as management actions for IORPs would be limited or not possible at all. It is up to the single member to use the opportunity to change the investment option, based on the findings of the projection of future retirement provided by the Pension Benefit Statement. For that reason, projections of retirement income should be limited to the Pension Benefit Statement and not considered for stress test purposes of DC IORPs.</p> <p>Thirdly, we assume that DC plans with an overtime legal minimum guarantee as sometimes required by social and labour legislation and which is covered by the sponsor (and not the IORP), for the purpose of the ST must be considered as a DB plan.</p>	
<p>Par. 32</p>	<p>The CBS by definition does not have a surplus or a deficit, because all items are attributed.</p>	

	Furthermore, the acknowledgement in its analysis by the holistic approach of “security mechanisms in place” and “potential reductions to liabilities” does (and can) not take place in practice, because many items on the CBS are not priced at market values and as future accruals are not taken into account.	
Par. 39	Negative net effects may occur in the situation of foreign exchange contracts, but not in the case of interest derivatives, because in scenarios of panic/turmoil interest rates usually decrease and the derivatives (e.g. interest rate swaps used to hedge the interest rate risks in the liabilities will deliver positive results.	
Par. 43.	EIOPA plans to increase the number of tools to run the ST. The selection of the tools should end up with a simplification and not with an increase of work. The use of different tools for the same purpose should be avoided. Stress test is burdensome with limited insightfulness for some IORPs, especially DC without guarantee, any further overload of work should be avoided.	
Par. 44.	<p>The toolbox approach introduces new tools for DB and DC plans: the projection of retirement income from the IORPs and stochastic tools.</p> <p>Pension projections are an individual tool to use under the Pension Benefit Statement; they do not seem adequate at group level. We question the relevance of such projections to assess the effect onto financial stability running via the transmission on the real economy when the income stemming from the IORP is not the bulk of the retirement income.</p> <p>Furthermore, it is questionable the usefulness for IORPs of projections of future retirement income for IORPs where members are allowed to select the investment option and to change it during the accumulation phase (basically DC IORPs). In this case members are better entitled to manage the risks coming from an unsatisfactory projection of the future retirement income and the boards of the IORPs have no or limited margins of action. In this framework, the individualized pension projections of the Pension Benefit Statement are the better (and institutional) instrument to support such choice by members.</p> <p>As regards the stochastic tools, considering the evidence provided in tables 3.7a and b, where an assessment of the two methodologies is carried out, in general, deterministic methods seem to be preferable. Broadly speaking, however, flexibility should be granted to participating IORPs to choose between deterministic and stochastic tools, considering a proportional approach.</p>	

<p>Chapter 3.2, Par. 70, 77, 188, 190</p>	<p><u>Stochastic modelling</u></p> <p>PensionsEurope mapping exercise, via its Members in 2017, regarding ALM tools showed that stochastic modelling is not commonly applied across Member States.</p> <p>EIOPA recognises that stochastic approaches need to be developed (188, 190). This recognition could be reflected better in the rest of the paper.</p> <p>Cash flow analyses with risk free returns do not make sense (77). In this respect a scenario with risk free returns can in itself already be considered as a stress scenario.</p> <p>Furthermore, the CBS is not a prediction (tool), but must be considered as an explanation (tool) of actual values of balance sheet items.</p>	
<p>Chapter 3.2.1, Table 3.4, 109</p>	<p>For previous stress test exercises, also the CBS is applied differently across IORPs/Member States. In reality, the CBS was implemented by only one Member State (NL) using a stochastic (risk-neutral) valuation. Other IORPs/Member States used risk-neutral, stochastic valuation, others use simplified approaches. As a result, the perspective of comparison cannot be considered as a real advantage of the CBS over the application of NBSs.</p>	
<p>Par. 46.</p>	<p>EIOPA can be clearer on the meaning ('definition') and the implication of (the term) horizontal approach when referring to 'across Member States' and 'DB/DC'.</p>	
<p>Par. 47.</p>	<p>The horizontal approach would be a right way to run the stress test if IORPs were comparable, however, relevant differences between IORPs are in place in MS, between DB and DC and within the two types of IORPs. This is the reason why IORP2 is a minimum harmonization directive.</p> <p>In the comment to point 26. of the Discussion Paper we already addressed some features of DC IOPRs which have not been considered by EIOPA and the way they would compromise the achievements of the horizontal approach, the interpretability of the results, their explanatory power, and their usefulness for IORPs.</p> <p>EIOPA should further reflect on the opportunity to introduce such a horizontal approach for the next stress test, given the huge distinctions between IORPs still in place. We welcome the approach followed so far by EIOPA, based on a strong cooperation with stakeholders, however, we deem necessary further engagement to find the right way to deal with the huge differences in place that would undermine the results of the proposed tools for such approach.</p>	

