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Activity Report 2016 – 2018 of the EIOPA Occupational Pensions Stakeholder Group (OPSG)

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Executive Summary

EIOPA has two independent advisory bodies: the Insurance and Reinsurance Stakeholder Group (IRSG) and the Occupational Pensions Stakeholder Group (OPSG).

This document outlines the work of the OPSG during their 2.5-year term from March 2016 until September 2018.

1. Message from the Chair

Matti Leppälä
Chair of the OPSG

The mandate of the OPSG ran from March 2016 until September 2018. During that time the new IORP 2 directive was adopted and its transposition work proceeded with increasing speed, IORPs had to conduct their second European stress tests and Sustainable Finance became the next hot topic at EU level. The review of the European supervisory framework was pending and still is. The idea of a Pan-European Personal Pension Product resulted in a legislative proposal that was dealt with in detail also by the OPSG. The EU was still recovering from the Great Financial Crisis and the euro crisis, and some were considering whether pension funds could pose systemic risks or not. More information about pension funds is needed and the ECB and EIOPA adopted new reporting requirements. The list of topics the OPSG covered is long and very versatile. The actions of the new European Commission and the new European Parliament next year will be important for the direction pension issues will take.

I was happy to be elected Chair having been the vice-chair during the previous OPSG mandate. Bernard Delbecque, who was a new member of the stakeholder group, was elected Vice-Chair. I wish to thank Bernard for his excellent support and very active work in the OPSG and preparing the meetings. We both are very grateful for all the support EIOPA provided and the great participation of EIOPA management and experts for their excellent engagement and open exchanges with us. Especially we owe thanks to Giulia Conforti and Florian Ouillades from EIOPA. Giulia and Florian supported our work by organising the meetings and disseminating documents for comments and approval, Giulia in the beginning and Florian since early 2017 after Giulia moved to new challenges at EIOPA.

The OPSG adopted a Work Plan for mid-2016 – end-2017 and then later adjusted that to cover the whole mandate until September 2018. It was decided to establish three subgroups to prepare the work and draft the opinions and feedback statements that were discussed and endorsed by the full OPSG. I wish to thank the leads of the subgroups, Francesco Briganti for the Occupational Pensions subgroup, Alexandru Ciuncan for the Consumer Protection subgroup and Bernard Delbecque for the Personal Pensions subgroup.

In addition we established Work Streams and Working Parties to prepare specific topics. The hard work of the OPSG was done in these groups by the members and I wish to thank the leads of these groups, Falco Valkenburg, Michaela Koller, Charlotta Carlberg, Fieke van der Lecq, Stefan Nellshen, Francesco Briganti, Paul Kelly, Paul Cox, Alexandru Ciuncan, Guillaume Prache, Laure Delahousse, Raimond Maurer and Janwillem Bouma. There were big differences in how the members participated in the work. It is certainly due to many factors as some topics were of interest for nearly all and some for only a few. In many topics the members participated very actively and the good input is vital for good output from the OPSG. Of the various stakeholders of the OPSG the representatives of beneficiaries felt at times quite stretched as they felt that they were too few to deal with all various issues where the consumer point of view was needed. My warmest thanks to all members for your valuable work.

The previous OPSG recommended many different ways to improve the visibility of the OPSG as well as improve the impact of our work within EIOPA and increase our engagement with the European Commission and the European Parliament. These ideas did not materialise during our mandate. On the contrary we were unhappy with the fact that in most cases the involvement of the European Commission was very limited in our meetings and less transparent than it had been. It would be important that the European Commission has a good and open dialogue with the OPSG.

The co-operation with the IRSG was mainly on the ESA review. There was not much overlap in the topics of the two EIOPA SGs. On the ESA review there were co-operation and common letters in 2017 and 2018 together with the IRSG, and the SGs of ESMA and EBA. This was a good result but it was not a simple and easy process.

Matti Leppälä

Chair of the OPSG

1. The Occupational Pensions Stakeholder Group (OPSG)

1.1. Operation of the OPSG

The OPSG is as an independent advisory body to EIOPA and its main role[1] is to facilitate consultation with stakeholders in areas relevant to the tasks of the Authority in the field of pensions.

The group provides opinions and advice, at EIOPA's request, on issues relating to pensions and by responding to consultations with particular focus on regulatory technical standards, implementing technical standards, guidelines and recommendations. It also provides opinions on its own initiative and may submit a request to EIOPA to investigate an alleged breach or non-application of Union law by a competent authority.

The group consists of 30 members appointed by EIOPA's Board of Supervisors (BoS), who are individuals appointed to represent in balanced proportions Institutions for Occupational Retirement Provision (IORPs) operating in the Union, representatives of employees, representatives of beneficiaries, representatives of SMEs and representatives of relevant professional associations. At least five of its members shall be independent top-ranking academics. Ten of its members shall represent institutions for occupational retirement provision. Achieving a balanced composition within the group – in terms of nationality, gender, and representation of stakeholders across the Union – is crucial for ensuring a high quality contribution to the work of EIOPA.

The OPSG holds at least four meetings a year and adopts a work plan on a yearly basis linked with EIOPA's work programme. As far as possible, the Group adopts its opinions or reports by consensus[2].

