EIOPA-OPSG-18-02
16 February 2018

EIOPA Occupational Pensions Stress Test 2017

Position Paper

by the EIOPA Occupational Pensions Stakeholder Group (OPSG)

Contents

Introduction

This position paper is prepared by EIOPA Pension Stakeholder Group (OPSG) as a response to EIOPA's technical specifications for the European stress test for IORPs and its published results. This submission is prepared by a working group, discussed in OPSG plenary meetings and approved unanimously by the OPSG on 16 February 2018.

Executive Summary

I. The OPSG in general 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. We furthermore believe, that conducting such stress tests with a suitable methodology may give valuable additional insight for the board of an IORP and its sponsor companies (if any). Since the IORP-II-directive prescribes the duty of IORPs to carry out risk assessments and to make certain results public, some of the tress test´s results, as far as they describe risks, which are borne by the beneficiaries, may also be provided to the beneficiaries in the scope of this risk assessment and in accordance with the IORP-II-directive.

II. However, the OPSG stresses that EIOPA is neither entitled to define any regulatory consequences nor to take any regulatory actions against any single IORP, since this is completely within the tasks of the National Supervisory Authorities (NSAs). In this context EIOPA should urge NSAs to deliver complete data to EIOPA which is needed to derive a true and fair picture about the robustness of occupational pensions in Europe and the NSAs in the member-states should have the legal powers to force participants to deliver the information needed. Furthermore it could be reasonable, that as a quality control measure NSAs carry out , on a sample basis, audits of the data furnished by IORPs to ensure that the data is complete and accurate and to furnish to EIOPA a report on these audits, so that EIOPA can assess the level of confidence which EIOPA can have in the data submitted.

III. The OPSG appreciates, that EIOPA puts into question the Common Methodology and the Holistic Balance Sheet as being the only reasonable stress test framework and that EIOPA is open to test a cash-flow-analysis based approach in parallel. We will elaborate further in this paper, why in many cases a cash-flow-based approach has some advantages compared with any approach, which is valuation-based (such as the "Common Methodology"; see below). Here the OPSG refers also to its "position paper on EIOPA's Opinion to EU Institutions on a Common Framework for Risk Assessment and Transparency for IORPs". However, the OPSG regrets, that initially it did not become transparent from the Technical Specifications, how the comparison between the IORP´s cash-flows and the current assets, which has been performed by EIOPA, would concretely be done. Also today EIOPA only declared that this kind of cash-flow-analysis shall be further enhanced, but no concrete envisaged specifications have been given yet. Such Specifications would be essential and should be discussed within the OPSG.

IV. The OPSG emphasizes, that such parallel run of two different methodologies cannot be permanently done in the future, since it would mean an inadequate und undue workload and costs for the affected IORPs, especially the smaller one; and apart from some funds in the UK and the Netherlands, IORPS are of relatively small size regarding volume of assets and the size of their organization incl. IORPS having only less than 20 employees and / or less than 25 million € in assets. Here, after some testing of the two methodologies in 2017, a general consultation within the OPSG should be taken which way to follow in the future.

V. The purpose pursued by EIOPA through pan-European stress tests is justified by getting the knowledge of the global state of play of funded pensions all across Europe and their combination. This information is necessary to assess the level of coverage of workers and its robustness, and the part of it which is provided by sponsors. It is important to be able to follow how it evolves and to assess its resilience too, years after years. Moreover, facing the risk of future insufficiency of pay-as-you-go-pensions schemes and voluntary individual plans, the collection of maximum of information from that prospective could really be of added value. Notwithstanding, the OPSG strongly believes, that there should be in general no concrete assessment of the impact of the stress scenarios on sponsor companies. The OPSG thinks that EIOPA is neither authorized nor competent to do so. Most sponsor companies are belonging to industries, which are very different from the insurance industry. And it is already well known, that a serious assessment of the financial strength of e.g. a utility company differs with respect to its methodology very much from a corresponding assessment for e.g. a pharmaceutical company – and a fortiori for an insurance company. This is by the way also the reason why professional rating agencies have different methodologies – and, hence, different analysts as well as valuation methodologies – for different industries. We strongly doubt, that it would be doable, to produce a serious and comparable analysis, how the occurrence of stress scenarios would impact the financial strength of the sponsor companies in the different industries. Therefor it is just not possible to draw serious conclusions regarding this issue. Furthermore sponsor companies, which are not insurance companies themselves do not fall under any regulation by EIOPA. Hence EIOPA has no mandate to assess their financial strength beyond that information, which is publicly available anyhow. Also, any publication of information (which is not public anyhow), how certain stress scenarios impact the financial strength of a sponsor, could have detrimental effects in the case, that the sponsor company is listed on a stock exchange, and hence must not be published at all. An assessment of the IORP's sponsor by EIOPA may lead to sponsors opting for unfunded solutions or insured solutions and as such distort the pension market. Ultimately this can lead to sponsors no longer providing defined benefit pension plans and as such have further impact on the pension adequacy which is already now in danger. In its current report EIOPA did only describe second round effects resulting out of the stress scenario in a more qualitative and general fashion. The OPSG strongly believes that because of the argumentation above a more concrete serious approach regarding such effects on sponsor companies is just not doable and hence should not be done. However, an assessment on what the meaning is for the IORPs and as well for the members/beneficiaries would be very useful and important. We also note that often industry wide pension plans do not have a fixed relation to one sponsor company, since many employers in an industry contribute, and pension entitlements may outlive employers.

