

RESULTS OF THE PEER REVIEW ON SUPERVISORY PRACTICES WITH RESPECT TO THE APPLICATION OF THE PRUDENT PERSON RULE FOR IORPS

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EXECUTIVE SUMMARY

In the context of its oversight activities, the European Insurance and Occupational Pensions Authority (EIOPA) regularly conducts peer reviews, with experts from national supervisory authorities acting as reviewers in coordination with EIOPA. Peer reviews strengthen consistency in supervisory actions, helping to build a common supervisory culture among European supervisors.

In line with EIOPA's founding Regulation, the outcomes of peer reviews, including identified best practices, are made public with the agreement of the NCAs that have been subject to the peer review.

BACKGROUND AND OBJECTIVES

Institutions for occupational retirement provision (IORPs) should invest their capital in the best interest of their members and beneficiaries, i.e. prudently. Therefore, the IORP Directive¹ requires IORPs to adhere to the Prudent Person Rule (PPR) and lists a limited number of investment rules that must be respected by all IORPs.

The objective of this peer review is to explore **supervisory practices** relating to the PPR for IORPs with the aim of promoting a common supervisory culture and supervisory convergence by identifying best practices and by issuing recommended actions where needed.

The peer review was conducted among 27 national competent authorities (NCAs) from 24 European Economic Area (EEA) countries on the basis of EIOPA's Methodology for conducting Peer Reviews (Methodology). Note that only NCAs with IORPs operating in their country during the reference period are in scope of this peer review. Countries that have chosen to use the option of Article 4 of the IORP Directive applying certain provisions of the IORPs Directive to insurance undertakings with occupational retirement provision business (Article 4 ring-fenced funds) participated in the peer review on a voluntary basis. Therefore, the NCAs of the Czech Republic, Estonia, Iceland, Lithuania and Romania were out of scope of this peer view because no IORPs operated in these countries during the reference period. In addition, of the countries with Article 4 ring-fenced funds, the NCA from Slovenia participated and the NCAs from France and Sweden chose not to participate.

The reference period of this peer review was 2014-2016 under the IORP Directive. As the implementation of the IORP II Directive² does not substantially alter the rules for the PPR, the analysis in this report remains valid following the introduction of the IORP II Directive.

1 Directive (EU) 2003/41/EC.

2 Directive (EU) 2016/2341/EC.

MAIN FINDINGS

Views differ on how **IORPs' compliance with the PPR** can be ensured best, by applying:

1. quantitative investment limits/limits on the type of assets IORPs can invest in;
2. the PPR solely; or,
3. a combination of the two above methods.

NCAs' supervisory approaches towards ensuring IORPs' compliance with the PPR are to a large extent determined by the manner in which national legislators have embedded the PPR in national legislation.

However, one of the main findings of this peer review is that countries that have adopted a risk-based or a prudent person plus supervisory approach use more sophisticated tools and perform their supervisory activities in a risk-based and forward-looking manner, whilst a compliance-based supervisory approach focuses on past compliance. The peer review also found that NCAs in a compliance-based legal system can enhance their supervision by including risk-based, forward looking tools in their supervisory approaches.

Figure 1 reflects the **supervisory approach** towards PPR by each NCA.³

Figure 1 – Types of supervisory approaches towards PPR



At European level, supervisory approaches with regard to the PPR vary depending on the type of schemes and the development of the pension industry. Countries where occupational pension schemes have only recently been introduced have usually introduced quantitative investment regulations (for example in Croatia, Malta, Poland, Slovakia and Slovenia), whereas countries with growing defined contribution (DC) schemes (for example, Austria, Belgium and Italy) have often implemented more qualitative elements in their supervisory approach towards investments.

Some countries, where defined benefit (DB) schemes are predominant, have adopted a supervisory approach of a risk-based and qualitative nature (for example the Neth-

³ Greece has three NCAs supervising the same IORPs. Therefore, where the report mentions Greece reference is made to the three NCAs. Luxembourg has two separate legal regimes for IORPs and each IORP is authorised and supervised by either the CAA or the CSSF. Therefore, where the report mentions Luxembourg reference is made to the relevant NCA.

erlands and the United Kingdom), whilst other countries have introduced quantitative investment regulations (for example Denmark, Finland and Luxembourg (CAA)).⁴

In countries that have adopted **a risk-based or a prudent person plus supervisory approach**, NCAs usually conduct supervision in a risk-based and forward-looking manner. This is in line with the principles of prudential supervision and compliant with the requirements – listed in the IORP II Directive – that cover the assessment of emerging risks and the adequacy of mechanisms mitigating these risks.

Contrary to this, a **compliance-based supervisory approach** focuses on past compliance and does not require NCAs to apply a forward-looking approach to assess potential risks that may have an impact on the interests of the members and beneficiaries in the future.

A compliance-based approach may be adequate in countries where a pensions industry has just started to develop. Pension markets that are at this stage of development usually require a significant number of ex-ante approvals, as well as extensive and frequent compliance reporting. IORPs in these countries are still developing and assets under management are at a low level. These IORPs are in the process of acquiring relevant expertise and resources. As NCAs need to monitor this process closely, their close involvement is very common.

As a pension market develops further, NCAs' supervisory approaches should also develop, for example from a compliance-based to a more risk-based approach. This in turn implies the use of different supervisory tools for ongoing supervisory purposes, particularly for the PPR assessment.

The manner in which an IORP's compliance with the PPR is supervised depends mainly on the specific context of a national pension market, the predominant type of pension scheme (DB/DC), the size of the IORP and NCA's available resources. Following the mosaic-theory,⁵ supervision of the PPR combines several elements, as listed below.

› **Basis for the interpretation of the PPR**

- The fitness and propriety of the persons responsible for investments (the Netherlands, Slovenia)
- IORPs' internal investment limits as stated in the statement of investment policy principles (SIPP);
- IORPs' investment and risk management processes;
- IORPs' asset liability management for DB schemes, the liquidity of investments, the monitoring of costs (Italy) and correct valuation (Poland);
- In some countries IORPs are considered to comply with the PPR when quantitative investment limits or suitable asset requirements – as defined in national legislation – are respected (Germany, Spain).

⁴ In some countries (e.g. Norway) a risk-based solvency regime comes on top of quantitative investment regulations. Overall and given a different capacity towards guarantees, there is increasing competition from the insurance regime (e.g. Denmark).

⁵ CFA Institute: Standards of Practice Handbook, 10th ed., Charlottesville: 2010. Method recognised by the CFA Institute as a valid means of analysis, including both public and non-public data and through both material and non-material sources. See <https://corporatefinanceinstitute.com/resources/knowledge/finance/mosaic-theory/>.

› **Legal and regulatory framework**

A majority of countries have, in addition to the implementation of the investment rules of Article 18 of the IORP Directive into national legislation, introduced:

- quantitative investment limits for individual assets and eligible asset classes (Austria, Bulgaria, Cyprus, Denmark, Finland, Germany, Hungary, Italy, Latvia, Luxembourg (CAA), Malta, Norway, Poland, Portugal, Slovakia, Slovenia, Spain);
- regulations and guidance related to for example due diligence processes (Austria, Italy), recovery plans (Belgium, the Netherlands), governance of IORPs (Belgium), the SIPP (Ireland) and risk management and reporting requirements (Austria, the Netherlands).

› **Information gathered for PPR assessment**

- In addition to the information NCAs receive on IORPs' investments through regular reporting on their investment strategies and asset liability management, several NCAs use new information sources. Examples of these new types of information are:
 - the number of trades (Italy);
 - the top 5 individual positions or largest top 10 positions of funds (Germany) within a portfolio;
 - reports from external asset managers in case an IORP has outsourced its asset management (Belgium) and expected returns as reported by the IORP (Belgium).
- From external service providers, e.g. accredited statutory auditors (Belgium), custodians (e.g. Bulgaria, Hungary, Italy, Latvia, Luxembourg, Poland, Spain) and actuaries (Belgium, Finland, the Netherlands, Spain) are often actively involved in PPR-supervision;
- One NCA adopted the practice of storing PPR-related information on an intranet application (Luxembourg (CSSF)).

› **Supervisory assessment method**

- Use of risk models (Belgium, Bulgaria, Denmark, Finland, Hungary, Latvia, Norway, Portugal), apart from solvency indicators for DB schemes, include information on asset allocations, liquidity risks and risk-adjusted performance measures. Often, risk models also include stress tests that are regularly conducted by IORPs (Denmark, Norway), as well as qualitative information on e.g. IORPs' governance models (Belgium, the Netherlands);
- In order to be able to monitor portfolio diversification, and based upon regular portfolio reporting, a number of NCAs analyse IORPs' SIPPs in order to verify whether the latter comply with their internal investment guidelines (e.g. Italy, Luxembourg (CSSF), the Netherlands, Spain) or with external quantitative investment regulations (e.g. Germany, Spain);
- 'Deep dive' thematic studies, e.g. on valuation (Poland), IORPs' data management in case of outsourcing (Belgium) or EMIR (the Netherlands), are conducted, both off- and on-site;
- Some NCAs carry out specific investment fit and proper examinations in a risk-based manner and on an ad-hoc basis, e.g. by focussing on changes in asset allocations (Luxembourg, the Netherlands, Slovenia);

- The frequency of on-site inspections related to the PPR varies significantly from NCA to NCA, from every 2 to 12 years, with an average of every 3 to 6 years.

› **Supervisory actions**

Supervisory actions were taken with regard to:

- concentration risks;
- IORPs' non-compliance with internal or regulatory investment limits (Denmark, the Netherlands, Portugal);
- missing benchmarks (Denmark);
- improper internal transactions (Slovakia);
- insufficient solvency (Norway);
- not meeting fitness or propriety and governance requirements (Portugal, the United Kingdom);
- insufficient risk management and internal control mechanisms (Portugal);
- the improper use of derivatives (Portugal) and valuation (breach of International Financial Reporting Standards (IFRS) rules, Slovenia).

RESULTS

As a result of this peer review, EIOPA identified a number of best practices, as well as areas where recommended actions are to be taken.

BEST PRACTICES

EIOPA identified **6 best practices** in relation to the supervisory assessment processes adopted by some NCAs and to the manner in which NCAs interpret the PPR (see section 4.2).

The best practices were derived from 38 *sound practices* identified. EIOPA will consider further elaborating these practices at European level in the future in order to improve supervisory convergence in relation to the supervision of PPR (see section 4.3).

› **Thematic review to identify potential vulnerabilities**

In large and heterogeneous IORP markets, NCAs can perform thematic reviews (both on-site and off-site) that cover a representative sample of all IORPs. Such thematic reviews enable NCAs to identify potential global and local vulnerabilities and track the development of the market. The approach could be labelled as 'proportional plus supervision.'

This best practice has been identified in the FSMA (Belgium).

This supervisory practice is risk-based, proportional, forward-looking and sustainable, optimising supervisory resources in large and complex IORP markets. It enables NCAs to gain insight into the development of the entire market with a reasonable use of internal resources and without putting too much of a burden on supervised entities.

› **Quantitative indicator to assess quality asset management**

When supervising a non-negligible number of IORPs, NCAs can make use of quantitative indicators, for example in the form of a traffic light system, to assess the efficiency of the turnover of an IORP's assets. This is done with the aim of assessing the performance (and cost efficiency) of asset managers and, if needed to challenge the IORP's management.

This best practice has been identified in COVIP (Italy).

This supervisory practice is risk-based and proportional. Given the size and diversity of the IORP sector in Italy, this practice provides the NCA with an effective means of gaining additional insight into the quality and performance of an IORP's asset management style.

› **Intranet application for recordkeeping and knowledge sharing**

When supervising a non-negligible number of IORPs, NCAs can establish an intranet application for recordkeeping purposes and facilitate sharing of PPR-related issues within the NCA.

This best practice has been identified in the CSSF (Luxembourg).

This supervisory practice enhances supervisory transparency and accountability. It also promotes cooperation and the exchange of information within an NCA. Given the size and diversity of the IORP sector in Luxembourg, this practice provides the NCA with an effective means of recording PPR-related views and opinions for an IORP, which are accessible to all departments within an NCA. This is an effective way to ensure an integrated approach for the supervision of IORPs and promotes the exchange of 'additional/qualitative' information with regard to every IORP supervised by the NCA.

› **Written and oral fit and proper assessment**

NCAs that supervise larger IORPs can ensure a robust fit and proper assessment of management board members (i.e. those responsible for an IORP's investment policy), consisting of a written and oral assessment of the applicants. In this way, NCAs are able to lay down in dedicated guidelines their expectations with regard to the standards for knowledge of investment.

This best practice has been identified in the DNB (the Netherlands).

This supervisory practice is risk-based, proportional and forward-looking. In larger and more complex IORP markets, this practice provides the NCA with an effective means to test the investment knowledge of management board members. This knowledge is screened during the selection stage of new board members, as well as during on-site inspections.

› **Disclosure of the investment plan and risk appetite by the IORP**

In the absence of external investment limits, NCAs can require IORPs to set their own internal investment limits, taking into consideration their investment horizon and liquidity needs, and to set out in writing how they consider the Prudent Person Rule. A system to regularly receive information on internal limits enables NCAs to benchmark risk appetites, evaluate investment discipline and support PPR compliance checks through the comparison of internal limits to actual investment portfolios.

This best practice has been identified in the DNB (the Netherlands).

This supervisory practice is risk-based and proportional. In larger and more complex IORP markets where no investment limits are set by regulation, this practice provides the NCA with an effective means to assess the performance of the asset management function of IORPs.

› **A comprehensive risk assessment system**

In the case of a large IORP market and complex investment portfolios, NCAs can perform a comprehensive, multi-dimensional assessment of an IORP's investment risks in the form of a traffic light system that may serve as a trigger for supervisory actions.

This best practice has been identified in the ASF (Portugal).

This best practice is high quality, risk-based, proportional, forward-looking, sustainable and suitable for enhancing supervisory transparency and accountability. In large and complex IORP markets (i.e. those with open and close-ended pension arrangements, with DB and DC schemes), the system is an effective tool for optimising supervisory resources.

OVERVIEW OF RECOMMENDED ACTIONS

EIOPA issues **27 recommended actions, addressing 19 NCAs located in 16 countries**. The proposed recommended actions concern:

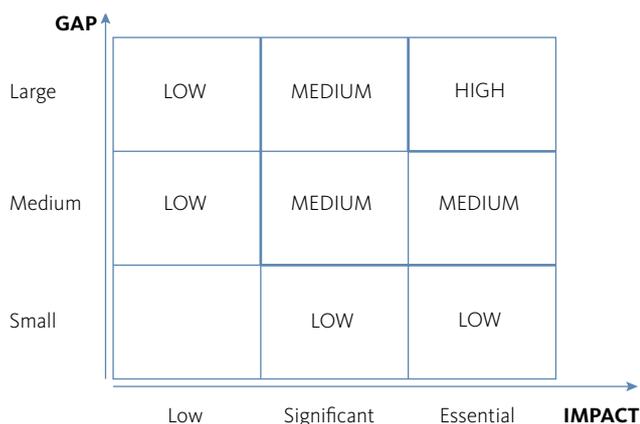
- › the frequency and granularity of the data collected;
- › the manner in which NCAs conduct their supervisory assessment;
- › the regular application of the look-through approach;
- › the appropriate consideration of interest rate risks for DB schemes;
- › NCAs' supervisory practices with regard to IORPs' governance; and
- › the frequency of on-site inspections.

The recommended actions are not equal in terms of importance, ranging from a shortcoming in a rather specific area to overall inadequate supervisory practices, tools or powers. Therefore, the sheer number of recommended actions addressed to a particular NCA should by no means necessarily be considered indicative of its overall supervisory effectiveness.

In terms of importance they differ in terms of gaps to close and their impact on the supervisory assessment:

- › A large gap with obstacles for completeness of supervisory assessment and a large difference between what was expected to be covered by the supervisory systems and what is in place to a small gap with a minor potential for incompleteness of the supervisory assessment.
- › An essential impact bringing substantial negative consequences posing serious threat to the supervisory assessment to a low impact with almost no potential for negative consequences on the supervisory assessment.

Although the recommended actions are based on the supervisory practices of individual NCAs, a comparison among countries shows that most of the identified supervisory shortcomings are similar for several NCAs. In order to clearly identify supervisory issues and gaps and to prioritise the areas of supervisory convergence, the recommended actions have been grouped by topic and then within each topic ordered by importance (high/medium/low).



High importance indicates a large gap with an essential impact. Medium importance indicates a large or medium gap with significant impact or a medium gap with essential impact. Low importance is a large or medium gap with low impact or a small gap with significant or essential impact. Following a risk-based approach no recommended actions were issued in relation to findings closing a small gap and having a low impact.