<p>Par. 61.</p>	<p>As recognised by EIOPA, CBS as well as NBS do not include the value of the option of renegotiating the pension deal by social partners (as 'other source of protection'). It is not the aim to quantify this option but it might be useful to integrate this information in the background survey.</p>	
<p>Par. 67.</p>	<p>Balance sheets also need projections to calculate the present value, especially the CBS (!). Applying the CBS to a pension scheme with conditional cash flows implies making many assumptions (for applying complex (stochastic) risk neutral valuation).</p>	
<p>Par. 70.</p>	<p>We already expressed some concerns on the practicability of projection tools (Internal Rate Return, Cash Flow tools and Projection of retirement income from IORP) for DC IORPs which only manage the accumulation phase and where members are allowed to select the investment option.</p> <p>As EIOPA stated in point 71. 2nd bullet point, cash flow tools "<i>can provide insights into the timing and significance of cash-in and cash-out flows; as well as triggering points for supervisory measures or supporting actions by sponsors and members or pension protection mechanisms</i>". Against this background, cash flow tools seem out of scope for such types of DC IORPs as cash-out flows are not relevant and cash-in are affected by economic turmoil not financial shocks. Safeguards from NCA or sponsors or protection schemes based on such flows are out of scope for DC IORPs.</p> <p>The projections of the income of members and beneficiaries from the IORP should "<i>provide insights into the projected out-payments of IORPs as well as the effects on members and beneficiaries of an IORP</i>". With reference to the first objective, if an IORP does not manage the decumulation phase since fully outsourced to a life insurance, we question the need to project out-payments for such IORPs. As regards the effects on members and beneficiaries of an IORP, we see in the Pension Benefit Statement the tool institutionally designated for this purpose. In IORPs where members are allowed to choose the investment option (basically DC IORPs), the latter are responsible for the accumulation process and it is up to them to select the best tool to hedge the risk of an inadequate benefit at retirement (change investment option-or the IORP itself if allowed-, increase contribution). Management actions for such IORPs are limited. Furthermore, for a full assessment of the effect on financial stability through the real economy, all sources of retirement income should be considered, especially public pensions. In MS where 1st pillar provides the bulk of retirement income, a projection of the future retirement income limited to the one stemming from the IORP would have no real added value on assessing the effect on financial stability.</p>	

<p>Par. 76.</p>	<p>Not only deterministic scenarios need assumptions about probability, also stochastic model. In a stochastic approach, also probabilities are needed to unknown future developments: is defining a probability to 1000 scenarios easier than to 1?</p>	
<p>Par. 79.</p>	<p>EIOPA mentions the option of also inflation-adjusted projections as EIOPA believes the effects of benefit reductions are more severe over time when expressing those in real terms. Please note inflation-adjusted projections will imply inflation-adjusted discount rates, which will neutralise these effects. Therefore, we prefer to work in real terms.</p>	
<p>Par. 81-96</p>	<p><u>The background survey</u></p> <p>A background survey can also be used to take into account proportionality triggers such as:</p> <ul style="list-style-type: none"> • AuM of IORPs in the Member State / GDP, e.g. when evaluation of the potential for systemic risk. The AuM/GDP does not exceed 25% for all Member States except for one. It only exceeds 10% for seven Member States. • AuM of IORPs in the Member State / total assets of the financial sector, e.g. when evaluating the cost/benefit/relevance of cross-sectoral stress tests. • Number of IORPs in the Member State, e.g. in Member States with a large number of IORPs the assessment of the resilience of financial institutions can be measured based on a limited sample of IORPs without aiming to have a sample that represents x% of the AuM in the Member State. • Distribution of the AuM per IORP in the Member State, e.g. to assess the cost/benefit of a stress test exercise and the tools used. • Average amount of assets/benefits per beneficiary, e.g. in some Member States IORPs AuM and pension savings per individual are relatively small. We suggest EIOPA to consider using a different perspective for RI (and related risks) for those Member States where occupational pensions deliver large(r) part retirement income. • Number of active IORP members / working population e.g. to assess the relevance of the transmission effects onto the financial stability. • The use of derivatives, e.g. IORPS that do not use derivatives and have no options for early pension withdrawal before retirement age, liquidity risk is very limited/non existing. 	

