

# REVIEW OF THE IORP II DIRECTIVE

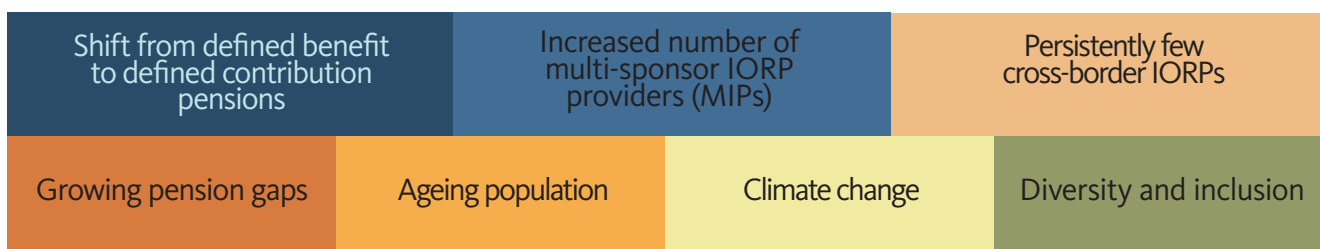
## EMBRACING THE FUTURE. PROTECTING THE LEGACY.

Institutions for occupational retirement provision (IORPs) have an essential role in providing adequate and sustainable pensions, reducing pension gaps and preventing old-age poverty. In addition, as long-term institutional investors with almost three trillion euro in assets, IORPs are an important source of capital for the European economy to finance inclusive and sustainable growth.

The IORP II Directive aims at ensuring that occupational pensions are sound and pension scheme members and beneficiaries are well protected.

However, the pensions sector experiences changes such as the shift from defined benefit (DB) to defined contribution (DC) and an increased number of multi-sponsor IORPs set up by commercial service providers. At the same time, economic and societal changes, including an ageing population, the growing pension gap, climate change and diversity and inclusion have a direct impact on occupational pensions as a whole.

With its technical advice on the review of the IORP II Directive, EIOPA aims at ensuring that IORPs remain relevant and are able to adapt to a changing world.



### EIOPA'S APPROACH TO THE IORP II REVIEW



#### Embracing the future

The advice proposes changes so that the regulatory framework for IORPs stays relevant. This includes the shift to defined contribution pensions, and environmental as well as socio-economic factors, like diversity and inclusion.



#### Protecting the legacy

The advice recognises the need for existing DB IORPs to be properly regulated and supervised, with appropriate monitoring of solvency risks through EIOPA's common framework for risk assessment and transparency and the sound management of liquidity risks.



#### Preserving minimum harmonisation and ensuring proportionality

The advice aims at striking a balance between further convergence and preserving the minimum harmonisation character of the IORP II Directive. The advice contains proposals to enhance proportionality of existing regulation and considers proportionality in the recommendations for new standards.

## KEY FEATURES OF EIOPA'S ADVICE

### 1 GOVERNANCE AND PRUDENTIAL STANDARDS

- › Proportionality: increase the threshold for small IORPs to give member states more flexibility in applying proportionality
- › Enhance the management and prevention of conflicts of interest arising from the relationship between IORPs and service providers and require those who run IORPs to have knowledge of the specific risks of their IORP
- › Empower all national supervisors to collect regular quantitative data from IORPs

### 2 CROSS-BORDER ACTIVITY AND TRANSFERS

- › Include prudential assessment as part of the registration or the authorisation process of IORPs, as well as continuous supervision to improve the functioning of the internal market
- › Define the majority of members and beneficiaries or their representatives needed to approve cross-border transfers
- › Explore possibilities beyond the IORP II Directive to develop the internal market for occupational pension provision

### 3 INFORMATION TO MEMBERS AND BENEFICIARIES

- › Encourage digital information provision without excluding vulnerable groups
- › Enhance the information for members exposed to investment risk: transparent costs and further information on past investment performance and pension projections
- › Other business conduct requirements: introduce provisions on the suitability of pension schemes and on the duty of care that IORPs have towards their members and beneficiaries

### 4 SHIFT FROM DEFINED BENEFIT (DB) TO DEFINED CONTRIBUTION (DC)

- › DC IORP managers to carry out long term risk assessment: make projections of member outcomes and consider suitability of investment options
- › Enhance the cost transparency of DC schemes with annual supervisory reporting
- › Allow members and beneficiaries of DC schemes to participate in the decision-making of IORPs in matters that directly impact them

### 5 SUSTAINABILITY

- › Strengthen the inclusion of sustainability-related risks in investment decisions of IORPs
- › Demand the consideration of the long-term impact of investment decisions on sustainability factors
- › Better reflect the sustainability preferences of members and beneficiaries

### 6 DIVERSITY AND INCLUSION

- › Promote diversity and inclusion in the management or supervisory bodies of IORPs
- › Put in place gender-neutral remuneration policies and practices
- › Enhance supervisory reporting and public disclosure of aspects related to diversity and inclusion

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