Area of recommended action	Authorities concerned	Importance
Supervisory structure and supervisory resources		
The NCA should significantly increase its qualified and expert staff to ensure adequate off-site and on-site supervision of IORPs, in particular an IORP's compliance with the PPR	Registrar of Occupational Retirement Benefit Funds (Cyprus)	High
The three NCAs should assess the efficiency of the current supervisory structure, currently composed of three separate NCAs all dealing with the supervision of IORPs.	Ministry of Labour, Capital Market Commission, National Actuarial Authority (Greece)	High
Information gathering for the assessment and processing of the Prudent Person Rule		
The NCA should develop, as soon as possible, an IT tool that will allow it to receive reporting by IORPs in an automated and secured manner and format.	Registrar of Occupational Retirement Benefit Funds (Cyprus)	Medium
The NCA should introduce more formal reporting obligations for Pensionsfonds (PF).	Bundesanstalt für Finanzdienstleistungsaufsicht (Germany)	Medium
The NCA should receive granular data of the investment portfolios of IORPs currently received by the National Actuarial Authority.	Capital Market Commission (Greece)	Medium
The NCA should regularly receive sufficiently granular information on the portfolio as a whole and to use it for the supervisory assessment of the PPR, enabling the CSSF to identify key exposures of the portfolio as a whole.	Commission de Surveillance du Secteur Financier (Luxembourg)	Medium

Area of recommended action	Authorities concerned	Importance
The three NCAs should work further on creating a single entry point for all regular reporting by IORPs and consequently establish an efficient information exchange between them.	Ministry of Labour, Capital Market Commission, National Actuarial Authority (Greece)	Low
The NCA should introduce automatic data processing for quantitative investment data.	Financial Supervisory Authority (Finland)	Low
The NCA should regularly gather information on the duration of both assets and liabilities, as the mismatch of assets and liabilities is reported by the NCA as the most important trigger for the recovery/de-risking plan.	Pensions Authority (Ireland)	Low
The NCA should regularly collect sufficiently granular information on portfolios as a whole and to use it for the supervisory assessment of the PPR, enabling the FMA to identify key exposures of the portfolio as a whole.	Financial Market Authority (Liechtenstein)	Low
Application of the look-through methodology		
The NCA should regularly collect look-through information for CIVs.	Capital Market Commission (Greece)	Medium
The NCA should establish a regular look-through approach for CIVs, obtaining at least the same level of, if not more, granular data from IORPs or other external sources, regardless of whether the investments are made through Hungarian or foreign CIVs and to use this information for the supervisory assessment of the PPR.	Magyar Nemzeti Bank (Hungary)	Low
The NCA should develop the practice to regularly look-through (off-site and on-site) to ensure that key exposures and allocations of CIVs are analysed and assessed on a regular basis.	Finanzmarktaufsicht (Austria)	Low
The NCA should extend its look-through approach to CIVs further, by collecting more granular information on a regular basis.	Financial Services and Market Authority (Belgium)	Low
The NCA should develop the practice to regularly look-through (off-site and on-site) to get an insight into the exposures and allocations of CIVs and to use this for the supervisory assessment of the PPR.	Finanstilsynet (Norway)	Low
The NCA should develop the practice to regularly look-through (off-site and on-site) to get an insight into the exposures and allocations of CIVs and to use this for the supervisory assessment of the PPR.	Komisja Nadzoru Finansowego (Poland)	Low
The NCA should develop the practice to regularly look-through (off-site and on-site) to get an insight into the exposures and allocations of CIVs and to use this for the supervisory assessment of the PPR.	Nationa Bank of Slovakia (Slovakia)	Low
The NCA should develop the practice to regularly look-through (off-site and on-site) to get an insight into the exposures and allocations of CIVs and to use this for the supervisory assessment of the PPR.	Insurance Supervision Agency (Slovenia)	Low
Supervisory assessment of Prudent Person Rule related issues		
The NCA should integrate the two developed scoring models with a quantitative risk assessment framework into its PPR assessment framework	Hrvatska agencija za nadzor financijskih usluga (Croatia)	High

Area of recommended action	Authorities concerned	Importance
The NCA should consider reinsurance agreements in view of PPR assessments (e.g. notification of contracts including terms and conditions).	Commissariat aux Assurances (Luxembourg)	Medium
The NCA should provide evidence of the negative impact of the legal requirements that allow IORPs to reduce the contribution rate, in order to start a discussion with the legislator on the potential changes to the legislation regarding the assumptions used by IORPs.	De Nederlandsche Bank (the Netherlands)	Medium
The NCA should ensure supervision of assets beyond technical provisions (surplus) and consider whether the investments of the surplus are in the best interest of members.	Financial Supervisory Authority (Finland)	Low
Supervisory tools		
The NCA should provide more focus in its supervisory assessment of interest rate risk to ensure a prudent computation of liabilities and a more prudent assessment of asset liability matching.	Financial Supervisory Authority (Finland)	Medium
Governance		
The NCA should strengthen the supervision of the governance system of IORPs by assessing it on a regular basis instead of on an ad-hoc basis and in order to ensure a systematic check of governance issues.	Finanstilsynet (Norway)	Medium
For small IORPs, the NCA should strive to set requirements on the fitness of members of the administration committee.	Registrar of Occupational Retirement Benefit Funds (Cyprus)	High
On-site inspections		
The NCA should start setting up on-site inspections of IORPs, including for PPR-related activities and in particular for larger IORPs.	Registrar of Occupational Retirement Benefit Funds (Cyprus)	High
The NCA should increase its inspection cycle (currently 7 – 12 years) to conduct more on-site inspections, depending on the risk categorisation tool.	Bundesanstalt für Finanzdienstleistungsaufsicht (Germany)	High

According to the Methodology, NCAs that have strong objections to findings related to their supervisory practices or to recommended actions towards their authority have the right to submit a written statement. For this peer review the Bundesanstalt für Finanzdienstleistungsaufsicht (Germany) submitted a statement regarding the frequency of on-site inspections and is included in annex 5.

The 3 actions to be undertaken by EIOPA aim to ensure that the work on improving supervisory practices with regard to the supervisory assessment of the PPR will continue at a European level (see section 5.1). These actions concern the inclusion of more qualitative elements in supervision, a more detailed investigation into the intensity of PPR-related supervision and further identification of best practices, based on the sound practices identified through this review.

FOLLOW UP AND NEXT STEPS

As follow-up to this peer review, NCA compliance with the recommended action will be assessed, as foreseen in the Methodology.

1. INTRODUCTION TO LEGAL BASIS, SCOPE AND APPROACH

1.1. LEGAL BASIS OF THE PEER REVIEW

Article 18 of the IORP Directive forms the legal basis for this peer review. Its recitals 6, 7, 8, 31, 32, 33, 35 and 36 regarding the PPR were taken into account when developing the questionnaire and assessing the responses received from NCAs (see annex 3).

Given that the implementation of IORP II has not substantially altered the rules for PPR, the analysis in this report remains valid following the introduction of the IORP II Directive. It should be noted, however, that specific paragraphs of Article 18 of the IORP Directive, i.e. Article 18(7) (host country investment rules that must be applied by the IORP in the home country), as well as other paragraphs of Article 18 that are no longer valid under IORP II, were not assessed during this peer review.

1.2. SCOPE OF THE PEER REVIEW

COUNTRIES IN AND OUT OF SCOPE

In scope of the peer review are all countries from the European Economic Area (EEA) that had IORPs operating within their country during the reference period. Countries with Article 4 ring-fenced funds, falling under the Solvency II regulation⁶ participated in the peer review on a voluntary basis. In total, 27⁷ NCAs from 24 countries are covered by this peer review.

⁶ Member States may choose to apply the provisions of some articles of the IORP Directive to the occupational retirement provision business of life insurance undertakings in accordance with points (a)(i) to (iii) of Article 2(3) and points (b)(ii) to (iv) of Article 2(3) of Directive 2009/138/EC. In that case, all assets and liabilities corresponding to the occupational retirement provision business shall be ringfenced, managed and organised separately from the other activities of the life insurance undertakings, without any possibility of transfer.

⁷ In Luxembourg there are two NCAs while in Greece there are three NCAs responsible for supervision of IORPs' compliance with the PPR.

All in all, seven countries were **out of the scope** of this peer review. No IORPs existed in 5 countries (the Czech Republic, Estonia, Iceland, Lithuania, Romania) during the reference period and these countries were therefore out of scope. Amongst the countries with Article 4 ring-fenced funds, Slovenia participated and France and Sweden chose not to participate (see annex 1).

SCOPE OF THE EXERCISE

The peer review was based on the information provided by NCAs on PPR-related national measures in place in their country. In order to identify potential best practices, to propose recommended actions and/or to identify potential areas that would benefit from further convergence at EU-level, the Review Panel sought to obtain a thorough insight into different aspects of PPR-related supervision, as listed below.

- The information NCAs require from IORPs relating to asset allocation, their governance, risk assessment and internal control procedures with regard to the PPR.
- Whether IORPs are required to provide this information to NCAs at specific intervals and/or when significant occurrences take place (e.g. when an IORP is first authorised/registered or when significant changes are made to an IORP's investment policy).
- Whether and how NCAs supervise outsourced investment activities, including when the entity carrying out these activities is located in another country.
- Whether and how NCAs monitor IORPs on an ongoing basis and analyse and assess the information referred to above.
- Whether the principle of proportionality applies when determining the intensity of the PPR supervisory process.
- Whether a different type of analysis and assessment is carried out by the NCA for different types of pension schemes (e.g. which party bears the investment risk).

- › Whether NCAs have sufficient tools (intervention, corrective and enforcement measures) to remedy non-compliance with the PPR and what these tools are. In addition, NCAs were requested to provide information on remedial actions that were taken, if any.
- › Whether NCAs provide PPR-related information and/or education to IORPs (e.g. letters, guidelines, seminars).

REFERENCE PERIOD

The reference period for this peer review was set from **Q1 2014 to Q4 2016**.

TEAM OF REVIEWERS

The team of reviewers was led by the Latvian Financial and Capital Market Commission.

Members of the team of reviewers were from: Austria, Belgium, France, Italy, the Netherlands, Poland, the United Kingdom and EIOPA.

1.3. APPROACH TO THE PEER REVIEW

OBJECTIVES

The objective of this peer review was to explore supervisory practices and promote a common supervisory culture and convergence with respect to the interpretation of the PPR and its assessment. The main focus of the analysis was to assess whether NCAs have supervisory practices in place to ensure that the best interests of members and beneficiaries are protected and to identify effective supervisory practices in place.

Article 18 of the IORP Directive requires IORPs to invest in accordance with the PPR. EIOPA expects, in order for IORPs to comply with this requirement, that countries have introduced primary and – if any – secondary legislation, putting fiduciary obligations (qualitative criteria) on IORPs and the persons running these institutions, e.g. specific governance requirements with regard to the PPR. At national level, quantitative investment restrictions (quantitative criteria) may also apply.

The relevant provisions of Article 18 of the IORP Directive against which supervisory practices were assessed are:

- › investing in the best (and, in specific cases, sole) interest of members and beneficiaries;
- › sufficient security, quality, liquidity and profitability of the portfolio as a whole;
- › consistency with the nature and duration of the expected future retirement benefits;
- › exposures to non-regulated markets;
- › use of financial derivatives;
- › appropriate portfolio diversification.

A comprehensive analysis was conducted during the peer review in order to gain insight into, *inter alia*:

- › how PPR supervision is implemented/defined at national level;
- › how the supervision of the investment portfolios is conducted and in particular how investment restrictions are enforced;
- › how quantitative investment restrictions (if set at national level) are incorporated and how NCAs supervise whether IORPs comply with these restrictions;
- › how quantitative assessment criteria interact and are combined with qualitative criteria in place.

The focus on supervision of investment policies stems from the fact that the PPR allows IORPs substantial leeway when establishing their investment policies. This may result in investment policies that differ considerably from IORP to IORP. This requires a more sophisticated type of supervision as compared to supervision that is based on compliance checks of quantitative limits only. This is why the impact and importance of a principle-based approach towards the supervision of the PPR increases systematically. A 'mechanical' reliance on checks of eligible assets is deemed insufficient to ensure that investments are made in the best interest of the members and beneficiaries.

During the peer review, particular attention was given to qualitative investment criteria that are incorporated in 'national measures', specifically NCA supervisory policies regarding the PPR and the supervision thereof (e.g. the supervision of IORPs' governance with regard to the PPR, as well as their investment, risk management and internal control procedures). This has not implied any assessment of primary and secondary national legislation.

THE SELF-ASSESSMENT QUESTIONNAIRE

This peer review was conducted under the premise that NCA supervisory practices should aim at ensuring that the persons running the IORP, who must possess appropriate professional qualifications and experience, invest in the best interest of members and beneficiaries. The first step to evaluate NCA practices was to distribute a self-assessment questionnaire.

The questionnaire was divided into five sections:

- › interpretation of PPR in relevant countries;
- › legal and regulatory framework;
- › information gathered by NCAs for PPR assessment;
- › supervisory assessment;
- › supervisory action.

The IORP Directive is a minimum harmonisation Directive. Therefore, it was important that the peer review established reasonable and sound comparisons between NCA supervisory practices. Therefore, the Review Panel sought to understand the extent to which countries have implemented the PPR and have issued provisions that supplement the minimum requirements set in Article 18 of the IORP Directive.

In addition to PPR-related 'national measures' that transposed the minimum investment rules laid down in Article 18(i) of the IORP Directive, attention was paid to provisions that, at national level, have a direct link with the PPR assessment (i.e. IORPs' governance with regard to the PPR, as well as their investment, risk management and internal control procedures).

The replies to the self-assessment questionnaire provided relevant details that explain why some countries have in place more extensive supervisory practices with respect to the PPR. This has been a source of inspiration for the identification of best practices and helped to identify other key requirements and supervisory practices (beyond the IORP Directive's provisions) implemented at national level that ensure a successful implementation of the PPR.

Among the supervisory practices explored are the activities that NCAs carried out as part of their supervisory processes, e.g. concerning the authorisation process, the monitoring and analysis of IORPs, information and education provided to IORPs, intervention and corrective measures and enforcement.

Recommended actions are addressed to those NCAs that did not have sufficient supervisory tools and practices in place to ensure that the best interests of members and beneficiaries are protected.

ASSESSMENT CRITERIA

The assessment was conducted on the basis of the assessment criteria stated in the terms of reference for this peer review.

Before setting the criteria used to assess the supervisory practices for each NCA, the limits of the peer review had to be defined in terms of what could not be assessed. The information provided by NCAs on the interpretation of the PPR and their legal and regulatory framework was only used to understand the framework under which NCAs supervise IORPs' compliance with the PPR.

However, assessment criteria were defined for the assessment of:

- › the information NCAs gather with regard to the PPR;
- › how NCAs assess IORPs' compliance with the PPR;
- › the supervisory actions that resulted from these assessments.

EXTRACT OF THE ASSESSMENT CRITERIA SET BY THE TERMS OF REFERENCE OF THIS PEER REVIEW

General assessment criteria

The Review Panel would expect that NCAs have in place relevant supervisory tools set in the legislation (e.g. information to be provided, procedures and practices used to analyse this information) and – during the reference period – have used them to perform an effective assessment of IORPs' compliance with the PPR.

Specific assessment criteria are described below, where applicable:

Section I – Interpretation of the PPR principle

No assessment criteria.

In this section the peer review will seek a general description on how the PPR is interpreted and assessed in countries. This section should also highlight the main factors NCAs take into account when assessing IORPs' compliance with the PPR. The peer review will explore whether there is a common understanding of the PPR. This section will serve as a basis to help to better understand the context and framework of the supervisory approach taken by NCAs.

Section II – Legal and regulatory framework

No assessment criteria.

This section aims to give an overview of 'national measures' that have been introduced in countries.

Section III – Information gathered by NCAs for the PPR assessment

1. The Review Panel would expect that NCAs – during the reference period and at regular intervals – have received the information needed to assess IORPs' compliance with the PPR. It is expected that NCAs have access (automatically or on an ad-hoc basis/depending upon the type of pension scheme assessed) at least to the following set of information (related to PPR compliance):

- information on investment portfolio;
- nature and duration of the expected future retirement benefits;
- governance* of the IORP with regard to the PPR;
- risk assessment procedures of the IORP with regard to the PPR;
- internal control procedures of the IORP with regard to the PPR.

2. The Review Panel would expect that NCAs have sufficient access to granular information – on an ongoing or ad-hoc basis – on the investment portfolio, in order to be able to assess IORPs' compliance with the PPR.

