

CONSULTATION
PAPER

CONSULTATION PAPER

on the draft Opinion on the supervision of
liquidity risk management of IORPs

EIOPA-BoS-24-318
26 September 2024

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RESPONDING TO THIS 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 under the following link:

<https://ec.europa.eu/eusurvey/runner/ConsultationIORPLiquidityRisk>

Contributions not provided via EU Survey or 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.¹

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Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published.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 this material.

¹ [Public Access to Documents.](#)

CONSULTATION PAPER OVERVIEW AND NEXT STEPS

EIOPA carries out consultations in the case of Opinions in accordance with Article 29(1)(a) of the EIOPA Regulation.

This Consultation Paper presents the draft Opinion on the Supervision of Liquidity Risk Management of IORPs.

The analysis of the expected impact of the proposed policy options is covered under Annex I (Impact Assessment).

Next steps

EIOPA will consider the feedback received and expects to publish the final Opinion in the course of 2025 together with a feedback statement on the consultation responses of stakeholders.

DRAFT OPINION ON THE SUPERVISION OF LIQUIDITY RISK MANAGEMENT OF IORPS

1. LEGAL BASIS

- 1.1. The European Insurance and Occupational Pensions Authority (EIOPA) provides this Opinion on the basis of Article 29(1)(a) of Regulation (EU) No 1094/2010². This Article mandates EIOPA to play an active role in building a common Union supervisory culture and consistent supervisory practices, as well as in ensuring uniform procedures and consistent approaches throughout the Union.
- 1.2. EIOPA delivers this Opinion on the basis of Directive (EU) 2016/2341³ (the IORP II Directive), in particular Articles 25, 28 and 49 thereof.
- 1.3. This Opinion is addressed to the competent authorities, as defined in Article 4(2) of Regulation (EU) No 1094/2010.
- 1.4. The Board of Supervisors has adopted this Opinion in accordance with Article 2(8) of its Rules of Procedure⁴.

2. CONTEXT AND OBJECTIVE

- 2.1. The IORP II Directive allows IORPs to invest in derivative instruments to mitigate risks and to facilitate efficient portfolio management. Although the use of derivatives for hedging purposes reduces solvency risk in defined benefit (DB) schemes and investment risk for members and beneficiaries in defined contribution (DC) schemes, it also introduces new risks, most notably liquidity risk resulting from the daily exchange of variation margin to cover any market losses on derivatives.
- 2.2. To enhance protection against counterparty default risk, the Regulation (EU) No 648/2012⁵ (European Market Infrastructure Regulation (EMIR)) requires that counterparties in OTC derivative transactions exchange with the central counterparty (CCP) or bilaterally: 1) daily variation margin to cover any losses in the market value of the derivative, and 2) initial margin to cover for a potential default of the counterparty in between the daily exchange of variation margin. In centrally cleared transactions variation margin is to be posted in cash, but in bilateral

² Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC, OJ L 331, 15.12.2010, p. 48.

³ Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs), OJ L 354, 23.12.2016, p. 37.

⁴ Decision adopting the Rules of Procedure of EIOPA's Board of Supervisors, available at: https://www.eiopa.europa.eu/sites/default/files/publications/administrative/bos-rules_of_procedure.pdf.

⁵ Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, OJ L 201, 27.7.2012, p. 1.

transactions also other collateral is possible. Besides margin calls due to changes in the market value of derivative positions, IORPs may also be exposed to collateral calls resulting from changes in the market value or price volatility of non-cash collateral or a reassessment of the volatility of the derivatives' underlying assets. The BIS and IOSCO published a consultative report with proposals to enhance transparency of margin models and tools used by CCPs.⁶

- 2.3. EMIR also requires that standardised classes of OTC derivatives – such as interest rate swaps – are cleared through a CCP. From 19 June 2023, the clearing obligation also applies to IORPs. IORPs tend to have low cash holdings since cash generates low long-term investments returns relative to other asset classes. As such, the requirement to fulfil variation margin with cash imposes high demands on the liquidity risk management of IORPs.⁷
- 2.4. The UK gilt crisis in 2022 demonstrated the adverse consequences of inadequate liquidity risk management in relation to derivative positions of pension schemes. UK pension schemes needed to raise cash quickly to meet margin and collateral calls or, in many cases, respond to capital calls from liability driven investment (LDI) funds, as a sharp rise in interest rates resulted in losses on interest rate hedging positions. Pension schemes and LDI funds had to sell UK gilts at steep discounts, aggravated by the concentration of investments in very long maturities and the shallow market for those long-dated, off-the-run gilts, resulting in further interest rate rises necessitating the Bank of England to support the gilt market.⁸
- 2.5. Studies by the EU and national supervisors (ESMA⁹, ECB¹⁰ and AFM¹¹) provide evidence that IORPs in some Member States holding interest rate and foreign exchange derivatives are also vulnerable to interest rate increases and/or an appreciation of foreign currencies, most notably the US dollar, triggering substantial, short-term margin requirements. EIOPA conducted a survey and nine competent authorities assessed that IORPs in their Member State hold derivatives to hedge interest rate risk and/or foreign exchange risk with a notional value exceeding in aggregate 5% of total assets (see Annex II). Based on data received from competent authorities in nine Member States, an increase in interest rates of 1%-point would potentially require IORPs to fulfil

⁶ BIS and IOSCO, [Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposal, Consultative report](#), January 2024.

