

Consultation paper on draft opinion on supervision of liquidity risk management of IORPs

Fields marked with * are mandatory.

Responding to the paper

EIOPA welcomes comments on the Consultation Paper on the draft Opinion on the Supervision of Liquidity Risk Management of IORPs.

Comments are most helpful if they:

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

Please send your comments to EIOPA using the EU Survey tool **by Friday, 20 December 2024, 23:59 CET** by responding to the questions below.

Contributions not provided via EU Survey or submitted after the deadline will not be processed.

Publication of responses

Your responses will be published on the EIOPA website unless: you request to treat them confidential, or they are unlawful, or they would infringe the rights of any third party. Please, indicate clearly and prominently in your submission any part you do not wish to be publicly disclosed. EIOPA may also publish a summary of the survey input received on its website.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents and EIOPA's rules on [public access to documents](#).

Declaration by the contributor

By sending your contribution to EIOPA you consent to publication of all non-confidential information in your contribution, in whole/in part – as indicated in your responses, including to the publication of the name of your organisation, and you thereby declare that nothing within your response is unlawful or would infringe the rights of any third party in a manner that would prevent the publication.

Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725. More information on how personal data are treated can be found in the privacy statement at the end of the public consultation document.

Remarks on completing the survey

EU Survey supports the last two versions of Microsoft Edge and the latest version of Mozilla Firefox and Google Chrome. Using other browsers might cause compatibility issues.

After you start filling in responses to the survey there is the option to save your answers. However, please note that the use of the online saving functionality is at the user's own risk. As a result, it is strongly recommended to complete the online survey in one go (i.e. all at once).

Should you still proceed with saving your answers, the online tool will immediately generate and provide you with a new link from which you will be able to access your saved answers.

It is also recommended that you select the "Send this Link as Email" icon to send a copy of the weblink to your email - please take care of typing in your email address correctly. This procedure does not, however, guarantee that your answers will be successfully saved.

You will have the possibility to print a pdf version of the final responses to the survey after submitting it by clicking on "Download PDF". You will automatically receive an email with the pdf file. Do not forget to check your junk / spam mailbox.

About the respondent

* Please indicate the desired disclosure level of the responses you are submitting.

- ☒ Public
☐ Confidential
☐ Partly confidential

* Stakeholder name

Occupational Pensions Stakeholder Group (OPSG)

* Contact person (name and surname)

[REDACTED]

* Contact person email

[REDACTED]

Contact person phone number

[REDACTED]

Questions to stakeholders

Q1: The draft Opinion aims to be consistent with the FSB's proposed policy recommendations to enhance the liquidity preparedness of non-bank market participants. However, the draft Opinion covers all sources of liquidity risks within its scope rather than only liquidity risk relating to margin and collateral calls. Do you agree that the draft Opinion takes a comprehensive approach to liquidity risk of IORPs?

- ☒ Yes
☐ No

Please explain.

Liquidity risk is one of the most fundamental risks for IORPs, which can – if not properly managed – have detrimental impact on the pension institution and its beneficiaries. Hence, supervision should take a comprehensive approach to liquidity risks of IORPs. This means to take all relevant sources of liquidity risk into account, because derivative instruments (e.g. margin and collateral calls for derivative instruments) are definitely not the only possible source of that kind of risk. In some countries within the EU, derivatives are really even a minor source of liquidity risk for IORPs. Other risk sources result generally from unsecure cash-inflows from investments (e.g. interest, maturity payments, dividends etc.) or contributions and unexpected cash-outflows (e.g. due to unplanned exercises of payout-options, earlier or higher than expected payments to real estate project developers etc.).

Q2: Do you agree with the definitions of 'liquidity risk' and 'material liquidity risks' in paragraphs 3.1 and 3.2?

- ☐ Yes
☒ No

Please explain your answer and provide any suggestions to improve the definitions.

