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eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

IORP Stress Test 2017

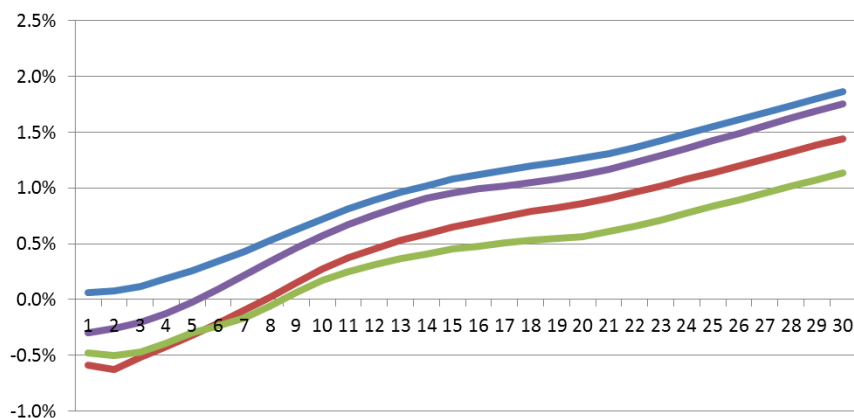
EIOPA Occupational Pensions Stakeholder Group meeting
Frankfurt, 28 February 2017

- Overview IORP stress test 2017 (compared to 2015)
 - One adverse market scenario for both DB and DC (compared to 3 scenarios for DB and 5 for DC in 2015)
 - Stronger emphasis on 2nd round effects on real economy - in particular on sponsors - and financial markets
- Does OPSG agree with EIOPA/ESRB to put more weight on analysing the effects on the real economy and financial stability?
- Does OPSG have suggestions for analysing the impact on the real economy and – in particular – sponsoring companies?

Macro-financial developments since 2015 stress test

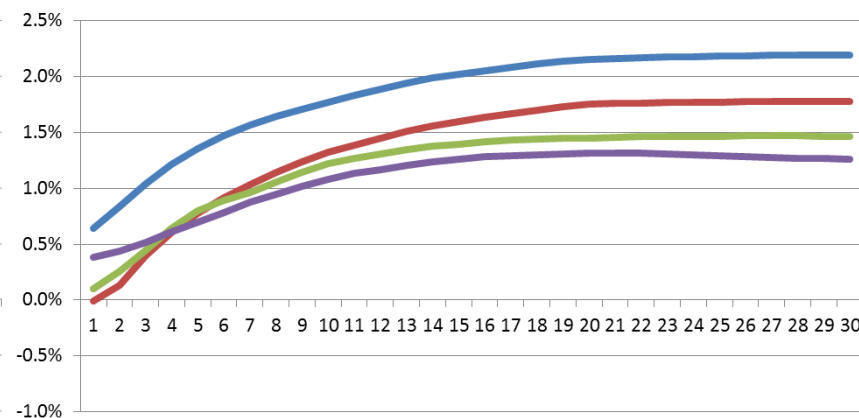
- Increase in world equity prices by almost 20% (euro) and nearly 30% (pound) between end-2014 and end-2016
- Decline in risk-free interest rate swap curve, particularly for British pound, between end-2014 and end-2016

EIOPA risk-free rate term structure, EUR



IORP ST 2015: Baseline end-2014 IORP ST 2015: Adverse scenario 1
IORP ST 2015: Adverse scenario 2 End-2016

EIOPA risk-free rate term structure, GBP



IORP ST 2015: Baseline end-2014 IORP ST 2015: Adverse scenario 1
IORP ST 2015: Adverse scenario 2 End-2016

➔ 2017 IORP stress test to assess vulnerabilities of pension funds considering current macro-financial reality and risks

- Scope both DB/hybrid and DC
- Objectives for both DB/hybrid and DC
 - Resilience of IORPs to adverse market scenario
 - 2nd round effects on real economy and financial stability
 - Smoothing of shocks over time by prudential mechanisms
 - Consequences of additional pressure put on sponsors
- ⇒ EIOPA conclusion in 2015 IORP stress test report (Jan 2016)
- ⇒ ESRB recommendation in low interest rate report (Nov 2016)
- Practical and proportionate exercise minimising burden and encouraging participation

- Market coverage
 - Ambition is coverage of at least 50% of assets
 - NCAs may choose to aim for 50% of assets (DB/hybrid) and 50% of plan members (DC)
 - Minimum threshold of EUR 500 million (19 countries):
 - AT, BE, CY, DE, DK, ES, FI, GR, IE, IT, LI, LU, NL, NO, PT, SE, SK, SI, UK
 - NCAs aim to achieve representative sample
- Exercise to be completed by participating IORPs
- No names of IORPs or data that can be linked to individual IORPs will be disclosed/published

- One ESRB adverse market scenario ('double hit')
 - o National balance sheet
 - o Common balance sheet
 - o Cash-flow analysis *new*
- Implications real economy and financial markets
 - o Absorption of shocks over time *new*
 - Qualitative description (national) smoothing mechanisms
 - o Impact on sponsors *new*
 - Compare sponsor support with measures of sponsor strength (like earnings, book and/or market value)
 - Qualitative assessment by IORPs
 - o Effects of investment behaviour on financial markets

- One ESRB adverse market scenario *new*
 - o Impact on IORPs' overall assets
- Implications real economy and financial markets
 - o Impact on retirement income DC members
 - outcomes three representative plan members
 - extrapolate to future retirement at IORP level *new*
 - o Effects investment behaviour on financial markets *new*

- 1st half April : Informal consultation with stakeholders
- Mid-May : Launch of stress test exercise
- June : EIOPA Q&A during exercise
- Mid-July : Submission of results by IORPs to NCAs
- Mid-July-end-Aug: National validation
- End-Aug–end-Sep: EIOPA validation
- Mid-Dec : Publication 2017 IORP stress test report