⁷ European Commission, [Report from the Commission to the European Parliament and the Council assessing whether viable technical solutions have been developed for the transfer by pension scheme arrangements of cash and non-cash collateral as variation margins and the need for any measures to facilitate those viable technical solutions](#), 9 June 2022.

⁸ See chapter 5 'In focus – The resilience of liability-driven investments funds' in [Bank of England, Financial Stability Report, December 2022](#) for an analysis of and the lessons learned from the event.

⁹ ESMA, [Report on the Central Clearing Solutions for Pension Scheme Arrangements \(No. 2\), Report to the European Commission, 17 December 2020](#).

¹⁰ See Box A Liquidity stress simulations of euro area pension funds' interest rate swap portfolios in [ECB, Financial Stability Review, May 2020](#).

¹¹ AFM, [Liquiditeitsrisico van margin calls in maart 2020 - Een analyse van derivatenportefeuilles beheerd door Nederlandse vermogensbeheerders, Occasional Paper, December 2021](#) (in Dutch only).

margin calls of in aggregate almost EUR 67bn, whereas an appreciation of foreign currencies, like the British pound, Japanese yen and US dollar, of 10% would potentially lead to margin calls of in aggregate EUR 60bn.

- 2.6. The Financial Stability Board (FSB) identified weaknesses in risk management and governance as key causes of inadequate liquidity preparedness by some non-bank market participants, including occupational pension funds, during recent incidents of liquidity stress in financial markets. In response, the FSB published eight proposed policy recommendations to enhance the liquidity preparedness of non-bank market participants, including IORPs, for margin and collateral calls in centrally and non-centrally cleared derivatives and securities markets.¹² The European Commission issued a consultation document assessing the adequacy of macroprudential policies for non-bank financial intermediation.¹³
- 2.7. The IORP II Directive requires that IORPs have in place an effective and well-integrated risk-management system, in accordance with Article 25 thereof. The risk-management system shall cover, where applicable, liquidity risk management, in a manner that is proportionate to the size and internal organisation of IORPs, as well as to the size, nature, scale and complexity of their activities. Furthermore, IORPs are required to carry out and conduct their own-risk assessment (ORA), in accordance with Article 28 of that Directive. Within the supervisory review process, as set out in Article 49 of the IORP II Directive, competent authorities are required to assess the risks that IORPs face and the IORPs' ability to assess and manage those risks.
- 2.8. Member States may supplement the IORP II Directive through national regulation or supervisory measures, but the results of EIOPA's survey show that only a small minority of Member States impose more specific requirements on liquidity risk management of IORPs. Although most competent authorities cover liquidity risk in the supervisory review process, supervisory practices to assess exposures to liquidity risk and IORPs' ability to assess and manage the liquidity exposures differ markedly. Although margin calls on derivatives constitute an important source of liquidity risk, more than a third of competent authorities do not collect relevant derivative data from IORPs.
- 2.9. Inadequate liquidity risk management may result in IORPs not having adequate liquid assets to settle their financial obligations towards members and beneficiaries as well as other counterparties when they fall due. The inability to fulfil obligations towards counterparties and forced asset sales to raise cash may have knock-on effects on financial markets and other financial institutions. The objective of this Opinion is to enhance supervisory convergence in the supervision of liquidity risk management by IORPs to foster the protection of members and beneficiaries and to enhance the stability of IORPs and the wider financial system.

¹² FSB, [Liquidity Preparedness for Margin and Collateral Calls - Consultation report](#), 17 April 2024.

¹³ European Commission, [Assessing the adequacy of macroprudential policies for non-bank financial intermediation \(NBF\)](#), Targeted consultation document, 22 May 2024.

- 2.10. This Opinion covers the management of all sources of material liquidity risks faced by IORPs. This means that the expectations on (the supervision of) IORPs' liquidity risk management do not only apply to potential margin and collateral calls on derivative positions, but also to other material sources of liquidity risk. Member States want to ensure that occupational pensions savings are used for their intended purpose. As such, early withdrawals are generally not possible or only under strict conditions. Also individual and collective transfers are usually subject to specific conditions and IORPs can often anticipate these outflows some time in advance. Still, in EIOPA's survey, a few competent authorities responded that their IORPs are exposed to medium liquidity risk exposures in relation to outgoing transfers. The Opinion does not consider interest rate hedging strategies involving leveraged government bond positions financed through structural borrowing, as Article 19(3) of the IORP II Directive prohibits IORPs from borrowing. Member States may only authorise IORPs to carry out some borrowing for liquidity purposes and on a temporary basis.
- 2.11. There is not only considerable heterogeneity in IORPs, but also in liquidity risk exposures of IORPs in the different Member States. In EIOPA's survey only a minority of competent authorities responded that their IORPs are exposed to medium or high liquidity risk exposures. Recognising this heterogeneity, EIOPA expects that the expectations contained in this Opinion are only applied to IORPs with material liquidity risk exposures and in a manner proportionate to the risk profile and size of the IORPs.

3. CONTENT OF THE OPINION

3.1. DEFINITIONS

- 3.1. Liquidity risk is defined as the risk that IORPs are unable to realise investments and other assets in order to settle their financial obligations when they fall due.¹⁴
- 3.2. For the purposes of this Opinion, material liquidity risks are those that may jeopardise the stability and soundness of IORPs and the protection of members and beneficiaries.