The information should at least contain investment information on:

- portfolio diversification/concentration;

- › the use of financial derivatives;
- › exposure to non-regulated markets;
- › asset liability matching (if applicable);
- › valuation of assets;
- › the security, quality (credit quality, exposure to risky investment products, e.g. collateral provided by a third party could improve the recovery in the event of default of the counterparty or an asset can be made more secure or of higher quality after a promise by a third party, e.g. a central bank);
- › liquidity of the portfolio;
- › profitability of the portfolio as a whole;
- › volatility.

Section IV – Supervisory assessment

1. The Review Panel would expect that NCAs – at regular intervals – assess IORPs' compliance with the PPR. It is expected that NCAs have defined and applied (automatic or on an ad-hoc basis/depending upon the type of pension scheme assessed) criteria (quantitative or qualitative) on the following aspects:

- › portfolio diversification/concentration;
- › the use of financial derivatives;
- › exposure to non-regulated markets;
- › asset liability matching (if applicable);
- › valuation of assets;
- › the security, quality (credit quality, exposure to risky investment products, e.g. collateral provided by a third party could improve the recovery in the event of default of the counterparty or an asset can be made more secure or of higher quality after a promise by a third party, e.g. a central bank);
- › liquidity of the portfolio;
- › profitability of the portfolio;
- › volatility of the portfolio;
- › due diligence with regard to the PPR;
- › governance* of the IORP with regard to the PPR;
- › risk management of the IORP with regard to the PPR;
- › internal control procedures of the IORP with regard to the PPR.

2. The Review Panel would expect that NCAs:

- › analyse (risk-based) whether IORPs comply with the criteria as mentioned above, also taking into account the look-through principle and the characteristics of the IORP or at least apply a risk-based approach (choosing the IORPs or criteria with highest risk and impact);
- › based upon this analysis take a decision on whether the IORP complies with the PPR or whether further supervisory action should be taken.

Section V – Supervisory actions

The Review Panel would expect that NCAs take supervisory action (both preventive and corrective) in accordance with the outcome of their supervisory assessment regarding an IORP's compliance with the PPR. This section also assesses any educational initiatives, if conducted by a NCA.

* According to the IORP Directive Member States shall require all institutions to have in place an effective system of governance which provides for sound and prudent management of their activities. That system shall include an adequate transparent organisational structure with a clear allocation and appropriate segregation of responsibilities and an effective system for ensuring the transmission of information.

PRIORITIES AND MEANS OF FIELDWORK

The initial analysis of NCA self-assessments was used to identify the priorities for fieldwork, consisting of key points that needed clarification in order to be able to finalise the assessment.

To conduct the fieldwork in an effective manner, and bearing in mind the agreed priorities, the Review Panel decided on an appropriate means of communication according to the Methodology for conducting peer reviews for each NCA. The field work for this peer review comprised 17 conference calls, 5 visits and 3 written procedures.

Following completion of the fieldwork, an analysis was prepared for each NCA and its key findings were then reported to each individual NCA. Recommended actions were issued to NCAs. The peer review also resulted in an overview of sound practices from which a list of best practices was derived. Finally, the peer review also highlighted actions expected to be taken by EIOPA.

2. SUPERVISORY APPROACH AND PENSION LANDSCAPE ACROSS COUNTRIES

2.1. SUPERVISORY APPROACH

Supervisory approaches vary between countries and NCAs, resulting in a heterogeneous supervisory landscape.

NCAs consider the investment strategy followed by the governance and then risk management of IORPs as the three most important aspects in the supervisory process of IORPs' compliance with the PPR.

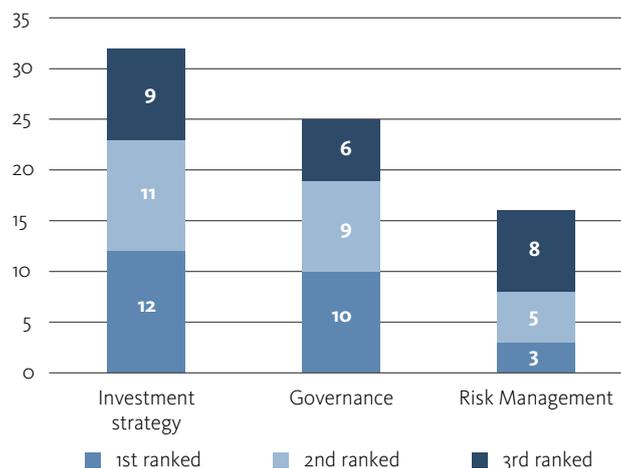
In particular, the most cited was investment strategy (i.e. design of the investment portfolio, quality of the assets, diversification and concentration, quantitative limits,

etc.). This was ranked as the most important aspect by 12 NCAs, as important by 11 NCAs ranked, and as less important by 9 NCAs.

The second most cited was governance (acting in the best interest of members, fit and proper requirements, organisational structure, etc.). This was ranked as the most important aspect by 10 NCAs, as important by 9 NCAs and as less important by 6 NCAs.

Finally, the third most cited aspect was risk management (internal control/procedures, risk appetite of the members, etc.). This was ranked as the most important aspect by 3 NCAs, as important by 5 NCAs and as less important by 8 NCAs.

Graph 1 - Ranking of aspects which NCAs consider important in the supervisory process regarding IORPs' compliance with PPR



In addition, 15 NCAs (Austria, Belgium, Cyprus, Germany, Denmark, Ireland, Italy, Luxembourg (CSSF), Luxembourg (CAA), Malta, the Netherlands, Portugal, Slovakia, Spain, the United Kingdom) mentioned other aspects of their supervisory process. Of these, 5 NCAs (Cyprus, Germany, Ireland, Luxembourg (CAA), Malta) referred to the use of additional quantitative investment rules. NCAs from Belgium and Denmark highlighted the importance of the proportionality principle given the heterogeneous struc-

ture of their IORP market. NCAs from Portugal and the United Kingdom highlighted their risk-oriented approach towards supervision.

Individual NCAs also reported various additional aspects such as:

- › the consistency between investment, governance and risk management (Italy);

- the legal obligation for an IORP to define its risk appetite (the Netherlands);
- the qualifications and experience of risk managers (Austria);
- the information provided to members (Spain);
- supervisory processes (Luxembourg (CSSF));
- conflicts of interest and IORPs' IT structure and compliance with applicable rules (Slovakia).

2.2. PENSION LANDSCAPE, RESOURCES AT NCAS AND SUPERVISORY APPROACHES

When analysing how NCAs assess IORPs' compliance with the PPR, it is important to take into account the par-

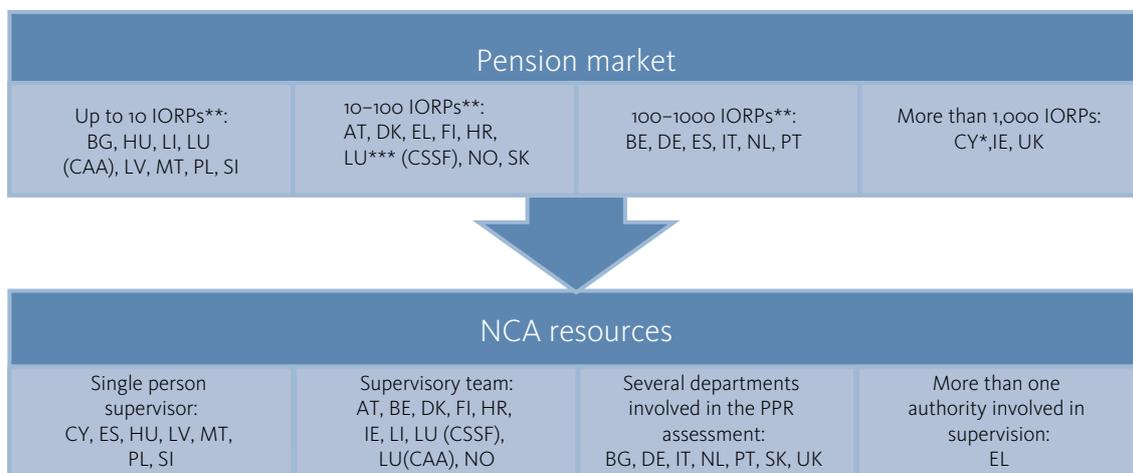
ticular aspects of each pension system, i.e. the pension landscape (see annex 2) in which NCAs supervise IORPs' compliance with the PPR.

The size of pension markets in Europe differs significantly. In some countries there are less than 100 operational IORPs, in others less than 10. At the same time 3 countries host more than 1,000 IORPs (see figure 2).

The organisation of supervision also differs from country to country (see figure 2). In some NCAs the supervision of the PPR is carried out by a single person. Other NCAs have dedicated supervisory teams in place. These teams are usually composed of an economist, a lawyer and an actuary.

NCAs that operate in larger pension markets sometimes have several departments involved in order to supervise the IORPs' compliance with the PPR. Greece is the only country where three different NCAs share the responsibility in supervising IORPs' compliance with the PPR.

Figure 2 - Pension market and supervisory resources



* In CY IORPs with fewer than 100 members are excluded from certain requirements listed in the IORP Directive.

** The number of IORPs are counted differently in various countries. In some countries IORPs are the companies providing pension management while in other countries IORPs refer to the product level or risk-sharing groups. In relation to Slovakia it is noted there are 4 management companies managing 17 pension funds.

*** Two NCAs supervise IORPs in LU: The CAA and CSSF authorise and supervise different IORPs under a separate legal framework. Two legal frameworks with divergent legal forms are in place. IORPs authorised by the CSSF can be set up either as an Assep or a Sepav, while IORPs authorised by CAA can have 4 different legal forms (mutual insurance association, non-profit association, a cooperative company or a cooperative company operating as a public limited company). The latter are governed by insurance legislation. Sponsor support varies for the two categories of IORPs – for IORPs that fall under the supervision of the CAA the sponsoring employer must provide an ongoing guarantee. CSSF IORPs are allowed to cover any financial and biometric risk and consequently a solvency margin applies to these IORPs.

EIOPA found that in general NCA resources are adequate to the respective size of pension markets (see annex 2 for assets under management). Nonetheless, recommended actions are issued towards some NCAs when supervisory assessment processes were assessed as insufficient due to inadequate human and IT resources and/or inefficient organisational structures within the NCAs. The impact of insufficient resources on the capabilities to perform supervisory assessments and actions was deemed severe in some instances. However, it should be noted that NCAs do not determine their own budgets and administrative structures. Regulatory and governmental bodies are ultimately responsible for this.

RECOMMENDED ACTIONS IN THE AREA OF SUPERVISORY STRUCTURE AND SUPERVISORY RESOURCES

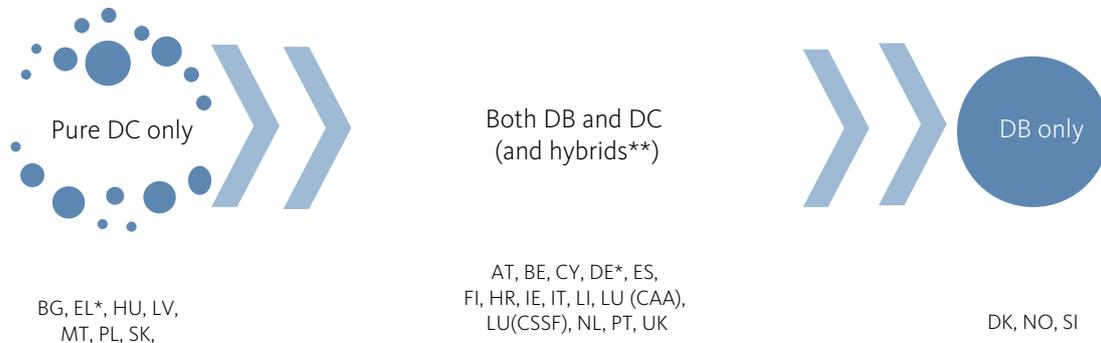
With regard to NCA supervisory structures and resources, the assessment criteria for this peer review state that NCAs are expected to have in place relevant supervisory tools and that these should be used to perform an effective assessment of IORPs' compliance with the PPR.

In this area, 2 recommended actions are addressed to 4 NCAs:

- **Cyprus:** The Registrar of Occupational Retirement Benefit Funds is recommended to significantly increase their qualified and expert staff to ensure adequate off-site and on-site supervision of the IORPs, in particular IORPs' compliance with the PPR.
- **Greece (3 NCAs):** The Ministry of Labour, the Capital Market Commission (CMC) and the National Actuarial Authority (NAA) are recommended to assess the efficiency of the current supervisory structure, which is composed of three separate NCAs dealing with supervision of IORPs.

The types of pension schemes that are operated within a country also have an important impact on NCA approaches towards supervising IORPs' compliance with the PPR (see figure 3).

Figure 3 - Pension scheme type



* DE and EL have particular types of schemes.

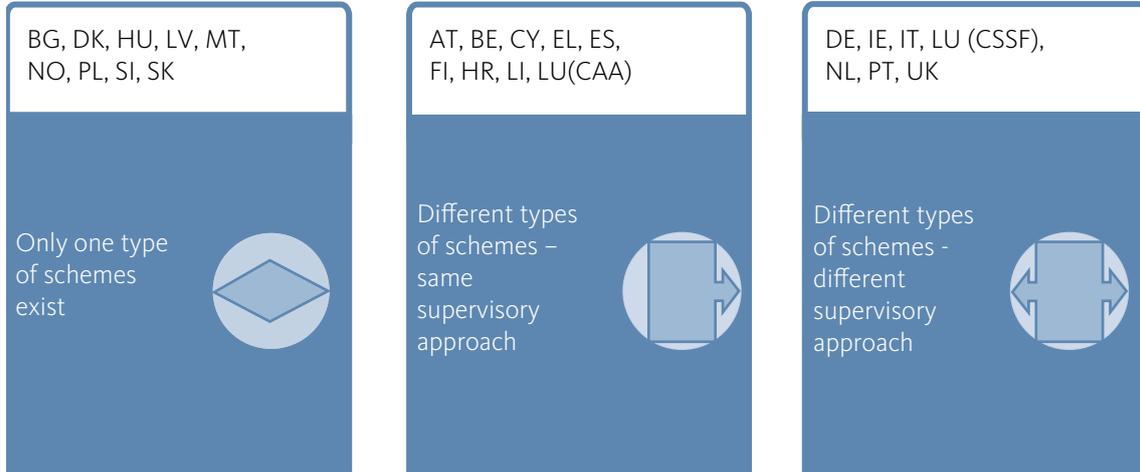
**Hybrids – DC schemes with guarantees or a single IORP providing both DC and DB.

NCAs use different supervisory approaches as indicated in figure 4. In some countries, the supervisory approach varies from pension scheme type to pension scheme type. However in other countries, NCAs use the same su-

supervisory approach even though pension scheme types in their country vary.

In some instances, the intensity of supervision differed depending upon the type of pension scheme. It was not always apparent that these differences in intensity of supervision were the result of a risk-based supervisory assessment. As a result, EIOPA will conduct a more detailed investigation on this particular issue (see section 5.1).

Figure 4 – Pension scheme design and approach toward PPR assessment



3. THEMATIC ANALYSIS

3.1. GRANULARITY AND FREQUENCY OF REPORTING AND LOOK-THROUGH APPROACH

EIOPA is of the opinion that the granularity of information IORPs must report to NCAs – and the frequency at which it is provided – should correspond to the risk profile of their investment portfolios. NCAs should receive sufficient information to be able to adequately assess IORPs' compliance with the PPR in a risk-based manner.⁸

With regard to information that IORPs must report on direct investments on the one hand, and investments in collective investment vehicles (CIVs) on the other, it should be ensured that the level of granularity of information on both types of investment is equivalent.

Investment reporting requirements differ from country to country (see Table 1). In some countries (Denmark, Finland, Germany, Liechtenstein, Luxembourg (for the CAA and CSSF), the Netherlands), IORPs are required to report asset allocations for the entire portfolio (including investments in CIVs) on an *aggregated level only*. In other countries, NCAs receive *line-by-line information* on all individual securities (Austria, Belgium, Bulgaria, Croatia, Hungary, Italy, Latvia, Poland, Portugal, Slovakia, Slovenia, Spain).

Countries requiring reporting on an aggregated level often have only implemented additional quantitative investment regulations.

In some countries IORPs are also required to report their internal investment limits (Italy, Luxembourg (CSSF), Latvia, the Netherlands, Portugal). This allows NCAs to evaluate how IORPs define risk factors and also strengthens IORPs' self-discipline when developing and managing their investment portfolios.