	<ul style="list-style-type: none"> The possibilities and process to renegotiate the pension deal amongst social partners. 	
Par. 82-83	As in most countries, pensions are defined as an annuity (and not at all / or only partly as a lump sum), we believe the stochastic PEPP model, which focus on the accumulated assets at the end of the accumulation phase (so assuming a lump sum payment) does not totally fit for purpose. The assessment should include annuity payments and result in a distribution of annuity and/or lump sum, depending on scheme type.	
Par. 85.	<p><u>Representative members versus cohorts of members:</u></p> <p>We prefer the hypothesis of representative members; as regards benchmarking, it is difficult to give an opinion without methodological details.</p> <p>More granularity in members and including retirees will give better insights in risks but will imply extra work as well. EIOPA should consider the cost-benefit ratio careful if EIOPA's objective is to include more EU IORPs in its upcoming ST 2022. Therefore, calculating representative membership should not be too burdensome.</p>	
Par. 85.	The suggested benchmarking of "the probability of reaching a pay-out phase that equals the contributions?" will highly depend on the timing contributions. This approach should be adjusted for inflation!	
Par. 85.	To assess members' and beneficiaries' benefits not the risk-free return but the long term expected return should be used. A calculation at the risk-free return can only come at the second place to give an indication of the risk ('a stress scenario') but not to calculate the expected benefit or the expected replacement income at retirement.	
Par. 86.	Surveys may be a right tool to access further information on the characteristics of the IORPs. However, like for the projection tools, EIOPA also plans to extend the perimeter of the survey tools. Overall, the additional effort requests by EIOPA are not negligible. EIOPA could evaluate a proportional approach, pushing forward for the tools deemed most relevant (either projection tools or survey tools) and postponing the strength of the other to future stress tests.	
Par. 95.	With reference to the regulation of investments, EIOPA could rely on NCAs for regulations applying on a general bases, limiting the request to that added by the IORPs under their investment policies (if any).	

	On derivatives, the request could be limited to the cases in which the use of such instruments is relevant, while excluding the cases in which the use of derivatives is negligible.	
Par. 98.	The length of 5 years after the shock to indicate the expected adjustment of asset class allocation, by net selling or net buyer and the new asset allocation could be too long especially when investments are made through mandates that could be shorter than 5 years or having a residual length less than 5 years.	
Par. 100.	In general, the Stock Take Survey is not sufficiently defined, so it is difficult to evaluate the new tool. Broadly speaking the use of such a tool should be very limited to avoid a burdensome and costly stress test. Furthermore, please make sure the cost benefit ratio is kept in balance. Previous reporting exercises have shown that these exercises can become very extensive and very time consuming with different (external) parties involved. We therefore would argue to limit these stock taking surveys to a minimum.	
Par. 107.	We agree on the fact that for unprotected DC schemes the liabilities are equal to the assets and so no solvency risk arise.	
Table 3.1 and Par. 110	Management actions will be based on the NBS, not on the CBS. Therefore, the CBS will give a less relevant picture of solvency risk (as EIOPA seems to recognise). CBS only gives partial information as no information on timing, size and likelihood of using security mechanisms. We suggest reflecting these comments explicitly in Table 3.1. Solvency risk CFA – we would prefer “yes, if ...” instead of “no, unless ...”. “Potential to maintain its business” – not totally clear what EIOPA means by this - we believe more information is needed The CBS is not suitable as a method to assess solvency risks, because the CBS is by definition in equilibrium as all balance sheet items are attributed. The CBS cannot be used for the assessment of the potential to generate income, because it can only be calculated with the assumption of going concern, which needs making many assumptions.	