3.2. FORWARD-LOOKING AND RISK-BASED SUPERVISION OF THE MANAGEMENT OF IORPS' LIQUIDITY RISK

- 3.3. As part of risk-based and forward-looking supervision¹⁵ and the supervisory review process¹⁶, competent authorities should assess the liquidity risks to which IORPs are and could be exposed and the materiality of those risks. To assess liquidity risk exposures of IORPs in relation to margin requirements on derivative positions, competent authorities should gather and analyse relevant

¹⁴ In accordance with the definition in Article 13 of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance, OJ L 335, 17.12.2009, p.1.

¹⁵ In accordance with Article 47(2) of the IORP II Directive.

¹⁶ In accordance with Article 49 of the IORP II Directive.

derivative data of IORPs and establish monitoring tools, including stress tests and sensitivity analyses.

- 3.4. Where IORPs are exposed to material liquidity risk, competent authorities should assess the ability of these IORPs to assess and manage those risks. To that end, competent authorities should take the necessary supervisory actions to ensure that IORPs, and undertakings to which IORPs' activities have been outsourced, satisfy the below principles on the management of liquidity risk.
- 3.5. In assessing liquidity risk and supervising its management by IORPs, competent authorities should take an approach that is proportionate to the risk profile of the IORPs as well as the size of the liquidity exposures, considering their potential impact on financial stability.

3.3. IORPS' LIQUIDITY RISK MANAGEMENT AND GOVERNANCE

INTEGRATION OF MATERIAL LIQUIDITY RISKS IN THE SYSTEM OF GOVERNANCE AND RISK-MANAGEMENT SYSTEM

- 3.6. IORPs should identify, define and categorise the sources of material liquidity risk to which they are exposed, including, where applicable:
 - a) margin and collateral calls on derivative positions;
 - b) early withdrawals of accumulated pensions by plan members; and
 - c) individual and collective transfers of accumulated pensions.
- 3.7. IORPs with material liquidity risk exposures should integrate the assessment and management of these exposures in their system of governance and risk-management system, including:
 - a) a clear allocation of responsibilities in relation to the management of liquidity risks, which is documented;¹⁷ and
 - b) a risk-management strategy¹⁸ and written policies¹⁹, implementing the strategy, covering the management of material liquidity risks.

Contingency plans to deal with liquidity stress

- 3.8. In case of material liquidity risk exposures, IORPs should have in place a plan to deal with liquidity shortfalls, either as part of the written policies or as part of their contingency plans²⁰, covering:
 - a) the process to invoke the plan;

¹⁷ In accordance with Article 21(1) of the IORP II Directive.

¹⁸ In accordance with Article 25(1) of the IORP II Directive.

¹⁹ In accordance with Article 21(3) of the IORP II Directive.

²⁰ In accordance with Article 21(5) of the IORP II Directive.

- b) a decision-making process and range of actions that could be taken in response to a liquidity stress with clear escalation and prioritisation procedures, detailing when and how each of the actions can and should be activated; and
 - c) an assignment of roles and responsibilities to specific decision-makers, setting out clear reporting lines.
- 3.9. Where IORPs aim to raise liquidity other than through the sales of assets, the contingency plan should set out the alternative sources of funding, including temporary borrowing through repurchase agreements and the posting of liquid assets to fulfil margin requirements. The plan should assess the amount that can be raised from particular sources, the costs involved and the time needed to raise the funds, taking into consideration the risk management practices of counterparties and the resilience of short-term funding markets during severe but plausible stress episodes.
- 3.10. Where IORPs are exposed to margin requirements on derivative positions, there should be a well-documented process for closing these positions in the event the IORP is unable to meet its margin calls.

Monitoring and reporting

- 3.11. In case of material liquidity risk exposures, IORPs should ensure that their IT systems, processes and reporting procedures adequately cover liquidity risks to ensure effective monitoring and to provide clear, concise, timely and accurate risk reports to the relevant functions as well the management or supervisory body.
- 3.12. In case of material liquidity risk exposures, IORPs should define their own liquidity risk indicators for day-to-day risk management, reflecting the IORPs' specificities and risk profile, and signalling the extent to which liquidity risk exposures are within the established risk tolerance limits. An example of a commonly used liquidity risk indicator is the liquidity coverage ratio, which may be defined as the ratio of assets held in the buffer of liquid assets to net stressed cash out-flows. Another example is an excess liquidity metric, which is the difference between assets held in the buffer of liquid assets and net stressed cash out-flows.

Own-risk assessment

- 3.13. IORPs with material liquidity risk exposures should include an assessment of liquidity risks and the approach to the management of these risks in their own-risk assessment (ORA)²¹.

LIQUIDITY RISK TOLERANCE STATEMENT

- 3.14. IORPs with material liquidity risk exposures should establish and maintain a clearly defined liquidity risk tolerance statement, either as part of the written policies or as a separate

²¹ Article 28 of the IORP II Directive.

document, approved by the management or supervisory body of the IORP, defining the:

- a) sources of material liquidity risk and the timescales over which the risks are expected to materialise;
- b) size of the stresses and adverse scenarios in relation to these sources of liquidity risk that the IORP aims to withstand over a given time horizon, including confidence levels, where possible; and
- c) level and composition of the buffer of liquid assets that the IORP maintains to satisfy overall liquidity needs under these stresses and adverse scenarios in the time horizon considered.