VI. Given the triangular relationship of beneficiaries, employers and the IORP, individual results of the stress tests will be shared and discussed within the decision making bodies of the IORP itself, which is a fiduciary duty of any IORP. Information will be shared with the beneficiaries in case an IORP has no sponsor support at all. Also if the stress test shows significant risks of benefit reductions – after having taken into account legally enforceable sponsor support and pension protection schemes - the members/beneficiaries should be informed in an appropriate way, which can also be done in the frame of the communication of the IORP´s risk assessment according to the IORPII-directive. This communication should give a true and fair picture regarding the beneficiaries´ risk but should also avoid any misunderstandings and undue concerns on the beneficiaries´ side. In all other case it's the proper governance of the IORP and in last resort up to the plan sponsor who made the pension promise either via individual or collective labor agreement and this in line with social and labor law and the social dialogue at the level of the sector or company.

VII. Although there is only one stress scenario defined in the stress test and although there are certain simplifications made by EIOPA compared to the last stress test , which the OPSG also appreciates, there is still a relatively high level of complexity in the stress test, especially with regard to a proper assessment of the value of sponsor support and with regard to the fact, that a whole holistic balance sheet according to the common methodology (except for the calculation of solvency capital requirements) has to be put up for the base case situation and the stress scenario. From this perspective the time for conducting the stress test, which is just two months, seems to be a bit too short. The feedback, which some members of the OPSG received from participating institutions, suggest, that a more generous timeframe could definitely help to improve the quality of the results and potentially also increase participation. The OPSG also recommends to avoid that such an exercise is to be done during the vacation season.

VIII. A comment by the OPSG on results of the stress test and their interpretation can be found in the last chapter of this paper.

Some specific comments on EIOPA stress test

1. If it is planned to use the stress test designed by EIOPA in the future regularly, most of the relevant IORP´s should be in a position to perform this analysis without any significant complications. In this stress test it was aimed by EIOPA to cover roughly 50 % of all IORP´s assets. However in some countries (e.g. in Germany), this threshold can easily be met by including a relatively small number of very large IORP´s. However, in order to get comprehensive insights into the financial stability of the system of occupational pensions taken as a whole, it would also be necessary to include a larger number of smaller IORP´s. Hence, just including 50 % of assets and some additional "representative" participants bears the danger, that results and experiences out of this exercise are in fact not sufficiently representative. Only including also a larger number of smaller IORP´s can give an impression, to what extent they are really able to perform the assessment without any severe problems or undue costs. However, for any smaller IORP, the administrative burden of performing a stress test is likely to be disproportionate, so that it might not be realistic, that such smaller IORPS are able to participate if the level of complexity of the stress test is not significantly reduced. We leave it up the assessment of the NSA's, because they are familiar, with the pension designs and types of scheme risks of the variety of IORPs they supervise.

2. The OPSG believes that it generally makes sense that DC IORPs and IORPs without any plan sponsor have to assess the impact of the adverse market scenario on the market value of assets recognising that all risks are borne by the members. The last sentence does not apply to industry wide plans, which can raise contribution levels in case of stress, also for the employers in their industry. Analysing how the adverse market scenario might impact the

retirement income of three different types of representative scheme members seems to be a practical way to illustrate the risk from a beneficiary´s point of view.