Par. 111.	Projecting the CBS forward multi-period is very complex when stochastic risk neutral valuation is being used. This would imply using trees-in-trees or other complex methods not being used in practice. (Projecting the NBS forward multi-period is far less complex but can also be time consuming/costly and as such is from a cost/benefit perspective not preferable).	
Par. 116. and 119.	As EIOPA itself recognized, liquidity is not one of the most relevant risks of IORPs. Against this background, to reduce the burden and the cost of the stress test, liquidity risk could be assessed on a materiality basis, for example only when there is a large use of derivatives, when early withdrawal is allowed without restrictions or when regulations on quantitative limits on illiquid assets are not in place. Another criterion could be the share of illiquid assets. This information could be obtained with survey tools (BS and IBS) or through engagement with NCAs (national regulations on quantitative limits for illiquid assets). The tools envisaged in points 117. to 119. should be limited to the IORPs where the liquidity risk matters, considering one or more of the aforementioned criteria.	
Par. 127	Multiple CBS is not possible in practice, because for each consecutive projection (at t+1, t+2, etcetera) a risk neutral scenario set is needed in order to calculate the options (leading to "trees in trees").	
Par. 131.	Please note that increased longevity might not only have a negative impact on the financial position of IORPs, but also on the budgetary situation of many Member States. Therefore, many Member States will increase the retirement age (or already did so). The stress scenario should take these (current and future) policy measures into account to correctly assess the longevity risk. To avoid complexity a pragmatic approach is due.	
Table 3.2	Table 3.2 should reflect that also CFA shows investment behaviour (impact if restrictions in asset allocation and investment response (selling/buying) is included in cash flows (so also 'direct impact'))	
Table 3.3	Since the CBS presents the <u>present</u> value of all security mechanisms (at t=0), it is difficult to relate these security mechanisms to (future) economic indicators going forward. This should be reflected in table 3.3 as it is not only about timing but also about getting a feeling of the severeness of the stress impact.	
Par. 149	<u>The CBS does not show which risk bearers will be hit, but intends to show the market value needed in order to get rid of these risks, with the assumption that there are markets for this; however, in practice such markets do not exist.</u>	

<p>Par. 152.</p>	<p>Without new accruals, the IORP would follow a more defensive investment strategy, so excluding new accruals will not give an adequate representation (of going concern). The same is true for security mechanisms and other policy assumptions, which in many cases are based on a going concern approach.</p> <p>Like in previous stress tests, contract boundaries should be leading in selecting new / future service accruals or not.</p> <p>For IORPs/schemes where obligations of the IORP to pay benefits are only established following payments of contributions to the IORP/scheme, cash flows to be included in the calculation of technical provisions should be determined as follows:</p> <ol style="list-style-type: none"> 1. All cash flows relating to obligations of the IORP relating to current members and beneficiaries shall be recognised in the calculation of technical provisions, unless otherwise stated below. Apart from the cases described below, obligations shall include those obligations relating to current members and beneficiaries which result from contributions received by the IORP after the valuation date. 2. Any cash flows relating to obligations of the IORP relating to contributions received by the IORP after any of the following dates shall not be recognised in technical provisions: <ol style="list-style-type: none"> a. The future date where the IORP has a unilateral right or obligation to terminate the agreement with the plan sponsor and/or the plan members to provide the pension benefits as agreed between plan sponsor and plan members; b. The future date where the IORP has a unilateral right or obligation to reject additional contributions; c. The future date where the IORP has a unilateral right or obligation to amend the contributions payable after this date or the benefits related to those contributions in such a way that the contributions fully reflect the risks related to them and the related benefits; or d. The future date where the sponsor or sponsors have a unilateral right to terminate future accrual of benefits. <p>For IORPs/schemes where obligations of the IORP to pay benefits are established independently from payments of contributions to the IORP, cash flows to be included in the calculation of technical provisions should be determined as follows:</p> <ol style="list-style-type: none"> 1. All cash flows relating to obligations of the IORP relating to current members and beneficiaries shall be recognised in the calculation of technical provisions unless otherwise stated below. Apart from 	
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	<p>the cases described below, obligations shall include those obligations relating to current members and beneficiaries which are established after the valuation date. Any contributions which are directly linked to the financing of certain obligations established after the valuation date shall also be recognised in technical provisions, unless otherwise stated below.</p> <p>2. Any cash flows relating to obligations established after any of the following dates shall not be recognised in technical provisions:</p> <ul style="list-style-type: none"> a. The future date where the IORP has a unilateral right or obligation to terminate the agreement with the plan sponsor and/or the plan members to provide the pension benefits as agreed between plan sponsor and plan members; b. The future date where the IORP has a unilateral right or obligation to reject the establishment of additional obligations; c. In cases where contributions are directly linked to the financing of certain obligations established after the valuation date, the future date where the IORP has a unilateral right or obligation to amend those contributions or those obligations to fully reflect the risk; or <p>The future date where the sponsor or sponsors have a unilateral right to terminate future accrual of benefits.</p>	
Table 3.4	<p>We would suggest a more positive assessment of the NBS, since the NBS is the (national) indicator for policy and interventions (not the CBS).</p> <p>We would suggest mentioning explicitly that CBS in terms of cost/benefit ratio does not fit for unprotected DC plans and as such is not ideal to compare results across scheme types within a country nor to compare results across countries.</p>	
Par. 165. and 168.	Please refer to point 47.	
Par. 180.	We appreciate the cost-benefit approach that EIOPA wants to follow in the selection of the tools. In the comment of point 26 we already argued on the criteria to select the tools, please refer to such comments. Every module of the stress test should be assessed with one tool, overlapping tools for the same characteristic would be confusing.	