REGULAR REVIEW AND UPDATE OF THE LIQUIDITY RISK-MANAGEMENT SYSTEM

- 3.15. IORPs should regularly review and, where appropriate, update the risk-management system in relation to liquidity risk to ensure that liquidity risks are robustly managed and mitigated.
- 3.16. IORPs should ensure through their reporting procedures and processes that the effectiveness of the risk-management system in relation to liquidity risk is actively monitored and analysed and that appropriate modifications to the system are made, where necessary, also to ensure that emerging liquidity risks are taken into account.

LIQUIDITY STRESS TESTING AND SCENARIO DESIGN

Conduct of stress tests and scenario analysis

- 3.17. IORPs should perform stress tests and scenario analysis in relation to all material sources of liquidity risk, considering the time horizons that are appropriate to the IORPs' liquidity risk exposures and the timing of the liquidity needs. Where IORPs are materially exposed to margin and collateral calls on derivative positions, IORPs should consider very short time horizons to cover daily, or even intra-day, liquidity needs.
- 3.18. The stress tests and scenario analysis should assess the impact of separate and combined adverse events on the IORPs' incoming and outgoing cash flows over the chosen time horizons, and its overall liquidity position. The IORPs' projections of incoming and outgoing cash flows on an ongoing basis should serve as a basis for the stress test and scenario analysis.

Severe but plausible liquidity stress events

- 3.19. IORPs should assess in the stress tests and scenario analysis the impact of a range of severe but plausible liquidity stresses.
- 3.20. The stress tests and scenario analysis should consider, where appropriate:
 - a) the impact of idiosyncratic, market-wide and combined adverse events based on historical data as well as forward-looking stress scenarios; and
 - b) any significant concentration of similarly exposed participants in the relevant markets which could magnify the impact of adverse market movements.

BUFFERS OF LIQUID ASSETS

Sufficient levels of cash and readily available as well as diverse liquid assets

- 3.21. IORPs with material liquidity exposures should maintain an adequate buffer of liquid assets to cover any shortfall of incoming relative to outgoing cash flows arising on an ongoing basis and under stressed conditions, in particular severe but plausible stress events. Depending on the nature and time horizon of the liquidity needs, multiple buffers should be considered composed of different liquid assets.
- 3.22. IORPs should include diverse assets in the buffer of liquid assets which are unencumbered, of a high credit quality and readily marketable. The assets of primary liquidity listed in the Annex are generally realisable over very short time horizons, e.g. to meet margin and collateral calls, even under stressed market conditions, and accepted as collateral. Securities issued by financial institutions should not be considered a reliable source of liquidity over very short-term horizons since these securities are more likely to become illiquid during stress events. Over longer time horizons, e.g. in case of outgoing transfers, a wider array of liquid assets would be appropriate.²²
- 3.23. IORPs should apply appropriate haircuts to the different types of assets in the buffer of liquid assets, corresponding to the loss in value when transforming the assets into liquidity under severe but plausible stress conditions within the relevant time horizon, including the potential costs and financial losses arising from forced sales.

Resilient and effective operational processes

- 3.24. To ensure operational readiness, IORPs with material liquidity risk exposures should periodically test their liquidity contingency plan through simulation exercises and update it as appropriate. This should include review and testing of the IORPs' operational capacity to transform liquid assets into liquidity under normal and stressed conditions within relevant timeframes through:
- a) sales of liquid assets;
 - b) where applicable, secured borrowing; and
 - c) where applicable, posting of liquid assets as collateral.
- 3.25. Where applicable, IORPs should also test their access to committed arrangements with liquidity providers regularly to ensure their continuity and availability for use in stressed conditions. Uncommitted arrangements are highly unlikely to be available in stressed situations and therefore are not an appropriate source of liquidity.
- 3.26. Where applicable, IORPs should have regular dialogues with counterparties in collateralised derivative and funding transactions to evaluate the materiality of the liquidity risk that may arise

²² See the classification of liquid assets in Figure 3 on page 18 of EIOPA, [Insurance stress test 2024 technical specifications](#), EIOPA-BoS-24/087, 22 April 2024, which is in line with the classification of liquidity sources in Table 2 on page 25 of IAIS, [Liquidity metrics as an ancillary indicator](#), Level 2 Document, 18 November 2022.

during severe but plausible stress events. These evaluations should take into consideration how the risk management practices of the counterparties may respond during times of market stress.

OUTSOURCING TO THIRD-PARTY SERVICE PROVIDERS

- 3.27. IORPs with material liquidity risk should ensure that any outsourcing of investment management, including investments in derivative instruments, to third-party service providers does not impair the effectiveness and quality of the IORPs' liquidity risk management by:
- a) assessing and documenting the reliability of their service providers' operational processes and capacities to manage stress situations;
 - b) addressing the operational risks inherent to using third-party services in their liquidity risk-management and governance systems.
- 3.28. Where IORPs outsource the investment management of derivative instruments through external investment funds, and to prevent operational lags in fulfilling margin requirements, IORPs should ensure that these investment funds hold an appropriate buffer of liquid assets to fulfil margin calls in relation to the derivative instruments under day-to-day operations and in times of market stress.

PROPORTIONALITY

- 3.29. IORPs with material liquidity exposures should implement the expectations contained in this Opinion in a manner that is proportionate to the nature, scale and complexity of the liquidity risks inherent in the IORPs' activities. As such, the following characteristics would, *ceteris paribus*, impose higher demands on liquidity risk management:
- a) exposures to daily margin requirements on derivative instruments rather than exposures that materialise over longer time horizons;
 - b) reliance on other sources of liquidity than outright sales of assets, including secured and unsecured borrowing and the posting of liquid assets as collateral;
 - c) larger liquidity exposures in terms of the size of the potential liquidity needs as well as the potential impact on financial stability.