Generally, the definitions make sense. In 3.1 the OPSG proposes to make the following amendment: "Liquidity risk is defined as the risk that IORPs are unable to provide sufficient cash and/or to realise investments and other assets in order to settle their financial obligations when they fall due or are able to do so only because of forced sales of assets at depressed prices" This amendment would especially make clear, that of course also often payment requirements are served by using also available cash and cash equivalents without having to sell strategic investments or assets. The definition in 3.2 seems a little bit vague. What is concretely meant with "... may jeopardise the stability and soundness of IORPs and the protection of members and beneficiaries"? Is the protection of members and beneficiaries jeopardized, when e.g. the realization of such risks probably results in benefit reductions? Or what is the concrete criterion here? The OPSG would recommend to sharpen this definition a bit.

Q3: The draft Opinion specifies that NCAs should gather relevant derivative data to assess liquidity risk exposures of IORPs. Are you aware of any issues or obstacles for IORPs:

	Yes	No
- in collecting derivative data from asset managers to monitor and assess liquidity risks in relation to margin and collateral calls?	<input checked="" type="radio"/>	<input type="radio"/>
- in reporting relevant derivative data to NCAs?	<input type="radio"/>	<input checked="" type="radio"/>

Please explain the issues or obstacles for IORPs in collecting derivative data.

In some European countries, e.g. in Germany, IORPs already report data to the NCA with regard to directly held derivatives. Regarding derivative instruments used within fund mandates, usually fund lists, which are produced by asset managers contain also a list of all derivatives within the respective fund mandate. However, from such lists, the risks of additional margin or collateral calls may not be easily derived. Therefore, more sensitivity measures for the single derivatives in the portfolio (i.e. against potential changes in price of the underlyings, e.g. deltas for options) would have to be provided by the managers. These are normally not contained in the fund list already today (at least not in Germany). Including these data would mean extra effort – and extra cost. In order to avoid this, the OPSG recommends to use uniform estimated standard assumptions for such sensitivity factors, which can be defined on the basis of some “market average” by EIOPA. Although it is recognised that such data collection practices could enhance the supervision and monitoring of liquidity risk, we are skeptical as to whether all NCAs possess the expertise and resources to adequately assess such risks in a meaningful way that fosters member/beneficiary protection and enhances the financial stability of IORPs. In order to ensure that the implementation of such processes is beneficial, an assessment of local supervisors’ capability to process them is important before they are asked to give input to EIOPA regarding the estimate of “market averages” in their country.

Q4: The draft Opinion envisages a two-step approach. IORPs should first assess whether they are exposed to material liquidity risk and, if so, integrate liquidity risk in their system of governance and risk-management system, including an assessment in their own-risk assessment (ORA). Do you agree with this two-step approach?

- ☒ Yes
☐ No

Please explain.

The OPSG agrees with this approach. Since liquidity risk very much depends on the individual IORP (its obligations, its tradition of using derivatives, cashflow-patterns of its investments etc.), the ORA is the right place to deal with this issue.

Q5: The draft Opinion provides in paragraph 3.6 suggestions for possible sources of liquidity risk that IORPs are exposed to. Are you aware of any other sources of liquidity risk that should in your view be explicitly addressed?

- ☒ Yes
☐ No

Please explain your answer.

Liquidity risk may not only result from cash-outflows, but also from the cash-inflow side. Because even if cash-outflows occur exactly as they have been planned by the IORP, unexpectedly low cash-inflows (e.g. from investments or contributions) can theoretically trigger a liquidity shortage. The OPSG recommends an amendment of 3.6 in this regard. It should be noted, that liquidity risks can occur without the realization of any type of market risk. Therefore, liquidity risk cannot be reasonably assessed by using valuation based risk assessment techniques (e.g. the Common Methodology). However, market risk can cause liquidity concerns in case of a sharp devaluation of assets, so that they cannot be sold at a price sufficient to cover liquidity needs.

Q6: Do you agree that IORPs with material liquidity risk exposures should establish a contingency plan to deal with liquidity stress, as expected in paragraphs 3.8-3.10?