Par. 181.	<p>Interpretability is important indeed. We noted that even experts have difficulty in understanding/explaining results from the CBS (esp. when discounted via a risk neutral approach), as EIOPA recognises (in 185). This should be better reflected in tables 3.7a and 3.7b.</p> <p>We support the criteria defined to define the practicability of the horizontal approach. We already raise some concerns over the practicability of the tools for DC schemes. Please, refer to points 26 and 44.</p>	
Par. 185.	<p>Given the fact that the CBS does not give any insight in the size and the timing of the potential intervention of the security mechanisms it is less useful for IORPs in terms of their own risk management process. Furthermore, CBS uses a risk-free rate which does not result in a market consistent view as it does not take into account any risk premium which will be realised on the investment portfolio. Therefore, we believe the only advantage of the CBS is the comparability of the results amongst the different MSs, excluding those MSs which have a pure DC market. This should be better reflected in tables 3.4, 3.7a and 3.7b.</p>	
Table 3.6	<p>A correct cost/benefit ratio is an important criterium to add to table 3.6. Furthermore, the possibility of standardisation of the selected tool might be another useful criterium to add.</p>	
Table 3.7a and 3.7b	<p>(see also comments on 181 and 185)</p> <p>It would help by making clearer whether scores like 'low', 'moderate' etcetera are meant in positive or negative way (via notes added to tables). E.g. we believe for IORPs the score on practicability would be higher for a NBS than for a deterministic CFA, and the one for the deterministic CFA would be higher than for a stochastic CFA or a CBS. We have a similar issue regarding insightfulness for EIOPA and NCA in table 3.7a.</p>	
Par. 194.	<p>Even if the principle of materiality to define the perimeter of the IORPs involved in the exercise is not addressed in the paper, it may be useful to argue on that point. The threshold of 500m EUROS does not seem adequate since it does not reflect the real risk underlying national markets. The IORP sector is bankruptcy-remote, as EIOPA itself recognizes in 22. of the Discussion Paper. Considering that one of the objectives of the stress test is to assess the potential systemic risk linked to IORPs, EIOPA should focus the exercise in MS where the systemic risk may have a certain relevance. To find the right candidates the assets as a percentage of GDP seems to be a better measure than a fixed amount of EUROS in absolute values. The assets as a percentage of GDP reflects the size of the national market</p>	