1.2. Reporting, Transparency and Visibility

EIOPA publishes the opinions, feedback statements, reports and other advice of the Group, as well as the results of its consultations and meeting agendas, conclusions and presentations.

EIOPA provides feedback on each of the Group's opinions and indicates whether it has taken the Group's advice into account, giving reasons for EIOPA's position. This feedback is generally presented at meetings and circulated in the form of presentations. However, a more standardised approach of EIOPA's published comments or resolution templates is being envisaged for the next iteration of the group.

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[1] Set out in Article 37 of EIOPA Regulation.

[2] For more information please refer to the OPSG Rules of Procedures.

The Authority is also committed to make best efforts to give a high degree of visibility to the work of the participants of the Group in carrying out their tasks.

This Activity Report contains an executive summary of the opinions and reports[3], listing the main conclusions and recommendations, and is part of the OPSG's reporting and transparency requirements.

1.3. EIOPA's role in supporting OPSG activities

EIOPA provides support for the activities of the OPSG. EIOPA's Senior Management and Board of Supervisors (BoS) Members regularly attend OPSG meetings.

EIOPA staff provides general administration support in relation with the organisation of meetings (agenda, documents, minutes, etc.) or preparation of opinions. The Secretariat also monitors progress to ensure timely delivery of output and payment of expenses.

In addition to this, OPSG Members are invited to a number of EIOPA events to facilitate further interaction and understanding of EIOPA's activities and strategy.

1.4. Interaction with EIOPA's Insurance and Reinsurance Stakeholder Group

At least once a year a joint meeting with EIOPA's Board of Supervisors (BoS) and the Insurance and Reinsurance Stakeholder Group (IRSG) is convened to discuss matters of mutual interest. In addition to this, the IRSG and OPSG may decide by mutual agreement to share views or provide joint opinions on consultations or own initiative work. During this mandate, regular contact took place between both Stakeholder Groups especially on the topic of the Review of the European Supervisory Authorities (ESAs).

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[3] Under section 4.

2. Membership and organisation of the group[4]

Occupational Pensions Stakeholder Group Members

OPSG				Subgroups		
First Name	**Last Name**	**Representing**	**Country**	**Personal Pensions**	**Occupational Pensions**	**Consumer Protection**
Alexandru	Ciuncan	Beneficiaries	RO		✓	✓
Claudia	Menne	Beneficiaries	DE		✓	
Marianne	Moscoso-Osterkorn	Beneficiaries	AT	✓	✓	
Guillaume	Prache	Beneficiaries	FR		✓	✓
Tomas	Bern	Employees	SE	✓	✓	✓
Damien	Lagaude	Employees	FR	✓		
John	O'Quigley	Employees	IE	✓	✓	✓
Janwillem	Bouma	IORPs	NL	✓		
Paul	Brice	IORPs	UK		✓	
Francesco	Briganti	IORPs	IT	✓	✓	✓
Lukasz	Budzynski	IORPs	PL		✓	
Senka	Fekeža Klemen	IORPs	HR		✓	✓
Michaela	Koller	IORPs	DE	✓	✓	✓
Matti	**Leppälä (Chair)**	IORPs	FI			
Stefan	Nellshen	IORPs	DE	✓	✓	
Philip	Neyt	IORPs	BE	✓		
Kevin	O'Boyle	IORPs	UK		✓	✓
Charlotta	Carlberg	Professional Associations	SE		✓	✓
Laure	Delahousse	Professional Associations	FR	✓	✓	✓
Bernard	**Delbecque (Vice Chair)**	Professional Associations	BE	✓	✓	✓
Paul	Kelly	Professional Associations	UK	✓		
Sonia	Maffei	Professional Associations	IT	✓	✓	✓
Falco	Valkenburg	Professional Associations	NL	✓	✓	
Alf	Alviniussen	SMEs	NO	✓	✓	✓
Paul	Cox	Top-ranking academics	UK	✓	✓	✓
Zdeněk	Hustak	Top-ranking academics	CZ		✓	✓
Raimond	Maurer	Top-ranking academics	DE	✓		✓
Michael	Reiner	Top-ranking academics	AT	✓	✓	✓
Ján	Šebo	Top-ranking academics	SK		✓	✓
Fieke	van der Lecq	Top-ranking academics	NL	✓	✓	

3. Overview of the work

3.1. Occupational Pensions

3.1.1. Cross-border activities and cross-border transfers

[4] Michael Reiner replaced Giuseppe Corvino (Italy) as of 30 June 2017.

The OPSG responded twice to the cross border administrative issues. On 30 November 2016, the OPSG adopted a feedback statement about cross border authorization processes and the need to change the Budapest Protocol that regulates these processes. The Budapest Protocol is under revision because it is required in the Protocol itself, the new IORP II directive changes cross border rules and there have been problems in practice with the existing Protocol. The OPSG highlighted in the feedback statement these problems and gave suggestions about how the Protocol should be changed. The OPSG adopted an additional feedback opinion on 10 April 2018 about the Budapest Protocol, which commented on the planned revision of the Protocol and made further suggestions.

3.1.2. Risk Assessment and Transparency

On 13 January 2017 the OPSG published a Position Paper on EIOPA's Opinion to EU Institutions on a Common Framework for Risk Assessment and Transparency for IORPs.