⁸ According to the assessment criteria, NCAs are expected to have sufficient access to granular information – on an ongoing or ad-hoc basis – on the investment portfolio, in order to be able to assess IORPs' compliance with the PPR. NCAs are expected to analyse (in a risk-based manner) whether IORPs comply with the criteria as mentioned above, also taking into account the look-through principle and the characteristics of the IORP, or at least apply a risk-based approach.

Although line-by-line reporting may be more onerous when IORPs' investments in CIVs are substantial, information on individual positions within these funds ('look-through') can be obtained, from different sources, such as:

- financial databases (e.g. Latvia);
- IORPs (Belgium, Germany, Luxembourg (CAA));
- 'in-house' when the supervision of investment firms and IORPs is integrated within one NCA (Austria, Belgium).

The outcome of the peer review shows that the type of *risk factors* NCAs monitor and the granularity of information requested from IORPs are interrelated with the size and structure of pension market and therefore differs among countries. The choices NCAs have made in this regard depend mainly on the following aspects:

- the party that bears the investment risk (DB vs. DC plan);
- the proportion of individuals' pension income that is provided by IORPs;
- type of information gathering (e.g. regular reporting, ad-hoc reporting, on-site inspections);
- the size of the pension market;
- the size of NCA staff and the quality of their IT systems;
- IORPs' dependence on external asset managers (in smaller markets, IORPs often have scarce resources and delegate asset selection to external asset managers).⁹

Based on the information reported, NCAs need to have sufficient insight and assess at least the following risks:

- concentration risk;
- interest rate risk;
- liquidity risk;

⁹ In accordance with Article 18 of the IORP II Directive, the responsibility for compliance with the PPR remains with the IORP. Certain NCAs also check compliance of the outsourcing contract with Article 18 of the IORP II Directive (e.g. Spain).

- geographic risk;
- counterparty risk;
- risk linked to specific instruments.

In order to gain insight into these risks, NCAs receive different types of information, examples of which are listed below.

- Aggregated information, for example regarding
 - Asset classes, main (direct and indirect) exposures of the portfolio, information on credit ratings, etc..
 - IORPs' non-compliance with internal investment limits, as reported by the IORP or its cus-

todian, or detected by the NCA during on- or off-site assessments.

- Granular and detailed information, for example regarding
 - The entire portfolio: line-by-line information on the assets in each portfolio, including, e.g., information on positions held, the country of custody, the custodian, market value and valuation information (rating).
 - CIVs: NCAs may request the entity to provide a 'look-through' report at the level of investment funds.

Table 1 - Type and frequency - (m)onthly, (q)uarterly, semi-annually (sa), (a)nnually) of investment reporting in countries on a regular basis

	Asset allocation	Individual securities ^d	Quantitative limits (reported to be checked)	Frequency
AT	x	x	x	q
BE	x	x		a
BG ^a	x	x	x	m
CY	x		x	a
DE ^b	x	x (top)	x	q
DK	x		x	q
EL	x		x	q
ES	x	x		q
FI	x		x	sa
HR	x	x	x	q
HU	x	x		q
IE	x			a
IT	x	x	x	q
LI	x			sa
LU (CAA)	x	x (top)	x	q
LU (CSSF)	x		x	q
LV	x	x	x	q
MT	x		x	sa
NL ^c	x			m/q
NO	x	x (top)	x	q
PL	x	x	x	q
PT	x	x	x	q
SI	x	x	x	m
SK ^a	x	x	x	m
UK	x			a

^a In Bulgaria and Slovakia some information on the investment portfolio is provided on a daily basis.

^b Germany information refers to Pensionskassen.

^c In the Netherlands frequency of regular reporting depends on the size of the IORP.

^d '(top)' refers to a part of portfolio e.g. the top 5 or 10 individual securities.

The peer review revealed that the granularity of information and the frequency at which this information is requested/submitted does not necessarily correspond to the risk profile of IORPs investment portfolios.

In several countries, especially where quantitative limits are set by regulation, or a list of eligible assets is introduced, NCAs receive line-by-line reporting (for example in, Poland, Slovakia and Spain). In other countries, especially where only principle-based regulation exists, NCAs mainly receive investment information on an aggregated level.

Other NCAs indicated that, in their opinion, it suffices to collect investment information on an aggregated level only, as:

- Strict legal investment restrictions apply in their countries (Germany).
- The size of the IORP market is small (Denmark).
- IORPs use investment strategies that are low-risk (Malta).

In order to assess IORPs' compliance with the PPR, some NCAs use external databases. For other NCAs, reporting by IORPs is the only source of information on investments of IORPs (Cyprus, Liechtenstein). NCAs that receive line-by-line information on individual assets use in general analytical tools that are technically more advanced (e.g. by using an advanced IT system that links financial databases to the information provided by IORPs).

With regard to the *frequency* (see Table 1) IORPs are required to report on either a yearly, semi-annual, quarterly or monthly basis.

It can be concluded that the granularity and frequency of reporting is linked to the pension landscape (especially the size of the pension market) and NCA resources (workload and number of fulltime equivalent staff, see figure 2).

The following are examples of reporting practices.

- A number of NCAs link the International Securities Identification Number (ISIN) of assets to financial databases (Italy, Latvia, Portugal Spain). This enables NCAs to retrieve or validate information, such as rating, maturity and duration. In addition, ISINs may also include information on investments in funds.
- Other NCAs require IORPs to submit financial data (rating, market price, duration, maturity, FX denomi-

nation, etc.) when ISINs are incorrect or missing (for example in Italy).

In other countries where NCAs use a *look-through approach* (see Table 2) the extent to which the approach needs to be applied by IORPs varies. This includes the following examples.

- By requiring that investments in CIVs are reported on an aggregated basis only (Austria, Belgium, Italy, Luxembourg (CSSF), the Netherlands). Asset allocation data on broad asset categories, often distinguishing between public and private sector bonds, are reported on an aggregated basis in several countries (Austria, Belgium, Italy, Luxembourg (CAA)).¹⁰
- By requiring that IORPs only have to apply a look-through approach in their reporting with regard to investments in CIVs of the largest counterparties (Germany, Luxembourg (CAA)).¹¹

EIOPA is of the opinion that applying a look-through approach (for CIVs) on a regular basis is necessary in markets where IORPs invest a large portion of the assets under management in CIVs. Equally, where NCAs only receive aggregated information on a less frequent basis, information (including information on the underlying asset categories, the country of issue, currency, market value and rating) should also be made available to NCAs on a regular basis by the IORPs or by using external databases (e.g. Bloomberg).

¹⁰ Few countries (e.g. Norway) receive information on the rating and duration allocation. Also information on the geographic allocation by country seems sparse.

¹¹ As a sound practice, the prescribed look-through rules also apply to sub-funds in the case of fund-of-funds (Italy).

Table 2 - Look-through approach for regular reporting in countries (if any)

	Look-through - individual securities ^h	Look-through - asset classes
AT ^a		x
BE		x
BG ^b		x
CY		
DE ^c	x (top)	x
DK		x
EL		
ES ^d		x
FI		x
HR	x	
HU ^e		x
IE		x
IT ^f		x
LI		x
LU (CAA)	x (top)	
LU (CSSF)		x
LV	x	
MT ^g		
NL		x
NO		
PL		
PT	x	
SI		
SK		
UK		x

^{a)} Look-through on individual securities is available for Austrian investment funds.

^{b)} In practice, Bulgarian IORPs invest only in index tracking undertakings for collective investments in transferable securities (UCITS).

^{c)} German information refers to Pensionskassen.

^{d)} IORPs investment in CIVs can be done only in the following type of CIVs: UCITS, regulated Spanish collective investment funds (only invest in eligible assets), real state funds issued in countries that supervise these funds and other collective investment funds that fulfil some requirements.

^{e)} Only for CIVs under supervision of MNB.

^{f)} When CIV are more than 10% of the value of the IORP's assets.

^{g)} Only standard investments in MT, therefore a look-through approach is not applicable.

^{h)} '(top)' refers to a part of portfolio e.g. the top 5 or 10 individual securities.

Several countries introduced specific reporting requirements for *derivatives*. In Slovenia, IORPs must report the ISIN of the instrument and the underlying nominal amount, as well as the profit and loss, name of the counterparty, type of the hedge, the initial and maturity date and valuation method on every derivative on a monthly basis. Specific reporting requirements for derivatives are also in place in:

- › Latvia, the Netherlands, Spain (line-by-line reporting of derivatives instruments);
- › Portugal (inclusion of derivatives in stress test);
- › Austria (derivatives gross exposure included in the aggregated asset allocation reporting);
- › Belgium, Luxembourg (CSSF) (total amount of derivatives exposure)
- › Spain (potential maximum loss).

In several countries IORPs must report on *costs* related to investments. In Portugal, IORPs are required to report investment-related costs (transaction, management, and depositary) on a quarterly basis. In Latvia, IORPs are required to report a break-down of costs, distinguishing between administrative, investment and depositary costs.

In some countries IORPs (Italy) or custodians (Bulgaria) are required to provide information on *returns by asset class and portfolio transactions*. This type of reporting supports NCA PPR assessments and is therefore identified as a sound practice.

Some NCAs also prescribe the *complementary information* that should be included in the SIPP. For example, the composition of the benchmark, duration, performance of sub-funds, portfolio turnover and the use of derivatives and alternative investments (Italy).

The collection of relevant data is a prerequisite for assessing the relevant risks within IORPs' investment portfolios. Potential issues in the area of assessment could stem from:

- › lack of necessary data (insufficient level of reporting);
- › poor data quality (misclassified data or outdated information);
- › inefficient data gathering processes (too burdensome for NCA and/or supervised entities);
- › inefficient data processing (the data is available, but there is no tool to analyse the data efficiently).

RECOMMENDED ACTIONS IN THE AREA OF INFORMATION GATHERING FOR PPR ASSESSMENT AND PROCESSING

With regard to the information NCAs gather and process in order to be able to assess IORPs' compliance with the PPR, the assessment criteria for this peer review state that NCAs are expected to have received the information needed to assess IORPs' compliance with the PPR at regular intervals.

In this area, 8 recommended actions are addressed to 9 NCAs:

- **Cyprus:** The Registrar of Occupational Retirement Benefit Funds is recommended to develop - as soon as possible - an IT tool to receive reporting by IORPs in an automated and secured manner and format.
- **Germany:** The BaFin is recommended to introduce more formal reporting obligations towards Pensionsfonds (PF).
- **Greece (CMC):** The Capital Market Commission (CMC) is recommended to receive granular data on the investment portfolios of IORPs currently received by the NAA.
- **Greece (3 NCAs):** The Greek NCAs are encouraged to work further on creating a single entry point for all regular reporting by the IORPs and consequently establish an efficient information exchange between the three Authorities.
- **Finland:** The FIN-FSA is recommended to introduce automatic data processing on the quantitative investment data.
- **Ireland:** The Pensions Authority is recommended to regularly gather information on the duration of both assets and liabilities, as the mismatch of assets and liabilities is reported by the Pensions Authority as the most important trigger for the recovery/de-risking plan.
- **Liechtenstein:** The FMA is recommended to regularly collect sufficiently granular information on portfolios as a whole (including look-through for the CIVs) and to use it for the supervisory assessment of PPR enabling the FMA to identify key exposures of the portfolio as a whole (e.g. geographical exposure).
- **Luxembourg (CSSF):** The CSSF is recommended to receive regularly sufficiently granular information on the portfolio as a whole (including look-through for the CIVs) and to use it for the supervisory assessment of PPR enabling the CSSF to identify key exposures of the portfolio (e.g. geographical spread).

The weighting of CIVs in IORPs' investment portfolios varies widely from country to country —ranging from insignificant to very substantial. When a significant part of the investment portfolio is exposed to CIVs, an adequate level of look-through is necessary to assess whether IORPs' investments are made in the best interest of pension scheme members and beneficiaries (e.g. legally compliant, properly diversified, not too volatile). In addition, an NCA should not rule out the possibility that IORPs' exposure to CIVs will significantly increase in the future. The gaps in this area of supervisory assessment could stem from an NCA's (technical) inability to apply a look-through approach (routinely).

RECOMMENDED ACTIONS IN THE AREA OF APPLICATION OF THE LOOK-THROUGH METHODOLOGY

With regard to applying the look-through principle, the assessment criteria for this peer review state that it is expected that NCAs have defined and applied (quantitative or qualitative) criteria with regard to:

- › portfolio diversification/concentration;
- › the use of financial derivatives;
- › exposure to non-regulated markets;
- › asset liability matching (if applicable);
- › valuation of assets.

and it is expected that NCAs:

- › analyse (using a risk-based approach) whether IORPs comply with the criteria as mentioned above, also taking into account the look-through principle and the characteristics of the IORP or at least apply a risk-based approach (choosing the IORPs or criteria with the highest risk and impact).

In this area, 8 recommended actions are addressed to 8 NCAs:

- › **Austria:** The FMA is recommended to develop the practice to regularly look-through - off-site and on-site - in order to ensure that key exposures (geographical, sectorial, currency, ratings, etc.) and allocations (asset classes) of CIVs are analysed and assessed on a regular basis.
- › **Belgium:** The FSMA is recommended to extend its look-through approach for CIVs further, by collecting more granular information (geographical and sectorial exposure) on a regular basis.
- › **Greece (CMC):** The CMC is recommended to regularly collect look-through information for CIVs.
- › **Hungary:** The MNB is recommended to establish a regular look-through approach for collective investment vehicles obtaining more granular and the same level of granularity data from IORPs or other external sources regardless if the investments are made through Hungarian or foreign CIVs and to use this information for the supervisory assessment of PPR.
- › **Norway:** Finanstilsynet is recommended to develop the practice to regularly look-through - off-site and on-site - in order to get insight on the exposures (geographical, sectorial, currency, ratings, etc.) and allocations (asset classes) of CIVs and to use it for the supervisory assessment of PPR.
- › **Poland:** The KNF is recommended to develop the practice to regularly look-through - off-site and on-site - in order to get insight on the portfolio exposures (geographical, sectorial, currency, ratings, etc.) and allocations (asset classes) of CIVs and to use it for the supervisory assessment of PPR.
- › **Slovakia:** The NBS is recommended to develop the practice to regularly look-through - off-site and on-site - in order to get insight in the exposures (geographical, sectorial, currency, ratings, etc.) and allocations (asset classes) of CIVs and to use it for the supervisory assessment of PPR.
- › **Slovenia:** The AZN is recommended to develop the practice to regularly look-through - off-site and on-site - in order to get insight on the portfolio exposures (geographical, sectorial, currency, ratings, etc.) and allocations (asset classes) of CIVs and to use it for the supervisory assessment of PPR.

3.2. GRANULARITY AND FREQUENCY OF ASSESSMENT OF THE PPR

Supervisory assessments should allow NCAs to gain sufficient knowledge of the relevant risks related to an IORP's portfolio on a regular basis. Examples of relevant risks are:

- › concentration risk;
- › interest rate risk;
- › liquidity risk;
- › counterparty risk;
- › currency risk;
- › geographic risk;
- › migration and default risk;
- › asset-liability mismatch.

Assessments should take place *frequently* which in turn requires more frequent reporting. In order for supervisory assessments to be sufficiently granular, reporting by IORPs should also be sufficiently granular or NCAs should retrieve more information from internal or external databases (see section 3.1).

Without relevant and sufficiently *granular data*, a proper supervisory assessment cannot be performed. At the same time, having relevant data available does not necessarily imply that NCAs perform a proper assessment. Among others, the following type of assessments can be performed by NCAs:

- › stress tests for individual IORPs (see section 3.4);
- › compliance checks for individual IORPs;
- › tests on the total pension sector (macro-stability);
- › scoring models for risk-based supervision (e.g. to identify outliers or complexity of investment products);
- › expert judgement / qualitative checks;
- › on-site inspections (see section 3.7).

EIOPA found that performing proper supervisory assessments is challenging when NCAs do not have the *proper supervisory processes* in place for gathering data and/or proper IT tools for assessing these data (Cyprus, Greece).

Moreover, when NCAs do not have sufficient information on specific risk factors, supervisory assessments relating

to these factors cannot be performed adequately (Austria, Hungary, Ireland, Liechtenstein, Luxembourg (CSSF), Luxembourg (CAA), Norway, Poland, Slovakia, Slovenia). In Finland these assessments would benefit from automation. Automation of off-site assessments has the potential to make these more efficient and would allow NCAs to carry out PPR-related assessments more frequently. Although automated risk assessment typically relies on quantitative elements, adding qualitative elements to this type of supervisory assessment would be beneficial. Some NCAs however only conduct qualitative PPR assessments during on-site inspections (e.g. Germany, Luxembourg (CAA)).