- ☐ Yes
☒ No

Please explain why not and provide any suggestions on what other measures IORPs would put in place.

The OPSG does not see any benefit in creating an additional formal document describing how to deal with liquidity shortages. Such disposition decisions belong to the normal tasks of investment teams and people running the IORP anyhow. Additionally, liquidity strengthening measures (e.g. the decision, which assets should additionally be sold) very much depend on the circumstances and specific situation in which they have to be implemented. Hence, they usually cannot be concretely planned in advance. However, pension plans must have governance structures and procedures in place allowing the IORPs management to take immediate action with regard to generating liquidity in emergency situations.

Q7: The draft Opinion provides in paragraph 3.12 that IORPs should define their own liquidity risk indicators for day-to-day risk management. Subsequently two examples of commonly used risk indicators (liquidity coverage ratio & excess liquidity indicator) are suggested. Are you aware of any other liquidity risk indicators that are commonly used by IORPs?

- ☒ Yes
☐ No

Please explain.

IORPs e.g. can calculate for any future point in time how much additional assets can be monetized until that point in time at a certain confidence level regarding the price, which can be achieved. This could reasonably be used instead of the "contingency plan" proposed in Q6.

Q8: Do you agree that IORPs with material liquidity risk exposures should establish and maintain a clearly defined liquidity risk tolerance statement approved by the management or supervisory body of the IORP, as expected in paragraph 3.14?

- ☐ Yes
☒ No

Please explain why not and provide any suggestions on alternative practices used by IORPs.

No, because existing risk tolerance statements should already cover this issue sufficiently. In addition, it should be mentioned that usually the strategic asset allocation (SAA) already should provide for a certain percentage of cash serving as a liquidity buffer. Also, the amount of highly liquid assets can be seen within the SAA. Together with the liquidity risk information in the ORA this determines automatically the liquidity risk tolerance and should in this case therefore be used instead of an additional formal statement. Since the management of an IORP usually decides the SAA (eventually together with a supervisory body), it knows the liquidity risk tolerance and would choose a different SAA, if it feels that this level of risk tolerance is too high. Moreover, sources of material liquidity risk should already be defined and assessed within the fund's risk management policy and during the Own Risk Assessment exercise, including consideration of liquid assets available under stress scenarios. A separate statement (document) for this is not necessary and would only contain redundant information.

Q9: The draft Opinion prescribes in paragraph 3.15-3.16 that IORPs should regularly review and update their liquidity risk-management system. What would in your view be appropriate triggers and minimum requirements for such a review?

A review should be done if the management of the IORP discovers, that new sources or forms of liquidity risk have arisen, which are not covered by the currently existing liquidity risk-management system. Additionally, a significant breach of chosen liquidity risk indicators or deterioration in the ability of the scheme to meet its obligations could be potential triggers. The ORA could also be informative with respect to the assessment of specific stress scenarios that may provide insights into potential improvements that can be applied to the risk management system for liquidity risk.

Q10: Do you agree that IORPs should perform stress tests and scenario analysis covering all material sources of liquidity risk, and assess the impact of a range of severe, but plausible liquidity stresses, as expected in paragraphs 3.17-3.20?

- ☒ Yes
☐ No

Please explain and provide any suggestions on the proposed minimum requirements for the stress tests and scenario analysis.

Generally, yes. Since the obligations of different IORPs very much differ from each other, which is also true for the investments and hence the whole set of possible cash-in- and -outflows, it is difficult to define concrete requirements for uniform stress scenarios which would make sense for all IORPs. However, we agree that the basis for such an assessment should be the projection of pension fund incoming/outgoing cashflows. The sensitivity of assumptions from the scheme's actuarial valuation (for DB schemes) can provide insights into some potential events (e.g., early withdrawal, cash commutation etc.) and their relative impact, allowing the selection of stress scenarios which are relevant to the scheme's risk profile. Generally, one can say, that such stress scenarios should be pessimistic, but still plausible in a way so that they can in practice occur. Cash-outflows can be assumed to occur earlier and in higher amounts (but still in line within a realistic frame, e.g. within the frame of possible payout options for benefits) and cash-inflows which are less secure should be reduced accordingly in such a scenario. Due to the high level of heterogeneity of IORPs, their structure of obligations, their asset allocations and their use of derivatives any regulatory approach should be principle based in this regard.