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? Please explain.

Q2: Do you agree with the definitions of 'liquidity risk' and 'material liquidity risks' in paragraphs 3.1 and 3.2? Please explain your answer and provide any suggestions to improve the definitions.

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:

- in collecting derivative data from asset managers to monitor and assess liquidity risks in relation to margin and collateral calls;

- in reporting relevant derivative data to NCAs?

If 'yes', please explain.

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? Please explain.

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? Please explain your answer.

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? If 'no', please explain why and provide any suggestions on what other measures IORPs would put in place.

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? If 'yes', please explain.

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? If 'no', please explain why not and provide any suggestions on alternative practices used by IORPs.

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?

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

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

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

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? 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? Please explain.

Q14: Do the expectations put forward in the draft Opinion achieve a proportionate approach to liquidity risk management of IORPs? If not, please provide your suggestions to improve proportionality of the draft Opinion.

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? Please explain and provide any suggestions.

Q16: Do you have any other comments on the draft Opinion / consultation paper? If yes, please provide these other comments?

4. MONITORING BY EIOPA

- 4.1. Two years after the publication of this Opinion, EIOPA will look into the supervisory actions taken by the competent authorities as a follow-up on this Opinion.
- 4.2. This Opinion will be published on EIOPA's website.

Done at Frankfurt am Main, [*]

[signed]

For the Board of Supervisors

Petra Hielkema

Chairperson

ANNEX: ASSETS OF PRIMARY LIQUIDITY

Assets of primary liquidity should be considered:

- a) cash at bank;
- b) bonds and loans issued or guaranteed by the following counterparties:
 - (i) the European Central Bank;
 - (ii) Member States' central government and central banks denominated and funded in the domestic currency of that central government and the central bank;
 - (iii) multilateral development banks referred to in Article 117(2) of Regulation (EU) No 575/2013²³;
 - (iv) international organisations referred to in Article 118 of Regulation (EU) No 575/2013;
- c) exposures in the form of bonds and loans to central governments and central banks other than those referred to in point (b), denominated and funded in the domestic currency of that central government and central bank, and for which a credit assessment by a nominated ECAI is available, and which have been assigned a credit quality step of 0 or 1.

²³ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L 176, 27.6.2013, p. 1.

ANNEX I: IMPACT ASSESSMENT

PROCEDURE AND STAKEHOLDER ENGAGEMENT

According to Article 29 of the Regulation (EU) No 1094/2010, EIOPA should, where appropriate, analyse the potential costs and benefits relating to opinions provided to competent authorities (CAs), proportionate to their scope, nature and impact.

In developing this Opinion, EIOPA analysed liquidity exposures of IORPs and current regulatory and supervisory practices through a survey completed by CAs (see Annex II) and engaged with stakeholders including the Occupational Pensions Stakeholder Group (OPSG), most notably through a workshop held on 14 March 2024.

The analysis of costs and benefits is undertaken according to EIOPA's impact assessment methodology.

PROBLEM DEFINITION

When analysing the impact from proposed policies, the impact assessment methodology foresees that a baseline scenario is applied as the basis for comparing policy options. This helps to identify the incremental impact of each policy option considered. The aim of the baseline scenario is to explain how the current situation would evolve without additional supervisory intervention ('no change').

In the survey conducted by EIOPA, most CAs responded that liquidity risk exposures are low or non-existent or that an assessment is not available (see Annex II). Almost a quarter of CAs (7 out of 26) responded that their IORPs are exposed to medium or high liquidity risk exposures. Three CAs indicated that these medium or high liquidity risk exposures relate to individual or collective transfers, while three CAs said these exposures relate to margin requirements on derivative instruments. Still, nine CAs assessed that IORPs in their Member State (MS) hold derivatives to hedge interest rate risk and/or foreign exchange risk with a notional value exceeding in aggregate 5% of total assets. Based on data received from CAs in nine MS, an increase in interest rates of 1%-point would potentially require IORPs to fulfil margin calls of almost EUR 67 bn, whereas an appreciation of foreign currencies of 10% would potentially lead to margin calls of EUR 60 bn.

The IORP II Directive introduced the requirement that IORPs should, where applicable, cover liquidity risk management in their risk-management system in a manner that is proportionate to the size and internal organisation of IORPs, as well as to the size, nature, scale and complexity of their activities. Moreover, also in a manner that is proportionate, IORPs must at least every three years carry out and document their own-risk assessment. As part of the supervisory review process, CAs should conduct an assessment of the risks the IORP faces as well as an assessment of the ability of the IORP to assess and manage those risks.

MS may supplement the IORP II Directive through national regulation or supervisory measures. The survey results show that in a small minority of MS (7 out of 26) national regulation and supervisory

measures impose more specific requirements on liquidity risk management of IORPs. Most CAs cover liquidity risk in the supervisory review process on an ad hoc or regular basis. Still, the survey showed that supervisory practices to assess exposures to liquidity risk and IORPs' ability to assess and manage the liquidity exposures differ markedly. Margin and collateral calls in relation to derivative instrument represent an important source of liquidity risk. However, more than a third of CAs (10 out of 26) do not collect derivative data from IORPs or only the market value of derivatives in the IORPs' balance sheet.