The OPSG supports sound risk assessment and transparency which should be in line with the requirements of the IORP II Directive.

The OPSG raises the point that the risk assessment and transparency as the revised IORP Directive and EIOPA are suggesting go further than just the IORP if they aim to assess also the sponsor companies. Although the OPSG supports such a wider view in principle, further consideration is needed as this would relate directly to social and labour law which are a matter of the Member States and are not matters that are dealt with on a European Union level.

Occupational pension arrangements often have risks not fully taken by the IORP itself, but by the sponsor (e.g. sponsor support) and/or in certain cases by the members and beneficiaries (e.g. reduction of pensions). Given the huge variations in pension arrangements as well as in social and labour law and the fact that social and labour law is a matter of the Member States, a European common framework is not feasible and perhaps not even possible. The OPSG therefore proposed to develop European common principles for risk assessment and transparency instead.

The OPSG believes that risk assessment mainly based on a market-consistent balance sheet valuation as suggested by EIOPA is not the first thing that would come to mind. The risk of an IORP not meeting commitments is highly related to its cash-flows. The OPSG therefore believes that one approach, amongst others, to risk assessment is to have a good understanding of cash flows and to do analysis thereof. As this is the OPSG principal point of view, OPSG members decided not to comment on market-consistent valuation and proposed as one alternative an outline for an approach based on cash flow analysis.

The OPSG agrees with EIOPA that a risk assessment should require a quantitative assessment of some risks. Other risks could be assessed in a more qualitative way. The OPSG strongly believes that despite quantification of individual risks, it is the TOTAL risk that should be measured.

The OPSG believes Defined Contribution (DC) arrangements should be included in the scope. As the focus is risk assessment and transparency, the OPSG would envisage a similar DC risk framework on an individual basis dealing with risk of future outcomes.

The OPSG supports that risk assessment and communication of risk require a high degree of transparency about the employer's pension arrangement (of which the IORP is an integrated part), the investments and investment policies and the communication of relevant information related to the pension arrangement to members/beneficiaries.

Simplifications need to be explored and implemented in order to do the risk analysis in a more cost-effective way, especially for the smaller IORPs. Simplifications should in principle be such that the risk evaluation and transparency is reasonably expected to result in a similar risk evaluation (or perhaps somewhat more prudent) compared to applying the (theoretical) full approach.

3.1.3. Communication tools

The EIOPA Report on Good Practices on Communication Tools and Channels for communicating to occupational pension scheme members summarizes findings from a public consultation. The report is, according to EIOPA, to be used as promotion for transparency and as discussion for future discussions regarding the topic.

According to OPSG the Report is well balanced and brings forward relevant analyses, OPSG members also considered that the report should be reviewed regularly.

4.1.4. Pensions data

On 27 October 2017, the OPSG adopted an opinion about EIOPA and ECB consultations on pension data.

Both EIOPA and ECB will put in place new reporting requirements in order to get better and more detailed data about pension fund assets and liabilities. OPSG agrees that there is a need to have better, comparable and relevant information regarding occupational pensions in Europe. The OPSG emphasizes that the ECB, EIOPA, Eurostat, and OECD try to align their reporting standards for pension funds, the reporting will not become too burdensome and costly, that pension funds are not required to report directly to the ECB, but to the national authorities, that derogations may be granted to small pension funds and that the liabilities are reported based on existing national legislation.

4.1.5. IORP II and its implementation

On 2 May 2018, the OPSG published its paper on the IORP II implementation. The work stream had to deal with sensitive topics.

Indeed, the implementation of the new IORP Directive does not always represent an easy task for EEA States. Some provisions still appear unclear, such as the scope of the information requirements contained in the Pension Benefit Statement (PBS).

Some other provisions, like the ones on cross border activities of IORPs seem to improve these initiatives, but some clarifications are still needed: with this regard, the OPSG made also some proposals aimed at making some procedures easier and more standardized, in order to avoid uncertainty or unjustified roadblocks from some NSAs.

Even the role of EIOPA seems to need some clarification. Some provisions of the Directive where the Authority is explicitly called in (few, actually) were analysed by the OPSG in order to underline that those ones be properly consistent with its own mandate and tasks provided by the Regulation (EU) 1094/2010.

Finally, the last part of the paper includes an appendix, where peculiar issues encountered in some Countries in implementing the directive are described.

4.1.6. Financial instruments & Asset-Liability Management

On 15 January 2018, the OPSG approved a position paper on Financial Instruments and ALM. This paper constitutes a general advice to EIOPA and National Competent Authorities (NCAs) on how IORPs can establish Asset-Liability-Management (ALM) procedures fulfilling certain minimum tasks and how these procedures can be developed and implemented. Furthermore, the paper discusses the relation between investment strategies and risk management in an ALM context, and how certain financial instruments can be assessed within this framework regarding their suitability for investment within the respective pension institution.

Since the landscape of pension institutions within Europe is quite diverse and heterogeneous, there cannot be one “standard-ALM-formula-set” or one mathematical standard model. A “pan-European ALM-framework” can only mean a (principle based) methodological architecture, within which detailed mathematical formulas can be applied, which may be different for different pension institutions, so that all the specificities of each single institution can be covered in an adequate and proportionate way.