Q11: Do you agree that IORPs should maintain an adequate buffer of liquid assets to cover any shortfall of incoming relative to outgoing cash flows, also under severe but plausible stress conditions, as expected in paragraphs 3.21-3.23?

- ☒ Yes
☐ No

Please explain and provide any suggestions on the conditions imposed on the liquid assets in paragraph 3.22 and 3.23.

A certain operational minimum liquidity makes sense and is (due to our experience) held by IORPs anyhow. However, this buffer does not need to cover the most severe stress scenario. Because in that case liquidity (cash and cash-equivalents such as e.g. highly liquid, very short-term government bonds of best credit quality) in the SAA may get such a high weight, that it dilutes investment returns to an unacceptable extent. Additionally, securities of financial institutions can also be considered as a reliable source of liquidity, if the credit quality of the respective security/issuer is sufficiently high. This should be done in a conservative and careful consideration applying adequate haircut adjustments (which may also depend on credit quality of the issuer/security) as noted under paragraph 3.23 to reflect the possibility of a lower sale price for such assets.

Q12: Do you agree that IORPs with material liquidity risk exposures should periodically test their liquidity contingency plan through simulation exercises in order to ensure operational readiness, as expected in paragraphs 3.24-3.26?

- ☐ Yes
☒ No

Please explain and provide any suggestions on the conditions imposed on the periodical testing.

Please refer to the answer for Q6.

Q13: To prevent operational lags in fulfilling margin requirements, do you agree that IORPs should ensure that investment funds to which IORPs have outsourced the management of derivative instruments should hold sufficient buffers of liquid assets to cover margin calls in times of market stress?

- ☒ Yes
☐ No

Should this apply to all outsourced derivative arrangements or only a specific subset, considering for example segregated accounts/mandates versus multi-client/pooled funds and AIF versus UCITS funds?

- ☐ all outsourced derivative arrangements
☒ only a specific subset

Please explain.

Generally, yes. However, in case of multi-investor funds, it will often not be possible for an individual IORP to ensure a certain minimum liquidity buffer within the fund's assets (due to the limited influence a single IORP has in this constellation). In case of segregated accounts/mandates a liquidity buffer should exist in the

(relative) amount of the general operational liquidity buffer mentioned in the answer to Q11. Such aspects can operationally be governed within the investment guidelines of the respective mandate, so that no lengthy discussions and decision processes are needed in the case, that additional liquidity needs to be generated.

Q14: Do the expectations put forward in the draft Opinion achieve a proportionate approach to liquidity risk management of IORPs?

☒ Yes

☐ No

Q15: Do you agree that the Impact Assessment in Annex I provides a balanced view of the costs and benefits of the relevant policy issues in the draft Opinion?

☐ Yes

☐ No

Please explain and provide any suggestions.

Q16: Do you have any other comments on the draft Opinion / consultation paper?

☒ Yes

☐ No

Please provide these other comments.

In pensions, the nature of liquidity risk may vary substantially between DC and DB pension schemes. Therefore, the varying nature of liquidity risk based on the type of pension fund could be recognised in the guidance provided for the implementation of EIOPA's opinion. Additionally, pension schemes with different maturity (young vs mature schemes, net seller vs net buyer) may have different liquidity risk profiles and different thresholds for liquidity indicators, risk tolerances and triggers. Although we are not advocating for tailored made guidance for each scheme profile, the above considerations could be listed or referenced, to support different IORPs understand what is expected of them in the management/supervision of liquidity risk. But anyhow or follows from these considerations that any supervision by EIOPA or a development of best practices, standards and minimum requirements should be on an abstract level and principle-based.

Contact

[Contact Form](#)