3. The OPSG puts the so called double hit scenario into question. It is in reality hardly possible, that (risk-free) interest rates for the valuation of liabilities decrease while all valuation relevant yields on the asset side including (almost) risk-free interest rates, such as very high rated government bond yields, are assumed to increase (and together with them all rates for spread products). Therefore, the OPSG advocates the use of plausible stress scenarios and time-horizons for recovery. They may be unlikely (tail event) but should be logically feasible at least.

4. The data, that would have to be collected in order to determine a value for sponsor support (including determining the "maximum sponsor support"), should be publicly available for larger companies, especially for stock listed companies, in their annual reports. For non-listed companies this type of information is often very difficult to access or even not accessible at all for IORPs. IORPs can make rough estimates based on the information available, but the outcome of these estimations might be very questionable. In addition, the problem remains, that industry wide or other multi-sponsor-IORPs e.g. an IORP with several thousands of very small sponsor companies, would have immense difficulties to put this data together and that even the grossing up proposed by EIOPA for such cases (see 3.43 in the Technical Specifications) is not an appropriate way to derive reliable data of sufficient quality with an adequate workload. We want to stress that just given the micro and small size of IORPs in some markets, the multi-sponsor IORPs, could grow fast by increasing the number of their sponsors in order to gain efficiency. A further point is, that at some points of the determination of the value of sponsor support subjective estimates (done by the IORP) have been necessary (e.g. % of proper capital available for supporting the IORP). The application of the balancing item approach is often not a very big reduction in workload for the IORP, since it has to check beforehand, if the preconditions for this approach are given and in that context it has to calculate the maximum value of sponsor support and to estimate the 1-year default probability of the sponsor.

5. For the OPSG it seems a bit inconsistent to the common methodology approach, that in the cash-flow-analysis the value, i.e. the cash-flows resulting out of future sponsor support should not be taken into account as an asset. The OPSG believes that this is needed for a holistic picture, especially from a beneficiary´s point of view. Especially, when it is publicly available (cfr. 4), it should by definition be considered as an asset.

6. In general it initially did not become transparent from the Technical Specifications, how the comparison between the IORP´s cash-flows and the current assets, which has been performed by EIOPA, would concretely be done. The OPSG would appreciate, if EIOPA entered into further consultation with the OPSG, how the cash-flow-analysis part can reasonably be enhanced (e.g. by including also components like sponsor support and further ALM-related aspects).

7. The OPSG very much appreciates, that the 2017 stress test does not include the calculation of a solvency capital requirement or a standardised risk assessment.

8. For the OPSG it is questionable, whether the treatment of deficit positions as resulting in a corresponding reduction of member´s benefits (so that the Holistic Balance Sheet most probably will not show any financial gaps) does not take away some transparency regarding the results.

9. The OPSG very much appreciates, that in case of using simplifications it is not necessary to quantify the degree of model-error. In this context the OPSG welcomes, that having "reasonable assurance", that the model error resulting out of the simplification is not material, is sufficient to justify the simplified approach.

10. Please note, that in single cases it can be very difficult (and burdensome) to properly derive future trends for mortality rates as it is required for the projection of cash-flows in the calculation of the best estimate for technical provisions. This is especially the case, if an IORP is not working with a cohort based mortality table, but with a mortality table (accepted by the competent NSA), in which the single one year probabilities of death do only contain some estimated security buffer for covering some kind of future mortality trend.

11. Since in some cases it will be unrealistic to make the best estimation calculation separately for each single beneficiary ("insurance contract"), the possibility for a homogeneous grouping of contracts is definitely needed and hence very much appreciated by the OPSG.

12. The OPSG is still convinced that the application of a risk margin based on a cost of capital approach in many cases does not adequately map the real life situation of IORPs. This is especially true for those countries, where the majority of IORPs are non-for-profit organizations which do not have to earn any cost of capital. In such cases, the change compared to the last stress test, that the risk margin is zero in case of an excess of liabilities over assets, does not go far enough.