The low incidence of supplementary regulation and supervisory measures at national level and heterogeneous supervisory practices may not prevent inadequate liquidity risk management by IORPs. As a result, IORPs may not be able to fulfil their financial obligations towards members and beneficiaries and other counterparties when they fall due. Moreover, IORPs may contribute to the propagation of liquidity strains to other parts of the financial system and the real economy, e.g. through forced sales of assets within short timeframes, as witnessed during the UK gilt crisis of 2022.²⁴ Therefore, in the baseline scenario, the protection of members and beneficiaries and financial stability are not sufficiently safeguarded.

OBJECTIVES

In drafting this Opinion, EIOPA follows the following general objectives, in line with Article 1(6) of Regulation (EU) No 1094/2010:

- ▶ adequate protection of members and beneficiaries, being the main objective of supervision²⁵;
- ▶ financial stability;
- ▶ proper functioning of the internal market.

The more specific objective of this Opinion is to achieve consistent supervisory practices in the EU in order to promote good liquidity risk management practices by IORPs and to enhance the resilience of the wider financial system to liquidity risks, in particular those relating to material derivative positions.

POLICY ISSUES

POLICY ISSUE A: SCOPE OF LIQUIDITY RISK MANAGEMENT

Margin and collateral calls on derivative positions constitute a (very) short-term and potentially high impact source of liquidity risk. This policy issue considers whether the supervisory actions to promote

²⁴ See chapter 5 'In focus – The resilience of liability-driven investments funds' in [Bank of England, Financial Stability Report, December 2022](#) for an analysis of and the lessons learned from the event.

²⁵ According to Article 45(1) of the IORP II Directive, the main objective of prudential supervision is to protect the rights of members and beneficiaries and to ensure the stability and soundness of the IORPs.

good liquidity risk management should be restricted to material derivative instruments or apply to all possible sources of liquidity risk, including for example early withdrawals and outgoing transfers.

POLICY ISSUE B: OUTSOURCING OF INVESTMENTS IN DERIVATIVE INSTRUMENTS

Outsourcing of investments in derivative instruments introduces time lags in the operational process to fulfil margin and collateral calls between the IORP and the investment manager. This policy issue considers whether IORPs should expect external investment funds and managers to hold appropriate liquid assets and whether the level of these liquid assets should be further specified.

POLICY OPTIONS

POLICY ISSUE A: SCOPE OF LIQUIDITY RISK MANAGEMENT

Policy option A.0: No change

Policy option A.1: Scope restricted to margin and collateral calls on derivative positions

Under this policy option, EIOPA sets out expectations towards CAs on the supervision of liquidity risk management by IORPs, covering:

- ▶ the assessment by CAs of liquidity risks to which IORPs are exposed and, where IORPs are exposed to material liquidity risk, the assessment of the ability of IORPs to manage liquidity risks;
- ▶ the principles for proper liquidity risk management, which CAs should expect IORPs with material liquidity risk exposures to adhere to in a manner that is proportionate to their risk profile.

Under this option, the scope of liquidity risk is restricted to margin and collateral calls on derivative positions, in line with the FSB's draft recommendations to enhance the liquidity preparedness of non-bank market participants for margin and collateral calls.

Policy option A.2: Scope covering all material sources of liquidity risk

This option is the same as policy option A.1 with the exception of the scope of liquidity risk. Unlike policy option A.1, this option covers all material sources of liquidity risk, including – for example – in relation to early withdrawals and outgoing individual and collective pension transfers. The supervisory expectations continue to be consistent with FSB's draft recommendations, but are applied to liquidity risk in general.

POLICY ISSUE B: OUTSOURCING OF INVESTMENTS IN DERIVATIVE INSTRUMENTS

Policy option B.0: No change

Policy option B.1: Investment funds to hold appropriate level of liquid assets using principle-based approach

Under this policy option, IORPs that outsource investments in derivative instruments are expected to

ensure that the external investment fund holds appropriate liquid assets to fulfil margin and collateral calls. The buffer of liquid assets is set using a principle-based approach. Its level should be sufficient to cover margin and collateral calls following a severe, but plausible market stress. This option would apply the ESMA advice²⁶ in relation to GBP-denominated LDI funds in the EU more broadly to investment funds holding derivatives on behalf of IORPs. Investment funds would not only include segregated accounts/mandates and multi-client/pooled funds established as alternative investment funds (AIF), but also UCITS investment funds. Moreover, this option would not prescribe a predefined interest rate or other relevant market stresses.

Policy option B.2: Investment funds to hold appropriate level of liquid assets using standardised approach

This option is the same as policy option B.1, but the level of liquid assets would be based on standardised market stresses instead of taking a principle-based approach. These standardised stresses would be prescribed for the relevant underlying market prices of derivative instruments, like interest rates and foreign exchange rates.

IMPACT OF THE POLICY OPTIONS

POLICY ISSUE A: SCOPE OF LIQUIDITY RISK MANAGEMENT

Policy option A.1: Scope restricted to margin and collateral calls on derivative positions

The costs mainly consist of the additional expenses for supervision and risk management incurred by supervisors and IORPs which do not yet meet the expectations and principles introduced under this policy option. The benefits consist of improved liquidity risk management by IORPs, contributing to the protection of members and beneficiaries, the stability of IORPs and the stability of the financial system as a whole. The supervisory convergence achieved in the area of liquidity risk management may also contribute to the proper functioning of the internal market by facilitating international supervisory coordination and reducing the scope for regulatory arbitrage.