	<p>and may be assumed as a proxy to measure the magnitude of the effect of a remote bankruptcy of an IORP.</p> <p>If the risk of going bankrupt could have a certain relevance for DB IORPs (and for MS where such IORPs represent the main share of the market), such risk does not exist for pure DC IORPs by definition. Such evidence should be considered by EIOPA when defining the boundaries of the stress test.</p> <p>When defining the criterion for the sample selection to be considered by NCAs, EIOPA should consider not only quantitative criterion but also qualitative, like the type of IORPs. Therefore, we welcome the balance survey as this tool might be a way to introduce more proportionality and as such make the ST much more cost effective.</p>	
Par. 197.	<p>The composition of the national samples should not only reflect the different tools EIOPA will decide to use for different types of IORPs but also the relevance of the different types of IORPs in terms of assets. If for example, the national landscape is dominated by a certain type of IORP (either DB or DC) and the other has a marginal relevance, NCAs should be given the opportunity to scrap the latter from the stress test</p>	
Par. 200.	<p>EIOPA is right in recognizing that it is not always necessary for achieving a meaningful result to have a very high market coverage. It depends on the ability to capture the IORPs through whom better assess the resilience after the shock and the systemic risk. It is not necessary to fix a minimum market coverage in terms of assets as well as members and beneficiaries. EIOPA and NCAs could cooperate to involve larger IORPs as a reliable proxy of the national markets.</p> <p>Moreover, the coverage of pure DC IORPs (at least some of them), should be assessed cautiously, given the quite limited relevance of the findings and the high costs related to the stress test that, in the end, will be fully borne by members/beneficiaries. Once again, we question the need of the horizontal approach for pure DC IORPs.</p>	
Par. 201.	<p>This point contains a clear analysis of the differences in place across MS. EIOPA states that “<i>...National specificities may determine which characteristics are relevant in different national markets, <u>because of the diversity of IORPs throughout the EEA. Therefore, not all NCAs will necessarily consider the same characteristics, or weigh them equally.</u></i>” EIOPA implicitly recognizes the differences across MS and the difficulties stemming from such heterogeneity to define a comparable sample, suitable for the horizontal approach.</p>	

<p>Par. 205. and 206.</p>	<p>We fully support the idea to select the sample among larger IORPs as they would represent a reliable proxy of the national markets. As EIOPA recognizes, meaningful results are not always linked to the size of the sample but to its representativeness. It depends on the characteristics of the underlying market.</p> <p>EIOPA should be primarily focused on the representativeness of the sample rather than on the number of the participating IORPs. It is questionable the comparability of the results across MS given the huge differences in place and considering that legislative safeguards prevent DB IORPs from bankruptcy, while such risks do not arise for pure DC IORPs.</p>	
<p>Par. 212.</p>	<p>We note that introducing extra work for IORPs risks driving them out of competition, especially on those markets where IORPs only cover a small part of occupational pension provisioning and especially for those entities which are rather small.</p> <p>Due to the increase of regulatory requirements, we notice in some MS a consolidation is taking place on the market. Not-for-profit organisations with a triangular relation putting sponsor, member and IORP close together and making use of a fully tailor-made service approach are -due to cost efficiency reasons- switched for more commercial solutions with a product approach, generating higher costs resulting in lower benefits. The first group is ruled by IORP II, the second by SII, where the latter only focuses on solvency at the level of the institution without looking at the efficiency at the level of the pension scheme nor the risk from the perspective of the member and beneficiaries.</p> <p>To avoid a further detrimental effect on i) pension provisioning for many members and beneficiaries and ii) on the cost efficiency of especially small and medium sized IORPs, we ask to be very careful not to introduce measures which further distort the internal market and which risk to make disappear the IORP sector in some MS.</p>	
<p>Par. 222.</p>	<p>We suggest not to use the word “valid” here, because the validity of CBS comparisons can be/has been disputed (see remarks at chapter 3 and CBS).</p>	
<p>Par. 235.</p>	<p>To our knowledge, the ECB/ESRB developed the scenario for the stress test the last time in 2019. Therefore, it would be insightful to mention the ECB/ESRB although EIOPA bears responsibility.</p>	
<p>Par. 242.</p>	<p>The application of a one-time, permanent shock as was applied in previous stress tests implicitly also involves a lot of assumptions (i.e. that the shock is permanent and therefore persists over all future periods). Building a multi-period scenario changes those implicit assumptions, but is not fundamentally</p>	