13. It does not seem completely plausible, to assume generally, that in cases, where employers AND employees can be required to make additional contributions, the credit risk associated with employee contributions is the same as the one associated with their employers. However, due to a lack of better knowledge regarding the credit quality of the single employees, a better concrete recommendation for estimating the beneficiaries´ credit quality cannot be given. But due to the fact, that on the one hand´s side the beneficiary owes certain (future) contributions but on the other hand´s side the IORP owes future benefits to the beneficiary, the question arises, whether it is reasonable to put the employee´s contributions under credit risk at all. So, it would be preferable to include an employee´s contributions into the calculation without any deduction for credit risk.

14. In general, the OPSG very much appreciates the fact, that the whole valuation of sponsor support is to a certain extent principle based and gives the IORPs some degree of freedom to choose the most appropriate model.

15. The OPSG however still does not believe that a valuation based approach like the "Common Methodology" is the right approach for conducting a pan-European stress test. In several

earlier papers[1] the disadvantages of this approach have been already highlighted and described in detail. Hence, only a short summary regarding this issue can be given here:

a) The Common Methodology is a one-periodic model based on mark-to market valuation conventions, from which the results are heavily depending.
b) Hence, if used as a steering instrument for IORP´s or if any conclusions from an interpretation of the figures shall be drawn, the Common Methodology delivers only short-term-oriented signals and allows short-term-oriented interpretations which contradict to the long-term nature of an IORP´s business. Long-term compensation effects over time cannot be assessed in such a framework, although they are highly important for the long-term-oriented business nature of IORP´s.
c) EIOPA should be aware of the following fact: No IORP gets into financial difficulties just for the reason, that some kind of marked-to-market holistic balance sheet shows a certain financial gap at one certain point in time. Financial problems, which trigger negative consequences for beneficiaries (and/or employers) can only arise out of two circumstances. Either on a short term horizon the IORP is not able to pay the guaranteed (or expected, as the case may be) benefits. This would be more an issue of liquidity risk, which is not explicitly assessed in the stress test at all. Or on a longer term perspective it is highly probable, that the IORP at some point in the future is not able any more to pay the (guaranteed or expected) benefits, when they are due, because the IORP is running out of money. The latter risk can better be assessed in a multi-periodic cash-flow-oriented stress-test-approach.
d) It is much more problematic to include national or individual specifics of an IORP into such a framework than e.g. in a more flexible cash-flow-oriented approach (see also below).
e) Also the solidary and collective character of an IORP´s business as well as IORP-specific funding and financing measures, such as certain streams of additional financing by sponsor companies over a longer period of time, are much more difficult to integrate adequately into the model.
f) If there is only one valuation after a shock event, it is nearly impossible to model, how an IORP and the related stakeholders (beneficiaries, employers, governing bodies etc.) most probably will react over time and which implications this might have.

Hence, the OPSG generally prefers a **principle based, long-term-oriented and cash-flow-based approach** for a pan-European stress test. The underlying principles governing this methodology have to offer enough freedom and flexibility to the single IORPs performing the calculations to correctly build all the national and individual specifics into the model (including actuarial valuation principles, national supervisory law, agreements with sponsor companies etc.). The OPSG further suggests, that there might be also IORPs, for which such a long-term cash-flow-based methodology might not be the optimal framework. Here there has to be enough flexibility to apply an alternative more suitable model.

---

[1] e.g. OPSG POSITION PAPER ON EIOPA'S OPINION TO EU INSTITUTIONS ON A COMMON FRAMEWORK FOR RISK ASSESSMENT AND TRANSPARENCY FOR IORPS, 13 January 2017

16. Since in some countries there are also national stress tests to be carried out, any pan-European stress test should be designed in a way, that its results do not give rise to too much contradictory interpretations and steering signals, nor disfunctionally high administrative burden. Here EIOPA should very closely analyse already existing stress tests (in those countries where they already exist) in close dialogue with the respective NSAs.

17. Last but not least it must be possible also for smaller IORPs to perform this stress test with adequate workload and without incurring significant additional costs, which in the end would have to be borne either by beneficiaries or by employers and hence make the respective occupational pension system less attractive . In this regard the proposed methodology in certain points still seems to be too complex (see above).

General Comments on the alternative approach based on cash flow analysis

The following arguments are pretty much along the lines of argumentation, that the OPSG used in its “position paper on EIOPA’s Opinion to EU Institutions on a Common Framework for Risk Assessment and Transparency for IORPs” (see also this document).