Policy option A.1		
Costs	Members and beneficiaries	-
	IORPs	IORPs that do not conform with the principles for liquidity risk management will incur costs to enhance their risk management practices.

²⁶ See [ESMA, Advice on a proposed measure by the Central Bank of Ireland under Article 25 of Directive 2011/61/EU, 26 April 2024](#) and [ESMA, Advice on a proposed measure by the Commission du Surveillance du Secteur Financier under Article 25 of Directive 2011/61/EU, 26 April 2024](#).

	Competent authorities	Supervisors that do not conform with the expectations on the supervision of IORPs' liquidity risk management will incur costs to enhance their supervisory practices.
	Other	-
Benefits	Members and beneficiaries	Enhanced supervision, including the principles for IORP liquidity risk management, contributes to ensuring that obligations towards members and beneficiaries are met when they fall due.
	IORPs	Enhanced supervision, including the principles for IORP liquidity risk management, contributes to ensuring the stability and soundness of IORPs.
	Competent authorities	Enhanced protection of members and beneficiaries and stability and soundness of IORPs contribute to the overall objective of prudential supervision. Convergence of supervisory approaches across the EEA contributes to reducing regulatory arbitrage and facilitating international supervisory coordination.
	Other	Enhanced supervision and liquidity risk management contribute to fostering financial stability.

Policy option A.2: Scope covering all material sources of liquidity risk

The nature of the costs and benefits are the same as under the previous policy option A.1, but the size of the impacts will differ. Since the scope of this policy option is broader, i.e. all IORPs with material liquidity risk rather than just IORPs with exposures to margin and collateral calls, there are probably more IORPs that must incur additional costs to conform with the liquidity risk management principles. At the same time, the benefits in terms of enhanced liquidity risk management will also be more pronounced. Not only because more IORPs are covered, but also because IORPs are forced to take a comprehensive view of liquidity risks.

Policy option A.2		
Costs	Members and beneficiaries	-
	IORPs	IORPs that do not conform with the principles for liquidity risk management will incur costs to enhance their risk management practices.
	Competent authorities	Supervisors that do not conform with the expectations on the supervision of IORPs' liquidity risk management will incur costs to enhance their supervisory practices.
	Other	-

Benefits	Members and beneficiaries	Enhanced supervision, including the principles for IORP liquidity risk management, contributes to ensuring that obligations towards members and beneficiaries are met when they fall due.
	IORPs	Enhanced supervision, including the principles for IORP liquidity risk management, contributes to ensuring the stability and soundness of IORPs.
	Competent authorities	Enhanced protection of members and beneficiaries and stability and soundness of IORPs contribute to the overall objective of prudential supervision. Convergence of supervisory approaches across the EEA contributes to reducing regulatory arbitrage and facilitating international supervisory coordination.
	Other	Enhanced supervision and liquidity risk management contribute to fostering financial stability.

POLICY ISSUE B: OUTSOURCING OF INVESTMENTS IN DERIVATIVE INSTRUMENTS

Policy option B.1: Investment funds to hold appropriate level of liquid assets using principle-based approach

The benefits of this option consist of increased operational resilience, as IORPs do not immediately have to post collateral to their external investment manager/fund within a short period of time following an adverse movement in the market value of their derivative position. The increased operational resilience will contribute to enhancing the protection of members and beneficiaries, the soundness of IORPs and the stability of the wider financial system.

The requirement for the investment fund to hold an appropriate level of liquid assets may imply that IORPs have to post collateral ahead of a potential market stress. However, where IORPs already hold a similar buffer of liquid assets considering a severe, but plausible market stress, this option just changes the location of the liquid assets. Still, depending on the collateral arrangement and applicable law, i.e. title transfer or pledge of collateral, the IORP may miss out on investment income on the collateralised securities, negatively affecting (future) pensions of members and beneficiaries and/or pension costs of sponsoring undertakings.

Policy option B.1		
Costs	Members and beneficiaries	Where IORPs miss out on investment income, (future) pensions of members and beneficiaries may be negatively affected, in particular where the sponsor does not guarantee a certain level of pensions.
	IORPs	Depending on the collateral arrangement and applicable law, i.e. title transfer or pledge of collateral, the IORP may miss out on investment income on the collateralised securities.

	Competent authorities	-
	Other	Where IORPs miss out on investment income, pension contributions of the sponsor may have to rise, in particular where the sponsor guarantees a certain level of pensions.
Benefits	Members and beneficiaries	Enhanced operational resilience contributes to ensuring that obligations towards members and beneficiaries are met.
	IORPs	Enhanced operational resilience contributes to ensuring the stability and soundness of IORPs.
	Competent authorities	Convergence of supervisory approaches across the EEA contributes to reducing regulatory arbitrage and facilitating international supervisory coordination.
	Other	Enhanced operational resilience of IORPs contribute to fostering financial stability.

Policy option B.2: Investment funds to hold appropriate level of liquid assets using standardised approach

The nature of the costs and benefits are the same as under the previous policy option B.1. The only difference with the previous option is that the level of liquid assets to be held by external investment funds is established using a standardised approach. In contrast to the principle-based approach, the standardised approach may not be able to capture emerging increases and decreases in market risks, which means that the buffer of liquid assets may be set too high or too low. Too low buffers of liquid assets imply a cost in terms of lower operational resilience. Too high buffers of liquid assets imply a potential cost of limiting the scope of derivative hedging, given that IORPs tend to allocate a fixed proportion to eligible liquid assets, i.e. high-quality government bonds. In addition, depending on the collateral arrangement, too high buffers may also lead to additional missed investment income.