EIOPA should help in developing such “pan-European ALM-framework” in a way that EIOPA defines general principles, (non-binding) recommendations and principle based minimum requirements for an effective and sound ALM within all European pension institutions.

The position paper further concretely describes some possible standards and methodologies, which have proved to be working and efficient in this regard. As the pan-European supervisor, EIOPA should ensure that NCAs, who form an integral part within that framework, take sufficiently care, that the aforementioned “pan-European ALM-framework” is implemented in the respective member state. EIOPA can also give guidance to the NCA how to currently supervise the ALM-processes in the single IORPs.

The paper also describes, how a decision, which financial instruments and/or investment strategies an IORP should use or not, can reasonably be derived out of such an ALM framework.

3.2. Personal Pensions

On 27 June 2017, the European Commission published a legislative proposal on the pan-European Personal Pension Product (PEPP).

After answering to the EC public consultation on the PEPP in October 2016, the OPSG welcomed the EC latest proposal, while underlining that personal pensions can only be considered as complementary to existing public and occupational pensions. From this perspective, the success of the PEPP should be measured in terms of its capacity to encourage more people to save for retirement, without inducing a shift from second pillar to third pillar pension savings. In this context, the role of IORPs as long-term investors in capital markets should not be undervalued.

The OPSG considered it was not obvious that IORPs should be allowed to operate as PEPP providers given that the PEPP is a personal pension product which will be based on a contract between an individual saver and an entity on a voluntary basis. Whilst recognizing that the PEPP Regulation might confirm that IORPs can provide the PEPP, the OPSG stressed that IORPs should be able to continue to operate within the framework established by the IORP Directive.

The OPSG also made the following concrete recommendations:

1. The market potential for the PEPP will depend on the tax incentives that Member States will grant to the PEPPs. If the **tax incentives** on the PEPP contributions and the investment income are insufficiently attractive, in particular for those on modest incomes, the success of the PEPP will be very limited.

2. As long as the PEPPs will be subject to different national tax rules, the obligation to create national compartment for each Member State would be a strong deterrent for providers to enter the PEPP market. Hence, PEPP providers should be free to decide in which Member States they are able to offer the **portability service**.

3. The core features of the PEPP should be sufficiently harmonized to create a pan-European product to allow providers to achieve economies of scale. Member States should not be allowed to introduce too many national conditions to avoid limiting the level of **standardization** of the PEPP.

4. By empowering EIOPA to authorize the PEPP, **EIOPA** could contribute to ensure that high-quality standards are maintained for the PEPP across the EU. However, EIOPA will need to mobilize enough resources to undertake this responsibility, and the respective responsibilities of EIOPA and NCAs should be clarified.

5. It will be important that EIOPA monitor closely the impact of the agreed **distribution and information requirements** on consumer protection as well as on the level playing field between PEPP providers on the one hand, and between providers of PEPPs and of existing personal pension products providers, on the other. In this context, the "same risks, same rules" principle should apply to ensure a level-playing field between all providers offering PEPPs with minimum return guarantees and/or biometric risk coverage.

6. The PRIIPs Key Information Document could represent a starting point of reference. However, the **PEPP KID** will need to take into account the specificities of the PEPP, in particular concerning the definition of the risk indicator, the performance scenarios and the cost indicator.

7. The PEPP Regulation should not necessarily introduce mandatory **advice**, as the need for advice depends on the degree of complexity and riskiness of the product.

8. The **PEPP default option** could take the form of an investment option with either a capital guarantee or a de-risking life-cycle investment strategy. In this context, the OPSG recognized that the cost of a capital guarantee is high in the current low interest rate environment, in particular because of the current calibration of the Solvency II rules. Against this background, the OPSG called for an appropriate reform of these rules for all long-term liabilities of insurers to unlock the possibility of investing in long-term assets in order to reduce the cost of provision of guarantees. The OPSG also considered that PEPP savers should be well informed that life-cycle strategies do not guarantee any minimum rate of return.

9. Maximum **cost transparency disclosure** should be provided to PEPP savers to enable them to take all the costs and associated charges of the PEPP when deciding which PEPP to invest in. On a related point, information on **past performance** should be provided for a much longer period than five years when the investment option has been operating for more than five years.

10. The protection offered by annuities against longevity risks is particularly relevant where the public pension regime do not provide sufficient pension systems. At the same time, as personal situations of individuals and national practices differ, flexibility on **pay-out options** would result as the best solution.

11. While accepting the EC proposal to allow PEPP savers to switch the provider no more frequently than once every five years is a compromise, the OPSG highlighted the difficulty of determining objectively what would be the perfect compromise between the need to give providers enough flexibility to manage long-term investment in non-liquid assets and the importance of giving PEPP savers the possibility of switching when the provider is underperforming.

3.3. Consumer Protection

3.3.1. New technologies

Big data and Pensions

The OPSG issued on 15 March 2017 an Opinion on Big Data and Pensions. The Group welcomed the opportunity to respond to the EBA, EIOPA, and ESMA (the ESAs) on this Discussion Paper on the Use of Big Data by Financial Institutions and in particular on a number of specific questions.