1. Assessing the impact of economically adverse scenarios in an IORP, as in any other business activity, is about evaluating the consequences of such scenarios with regard to the capability of the institution to meet is commitments respectively the consequences on benefit levels and/or (employer´s and member´s) contributions from such an event. The commitments for an IORP can be of various sorts, depending on what the stakeholders have agreed. However, the most important consequence from a member´s point of view is that after an adverse shock the IORP is not able to fulfil its commitment to pay the promised pensions, or the pensions, that members expected to get, to members/beneficiaries of the pension scheme when they become due.
2. Measuring these impacts, is therefore an exercise which is highly related to cash flow risk, and not the risk related to the value of assets and liabilities.
3. The business activity of IORPs, like any commercial businesses, is characterised by flows of incoming and outgoing cash. Each of these flows may have inherent uncertainties such as interest rate levels, FX rates, counterparty uncertainty, property rental prices, dividend payments, member/beneficiary life expectancy and the expected annual adjustments of pension payments etc.
4. The total cash flow of a business unit may be split into main cash flow elements in a not too granular fashion. Here the OPSG believes, that it is sufficient to include the following cash-flow-components:
    a) Member´s contributions
    b) Employer´s contributions (incl. potential deficit contributions)
    c) Current asset gains
    d) Benefit payments
    e) Costs

With these components it should be possible to model the development of the whole IORP and to create sufficient visibility of all the effects and mechanisms, which are relevant for analysing an IORP´s resilience against adverse scenarios and to take also national and individual specifics sufficiently into account. The OPSG considers it being appropriate just to distinguish between cash-inflows and cash-outflows in the analysis as was done in the Technical Specifications.

5. Describing cash-flows and to bring it all into a model should be feasible for more or less every IORP. The key is to understand the IORP´s business and to connect cash flow modelling with modelling the profit and loss accounts and a balancing balance sheet. Especially larger IORPs already have some sort of modelling of business activities, and the real issue is to combine information in several existing models into one. By doing so a platform for better understanding of the business is created, a platform which can also be of invaluable support for making business decisions.

6. The decisive question for an IORP providing benefits within a DB scheme is: will it always be able to pay all benefits in the guaranteed amount at that point in time, when they become due? Will it be able to annually grant beneficiaries the promised adjustment of benefits, if any, to cover inflation or meet general wage increases? If not, what benefit reduction would beneficiaries have to suffer in case of an adverse stress test scenario? Which increase in contributions would members and/or sponsor companies have to pay in case of an adverse stress test scenario? These are the core questions of the pension scheme underpinned by a combination of responsibilities of the IORP, the sponsor and benefit reduction mechanisms - and not, for example, guaranteeing that certain valuation-depending funding levels are met at certain points in time even in certain stress scenarios, irrespective if the underlying cash-flows are due or not. This differentiates IORPs principally from insurance companies. Hence from the OPSG´s point of view any stress test should primarily address these questions, which are much more important than questions dealing with valuation issues (the latter are in the focus of the stress test according to the Common Methodology).

7. Each IORP, also the smaller ones, has available a schedule of its planned future cash-flows resulting from contributions, benefits and costs - otherwise an actuarial valuation would not be possible. In this cash-flow-schedule all specifics of the respective IORP and its legal environment can be sufficiently taken into account. In case of a fixed population of beneficiaries (i.e. without an assumption of new members entering the scheme), which is not too small, the development of cash-flows resulting from contributions, costs and benefits, can be projected with a relatively high reliability, if adequate mortality assumptions are used. Hence, the only relevant risk factor in this context is biometry, especially longevity. As a consequence these cash-flow-components should behave relatively stable in any cash-flow-model, before taking biometrical risks into account. On the other hand, starting with the current asset base, the future investment income and the future development of assets can be projected under given capital market assumptions. One can therefore easily determine the consequences with regard to the key questions mentioned above in case of certain adverse capital market (and biometry?) scenarios.

8. Adverse scenarios defined by EIOPA for stress test purposes have to be realistic, that means that shock parameters should be in a size, that could already be observed in practice an "bad periods of time". Unfortunately this was not the case for the double hit scenario used in the latest stress test. There should also be the possibility for IORPs to calculate also one alternative scenario using assumptions, which the IORP feels to be most realistic. In order to

take a holistic view on the full scheme, also protection mechanisms like payments resulting out of sponsor support, a pension protection scheme or benefit reductions should be included as risk mitigating factors to the outcome from the IORP cash flow model.

