

EIOPA issues opinions on governance and risk management of pension funds

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Today, the European Insurance and Occupational Pensions Authority (EIOPA) published four Opinions to assist National Competent Authorities (NCAs) in the implementation of the Institutions for Occupational Retirement Provisions - the IORP II Directive:

The Opinion on the use of governance and risk assessment documents in the supervision of Institutions for Occupational Retirement Provisions (IORPs)

The Opinion on the practical implementation of the common framework for risk assessment and transparency for Institutions for Occupational Retirement Provisions (IORPs)

The Opinion on the supervision of the management of operational risks faced by Institutions for Occupational Retirement Provisions (IORPs)

The Opinion on the supervision of the management of environment, social and governance risks faced by Institutions for Occupational Retirement Provisions (IORPs)

Governance and risk management of pension funds are key activities to ensure the protection of pension scheme members. As a new provision of the IORP II Directive, the requirement to conduct an Own-Risk Assessment (ORA) has not only a significant impact on the governance and risk management systems of pension funds but also poses certain implementation challenges.

The Opinion on the use of governance and risk assessment documents in the supervision of IORPs sets out EIOPA's expectations on minimum information content to describe how pension funds conduct their ORA and present results from their ORA. NCAs should review and ensure that the ORA is forward-looking,

considering internal and external emerging developments likely to affect pension funds' future risk profile.

In the area of operational risks, the Opinion on the supervision of the management of operational risks faced by IORPs stresses the importance of forward-looking supervision. With the shift away from defined benefit pensions and the emergence of multi-sponsor IORP providers, NCAs should increasingly pay attention to pension funds' future viability and operational liabilities of defined contribution schemes. Although new market and regulatory developments should generally improve occupational pensions, they may also lead to greater complexity in retaining supervisory oversight of the full range of activities performed by pension funds or outsourced to service providers. Furthermore, the rapid evolution and transmissibility of cyber threats necessitate a forward-looking and cross-sectoral approach to the supervision of cyber risk faced by pension funds.

The IORP II Directive includes new environment, social and governance (ESG) provisions. The supervisory oversight of pension funds' exposure to ESG risks is another implementation challenge with ESG being a relatively new practice. Therefore, NCAs should take a holistic view of pension funds' exposure to ESG risks. The Opinion on the supervision of the management of ESG risks faced by IORPs provides an illustrative mapping of how ESG risks may arise in traditional prudential risks. As institutions tasked with a social purpose of providing retirement benefits, European pension funds should be exemplary leaders of responsible ownership. Thus, NCAs should encourage pension funds to consider the impact of their long-term investment decisions and activities on ESG factors through their stewardship role, as well as having regard to the impact of sustainability risks on pension fund liabilities.

The common framework is a useful risk assessment tool that can support pension funds in the conduct of their ORA. The Opinion on the practical implementation of the common framework for risk assessment and transparency for IORPs encourages NCAs to make IORPs aware of the availability of the common framework as a tool for risk assessment and to stand ready to support pension funds in the application of the tool.

Gabriel Bernardino, Chairman of EIOPA, said: *"The IORP II Directive has profound implications for the governance and risk management of occupational pension funds in Europe. In this context, the EIOPA Opinions lay the foundation for the future supervisory convergence of pension funds' own-risk assessment to ensure sound risk management for the better protection of members and beneficiaries and alignment with society's sustainability goals."*

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