The OPSG agreed with the definitions, scope and with the description of the Big Data phenomenon and stressed out that although it is difficult to foresee how things will evolve, the need for a level-playing field between financial institutions using Big Data processes and those not using them is paramount. Also, future developments based on new technologies (e.g. data mining or analytical tools) may have an impact on the entire value chain for financial institutions, including pension funds and insurance companies.

ESAs Report "Automation in financial advice"

The Report summarizes findings of the Discussion Paper (DP) on Automation in Financial Advice regarding the more and more common situation that advice is provided to consumers without, or very little, contact with persons. In the report seven preliminary conclusions, common for the whole financial sector, are stated.

According to OPSG it is important not only to note the similarities between the financial markets, but also the differences. The occupational pensions sector differs from the others, due to e.g. the responsibility of the employer, the involvement of the social partners and the many times extremely long saving periods.

3.3.2. Infrastructure

The OPSG responded to an EIOPA consultation on the request to EIOPA for further technical advice on the identification and calibration of other infrastructure investment risk categories (infrastructure corporates). While this consultation was not directly relevant to IORPs, the OPSG still shared its views as it recognised discussions on infrastructure investments may also be relevant to IORPs, for example in the context of risk assessment work.

The OPSG welcomed the efforts of EIOPA to define and identify infrastructure corporates as a separate risk category in the Solvency II framework. It highlighted that both insurers and pension funds are significant investors in infrastructure and that, in practice, infrastructure can take the form of either infrastructure projects or infrastructure corporates. The OPSG therefore invited EIOPA to include infrastructure corporates in the infrastructure asset class, in order to ensure a comprehensive definition.

In its response to the consultation, the OPSG also invited EIOPA to consider a tailored capital treatment of infrastructure in Solvency II or in the risk assessment framework for IORPs. The OPSG pointed out that infrastructure is an asset class which often shows significantly lower risks compared to other equity/corporate debt risks. The OPSG objected to EIOPA no longer recognising the actual exposure to default risk whereas when insurers invest in infrastructure, they are only partially exposed to market/liquidity risk, and are in fact largely exposed to credit/default risks of these assets.

The OPSG concluded its response by noting that once the definition used by EIOPA aligns the risk profiles of infrastructure corporates and infrastructure projects, then the same capital treatment should be applied to both in order to reflect the actual risks that investors face when deciding to buy these assets.

3.3.3. Costs and past performance

In 2015, the European Commission (EC) launched its Capital Markets Union (CMU) Action Plan. One of these actions was to ask the ESAs to work on the transparency of performance and fees of long term and pension savings products: « To further promote transparency in retail products, the Commission will ask the European Supervisory Authorities (ESAs) to work on the transparency of long term retail and pension products and an analysis of the actual net performance and fees, as set out in Article 9 of the ESA Regulations. » (European Commission’s CMU Action Plan, September 2015).

The OPSG had identified the disclosure of past performance and fees as an agenda item of its work programme, and therefore generally welcomed this initiative from the EC. As pointed out by the CMU Action Plan, this action will enable the ESAs, and EIOPA in particular to better fulfil their legal mandate “related to consumer protection” (article 9.1). The OPSG agrees that transparency of performance and fees should apply to occupational pensions as well as personal pensions.

The objective of the ESAs’ work should be to assess whether long term and pension products provide value for money, which is a concept that depends on a wide set of elements and the type of products. Therefore, the ESAs should base their work on appropriate methodologies depending on the type of products being considered.

In its recommendations, the OPSG insisted that the European Public Authorities should only use a consistent methodology applicable to all pension products, so that comparisons are meaningful and accurate.

Regarding performance, the OPSG pointed out that long-term retail and pension products are meant to be long-term. Therefore, returns should be shown over a long period of time.

Concerning costs and fees, the OPSG recommended that the ESAs use a consistent definition and scope for all long term and pension savings products.

Finally, it is worth noting that some members believed that due to their nature as a social contract between employer, employees and social partners, occupational pension products would be missing typical characteristics of consumer financial products and services. Hence, they believe it should be carefully considered, where such common disclosure rules would make sense and where they would not.

3.3.4. Consumer Trends Reports

During the course of this mandate, the OPSG submitted three Feedback Statements to the EIOPA Questionnaire on the Consumer Trends Report.

The respective documents were approved and issued on 17 July 2016, 15 May 2017 and 5 April 2018.

The OPSG was asked to give input on the trends in the areas of consumer protection that Members have observed in the previous year, explaining how the demand and/or offer for occupational and personal pension plans and products has increased / decreased / remained unchanged, during the previous year. In addition to this, every EIOPA Questionnaire brought different topic to the attention of the OPSG, such as financial advice, financial innovation, digitalisation, new products and distribution channels and many others.

The input provided by the group was taken on board by EIOPA together with data collected from Member States, National Competent Authorities and other relevant sources for identifying trends, including consumer organizations.
Over the course of the mandate, members of the OPSG appreciated the constant development and evolution of the EIOPA Consumer Trends Report as mentioned on several occasions.