Furthermore, a proper assessment of risks cannot be performed if NCAs do not have an *effective organisational structure and sufficient staff with PPR expertise* (Cyprus, Greece). Without having staff with sufficient expertise, relevant risk factors —that depend on the type of pension scheme¹² and investment strategy —might not be identified.

EIOPA is of the opinion that NCAs should have in place *various tools* to assess risks, applying a risk-based approach, on a regular basis in order to ensure IORPs' compliance with the PPR.¹³

NCAs that apply compliance-based supervision (see figure 1) assess whether IORPs comply with legal requirements. In these countries (for example Finland, Germany, Greece, Luxembourg (CAA), Slovakia), a list of predetermined suitable assets and/or quantitative investment restrictions typically form the basis for PPR assessments, supplemented with information that is derived from IORPs' internal risk models and expert judgement. Their supervisory approach can be enriched through a risk-based approach by assessing, for example geographical and currency exposures, ratings, interest rate exposure, duration mismatches, liquidity risk (e.g. Austria, Italy, Latvia, the Netherlands, Portugal, the United Kingdom) and exposure to complex products, such as derivatives, hedge funds and structured products.

¹² For example, interest rate risk is not always assessed by NCAs (Finland), even though this risk is material for DB pension plans.

¹³ According to the assessment criteria NCAs are expected – at regular intervals – to assess IORPs' compliance with the PPR. It is expected that NCAs have defined and applied (automatic or on an ad-hoc basis/ depending upon the type of pension scheme assessed) criteria (quantitative or qualitative). NCAs are expected to analyse (risk based) whether IORPs comply with the criteria as mentioned above, also taking into account the look-through principle and the characteristics of the IORP, or at least apply a risk-based approach.

The structure of liabilities plays an important role when assessing DB pension schemes. When assessing IORPs' compliance with the PPR, NCAs should be able to examine the risks that are related to IORPs' investment portfolios while taking into account the specific structure of liabilities of an IORP. An IORP's asset allocation strategy, expected returns, duration, and portfolio liquidity should fit the specific nature of its liabilities (e.g. time horizon, types of risks such as death or biometric risk).

Factors affecting the structure of liabilities, such as technical rates, anticipated terms, decumulation phase, annuities, ring-fenced funding or contractual clauses (such as minimum profit sharing agreements), may emerge. Therefore, IORPs should be able to provide NCAs with a risk map of their liabilities —at a granular level and validated by actuary teams.

In countries where performing stress tests is common, the link between assets and liabilities is often clarified

in a stress test's technical specifications (e.g. the Netherlands, Norway). In these instances, case projections of returns on assets and liabilities over time are taken into account when preparing the stress test. Hence, the PPR also has an impact on IORPs' asset and liability management (ALM).

EIOPA has identified several best practices with regard to this topic. These are listed in section 4.2.

Supervisory gaps arise for example when insufficient attention is paid to a certain aspect of the PPR assessment or the IORP market, when available supervisory tools are not used or when NCA assumptions used to assess IORPs' compliance with the PPR are questionable. Subject to these remarks, supervisory gaps sometimes stem from inadequate regulations and are therefore not always in the control of NCAs.

RECOMMENDED ACTIONS IN THE AREA OF SUPERVISORY ASSESSMENT IN THE PPR-RELATED ISSUES

Recommended actions within this area are addressed under assessment criteria that it is expected that NCAs assess IORPs' compliance with the PPR at regular intervals.

In this area, 4 recommended actions are addressed to 4 NCAs:

- **Croatia:** HANFA is recommended to integrate the two developed scoring models with a quantitative risk assessment framework into its PPR assessment framework.
- **Finland:** The FIN-FSA is recommended to ensure supervision of assets beyond technical provisions (surplus) and to consider whether the investments of the surplus is in the best interest of the members.
- **Luxembourg (CAA):** The CAA is recommended to consider reinsurance agreements in view of PPR assessment (e.g. notification of contracts including terms and conditions).
- **The Netherlands:** The DNB is recommended to provide evidence of the negative impact of the legal requirements that allow IORPs to reduce the contribution rate, in order to start a discussion with the legislator on the potential changes to the legislation regarding the assumptions used by IORPs.

3.3. SUPERVISORY ACTIONS

The PPR is usually assessed as part of a wider assessment of an IORP and therefore there is no distinct separation between supervisory actions in general and supervisory actions directly related to the PPR.

Almost all NCAs have reported supervisory actions, however only a few NCAs took administrative sanctions in relation to a breach of the PPR.

NCAs reported the following breaches that were addressed by supervisory actions:

- non-compliance with limits concerning restricted assets;
- insufficient diversification;
- lack of compliance to reporting/PPR requirements;
- risks related to investment strategies and specific instruments.

More preventive measures concerned elements such as:

- quality of IORPs' IT infrastructure;
- IORPs' risk strategy and risk measurement methods;
- monitoring (declaration) of outsourcing contracts with investment banks;
- in-depth analysis of management performance;
- lack of qualification/experience in portfolio management.

3.4. STRESS TESTS AND USE FOR THE PPR ASSESSMENT

Stress tests measure the vulnerability of financial institutions (or a whole sector) to potential economic shifts and turmoil, by applying hypothetical market development scenarios to the institutions' assets and, sometimes, liabilities.

The use of stress tests is a common assessment practice in financial supervision including the IORP market. However, the degree of reliance on stress tests varies widely between NCAs. In purely compliance-based supervisory regimes, detailed quantitative investment limits are seen as an adequate tool to mitigate risk. Under those regimes stress testing is uncommon or is considered as an auxil-

iary supervisory exercise at most. On the other hand, in risk-based supervisory regimes stress tests are used as a meaningful early warning tool or as a core PPR assessment tool.

As many NCAs use some form of stress testing during their regular supervisory assessment, stress testing is not considered a best practice in itself. However, EIOPA's view is that a more comprehensive approach towards stress testing would be beneficial (see section 4.2.6).

a) Different degrees of reliance on stress test

The degree to which NCAs rely on stress tests depends upon these factors: an NCA's supervisory approach, its capacity in terms of human and IT resources, its legal framework and the size of the market it supervises.

In large pension markets stress tests are considered to be a particularly useful tool for the NCA. However, in countries where NCAs gather a limited amount of relevant information, stress tests are usually not very sophisticated. Detailed stress test reporting templates – to be used as an NCA's main assessment tool – can only be developed if the NCA gathers detailed investment information from IORPs at frequent intervals (e.g. in Norway). NCAs in other countries use an 'in between' approach where stress tests are part of a comprehensive assessment within a scoring model (e.g. Portugal, Belgium).

Supervisory approaches towards stress testing assets and liabilities differ. In pure DC markets where IORPs do not have liabilities (e.g. in Latvia), only the assets (investment portfolio) are stressed. In DB markets both assets and liabilities are generally subject to stress tests.

Table 3 provides an overview of the assets and liabilities that are subject to stress tests in 5 countries (Austria, Belgium, the Netherlands, Norway, Portugal).¹⁴

¹⁴ This table does not include all relevant assets and liabilities that are subjected to stress tests nor all countries where stress tests are used. For example, Ireland Italy, Latvia and the United Kingdom also apply stress tests on the investments of the IORP.

Table 3 Overview of shocks used by country in stress testing

Shock: (A: assets) (L: liabilities)	Austria	Belgium	Netherlands	Norway	Portugal
Equity (A)	X	X	X	X	X
Real estate (A)	X	X	X	X	X
Credit spread (A)			X	X	X
Interest rate (A)	X	X	X	X	X
Interest rate (L)			X	X	X
Inflation rate (A)			X		
Currency (A)		X	X	X	X
Commodities (A)			X		
Geographic (A)			X		
Employer contribution (A)	X				
Mortality (L)				X	X
Liquidity (A)					X

b) External and internal stress tests

This peer review found that there are two main approaches towards stress testing in place:

- Externally by the IORP itself (regularly or on request by the NCA)
 - Sometimes the parameters are provided by the NCA (e.g. in Austria, Denmark, Germany, Latvia).
 - Sometimes with different frequency, depending on the size of the IORP (e.g. in Norway whereby a very detailed stress test template is provided).
- Internally by the NCA, applying its own set of stressors on IORPs reported investment portfolio (e.g. in Belgium, Portugal).

Finally, one NCA uses both external and internal stress tests in their supervisory practice (e.g. in the Netherlands, IORPs stress test with assumptions provided by NCA and internal stress tests).

The auxiliary approach to stress tests (Portugal) is for the NCA to require IORPs to perform stress tests by IORPs

themselves as part of their own risk management, but the outcomes of the stress tests are not routinely reported to the NCA and IORPs are expected to develop their own methodology.

c) Examples of integrating stress tests in the PPR assessment

One NCA uses stress testing as its main risk-based assessment tool (Norway). The authority decides on the stress test scenarios, for which there are two sets of regular stress tests:

- Stress test 1 (performed semi-annually/quarterly¹⁵) is similar to Solvency II methods and ratio: simplified best estimate, SCR and available/eligible own funds; the EIOPA curve (incl. UFR) is used to calculate best estimates. There is no volatility adjustment.
- Stress test 2 (semi-annually /quarterly¹⁶) is used to assess whether the capital buffer is above Solvency I requirements. In this test, a calibration and risk tolerances - different from the ones used in stress test

¹⁵ The largest IORPs are required to report quarterly.

¹⁶ The largest IORPs are required to report quarterly.

1 - must be applied. In addition, the Solvency I ratios are also monitored in the yearly report.

Other NCAs - in pension markets with quantitative investment restrictions - use stress tests as supplementary risk-based assessment tool (e.g. Austria).

Alternatively NCAs incorporate stress testing as a module in a very broad risk-based assessment framework (Belgium, Portugal).

In Portugal, risk assessment is based on a risk scoring model that combines several market and special-risk scores, as well as Value at Risk (VaR) calculations for different asset classes. In addition to VaR calculations, the NCA in Portugal also performs stress testing.

It can be concluded that stress tests are commonly used tools for PPR assessments in countries where NCAs follow a risk-based or PPR plus approach. They complement other risk assessment tools to assess less liquid investments.

RECOMMENDED ACTIONS IN THE AREA OF SUPERVISORY TOOLS

EIOPA addressed 1 recommended action to 1 NCA in this area upon the assessment criteria that it is expected that NCAs have in place relevant supervisory tools and have used them to perform an effective assessment of IORPs' compliance with the PPR during the reference period.

- **Finland:** FIN-FSA is recommended to provide more focus in its supervisory assessment on interest rate risk (e.g. to introduce a stress test on the sponsor combined with market risk tests, i.e. low interest rate scenario etc.) to ensure a prudent computation of liabilities and a more prudent assessment of asset liability matching.

3.5. GOVERNANCE AND PROCESS FOR THE PPR APPLICATION

Countries and/or NCAs may well have extended the use and application of the PPR by introducing fiduciary obligations e.g. specific governance requirements exceeding the requirements of Article 18 of the IORP Directive. This is because the PPR is oriented on behaviour and prevention. Therefore, some countries have embedded the PPR in other layers of pension management in order to encourage desired behaviour, whereby the persons responsible for running the IORP must act solely in the best interest of members and beneficiaries and protect their interests.

Governance related aspects e.g. acting in the best interest of members and beneficiaries, fit and proper requirements, organisational structure of the IORP and its internal control mechanisms were cited by NCAs as second most often. (see section 2.1). In total, 10 NCAs are of the opinion that governance is the most important aspect of PPR-related supervision (Croatia, Denmark, Germany, Greece, Liechtenstein, Norway, Slovakia, Slovenia, Spain, the United Kingdom). NCAs from 9 countries cited it as an important aspect of their supervision (Belgium, Bulgaria, Croatia, Cyprus, Hungary, Italy, Latvia, the Netherlands, Portugal).

3.5.1. FIT AND PROPER

One of the most important aspects within area of governance related requirements is the assessment of fit and proper requirements of the management of an IORP.

Most NCAs review the fit and proper requirements as part of the authorisation/licensing process of an IORP (22 NCAs: Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Finland, Germany, Greece, Italy, Liechtenstein, Luxembourg (CAA), Luxembourg (CSSF), Latvia, Malta, the Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain). Ireland and the United Kingdom carry out this assessment outside the authorisation process.

For the vast majority of NCAs the review of fit and proper requirements is a desktop analysis. Formal procedures usually consist of a review of a person's curriculum and criminal records. Some NCAs also require (prospective) managers to fill out a questionnaire or to give a declaration of independence or suitability for the post they will fulfill.

A limited number of NCAs conduct an in-depth assessment of the fit and proper requirements:

- › Croatia – in their application to the NCA candidates for a management board position must include a written consent of the IORP’s supervisory board, i.e. the body competent for appointment of members of the management board of the IORP, and the programme of operations of the IORP for the period of the term of office for which they request the approval.
 - › Italy - the NCA requires a process by which IORPs need to conduct a competitive selection of investment managers.
 - › The Netherlands - the qualification and experience of board members plays an important role in the PPR assessment. There is a structured process – in the form of a desktop analysis exercise – for the assessment of investment related fitness and propriety. Some prospective board members – before they are nominated – are assessed during a two hour interview. EIOPA labelled this in depth procedure as a best practice.
 - › Poland - the NCA has established a long and detailed procedure to review the fitness and propriety IORPs’ management and supervisory boards, including an assessment of their education, criminal records and a meeting with the chair of the IORP.
 - › Portugal - the NCA conducts cross-checks with other financial authorities and enters into contact with shareholders when it is of the opinion that board members should be replaced (informal refusal).
 - › Slovenia - the NCA has issued dedicated guidelines on fit and proper requirements for management board members. Board members have to submit a questionnaire detailing their professional experience, behaviour as well as a self-declaration of suitability. If financial circumstances change significantly, they might be asked to fill in the questionnaire again. Moreover, each IORP must prepare a document that describes possible conflicts of interest vis-a-vis the custodian, sponsor and board members.
- In 2 cases, NCAs apply a principle-based approach, where the responsibility for ensuring fitness and propriety rests with the board of trustees:
- › Ireland - the governance of trustees is assessed in compliance with regulation. There are 12 codes of conduct, that do not have a mandatory nature. However, evidence suggests that IORPs consider these codes to be persuasive. The NCA typically engages with trustees and people in charge and not with asset managers.
 - › The United Kingdom - The PPR has its roots in Trust law. In the UK, the NCA’s DC code of practice sets out the standards of conduct that it expects trustee boards of occupational DC pension schemes to meet in order to comply with their legal duties, for example assessing the fitness and propriety of trustees. Trustee boards of relevant schemes are required to prepare an annual chair’s statement in which they must describe how they have met certain legislative governance standards. The NCA may ban people from acting as trustees and appoint independent trustees to take control of schemes to ensure they are administered properly. The NCA’s 21st Century Trusteeship campaign outlines how people involved in running schemes can take action to meet good standards of scheme governance.
- Sound and prudent management of IORPs is crucial in order for IORPs to operate successfully and to protect the best interests of members and beneficiaries.
- EIOPA is of the opinion that gaps in IORPs’ governance systems, even if these are small, can have a substantial negative impact on how IORPs function. Therefore, the way in which NCAs assess IORPs’ governance in relation to the PPR has been analysed carefully during this peer review.

RECOMMENDED ACTIONS IN THE AREA OF GOVERNANCE

Recommended actions within this area are issued based upon the assessment criteria that it is expected that NCAs have also defined and applied (automatically or on an ad-hoc basis depending upon the type of pension scheme assessed) criteria (quantitative or qualitative) concerning governance with regard to the PPR.

In this area, 2 recommended actions are addressed to 2 NCAs.

- › **Cyprus:** For small IORPs, the Registrar of Occupational Retirement Benefit Funds is recommended to strive for setting requirements on the fitness of the members of the Administration Committee.
- › **Norway:** Finanstilsynet is recommended to strengthen the supervision of the governance system of IORPs by assessing it on a regular basis instead of on an ad-hoc basis and in order to ensure a systematic check of governance issues.

3.5.2. OUTSOURCING

IORPs can outsource their investment function, typically to investment advisors or asset management companies. These service providers – that perform a critical function – are also expected to comply with fit and proper requirements and should not have any conflicts of interest. Therefore, some NCAs have issued legislation, regulation or guidance with regard to outsourcing, for example:

- › Austria – in 2017 the NCA introduced minimum standards for conducting due diligence. IORPs must conduct due diligence checks for all business partners (actuaries, investment managers, etc.). There are two types of review: a basic and enhanced due diligence. The level of risk linked to the potential business partner determines the type of due diligence that must be conducted.
- › Belgium - the NCA issued detailed guidelines regarding governance that also cover outsourcing.
- › Italy - the NCA introduced a process by which IORPs need to conduct a competitive selection of investment managers.
- › Latvia - regulation provides that the NCA checks outsourcing contracts *ex ante* and whether conflicts of interest were eliminated, e.g. when asset managers belong to the same group as the IORP. In that case, special restrictions apply to the governing bodies of IORPs.
- › Portugal - the NCA assesses IORPs' compliance with relevant legislation. With regard to outsourcing – relevant legislation prescribes:

- that the external entity belongs to the list of authorised companies;
- the existence of a written contract;
- that IORPs' management has control over the performance of the asset manager.