	different compared to the one-time shock. Nevertheless, complexity should be avoided to keep the cost-benefit ratio in balance, especially for small and medium sized IORPs.	
Par. 248.	Future state of the financial position can be very relevant for some Member States but might be totally irrelevant for others given the small occupational pension/IORP sector. Also contract boundaries can determine if new/future service accruals should be considered or not. We believe this paragraph is very much applicable to IORPs from the Netherlands. But a similar exercise might be much less relevant in other Member States. Furthermore, the suggestion on how to incorporate the strategic asset allocation can be practically implemented.	
Par. 270.	Price inflation is important for the purchasing power for retirees. But the focus on price inflation is maybe not optimal for all stakeholders in IORPs, especially the members. How about focus on wage inflation which is important for new accruals and pension schemes with benefits related to (final) salary? We think inflation will manifest itself as well strongly in the housing market and successively in wages. Maybe inflation of prices in these areas is realised sooner than in consumer prices. All in all, the issue of inflation risk is complex as there is not a general correct way to include inflation and this would depend on the scheme type, the pension plan and the status of the member/beneficiary.	
Par. 288.	This paragraph needs to be more explicit; what is exactly meant?	
Par. 297. and 299.	We believe this paragraph correctly describes the liquidity risks of IORPs.	
Par. 305.	Although on first sight we think this is a logical and simple indicator that could be used for IORPs, it would be good not to draw conclusions from it quickly and firmly. Experience in the coming years should refine its interpretation and usefulness.	
Par. 313. and 320.	For Cyber Risk, we see a more qualitative approach and agree with the reasons mentioned in this paragraph which form obstacles to make it a quantitative analysis. A future quantification of Cyber risk needs to be accompanied with a correct interpretation of the measure.	
Par. 327.	We agree with the observation that labour markets risks are <u>not relevant</u> to the assessment of an IORPs financial position.	

<p>Par. 329. and 331.</p>	<p>We are of the opinion that too much granularity will not improve the stress test results. On the contrary, more granularities can make the stress test more cumbersome. Therefore, we would like to experience with the hybrid approach proportionate granularity levels considering the stress scenario and composition of the pension fund. See also our comments on the cost-benefit ratio, our request to focus on materiality, etcetera.</p>	
<p>Par. 421</p>	<p>We fully agree that the set of reporting templates used to collect results should (fully) take into account the existing reporting and/or disclosure requirements at the European level, namely the EIOPA's regular information requests towards NCAs regarding provision of occupational pensions information.</p>	
<p>Par. 442.</p>	<p>We find it of utmost importance how EIOPA communicates the stress test results to the wider public. In the past, the wording of EIOPA press release has not always been fully in line with the stress test report itself.</p>	
<p>Chapter 8.2.1; Par. 445 and Chapter 8.3; Par. 451</p>	<p>Disclosure of IORP names: We are not in favour of disclosing the names of participating IORPs, as we do not recognise the arguments in favour of the disclosure of the names of participating IORPs and it is not clear what would be the benefits. General EU communication might differ from national context or situation and we fear this approach might damage public opinion and lead to mistrust for members and beneficiaries concerned. It is important also to mention that the downside risks also did not materialise in the 2019 ST, but we continue to feel it aims at working towards a micro-prudential mandate. In our view the best way to disclose the achievements of the Stress Test is on a national base, without reference, neither direct nor indirect, to the list of participating schemes.</p> <p>Disclosure of individual ST results: We continue to believe that individual stress test results should not be disclosed, in particular if based on CBS. The publication of the individual names of participating IORPs may put pressure on these IORPs to publish at least parts of their stress test results, which cannot be the aim of a consolidated pan-European stress test exercise having a macro-prudential background. It may also confuse members and sponsors of the IORPs if the pan-European stress test leads to different results than the national stress tests, which exist in many countries. Potential benefit reductions are based on NBS, so CBS analysis can be misleading for uninformed readers.</p>	