9. The probability of a default on the sponsor's side should be outside the scope of a stress test for the IORP. The risk of the sponsor not meeting commitments should be given as a general risk assessment of that sponsor, i.e. as a credit rating or a general credit risk evaluation given by a neutral 3rd party.

10. The OPSG believes, that in general a cash-flow-analysis-based methodology might have several fundamental advantages: One main advantage is, that it is free from any valuation conventions, especially the from the choice of a certain discount rate. Different interest rate curves used for the valuation of liabilities are suitable to analyse and assess different questions, and we strongly believe, that there is not only one "right" curve describing the reality in full. By just modelling cash-flow-streams (without having to discount them) and assessing, whether the IORP is always in the financial position to pay the promised respectively expected benefits, when they become due, or – if not – how much reduction in benefits or in contributions does result from that in the stress scenarios, such valuation decisions and problems become obsolete and can hence be avoided in an elegant manner.

11. One further fundamental advantage is the flexibility of that approach, which really allows integrating all specific aspects of a pension scheme and its legal environment into the modelling.

12. Also this methodology is able to differentiate certain developments over the time axis: It makes an important difference, if an IORP in a certain scenario gets into financial difficulties in the nearer or in the farther future. Also certain effects, that do exist on the time-axis (e.g. recovery developments over time in case of partial under-funding, pull-to-par-effects in interest-sensitive-positions etc.) may become visible in a cash-flow-analysis, that would not be possible to see in a pure valuation based approach (like in the Common Methodology). By knowing the exact scenarios (and their development over time) one can also examine, what the concrete future developments are, that would trigger financial difficulties to the respective IORP. This could also help identifying suitable strategies mitigating such effects.

Comments on the published Results

1. EIOPA reported that it did not reach the intended participation rate of 50% in terms of total assets. One reason for this is seen by EIOPA in inadequate supervisory powers in certain jurisdictions. The real overall participation rate has been about 39%. The OPSG believes that, although significantly influenced by especially the weak UK participation rate, this coverage cannot be seen as being representative for the whole landscape of IORPs throughout Europe especially given the fact, that in many member states typical smaller institutions have not been included into the stress test exercise (since they were felt to be not needed for reaching the target coverage). Also EIOPA reports that in the presentation of the stress test results the European aggregate, which "reflects the decomposition of the sample", differs "significantly from the composition of the overall European IORP sector". Due to this lack of

representativeness one should be more then cautious when interpreting the figures of the stress test and drawing conclusions out of them.

2. The OPSG believes that the “double hit scenario” which has been defined as the only stress scenario is not realistic. It is in reality hardly possible, that (risk-free) interest rates for the valuation of liabilities decrease while (almost) risk-free interest rates, such as very high rated government bond yields, are assumed to increase (and together with them all rates for spread products). Hence from this point of view the overall deficit (without sponsor support and benefit reductions) in the common balance sheet (CBS) of 38 % after the realization of the adverse scenario seems to be exaggerated. In this context the OPSG reiterates its advice to use plausible stress scenarios and take middle to long term recovery scenarios also into account. As already stated before, they may be unlikely (tail event) but should be logically feasible at least.

3. Furthermore it should be noted, that the (relatively low) European aggregate pre stress deficit on the “national balance sheet” of 3 %, which is reported, only results from three countries: the UK, the Netherlands and Cyprus. But especially in the UK a national regulatory law is in place, which foresees temporary underfunding in combination with a system of recovery plans and deficit contributions. This means, that IORPs and sponsor companies develop their strategies and conduct their business in a way, which actively takes this underfunding possibility into account.

4. In this context it should be mentioned, that the already existing pre-stress deficit in the CBS of 20 % is also to a large extent driven by the figures for the UK and is additionally mainly caused by the fact, that valuation conventions have been applied, which differ from national valuation rules. Additionally for the OPSG it deems not appropriate, just to compare the discount rates used according to national valuation standards against the risk free interest rate. Here we find the all too familiar, almost philosophical valuation discussion again! Although a risk free valuation curve generally can of course be argued, there are also many arguments for using discount rates being in line with expected asset returns. Since this conflict is nearly impossible to be completely solved, the OPSG made this general problem very transparent in its position paper on EIOPA’s Opinion to EU Institutions on a Common Framework for Risk Assessment and Transparency for IORPs (EIOPA-OPSG 17-02) and recommended generally to prefer a cash-flow-analysis based approach rather than a valuation based approach such as the CBS methodology.