3.6. VALUATION

VALUATION OF ASSETS

In order to be able to assess whether assets are managed prudently and will cover future liabilities, NCAs must have accurate knowledge of the valuation of IORPs' investment portfolios, current unrealised gains and losses and the related expected future returns and corresponding risks.

The peer review aimed to identify if NCAs sufficiently challenge IORPs' methods to generate this information and assess the quality of data they receive from IORPs for supervisory purposes. EIOPA expects NCAs to define and apply criteria (both quantitative or qualitative) to assess IORPs' valuation of assets.

IORPs' asset valuation methods are subject to national rules. In some countries, IORPs record their assets at book value (historical costs). In others, at market value. The IORP Directive does not prescribe a specific valuation method. This is partly due to the diversity of IORP structures in Europe.

- Pension schemes in Austria, Belgium, Ireland, Latvia, Malta, the Netherlands, Norway, Poland, Spain, and the United Kingdom value their assets using mark-to-market value.
- In Austria, Germany, Italy (for 'old' autonomous contractual pension funds¹⁷ products only), Liechtenstein and Latvia, IORPs are allowed to value their assets at book value, using IFRS or national accounting standards.
- In Norway, valuation rules and methods (according to IFRS rules) for insurance undertakings and banks are identical.
- In Slovenia, IORPs must use the IFRS valuation method. In Slovenia, following an on-site inspection, one supervisory action was taken following an IORP's non-compliance with asset valuation rules.

In the set of data reported, information on valuation methods may be found, for instance, in:

- Financial statements, especially the balance sheet. Specific attention may be brought to contribution of specific assets to the overall investments objectives, through examination of investments results and unrealised gains and losses.
- IFRS.
- Other supervisory tools such as stress test reports, projections of the portfolio that describe the valuation method that was used and projections with regard to financial instruments that cannot be valued at market value.

The methods that are used to quantify the market risks that are linked to IORPs' investment portfolios are often of a different nature.

- In markets where IORPs value assets at book value, NCAs should give special attention to the recording date¹⁸ of assets and the methods that will be used to estimate future costs and earnings, including the accumulated depreciation of assets over time. Contrary to the market value method, the book value method, theoretically, produces less volatile asset valuations. Therefore – and in order to prevent that book values do not sufficiently reflect assets' market

price - it would be beneficial to perform a comparison between assets' book value and their potential price on stock markets.¹⁹

- In markets where IORPs value assets at market valuation, NCAs should give specific attention to simplifications and proxies IORPs use to value their assets. Using this valuation method, asset valuations are more volatile. In addition, NCAs should give specific attention to assets for which there is a lack of historical data.

With regard to governance, NCAs should assess whether IORPs have the necessary financial knowledge, skills and resources to perform an adequate analysis on asset valuation, e.g. knowledge of economic assumptions and risk events that may have an impact on the value of assets. Procedures and internal controls may also be implemented.

The inherent complexity of instruments may also be taken into account. Some countries, such as NL, are developing guidance for IORPs about the risks linked to complexity of the products (which could eventually encompass for instance the case of structured products, collateralised securities, not listed products, etc.) and mitigation techniques (hedging strategies, monitoring portfolio liquidity, spreads, maturity, sensitivity, etc.).

NCAs should take into account the specificities of valuation methods when performing asset valuation related projections and checks. For instance, specific spread shocks in the stress tests can be useful to assess the risks of bonds. In case the method is mark-to-market, the reporting is expected to be more frequent, as the value is more volatile. In case of structured products, supervisors may have to go into the detail and examine the valuation method by checking term-sheets, key information documents, External Credit Assessment Institution (ECAI) information, etc.

It was underlined during the peer review regarding valuation of assets that in case reinsurance is used as a mitigation strategy for contracts LU (CAA), in the case of fully reinsured contracts, the governance of the contract may be examined in view of the global valuation of the contract risks. During the fieldwork it appeared that these contracts are outside the supervisory controls since they are considered as a non-bearing risk. However it can be considered they still should be valued for the expenses they present for IORPs and towards the return they can

¹⁷ According to EIOPA's Database of Pension Plans and Products.

¹⁸ As the book value method takes into account the value of assets on the date these were entered in the books.

¹⁹ Whereby the price per share on the secondary stock market is divided by the book value per share.

provide. Therefore a specific method of valuation may be useful in performing a risk assessment.

VALUATION OF LIABILITIES

‘National measures with regard to how liabilities for DB pension schemes must be calculated differ. In Finland, liabilities are calculated using a flat-rate (no interest rate curve) of up to 3.5%. In the Netherlands, liabilities are calculated using European market swap-rates for maturities of up to 20 years, whereas a time-varying ultimate forward rate (2.9% at year-end 2016) is used for longer maturities. EIOPA is of the opinion that NCAs should pay special attention to the differences in interest rate risk exposure for assets and liabilities, e.g. the duration mismatch.

In conclusion, the valuation of assets and liabilities varies significantly from country to country. Nonetheless EIOPA is of the opinion that valuation is a very important part of the investment process and therefore should have significant attention from NCAs to ensure that the best interests of the members are considered by IORPs.

3.7. ON-SITE VERSUS OFF-SITE SUPERVISION

This section contains an analysis on the use of on-site inspections as a tool to monitor, check and assess compliance with the the PPR.

One NCA (Poland) performs on-site inspections every 3 to 4 years. However, as these on-site inspections (e.g. on

governance related topics) are not taken on as part of its PPR assessment process, PPR-related compliance checks are only performed off-site. Two other NCAs (Cyprus²⁰, Greece) indicated they do not carry out on-site inspections for IORPs, including PPR related inspections.

The remaining 22 NCAs (Austria, Belgium, Bulgaria, Croatia, Denmark, Finland, Germany, Hungary, Ireland, Italy, Liechtenstein, Luxembourg (CAA), Luxembourg (CSSF), Latvia, Malta²¹, the Netherlands, Norway, Portugal, Slovakia, Slovenia, Spain, the United Kingdom) carry out on-site inspections within the scope of their supervisory framework. One NCA (the Netherlands) carries out on-site inspections that focus specifically on PPR-related issues. The remaining NCAs carry out on-site inspections where the assessment of PPR-related issues is part of a more general assessment of the IORPs.

The peer review also assessed the frequency of on-site inspections (on a regular and/or ad-hoc basis) and the circumstances that trigger these inspections, e.g. as a result of a risk assessment or on the basis of a thematic analysis. The frequency of these inspections depends mainly on the applicable legal framework, the pension landscape in a country and NCA resources. On average, on-site inspections are carried out every 3 to 6 years.

Please find more detailed information on the different approaches towards on-site inspections in countries with 100 to 1000 IORPs in table 4.

20 Cyprus only carries out an on-site inspection in case of employers' breaches to pay contributions or in case a member files a complaint.

21 On-site inspections are part of the supervisory tools for PPR assessment but the NCA in MT has not yet used it in practice as the sector is too young. The eldest IORP started in 2015.

Table 4 - Approach towards on-site inspections

Country	Approach towards on-site inspections (based on risk-model outcomes or cyclical approach for determination of frequency)
BE	Risk-based approach based on risk model. computed in fully automated way. On-site inspections are performed on a theme. The FSMA selects IORPs on the basis of their relevancy for this theme and on the basis of their risk profile. In addition, small and medium IORPs are also selected to make up a full range of undertakings to be inspected. The theme of on-site inspections is selected from a risk-based perspective as well as the IORPs selected for such inspections on the basis of their risk profile.
DE	Based on cyclical approach. On-site inspections are conducted by BaFin at least every 7 to 12 years depending on an IORP's classification in the risk categorisation tool: 7 to 9 years for category IV, 8 to 10 years for category III, 9 to 11 years for category II and 10 to 12 years for category I.
ES	Risk-based approach in combination with cyclical inspections. On-site inspections are triggered by the identification of risks, e.g. a quantitative breach of the limits. In parallel, the DGSFP conducts cyclical on-site inspections (i.e. each IORP is controlled at least once within five years). Ad-hoc specific/thematic (e.g. investment-focused) on-site inspections are conducted as well. Additionally, a trigger for an on-site inspection is a claim by an IORP member connected with investment (linked to the list of eligible assets).

IT	Based on risk model. On-site inspections are carried out by the 'Inspectorate Department' on the basis of an annual planning composed of 'cyclical inspections', based on a dimensional criterion (e.g. number of members/beneficiaries, amount of assets, etc.), and inspections indicated by the 'Supervisory Department' in order to verify relevant specific aspects (evidence collected on existing documents, in order to verify any critical coming from documental checks). A risk-based model helps to identify the IORPs with more critical issues to be included in an inspection. For COVIP checking plan I, there is an identification of IORPs with more critical issues, following a 'red flag' procedure. For COVIP checking plan II, there are key risk indicators with a dimensional criterion and the assessment of DB versus DC.
NL	Based on risk model. DNB has implemented a structured process of benchmarking and outlier analysis on a quarterly basis regarding investments of IORPs and has set up an annual program on deep dives on specific topics. Signals and findings lead to on-site inspections. For the larger funds, DNB has implemented a periodical on-site inspection of the PPR. This program covers the 55 largest IORPs. The periodicity is 3 years for the largest funds up to 5 years for the smaller funds in this group. All other funds are covered in an ad-hoc program of 9 on-site inspections per year.
PT	Based on risk model. The ASF developed a tool for risk-oriented supervision to analyse the asset portfolios and also the liabilities of IORPs. The inputs into these tools consist only of quantitative data, therefore the results are totally objective, defining the risk profile of each IORP. The outputs produced are then used as key elements for the risk ranking and prioritisation of supervisory actions. IORPs are segregated pools of assets managed by pension fund management entities or insurance companies (PFME).

NCAs from 8 countries (Austria, Belgium, Denmark, Germany, Latvia, the Netherlands, Slovenia, Spain) reported that on-site inspections are mainly triggered following a risk-based assessment. Of these, 5 NCAs (Austria, Belgium, Latvia, the Netherlands, Spain) performed thematic PPR-related on-site inspections.

All NCAs use off-site supervisory tools in order to assess IORPs' compliance with the PPR. Off-site reviews take place on a regular but also on an ad-hoc basis. All NCAs reported that they have the necessary legal tools to perform ad-hoc reviews in addition to regular reporting and have made use of this power. For example, in Belgium the national authority performed an off-site thematic review on the prudence of the computation of technical provisions taking into account underlying assumptions, e.g. the expected return on assets.

Off-site analysis and on-site inspections are important tools for NCAs to assess if IORPs comply with the PPR. It is important that NCAs use these tools consistently.

Unlike the off-site assessment - that can be scaled and automated to a significant extent - the intensity of on-site assessments depends on the available human resources within NCAs and on the number of IORPs within the countries.

In conclusion, the frequency of on-site inspections, varies significantly from country to country. Nonetheless EIOPA is of the opinion that a lack of or low frequency of on-site inspections constitutes a shortcoming in existing supervisory processes.

RECOMMENDED ACTIONS IN THE AREA OF ON-SITE INSPECTIONS

Recommended actions were addressed under the assessment criteria that it is expected that NCAs have in place relevant supervisory tools (e.g. information to be provided, procedures and practices used to analyse this information) and have used them to perform an effective assessment of IORPs' compliance with the PPR during the reference period.

In this area, 2 recommended actions were addressed to 2 NCAs in the area of on-site inspections.

- › **Cyprus:** The Registrar of Occupational Retirement Benefit Funds is recommended to start setting up on-site inspections as a supervisory assessment tool in relation to the activities of the IORPs including PPR related issues, especially towards larger IORPs.
- › **Germany:** The BaFin is recommended to increase its inspection cycle (currently 7-12 years) to conduct more on-site inspections depending on the risk categorisation tool.

Note that a statement was submitted by Bundesanstalt für Finanzdienstleistungsaufsicht (Germany) regarding this recommended action (see annex 5).

- › The proposed best practices listed under paragraphs 4.2.3, 4.2.4 and 4.2.5 below relate to the interpretation of the PPR.

4.2.1. THEMATIC REVIEWS TO IDENTIFY POTENTIAL VULNERABILITIES

EIOPA considers it a best practice when — in large and heterogeneous IORP markets — NCAs perform thematic reviews (both on-site and off-site) that cover a representative sample of all IORPs. Thematic reviews will enable NCAs to identify potential global and local vulnerabilities and track the development of the market. The approach could be labelled 'proportional plus supervision'.

The proposed best practice stems from off- and on-site supervisory assessment practices in Belgium. The FSMA performs thematic reviews to identify developments and vulnerabilities of the IORP market.

The supervisory approach is risk-based and proportional. Thematic reviews are an example of this approach.

Thematic reviews are generally conducted by analysing a sample of the market during on-site inspections; or may be carried out for the entire sector or for IORPs for which the topic is relevant through off-site reviews.

Regarding on-site inspections, the NCA ensures that the sample adequately reflects the BE pension market and includes IORPs of different sizes and complexities.

During the reference period of this peer review, thematic reviews were conducted on:

- › IORPs' practices with regard to outsourcing (on-site inspections);
- › IORPs' practices regarding data management (on-site inspections);
- › The prudent character of the computation of IORPs' technical provisions (off-site exercise on the entire sector). During this exercise, the coherence between IORPs' financing plans (assumptions and method for calculating technical provisions and financing method) and their SIPPs (strategic asset allocation vs actual allocation, expected return vs NCA estimation, volatility) was considered.

In addition — but not during the reference period of this peer review — the NCA also carried out an in-depth review on SIPPs. This off-site thematic review covered all IORPs in Belgium.

By combining the theme of the review with representative sampling or with the relevant IORPs, there is a high probability that potential problems are identified in a timely manner — even within small sub-segments of large IORP markets.

This supervisory practice is deemed risk-based, proportional, forward looking and sustainable and optimises supervisory resources in large and complex IORP markets. It enables NCAs to gain insight into the development of the entire market with a reasonable use of internal resources and without putting too much burden on supervised entities.

4.2.2. QUANTITATIVE INDICATOR TO ASSESS QUALITY ASSET MANAGEMENT

EIOPA considers it a best practice when NCAs — supervising a non-negligible number of IORPs — make use of quantitative indicators (e.g. in the form of a traffic light system) to assess the efficiency of the turnover activity of IORPs' assets. The ultimate aim is to assess the performance (and the cost efficiency) of asset managers and, if needed, challenge the IORP's management.

The proposed best practice stems from a supervisory practice in Italy whereby COVIP collects data on the assets and transactions of the IORPs' portfolios. The gathered data are introduced into a quantitative indicator model in the form of a traffic light system, which the NCA uses for off-site supervision purposes. The system is part of an IORP's quarterly reporting duties. Its aim is to assess the efficiency of IORPs' asset management.

The aforementioned quantitative indicator model sets - for each risk taken into consideration - the impact of some indicators (e.g. the return of the IORPs' investment portfolios) with respect to specific benchmarks.

In particular, as regards the turnover activity, if the indicator turns red, the NCA will:

- › Conduct a deeper assessment on the IORP's portfolio; and/or ultimately

- Assess the impact of portfolio mutations on the cost of an IORP's asset management when it observes a high number of transactions.

Assessment outcomes may lead to the NCA requesting an IORP to clarify its position and, if necessary, to take action.

At a qualitative level, the NCA will also assess whether IORPs respect the bandwidth of the portfolio turnover and the investment strategy established in the SIPP.

This supervisory practice is deemed risk-based and proportional. Given the size and diversity of the IORP sector in Italy, this practice provides the NCA with an effective means to gain additional insight into the quality and performance of the asset management style of an IORP.

4.2.3. INTRANET APPLICATION FOR RECORDKEEPING AND KNOWLEDGE SHARING

EIOPA considers it a best practice when NCAs — supervising a non-negligible number of IORPs — establish an intranet application for recordkeeping purposes and to facilitate sharing of PPR-related issues within the NCA.

The proposed best practice stems from a supervisory practice in Luxembourg whereby the CSSF has developed a wiki²² (knowledge based intranet application) where PPR-related issues are stored for sharing within the NCA.

Views, opinions and new regulatory principles that were developed outside of the ongoing prudential supervisory process are safeguarded and published in a specific NCA intranet application that is accessible to NCA staff concerned as direction for future cases. Such decisions are not systematically published on the official website of the NCA. However, where deemed relevant a principle can be made public by means of Q&A.