3.3.5. Sustainable Finance

The OPSG decided to issue this feedback statement to the European Commission's Action Plan "Financing Sustainable Growth", adopted on 13 June 2018, and the EC Action Plan "Financing Sustainable Growth", issued on March 8, 2018, for two reasons:

- Because the ESA's (including EIOPA) will be charged with the task to monitor how financial institutions deal with risks of an environmental, social, or governance nature. The ESA's themselves have to take such risks into account in their own work as well;

- Because the EC Action Plan contains several recommendations that are - directly or inter alia - addressed to pension funds.

The OPSG welcomes initiatives by the European Commission (EC) to support the financial sector in facilitating sustainable growth. Since pension investments tend to be long term oriented, they are useful for transforming short term perspectives to risk and return into long term perspectives. Thereby, pension investments can contribute to the transition towards sustainable finance.

In its feedback statement, the OPSG made several comments on aspects of the EC Action Plan. While some initiatives are considered helpful, others may bring along practical problems. In particular with respect to the duty for boards to gauge the preferences of their plan members, the OPSG flags difficulties. It encouraged EIOPA to collect other practices that serve this goal, without forcing pension plans' boards to do surveys.

The OPSG recognizes that the situation with respect to sustainable pensions and investments differs substantially across the EU member states. For instance:

a. in some member states, pension funds have to report on their ESG investments, while in other member states this is not mandatory;

b. there are cases of 'greenwashing' in which investment funds claimed to be ESG superior, while in fact their composition and performance was not sustainable;

c. attempts to gauge plan members' preferences for sustainable investment were not successful yet, in some cases due to the intrinsic problems of preference measurement and in other cases due to financial illiteracy of plan members

d. in some member states, pension plan members don't seem to care about sustainability. This poses a dilemma to the boards of trustees, who hold a fiduciary duty towards their plan members.

Given the variety of situations in the member states, the OPSG's remarks on the EC Action Plan do not always represent the full OPSG point of view. By implication, a differentiated approach may have more impact than a harmonized approach in terms of enhancing the sustainability of pension investments. Still, some minimum standards as well as an operationalization for the entire Internal Market may be helpful. A taxonomy is part of such operationalization.

In May 2018, the European Commission published four legislative proposals to follow-up on its 'Action Plan: Financing Sustainable Growth'. The OPSG commented proposals on taxonomy and investor duties. A good taxonomy, which defines the different element of sustainable investing can be helpful for pension funds but it should take a holistic view and integrate the "E", "S" and "G" pillars of sustainable finance. Furthermore, it should not lead to prescriptive restrictions or obligations to invest or not to invest in some assets. It is also crucial that the taxonomy and the rules based on it understand and take into consideration the fact that sustainable investing is done in many different ways from negative screening and exclusion to best-in-class approach, engagement and impact investing. The OPSG doesn't support the proposal to open up IORP II directive and include delegated acts in ESG issues.

3.3.6. Funded pensions contribution to growth and employment

The OPSG worked on this topic in the summer 2018 and in August a draft position paper "Sustaining old age income by enhancing supplementary pensions" was presented for comments. The aim was to contribute to the development of good pensions across Europe by proposing some responses to the challenges that are on the table, with the aim of providing generic ideas and suggestions as input to discussion at EU level and national level, in particular to contribute to the work of the new High Level Group of Experts on Pensions, which the European Commission established. The scope of the draft position paper was broad as it aimed to cover issues such as trends, changing working life and life style, policies, legislation as well as supervision, future structure of the European Union and of its institutions and authorities and developments in economics and investments, including Sustainable Finance (ESG). As the mandate of the OPSG was coming to the end it became clear that there was insufficient time to properly debate these issues and to come up with a position paper that would reflect the views of the OPSG.

3.4. Financial Stability

4.4.1 IORP Stress Test

On 16 February 2018, the OPSG approved a position paper on EIOPA Occupational Pensions Stress Test 2017.

The OPSG appreciates the execution of a stress test for the largest European IORPs in order to assess the impact of – especially economically - adverse scenarios to the pan-European landscape of occupational pensions taken as a whole. Conducting such stress tests with a suitable methodology may give valuable additional insight for supervisors, the board of an IORP, its sponsor companies and - if communicated in a suitable extent and fashion (e.g. as part of the obligatory risk communication according to IORP-II-directive) – the beneficiaries.

The OPSG clearly advised EIOPA to stay with its activities on a macro-prudential level and to leave regulatory measures regarding single IORPs to the national competent authorities. On the one hand, the OPSG gave very specific comments regarding the methodology of the stress test, such as the criticism on the Common Methodology approach, the preference of a cash-flow-based analysis which further would have to be developed and enhanced, the recommendation not to assess sponsor companies (which realistically cannot and must not be done), the questioning of the stress scenario chosen ("double-hit-scenario"), the existing difficulties and problems in the context of determining the market value of sponsor support and the appreciation of simplifications achieved incl. the omission of SCR-calculations.

Nevertheless the OPSG believes that the whole exercise is still too complex, especially for small IORPs which would also be needed as participants in order to get a representative picture. On the other hand, the OPSG values and comments the results, where especially problems regarding representativeness are seen.

Although no conclusions for single IORPs and countries can be drawn out of the aggregate results (since they fluctuate too much), the deficit figures published are influenced to a large extent by the UK and would look much better, if the UK were taken out. In order to analyze potential spill-over effects into the real economy much more macro-economic research would be necessary.