5. EIOPA reports, that the internal rate of return (IRR), which is needed so that all future unconditional benefits can be paid with current financial assets, is at 2.1 % and hence 0.3 % points higher than the effective risk-free rate. The OPSG believes, that this difference is not inadequately high, because in reality IORP´s do not invest on a risk free basis only and hence are able to earn some risk premiums on average over longer periods of time (although this difference looks quite different for some single countries). If we look at the adverse scenario, this IRR increases to 2.9 %, but one should note, that in that case we are in a world, where also risk premiums in capital markets (which can be earned in the future) have increased!

6. Notwithstanding the comments made in the last three paragraphs the OPSG points out, that the pre and post stress deficits as well as the needed internal rate of return (also on a pre and post stress level) differ in some cases considerably from country to country and may even more differ from each other, when it comes down to the level of single IORPs. So, from the aggregate figures mentioned in the last three paragraphs and also the aggregate figures for the single member states shown in the Stress Test Report no valid conclusions can be made regarding the financial situation of single IORPs. It is within the responsibility of the competent NSAs to have a closer look on that and to draw the corresponding conclusions.

7. In order to measure the effect of sponsor support on the sponsor companies EIOPA compared (where applicable) the value of sponsor support in the CBS with the market value of sponsoring companies. The OPSG believes that this comparison does not tell too much about the ability of the sponsor of being able to provide the necessary support when it is needed, because the market value might be lower or higher for many reasons which might have nothing to do with its strength to generate sufficient cash.

8. Regarding potential spillover effects into the real economy EIOPA uses a very unspecific and general line of argumentation which is not based on any concrete results of the stress test itself. It goes without saying, that benefit reductions may mean less consumption in the future and that money which sponsors have to spend to support an IORP are not available for long term operative investments (into research, machines etc.) and that both effects will put a burden on future Gross Domestic Product. EIOPA did not say anything about how severe such effects as consequences of the stress scenario would be. In order to do this much more macro-economic research would be necessary, e.g. regarding the question of the GDP-multiplier for (less) operative investments of sponsor companies.

9. A similar point holds for the stipulated potential effect on financial stability. As was argued in the OPSG Feedback statement on the EIOPA financial stability report (Dec.2016) the potential effect may be substantial in some member states. More research into is warranted in order to specify the possible impact of stressed IORPs on financial stability.

10. From EIOPA´s report it seems to become clear, that EIOPA intends to further develop and extend the cash-flow analysis part. The OPSG in general welcomes this idea, since it in general recommended in its position paper on EIOPA's Opinion to EU Institutions on a Common Framework for Risk Assessment and Transparency for IORPs (EIOPA-OPSG-17-02) to prefer a cash-flow-analysis based approach rather than a valuation based approach such as the CBS methodology. The general advantages have been stressed also in the third chapter of this paper. However, the OPSG stresses very clearly, that conducting a stress test exercise using two different methodologies (cash-flow-analysis and CBS) in parallel would mean an undue burden for many IORPs – especially smaller ones. Here one should at some point in time decide which route to follow.

11. The OPSG stresses, that it will be of utmost importance that IORPs integrate environmental, social and governance (ESG) aspects into their asset management considerations. However, there can be no general view about what is sustainable and what is not (e.g.: Should one invest into US government bonds, where in some federal states people are still sentenced to die? Should one invest into green biotechnology? Etc.). Additionally it is more than

problematic to derive any objective facts which would allow an estimate about the consequences for the value of certain assets resulting out of climate change, although analysts increasingly aim to take such factors into account (e.g. stranded assets). Hence, no absolute prescriptions should be made about which assets to invest into. And also there should be no quantitative integration of ESG factors into the stress test.

12. In general, the OPSG suggests reporting the stress test results on both levels, with and without the UK, so as to provide continuity of data series in the near future.

13. Some members of the OPSG feel that EIOPA drew too strong conclusions from the stress test and that especially the wording within EIOPA's press release is much less balanced than in the detailed report itself. Such members feel that they cannot support the key messages in the press release, especially regarding the stated insufficiency of assets and the stipulated potential difficulties of sponsor companies.