The information stored in the application — fed by all analysts as part of the internal procedures — complements the analysis of information received from IORPs, especially concerning informal rules and other findings from several departments within the NCA. It is also a way to

ensure consistency among the different financial sectors in the cases where the supervision of these different sectors is integrated within one authority.

Examples of information placed on the intranet page are: information relating to an IORP that switched from UCITs to hedge funds, shared documents relating to risk analyses, legal analyses, policy documents, etc. All topics on the intranet webpage are introduced with a 'wiki-like' article text.

This supervisory practice is deemed to enhance supervisory transparency and accountability, as well as promote cooperation and the exchange of information within a NCA. Given the size and diversity of the IORP sector in LU, this practice provides the NCA with an effective means to record PPR-related views and opinions for an IORP, which are accessible to all NCA departments. This is deemed an effective way to ensure an integrated approach for the supervision of IORPs and to promote the exchange of 'additional/qualitative' information with regard to every IORP within the NCA's country.

4.2.4. WRITTEN AND ORAL FIT AND PROPER ASSESSMENT

EIOPA considers it a best practice when NCAs that supervise larger IORPs ensure a robust fit and proper assessment of management board members — responsible for an IORP's investment policy — which consists of a written and oral assessment of the applicants. EIOPA considers it a best practice for NCAs to lay down their expectations as regards the standards for knowledge of investment in dedicated guidelines.

The proposed best practice stems from a supervisory practice in the Netherlands whereby DNB conducts a specific investment-focused fit and proper verification for Management Board Members.

Following an application for membership of an IORP's management board the NCA conducts a written procedure aimed at assessing the former's investment knowledge and competence.

In its guidelines the NCA lays down the expected levels of education for the different roles within the IORP. Three levels of education exist: standard, experienced and ex-

²² A website or database developed collaboratively by a community of users, allowing any user to add and edit content.

pert (e.g. an Investment Committee member must be 'experienced', the Chairman of that Committee must be an 'expert').

In cases where it is not clear from the written assessment whether candidates fulfill the necessary requirements (about 25% of the candidates), they are subjected to a two hour oral test/interview where the following is assessed: The investment knowledge of the applicant according to their specific role, the applicant's understanding of the responsibility of the role with regard to making investment decisions, their knowledge on the investment process, whether they are able to challenge asset managers in case of outsourcing, whether there is a potential conflict of interest, whether the applicant has the time needed to adequately fulfil the role in the IORP (usually underestimated) and the applicant's motivation.

If deemed appropriate, the NCA informally contacts the IORP, inviting the latter to withdraw a specific application. The thoroughness of the assessment led to the rejection of almost 6% of all applicants in the year 2017, i.e. almost 25% of the candidates assessed during the two hour interview. Most rejections relate to candidates for investment functions.

Fit and proper assessments are also conducted during on-site inspections in order to ensure that board members have adequate investment expertise.

As of next year, the NCA will use a new automated application process for all IORPs: The 'digital counter'. As of then, applications must be submitted electronically in a standardised fashion, allowing the NCA to efficiently complete all files.

This supervisory practice is deemed risk-based, proportional and forward looking. In larger and more complex IORP markets, this practice provides the NCA with an effective means to test management board members' investment knowledge. The latter is screened during the selection stage of new board members, as well as during on-site inspections.

4.2.5. DISCLOSURE INVESTMENT PLAN AND RISK APPETITE IORP

EIOPA considers it a best practice when NCAs, in the absence of external investment limits, require IORPs to set their own internal investment limits taking into consideration their investment horizon and liquidity needs and lay down in writing as to how the Prudent Person Rule is considered. Regular receipt of the internal limits systems enables NCAs to benchmark risk appetites, evaluate investment discipline and supports PPR compliance checks when comparing internal limits to actual investment portfolios.

The proposed best practice stems from a supervisory practice in the Netherlands. The NCA – annually – receives IORPs' detailed investment policy statements (IPS). The IPS includes information on IORP's internal investment limits and the actual use of these limits. Unexpected changes in asset allocation that are or not in line with the investment policy are among the most frequently occurring PPR-related infractions. Therefore, DNB has a conservative approach towards 20-40% ranges are considered too large, max. 2% individual position size) and internal limit systems can only be changed after thorough ALM studies which have to be conducted at least every three years.

Where an IORP has outsourced its asset management function, asset managers' mandates must be consistent with the strategic investment policy of the IORP.

This means that a coherent and complete set of arrangements and guidelines between the IORP and the asset manager must – adequately defining the limits of the mandate. The investment policy document is submitted to DNB's statistics department through a web-based application and then distributed to the account and risk analysis team.

Based upon these types of assessment, the NCA has challenged the fact that IORPs use the same underlying models for conducting the ALM studies that form the basis for their asset allocations.

This supervisory practice is deemed risk-based, and proportional. In larger and more complex IORP markets where no investment limits are set by regulation, this practice provides the NCA with an effective means to as-

sess the performance of the asset management function of IORPs.

4.2.6. COMPREHENSIVE RISK ASSESSMENT SYSTEM

EIOPA considers it a best practice that — especially in case of a large IORP market and complex investment portfolios — NCAs perform a comprehensive, multi-dimensional assessment of IORPs' investment risks in the form of a traffic light system that may serve as a trigger for supervisory actions.

The proposed best practice stems from an off-site supervisory assessment practice in Portugal where ASF uses an advanced, multi-dimensional risk scoring system as a preventive supervisory approach / traffic lights system.

The NCA's supervisory approach - is referred to as 'prudent person plus' as it combines the assessment of quantitative investment rules with a proportional risk-based supervisory approach.

The risk scoring system assesses IORPs' risk profiles in a broad range of dimensions. The combined risk rating (0 to 10) is derived from six ratings of market risks (interest rate, equity, property, currency, credit spread, and concentration), the rating for innovation risk (structured/exotic products) and the rating for liquidity risk (e.g., real estate, non-traded securities).

In addition, global risk rating is conducted based on a VaR calculation for different assets classes (and that is further differentiated by exposure to developed and underdeveloped markets). The impact of derivatives on an IORP's portfolio VaR is calculated separately. For IORPs that invest in UCITS, the look-through principle is applied to make the necessary calculations.

VaR analyses are supplemented by stress tests. Stress tests involve the manipulation of interest rates, equity markets, property markets, currency rates and credit spreads. The NCA applies two stress test scenarios: moderate and severe (2 x moderate) and the VaR is compared in both scenarios.

As part of its risk assessment, the NCA also performs asset liability adequacy tests for DB schemes and assesses the most significant asset acquisitions/losses, as well as

the positions held. IORPs must report these on a quarterly basis.

This comprehensive approach allows for a very precise assessment of IORPs' risk levels. When triggered – the NCA is able to approach the IORP on an individual basis and request the latter to reduce its exposure to problematic assets.

This supervisory practice is deemed of high quality, risk-based, proportional, forward looking, sustainable and suitable to enhance supervisory transparency and accountability. In large and complex IORP markets (open and close-ended pension arrangements, DB and DC schemes) the system is deemed to be an effective tool for optimising supervisory resources.

4.3. LIST OF SOUND PRACTICES PRESENTED TO EIOPA FOR FURTHER USE

This section summarises the **sound practices** that were identified during the peer review.²³ It covers those sound practices that did not qualify as best practices. The sound practices are listed below as they provide practical solutions that could be relevant to and considered by other NCAs.

I. INTERPRETATION OF THE PPR PRINCIPLE

Given the large number of IORPs with a relatively small number of service providers (trustees), it is better manageable to mainly supervise the trustees (intermediate structure) (Ireland, the United Kingdom).

II. LEGAL AND REGULATORY FRAMEWORK

Real estate in IORPs' financial statements has to be frequently revalued to ensure accurate asset values (Finland).

To ensure that the rights of members are not affected, the NCA could ask the custodian to freeze the assets based on risk triggers (Luxembourg (CAA)).

Given an open PPR norm and a risk-based supervisory approach towards IORPs' investments, a NCA could focus

²³ However NCAs not mentioned in this chapter may also have such practices in place.

on influencing decisions rather than on enforcing the law by punitive sanctions (the Netherlands).

A requirement not to charge management fees for investment in CIVs could prevent extraordinary investment costs for pension plan members (Poland).

The mandatory use of a custodian with whistleblowing obligations for DB schemes provides an additional safeguard of IORPs' assets (Slovenia).

III. INFORMATION GATHERED BY THE NCA FOR THE PPR ASSESSMENT

An external and independent assessment of IORPs' risks could be performed by an auditor which is submitted to the NCA (Liechtenstein).

IV. SUPERVISORY ASSESSMENT

An automatic tool to detect outliers and implementing limits in the IT system could help to identify deviations from the limits to trigger inspections (Austria, Finland, Slovakia, Spain).

The use of an advanced risk scoring model that integrates both quantitative and qualitative dimensions and is capable of running stress tests to identify risks and vulnerabilities (Belgium, Denmark, Ireland, Latvia, the Netherlands, Norway, Portugal, the United Kingdom). Stress tests with combined shocks provide more information about the risks as a whole (Austria, the Netherlands, Portugal).

To ensure fit and proper, the NCA should have the flexibility to assess, as the investment portfolio may change, which could imply different fit and proper requirements (Luxembourg (CSSF), the Netherlands, Slovenia).

To ensure IORPs are in compliance with requirements relating to the fair valuation of assets and fair calculation of the pensions (net-asset-value), it is recommended to review the valuation (Poland), especially in case of IORPs' investments in more complex/structured products.

Assessing the total costs borne by the members gives a better overview of the profitability of an IORP's investment portfolio (Italy, Portugal).

The NCA could opt to use extraordinary on-site assessment tools, e.g. by using mystery shopping techniques that would help assess the level of consumer protection in the market (Latvia).

To ensure that small IORPs comply with the PPR, introducing a whistleblowing function could be beneficial (the United Kingdom).

V. SUPERVISORY ACTIONS

An ongoing exchange of views allows NCAs to pass on the expectations to the IORP professionals so that they embed them in their daily work and become a common practice for the sector. Hence, it is recommended that NCAs organise educational activities (Belgium, the Netherlands, the United Kingdom).

NCAs using a more educational, as opposed to punitive, approach when interacting with the management of IORPs (Belgium, the Netherlands).

EIOPA will review the list of identified sound practices and consider its further use for dissemination among all NCAs in the context of the implementation of the IORP II Directive.

5. CONCLUSIONS

EIOPA finds this peer review particularly relevant, taking into account the heterogeneous occupational pensions landscape in Europe, the low interest rate environment, the transition from DB to DC schemes and the implementation of the IORP II Directive on 13 January 2019.

Therefore, EIOPA will continue to monitor the developments and initiate the following improvements.

5.1. ACTIONS TO BE UNDERTAKEN BY EIOPA

1. Article 18 of the IORP Directive provides that investments by IORPs should follow the PPR whereas the IORP II Directive provides that Member States shall ensure that supervision is based on a forward-looking and risk-based approach. EIOPA recognises that most countries have additional quantitative investment regulations in place and that therefore NCAs should have respective supervisory tools to ensure IORPs' compliance with those quantitative requirements. Nevertheless EIOPA is of the view that initiatives to include more qualitative elements in supervision (e.g. guidance, processes, risk models to detect risks arising from investment activities and risk mitigation mechanisms), combining qualitative and quantitative elements and to move from purely compliance-based towards a more risk-based and forward looking approach, should be facilitated.

Given that the enhancement of qualitative elements in investment supervision is a priority across countries, EIOPA will in a market-wide communication clearly define the elements of qualitative investment supervision.

2. In some countries, the intensity of the PPR-related supervision for different types of schemes vary significantly. During the peer review it could not be concluded that these differences were based on or the consequence of a risk-based approach. EIOPA will therefore initiate a more detailed investigation on this topic as a follow-up activity.
3. In this peer review six best practices (see section 4.2) as well as a significant number of sound practi-

es (see section 4.3) were identified. Although some sound practices are implemented on a limited scale, others are already used quite frequently. Though these sound practices were not labelled as best practices they also have the potential to provide added value for the purpose of supervising IORPs' compliance with the PPR. EIOPA will consider to further elaborate on these practices.

5.2. FOLLOW-UP MEASURES

EIOPA issued twenty-seven recommended actions to nineteen NCAs from sixteen countries. The recommendations target supervisory shortcomings in relation to the frequency and granularity of the data collected, supervisory assessment, the appropriate consideration of interest rate risk for DB schemes, supervision on governance related issues and the frequency of on-site inspections.

The recommended actions remain valid under the IORP II regime as the Directive does not substantially change the PPR-related rules.

In addition, EIOPA identified six best practices that are currently being applied by five NCAs. The practices are related to the use of thematic reviews, the use of risk scoring models, stress tests, the monitoring of costs, reporting and financial education.

In relation to the follow-up, EIOPA intends to assess how NCAs have followed up on the recommended actions.

ANNEX 1: COUNTRIES AND COMPETENT AUTHORITIES PARTICIPATING IN THE PEER REVIEW AND THEIR ABBREVIATIONS

Country	Abbreviation	Name of concerned NCA	Abbreviation used in the report (if any)	Out of scope/no IORPs
Austria	AT	Finanzmarktaufsicht	FMA	
Belgium	BE	Financial Services and Market Authority	FSMA	
Bulgaria	BG	Financial Supervision Commission	FSC	
Cyprus	CY	Registrar of Occupational Retirement Benefit Funds	–	
Czech Republic	CZ			out of the scope - no IORPs
Germany	DE	Bundesanstalt für Finanzdienstleistungsaufsicht	BaFin	
Denmark	DK	Danish Financial Supervisory Authority	DFSA	
Estonia	EE			out of the scope - no IORPs
Greece	EL	The Ministry of Labour, Social Security and Social Solidarity	Ministry of Labour	
		The Hellenic Capital Market Commission	HCMC or CMC	
		The National Actuarial Authority	NAA	
Spain	ES	Dirección General de Seguros y Fondos de Pensiones - Ministerio de Economía y Empresa	DGSFP	
Finland	FI	Financial Supervision Authority	FIN-FSA	
France	FR			opted out of the scope - Article 4
Croatia	HR	Hrvatska agencija za nadzor financijskih usluga	HANFA	
Hungary	HU	Magyar Nemzeti Bank	MNB	
Ireland	IE	The Pensions Authority	The Pensions Authority	
Iceland	IS			out of the scope - no IORPs
Italy	IT	Commissione di vigilanza sui fondi pensione	COVIP	

Liechtenstein	LI	Finanzmarktaufsicht Liechtenstein	FMA	
Lithuania	LT			out of the scope - no IORPs
Luxembourg (CAA)	LU (CAA)	Commissariat aux Assurances	CAA	
Luxembourg (CSSF)	LU (CSSF)	Commission de Surveillance du Secteur Financier	CSSF	
Latvia	LV	Financial and Capital Market Commission	FCMC	
Malta	MT	Malta Financial Services Authority	MFSA	
Netherlands	NL	De Nederlandsche Bank	DNB	
Norway	NO	Finanstilsynet	FSA	
Poland	PL	Komisja Nadzoru Finansowego	KNF	
Portugal	PT	Autoridade de Supervisão de Seguros e Fundos de Pensões	ASF	
Romania	RO			out of the scope - no IORPs
Sweden	SE			opted out of the scope - Article 4
Slovenia	SI	Insurance Supervision Agency	AZN	
Slovakia	SK	National Bank of Slovakia	NBS	
United Kingdom	UK	The Pensions Regulator	TPR	

ANNEX 2: OCCUPATIONAL RETIREMENT SYSTEMS IN EUROPE BY SIZE AND TYPE AS PER 31.12.2016

Country	Assets under management (approximation in million Euro)	Main Type	Total number IORPs
AT	22,000	DC	10
BE	29,800	DB/DC	198
BG	6	DC	2
CY	3,500	DB/DC	1,248
DE	185,000	DB	170
DK	6,500	DB	17
EL	1,248*	DC	11
ES	36,444	DC	340
FI	4,600	DB	48
HR	113	DC/DB	19
HU	0,74	DC	1
IE	92,364	DC	68,481
IT	123,645	DC	267
LI	600	DB	4
LU (CAA)	430	DB	3
LU (CSSF)	1,800	DB	13
LV	383	DC	6
MT	1,99	DC	2
NL	1,300,000	DB/DC	289
NO	34,000	DB	85
PL	402	DC	3
PT	17,275	DB	186
SI	634	DB	3
SK	1,545	DC	4
UK	1,800,000	DC/DB	40,000+

Source: Data collected during the fieldwork of the peer review from NCAs.

* Data extracted from [EIOPA database on EU/EAA occupational pensions statistics](#) (year 2016).