The OPSG advised EIOPA to avoid a parallel run of Common Methodology and cash-flow-analysis in the future and encouraged EIOPA to develop the latter further. The OPSG would be glad to help EIOPA in the latter issue as well as in considerations, how ESG aspects can be integrated into the stress test exercise, although the OPSG thinks, that it would be more than problematic to introduce ESG-factors (e.g. different stress parameters for assets depending on the criterion, if they obey to a pre-defined ESG-filter or not), because the definition of ESG criteria is always highly individual and subjective.

4.4.2 EIOPA's Financial Stability reports

Every June and December, EIOPA issues its Financial Stability Reports. The OPSG decided to respond annually via a Feedback Statement, to start with the December 2016 Report. Since the points made by the OPSG still seemed valid in 2017, the OPSG decided not to respond to the December 2017 Report.

The feedback statement to the EIOPA Financial Stability Report of December 2016 discusses both micro stability and macro stability. Micro stability has to do with the financial health of individual pension funds and IORPs. Their investment decisions, whether market or regulation driven, may impact the stability of the economy as a whole, especially if the pension assets in total are large as compared to a country's GDP. This macro stability could gain more attendance in a next issue of the EIOPA Financial Stability Report.

Pension funds are less of a challenge in terms of financial stability than are other financial institutions, such as banks. They don't exploit leverage, they only use derivatives for hedging purposes, and they have a long duration. In those member states where pension funds are very large and so they could possibly represent a systemic financial risk, a cut of benefits may be allowed so that they can prevent insolvency, and consequently said systemic financial risks. Still, their masses of assets make it relevant to monitor them, and study their impact on macro stability.

In a next report, attention could be paid to the structure of the pension sector in the member states. If there are many small ('atomistic') pension funds, then systemic risk ('too large to fail') is less likely than in a heavily concentrated pension funds sector.

The OPSG found that the Financial Stability Reports by EIOPA contain only facts and figures about pension funds and their investments, but lack any analysis with respect to pension funds and financial stability. Therefore, the OPSG encourages EIOPA to work on such analysis. The Feedback Statement provides a line of thought into that direction.

4.4.3 Review of the European Supervisory Authorities

The OPSG set up a workstream dedicated to the European Commission's proposal in the context of the ESAs review. The outcome of this workstream was:

- An OPSG Response to the European Commission's public consultation on the Operations of the European Supervisory Authorities submitted on 24 May 2017.
- An OPSG Opinion on European Commission's proposal in the context of the review of the European Supervisory Authorities approved on 13 June 2018.

Moreover, this was also the basis for two joint letters co-signed by all four Stakeholder Groups (SGs) on the aspects of the proposal relating to the SGs role and mandate.

The OPSG welcomed the proposed enhancement of the SGs role and mandate, although there were concerns that with the power to challenge guidelines and recommendations, the SGs slip from an advisory to an oversight function. The OPSG also regrets the lack of increase in transparency around the way its input informs EIOPA's decisions. In this respect, it recommends that the EIOPA:

- provide detailed feedback to the OPSG when its suggestions are not taken onboard; and
- offer the SGs Chairs regular opportunities to speak directly to EIOPA's Management/Executive Board and/or Board of Supervisors.

Regarding the ESAs powers and tools, the OPSG generally welcomed the ESAs efforts towards supervisory convergence, by documenting best practices and setting harmonised standards rather than direct intervention powers, and cautions against a "one size fits all" approach which is particularly inappropriate for occupational pensions.

The OPSG called on EIOPA to focus on developing guidelines where it is mandated to do so, and limit own-initiative guidelines to cases where they are duly justified in the context of its mandate. The OPSG noted the proposal was likely to lead to an increase in the use of direct requests for information from supervised entities by ESAs. Existing safeguards should therefore be maintained, and governance improved. The OPSG is also critical of the possibility for EIOPA to recommend that NCAs withdraw decisions already taken, which undermines the principles of subsidiarity and legal certainty. On these aspects of the proposal, the OPSG recommends that:

- European institutions and Member States be given a broader role in holding EIOPA accountable for all actions exceeding its legal mandate or competences; and
- ESAs be allowed to exchange the data of financial institutions rather than doing their own surveys and reporting, in the interest of efficiency (and reducing costs).

Regarding the supervisory architecture and the governance, the OPSG welcomed the fact the proposal maintain EIOPA as a stand-alone authority, responsible for both prudential and conduct of business. However, the OPSG believes the proposal increases the powers and independence of the ESAs without adequate control mechanisms.

On the proposed governance changes, the OPSG welcomed the selection and appointment of Executive Board members by the European institutions as well as the addition of permanent members. However, in line with the principle of subsidiarity it is important for these changes not to dilute the power and influence of NCAs, where ESAs should support them in fulfilling their role.

There were also concerns about the increase of the Chairperson's powers, which, if adopted, would include the assignment of tasks and roles within the Executive Board as well as a casting vote where a simple majority cannot be reached. The proposal fails to increase oversight accordingly. Moreover, the proposal excludes the Board of Supervisors from more areas than is necessary.