ANNEX 3: RELEVANT REQUIREMENTS OF THE IORP DIRECTIVE

Article 18

Investment rules

1. Member States shall require institutions located in their territories to invest in accordance with the 'prudent person' rule and in particular in accordance with the following rules:

(a) the assets shall be invested in the best interest of members and beneficiaries. In the case of a potential conflict of interest, the institution, or the entity which manages its portfolio, shall ensure that the investment is made in the sole interest of members and beneficiaries;

(b) the assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole;

Assets held to cover the technical provisions shall also be invested in a manner appropriate to the nature and duration of the expected future retirement benefits;

(c) the assets shall be predominantly invested on regulated markets. Investment in assets which are not admitted to trading on a regulated financial market must in any event be kept to prudent levels;

(d) investment in derivative instruments shall be possible insofar as they contribute to a reduction of investment risks or facilitate efficient portfolio management. They must be valued on a prudent basis, taking into account the underlying asset, and included in the valuation of the institution's assets. The institution shall also avoid excessive risk exposure to a single counterparty and to other derivative operations;

(e) the assets shall be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and accumulations of risk in the portfolio as a whole;

Investments in assets issued by the same issuer or by issuers belonging to the same group shall not expose the institution to excessive risk concentration;

(f) investment in the sponsoring undertaking shall be no more than 5 % of the portfolio as a whole and, when the sponsoring undertaking belongs to a group, investment in the undertakings belonging to the same group as the sponsoring undertaking shall not be more than 10 % of the portfolio.

When the institution is sponsored by a number of undertakings, investment in these sponsoring undertakings shall be made prudently, taking into account the need for proper diversification.

Member States may decide not to apply the requirements referred to in points (e) and (f) to investment in government bonds.

2. The home Member State shall prohibit the institution from borrowing or acting as a guarantor on behalf of third parties. However, Member States may authorise institutions to carry out some borrowing only for liquidity purposes and on a temporary basis.

3. Member States shall not require institutions located in their territory to invest in particular categories of assets.

4. Without prejudice to Article 12, Member States shall not subject the investment decisions of an institution located in their territory or its investment manager to any kind of prior approval or systematic notification requirements.

5. In accordance with the provisions of paragraphs 1 to 4, countries may, for the institutions located in their territories, lay down more detailed rules, including quantitative rules, provided they are prudentially justified, to reflect the total range of pension schemes operated by these institutions.

In particular, Member States may apply investment provisions similar to those of Directive 2002/83/EC.

However, Member States shall not prevent institutions from:

- (a) investing up to 70 % of the assets covering the technical provisions or of the whole portfolio for schemes in which the members bear the investment risks in shares, negotiable securities treated as shares and corporate bonds admitted to trading on regulated markets and deciding on the relative weight of these securities in their investment portfolio. Provided it is prudentially justified, Member States may, however, apply a lower limit to institutions which provide retirement products with a long-term interest rate guarantee, bear the investment risk and themselves provide for the guarantee;
- (b) investing up to 30 % of the assets covering technical provisions in assets denominated in currencies other than those in which the liabilities are expressed;
- (c) investing in risk capital markets.

6. Paragraph 5 shall not preclude the right for Member States to require the application to institutions located in their territory of more stringent investment rules also on an individual basis provided they are prudentially justified, in particular in the light of the liabilities entered into by the institution.

Recitals 6, 7, 8, 31, 32, 33, 35 and 36

(6) This Directive thus represents a first step on the way to an internal market for occupational retirement provision organised on a European scale. By setting the “prudent person” rule as the underlying principle for capital investment and making it possible for institutions to operate across borders, the redirection of savings into the sector of occupational retirement provision is encouraged, thus contributing to economic and social progress.

(7) The prudential rules laid down in this Directive are intended both to guarantee a high degree of security for future pensioners through the imposition of stringent supervisory standards, and to clear the way for the efficient management of occupational pension schemes.

(8) Institutions which are completely separated from any sponsoring undertaking and which operate on a funded basis for the sole purpose of providing retirement benefits should have freedom to provide services and freedom of investment, subject only to coordinated prudential requirements, regardless of whether these institutions are considered as legal entities.

(31) Institutions are very long-term investors. Redemption of the assets held by these institutions cannot, in general, be made for any purpose other than providing retirement benefits. Furthermore, in order to protect adequately the rights of members and beneficiaries, institutions should be able to opt for an asset allocation that suits the precise nature and duration of their liabilities. These aspects call for efficient supervision and an approach towards investment rules allowing institutions sufficient flexibility to decide on the most secure and efficient investment policy and obliging them to act prudently. Compliance with the “prudent person” rule therefore requires an investment policy geared to the membership structure of the individual institution for occupational retirement provision.

(32) Supervisory methods and practices vary amongst Member States. Therefore, Member States should be given some discretion on the precise investment rules that they wish to impose on the institutions located in their territories. However, these rules must not restrict the free movement of capital, unless justified on prudential grounds.

(33) As very long-term investors with low liquidity risks, institutions for occupational retirement provision are in a position to invest in non-liquid assets such as shares as well as in risk capital markets within prudent limits. They can also benefit from the advantages of international diversification. Investments in shares, risk capital markets and currencies other than those of the liabilities should herefore not be restricted except on prudential grounds.

(35) Restrictions regarding the free choice by institutions of approved asset managers and custodians limit competition in the internal market and should therefore be eliminated.

(36) Without prejudice to national social and labour legislation on the organisation of pension systems, including compulsory membership and the outcomes of collective bargaining agreements, institutions should have the possibility of providing their services in other Member States. They should be allowed to accept sponsorship from undertakings located in other Member States and to operate pension schemes with members in more than one Member State. This would potentially lead to significant economies of scale for these institutions, improve the competitiveness of the Community industry and facilitate labour mobility. This requires mutual recognition of prudential standards. Proper enforcement of these prudential standards should be supervised by the competent authorities of the home Member State, unless specified otherwise.

ANNEX 4: LIST OF ABBREVIATIONS AND ACRONYMS

AIF	Alternative Investment Funds
ALM	Asset and Liability Management
Article 4 ring-fenced funds	Article 4 ring-fenced funds refers to the occupational retirement provision business of insurance undertakings covered by Directive 2009/138/EC to which certain provisions of the IORP Directive are applied in accordance with Article 4 of the IORP Directive 2003/41/EC. In that case, all assets and liabilities corresponding to the said business shall be ring-fenced, managed and organised separately from the other activities of the life insurance undertaking, without any possibility of transfer
CIU	Collective Investment Undertakings
CIV	Collective Investment Vehicles
DC	Defined Contribution
DB	Defined Benefit
ECAI	External Credit Assessment Institutions
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
F&P	Fit and proper
GL	Guidelines
HTM	Hold to maturity
IFRS	International Financial Reporting Standards
IPS	Investment Policy Statements
IORP	Institution for Occupational Retirement Provision
IORP Directive	Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision
IORP II Directive	Directive 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision
ISIN	International Securities Identification Number
IT resources/system/infrastructure	Information Technology resources/system/infrastructure
NCA	National Competent Authority
PPR	Prudent Person Rule
RP	Review Panel
Q&A	Questions and Answers
SIPP	Statement of Investment Policy Principles

SCR	Solvency Capital Requirement
Solvency II	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance
ToR	Terms of Reference
UCITS	Undertakings for Collective Investments in Transferable Securities
UFR	Ultimate Forward Rate
VaR	Value-at-Risk

ANNEX 5: STATEMENT FROM NCAS REGARDING THE FINDINGS OF EIOPA'S PEER REVIEW ON THE APPLICATION OF THE PRUDENT PERSON RULE FOR IORPS

STATEMENT OF BAFIN

In the Peer Review Report the team of reviewers concluded that the frequency of on-site inspections related to the PPR varies significantly from NCA to NCA with an average of every 3 to 6 years. Therefore BaFin is recommended to increase its inspection cycle (currently 7 – 12 years) and to conduct more on-site inspections, depending on the risk categorisation tool.

BaFin acknowledges that the team of reviewers tried to measure the applicable legal frameworks, the pension landscapes of the countries and NCA resources for both the risk-based and the cyclical approach. However, BaFin is missing a comprehensive elaboration on the results including the measurement of individual details which has led to the findings.

BaFin considers it appropriate from a supervisory point of view to maintain its current audit cycle of between 7 and 12 years for the future, as it is currently **compensated** for by BaFin using the following risk reduction mechanisms.

ADDITIONAL QUALITATIVE AND QUANTITATIVE PROVISIONS

The German insurance supervisor has made use of the option under Article 19(6) of the IORP II Directive and subsequently laid down **detailed quantitative and qualitative rules regarding investment** by issuing the Regulation on the Investment of Guarantee Assets of *Pensionskassen* (*Verordnung über die Anlage des Sicherungsvermögens von Pensionskassen – AnIV*) and by adopting the provisions of sections 16 to 20 of the Regulation on the Supervision of *Pensionsfonds* and on the

Implementation of Pure Defined Contribution Schemes (*Verordnung betreffend die Aufsicht über Pensionsfonds und über die Durchführung reiner Beitragszusagen in der betrieblichen Altersversorgung – PFAV*). These provisions set out the assets that are permitted under law to constitute the guarantee assets. Furthermore, the regulations include some quantitative limits for mixing assets and diversification of assets and provisions regarding matching and localisation of assets. They require insurers to carry out qualitative investment management and have adequate internal control mechanisms.

BaFin circular 11/2017 (VA) on capital investments and **BaFin circular 8/2017 (VA) on derivative financial instruments and structured products** specify additional detail on these provisions and set requirements for the investment principles, the schedule of investments, and, in particular, risk management for investments.

GUARANTEE ASSETS (SICHERUNGSVERMÖGEN), REGISTER OF GUARANTEE ASSETS AND TRUSTEES

Section 125 of the German Insurance Supervision Act (*Versicherungsaufsichtsgesetz – VAG*) requires that **guarantee assets** be established, and Germany – unlike most other EU Member States – has granted insurance claims **absolute precedence** over any other claim with respect to assets representing the technical provisions, rather than just granting them a special rank. Pursuant to section 315 of the VAG, investments allocated to the guarantee assets serve to satisfy the **preferential claims of insured persons** – in the case of *Pensionsfonds*, the **ben-**

eficiaries – in the event of the insurance undertaking's insolvency.

The fact that Germany has opted for absolute precedence means that insurers are also required to enter all assets that form part of the guarantee assets in a **register of guarantee assets** (see section 126 of the VAG). Insurance undertakings are required to submit a **copy** of the entries made during the year to BaFin at the end of each financial year, and this is inspected by BaFin.

Furthermore, section 128 of the VAG requires that a **trustee** be appointed to monitor the guarantee assets. The trustee safeguards the interests of those with preferential claims and assists the supervisor (“**the extended arm of the supervisor**”). The supervisory board appoints **natural persons** to be the trustee and deputy trustee. Only persons whose names have previously been provided to BaFin and whom **BaFin has vetted** can be appointed. As part of the nomination procedure, BaFin reviews, among other things, each trustee's and deputy trustee's expertise and independence. It also requires that a certificate of good conduct be submitted for these persons. For most insurers, the trustee makes **weekly on-site** visits to the undertaking because they are to be involved every time investments for the guarantee assets are bought or sold. In particular, the trustee examines whether the supervisory requirements regarding the investments for the guarantee assets are being complied with, in particular whether they are suitable as guarantee assets, and this therefore includes checking compliance with the prudent person rule. The guarantee assets have to be secured such that disposition is only possible with the trustee's consent (Section 129 (1) of the VAG).

The legal obligations regarding the guarantee assets, the register of guarantee assets and the trustee are also specified in more detail by **BaFin circulars** (see **circulars 3/2016 (VA)** and **7/2016 (VA)**).

ESTABLISHMENT OF A SYSTEM OF GOVERNANCE

Since 2007, when section 64a of the VAG (old version) was introduced – which can now be found under section 23 *et seq.* of the VAG – it has been necessary for the system of governance to be established such that the IORP identifies, assesses and appropriately controls risks and problems in good time. In particular, the risk management

system and the internal audit function are of key significance here.

The IORP's risk management system has the task of identifying, assessing, monitoring and controlling all of the undertaking's risks and reporting on these risks in a meaningful manner (section 234 (3) sentence 1 no. 3, section 237 (3) no. 4, section 212 (1) and (2), section 26 (1), (2) and (5) of the VAG). The internal risk reports are to be submitted to BaFin within one month after they are presented to the management board (section 234 (3) sentence 1 no. 3, section 237 (3) no. 4 of the VAG). IORPs are also required to establish an internal control system to ensure that business processes are carried out properly (section 234 (1), section 237 (1), section 212 (1), (2) and (3) and section 29 (1) of the VAG).

They are also required to establish an internal audit function in order to ensure that all operational processes are appropriate and that the governance requirements described above are fulfilled (section 234 (2) sentence 2, section 237 (2) sentence 2 and section 30 of the VAG). The internal audit function acts as an independent line of defence within the undertaking. To ensure that it is able to carry out its vital task of monitoring the system of governance and the internal control system, even more stringent requirements are placed on its independence (section 234 (2) sentence 2, section 237 (2) sentence 2 and section 30 (2) sentence 1 of the VAG).

The knowledge gained from the above processes is very important for the supervisors. It provides important information on the condition of the IORP on a continuous basis (i.e. including outside of the undertaking's audit cycle). Furthermore, the employees of the IORP that are entrusted with these processes and tasks are important contacts for supervisory visits and regular supervisory interviews. Their knowledge is often the starting point for further auditing on the part of the supervisors.

REPORTING (COLLECTIVE ADMINISTRATIVE ACT)

The collective administrative act of 21 June 2011 sets out a **comprehensive reporting system** for *Pensionskassen*. *Pensionskassen* submit quarterly and annual reports on the composition of the investments (statement 670), the book values, the fair values and the coverage of the technical liabilities (statement 671), investments in financial

innovations (statement 673) and investments in funds, holdings, real estate and related undertakings.

The reports are examined once or twice per year in a risk-oriented structured process. This process was recently evaluated and refined (by extending the time series under review, for instance), in May 2018, by the BaFin divisions responsible for the undertakings in cooperation with the BaFin competence centre for investment reporting, guarantee assets and trustees (which conducts the process).

The reporting process also comprises a **review of whether individual assets are suitable as guarantee assets** on the basis of the circular referred to above.

Reporting for *Pensionsfonds* is not yet as comprehensive. However, there are plans to extend this reporting, using the reporting system for *Pensionskassen* as a starting point but taking into account the particular nature of *Pensionsfonds*.

FUTURE EIOPA REPORTING

EIOPA's Pensions Data Project builds the foundations for a Europe-wide reporting system for IORPs. This envisages that, starting from the third quarter of 2019, **larger IORPs in particular will be subject to additional reporting requirements**, which, among other things, will lead to **item-by-item reporting and a look-through approach for investment funds (similar to Solvency II)** from 2020 and thereby further increase the data available to BaFin, too. Among other things, this will allow for the additional validation of the information provided in the national reporting system.

AUDITOR

The auditor is required to look very closely at the investments of the undertaking under audit; the investments are a key focus of the auditor's activities. The legal obligation arises from the Regulation concerning the contents of auditors' reports on the annual accounts and on the solvability of insurance undertakings (*Prüfungsberichtsverordnung* – PrüfV).

Under the PrüfV, auditors are required to provide comprehensive statements on various points regarding investments. For instance, information on the main aspects of the accounting and valuation of the investments is to be provided. This is to include details on the exercising of options and discretions and the recognition of hedging relationships and their effects on the financial position and financial performance. It is also to include information on the structure of the investments, taking into account the insurance business conducted by the undertaking. Details of the security of the investments, their maturities and their sensitivity to fluctuations on the capital markets are to be provided in particular. Finally, details are to be given of any transactions with special types of investments. This includes in particular derivatives, structured products, hedge funds, private equity investments, asset-backed securities, credit-linked notes and commodities.

RISK CLASSIFICATION

BaFin generally takes a risk-oriented supervisory approach based on the undertaking's category in the risk classification. The audit frequency also depends on the risk classification; higher-risk undertakings are audited more frequently. The **risk classification is determined at least once per year in the supervisory team** and can be additionally reviewed on an ad hoc basis if necessary (e.g. if there is a significant change in the situation). It is determined using a structured process supported by special software and holistically incorporates all available information regarding the undertaking.

SUPERVISORY INTERVIEWS

Investment is a key topic in the supervisory interviews held with the IORPs. Moreover, comprehensive data and other information regarding IORPs' investments are collected as part of both regular information requests (in particular, projection calculations and reporting for intensified supervision) and ad hoc information requests.

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