Finally, there was a variety of views expressed in the OPSG regarding the funding of ESAs. There was a consensus on the need for an improved cost/benefit prioritising of the use of available resources, an improved cooperation between ESAs, as well as stronger focus on the principle of proportionality to help reduce the strain on costs.

4. Conclusions/Recommendations

4.1. Conclusions

1. OPSG encompasses also PEPP even though it is a personal rather than occupational pension. On the other hand the OPSG doesn’t cover the issues relevant for the existing personal pensions as they are administered mainly by insurance companies and belong to the IRSG or other financial market entities that are covered by ESMA or the EBA. It would be good to clarify the OPSG mandate in personal pensions in the EIOPA Regulation.

2. A major part of the OPSG work is based on own initiative work. This is partially due to the fact that the IORP II Directive does not include delegated acts as Solvency II does and thus there is not the same need to consult the OPSG on regulations. The resulting difference between the two SG’s work is fundamental.

3. On the other hand there are topics that are the same for both, such as Big Data or Fintech. On these issues increased co-operation between the SGs might be useful.

4.2. Recommendations on what and how the OPSG should work

1. When assessing how the structure adopted in the Work Plan with subgroups, work streams and working parties and additional groups, some members were of the opinion that it had been too complicated and at times also confusing. An alternative could be to organise the work in specific projects and thus have a simpler plan and get started quicker in the beginning of the OPSG mandate.

2. Transparency is an area where there is room for improvement. EIOPA should consult and seek the views of the OPSG more openly and disclose the relevant documents. The OPSG is an internal body of EIOPA and bound by confidentiality and thus this should not be a problem. Wider transparency would be in the interest of EIOPA and it should in the future consult the OPSG as early as possible.

3. The role and scope of own initiative work has proven to be unclear. In the adopted work plan the OPSG confirmed that it would draft an opinion on the data requirements of the ECB. In practice EIOPA didn’t support this idea and the OPSG could not proceed as planned and this led to some confusion. It would be important that when the OPSG is adopting its work plan and agrees to do own initiative work in relation to other institutions, such as the ECB or the EC, or other European institutions, EIOPA would explain its possible concerns at that time and thus enable the OPSG to carry out smoothly the adopted work plan.

5. Annexes

5.1. List of publications

Date	Publications
03.09.2018	OPSG Opinion on Implementing the European Commission’s Sustainable Finance Action Plan: Legislative proposals
13.06.2018	OPSG Opinion on the European Commission’s proposal inthe context of the review of the ESAs
13.06.2018	OPSG Response to European Commission’sAction Plan: Financing Sustainable Growth
01.06.2018	Joint ESAs Stakeholder Groups letter on the Review ofthe ESAs
02.05.2018	OPSG Position Paper on the implementation of the IORPII Directive
10.04.2018	Feedback opinion about Budapest Protocol
05.04.2018	OPSG Feedback Statement to EIOPA Questionnaire on the Consumer Trends Report 2018
16.02.2018	OPSG Position Paper on the EIOPA Occupational Pensions Stress Test 2017
15.01.2018	OPSG Position Paper on Asset Liability Management (ALM) and Financial Instruments
08.12.2017	OPSG Position Paper on European Commission’s proposal for a regulation on a Pan-European Personal Pension Product (PEPP)
17.11.2017	OPSG Position Paper Transparency of Performance, Costs and Fees (Capital markets union action plan)
27.10.2017	OPSG Opinion on EIOPA and ECB consultations on pension
05.10.2017	OPSG Opinion on the ESAs’ report on automation in financial advice
15.09.2017	OPSG Feedback Statement on EIOPA Financial Stability Report December 2016
15.06.2017	Joint Statement by ESAs Stakeholder Groups on EC public consultation on the operations of the ESAs
16.05.2017	OPSG response to European Commission’s consultation on the Operations of the ESAs

15.05.2017	OPSG Feedback Statement to EIOPA Questionnaire on the Consumer Trends Report 2017
15.03.2017	OPSG Opinion on Big Data and Pensions
26.01.2017	OPSG Feedback Statement on Good Practices on Communication Tools and Channels for communicating to occupational pension scheme members
16.01.2017	OPSG Position Paper on Risk Assessment and Transparency for IORPs
30.11.2016	OPSG Feedback Statement on the review of the Budapest Protocol
03.11.2016	OPSG Response to the EC Consultation on Personal Pensions Additional information about OPSGs point of view on personal pensions
15.07.2016	OPSG Feedback Statement to EIOPA Questionnaire on the Consumer Trends Report
16.05.2016	OPSG response to CP on infrastructure corporates (EIOPA-CP-16-005)

5.2. List of acronyms

ALM Asset-Liability-Management
BoS Board of Supervisors
EBA European Banking Authority
EC European Commission
ECB European Central Bank
EEA European Economic Area
EIOPA European Insurance and Occupational Pensions Authority
ESAs European Supervisory Authorities
ESG Environmental, social and governance
ESMA European Securities and Market Authority
IORP Institution for Occupational Retirement Provision
IRSG Insurance and Reinsurance Stakeholder Group
KID Key Information Document
NCA National competent authority
OPSG Occupational Pensions Stakeholder Group
PBS Pension Benefit Statement
PEPP Pan-European Pension Product
PRIIPs Packaged retail investment and insurance products
SG or SHG Stakeholder Group