Policy option B.2		
Costs	Members and beneficiaries	<p>Where IORPs miss out on investment income, (future) pensions of members and beneficiaries may be negatively affected, in particular where the sponsor does not guarantee a certain level of pensions.</p> <p>Where high standardised levels of liquid assets limit the scope of derivative hedging, depending on the IORPs' allocations to eligible liquid assets, the exposure of members and beneficiaries to market risks may increase.</p>

	IORPs	<p>Depending on the collateral arrangement and applicable law, i.e. title transfer or pledge of collateral, the IORP may miss out on investment income on the collateralised securities.</p> <p>This possible cost would be exacerbated where the standardised levels of liquid assets are set too high. High standardised levels of liquid assets may also limit the scope of derivative hedging, depending on the IORPs' allocations to eligible liquid assets, raising the exposure of IORPs to market risk.</p>
	Competent authorities	-
	Other	<p>Where IORPs miss out on investment income, pension contributions of the sponsor may have to rise, in particular where the sponsor guarantees a certain level of pensions.</p> <p>Where high standardised levels of liquid assets limit the scope of derivative hedging, depending on the IORPs' allocations to eligible liquid assets, the exposure of sponsors to market risks may increase.</p>
Benefits	Members and beneficiaries	Enhanced operational resilience contributes to ensuring that obligations towards members and beneficiaries are met.
	IORPs	Enhanced operational resilience contributes to ensuring the stability and soundness of IORPs.
	Competent authorities	Convergence of supervisory approaches across the EEA contributes to reducing regulatory arbitrage and facilitating international supervisory coordination.
	Other	Enhanced operational resilience of IORPs contribute to fostering financial stability.

COMPARISON OF POLICY OPTIONS

POLICY ISSUE A: SCOPE OF LIQUIDITY RISK MANAGEMENT

Policy option A.2 is most effective in promoting good risk management and achieving consistent supervisory practices. The reason is that a comprehensive approach is taken to the IORPs' management of liquidity risk, instead of restricting the supervisory expectations to margin and collateral calls on derivative positions under policy option A.1. Both options are likely to be equally effective in enhancing the resilience of the financial system, given that liquidity risk in relation to margin and collateral calls on derivative positions is likely to be the most important threat to financial stability.

EFFECTIVENESS (0,+,,+)

	Promoting good risk management	Enhancing resilience of the financial system to liquidity risk	Achieving consistent supervisory practices
Policy option A.0	0	0	0
Policy option A.1	+	++	+
Policy option A.2	++	++	++

Policy option A.1 is the most efficient in enhancing the resilience of the financial system to liquidity risk. Under that option, the supervisory expectations are targeted at the source of liquidity risk, i.e. margin and collateral requirements on derivatives, that is most likely to have financial stability implications. As such, IORPs without material derivative positions are not experiencing any implementation costs. However, in order to promote good risk management, it is essential that CAs and IORPs take a comprehensive view of all sources of liquidity risk, which is the case in policy option A.2. This option is also able to prevent undue burdens by limiting additional supervisory efforts and liquidity risk management requirements to IORPs with material exposures and stipulating a proportionate approach. Therefore, policy option A.2 is most efficient in promoting good risk management as well as achieving consistent supervisory practices.

EFFICIENCY (0,+,++)			
	Promoting good risk management	Enhancing resilience of the financial system to liquidity risk	Achieving consistent supervisory practices
Policy option A.0	0	0	0
Policy option A.1	+	++	+
Policy option A.2	++	+	++

POLICY ISSUE B: OUTSOURCING OF INVESTMENTS IN DERIVATIVE INSTRUMENTS

Policy option B.1 is most effective in promoting good risk management and enhancing the resilience of the financial system to liquidity risk. This option takes a principle- and risk-based approach to the establishment of the buffer of liquid assets to be held by external investment funds. The standardised approach under policy option B.2 would imply that emerging risks would be ignored. However, this option would be most effective in achieving consistent supervisory practices.

EFFECTIVENESS (0,+,++)			
	Promoting good risk management	Enhancing resilience of the financial system to liquidity risk	Achieving consistent supervisory practices
Policy option B.0	0	0	0
Policy option B.1	++	++	+
Policy option B.2	+	+	++

Policy option B.1 is most efficient in reaching all three specific objectives due to the principle- and risk-based approach, which ensures the buffers of liquid assets are set at appropriate levels. A standardised approach may be less costly to implement for CAs and IORPs. However, it also entails the risk that the prescribed level of liquid assets is too high, which may be costly for IORPs, or too low, reducing the effectiveness of the measure.

EFFICIENCY (0,+,,++)			
	Promoting good risk management	Enhancing resilience of the financial system to liquidity risk	Achieving consistent supervisory practices
Policy option B.0	0	0	0
Policy option B.1	++	++	++
Policy option B.2	+	+	+

PREFERRED OPTIONS

Policy option A.2 ('Scope covering all material sources of liquidity risk') is the preferred option for policy issue A. The supervisory expectations take a comprehensive view of liquidity risk, promoting good risk management and ensuring financial stability. The option is targeted at IORPs with material liquidity risks and provides that both CAs and IORPs implement the expectations following risk-based and proportionate approach.

Policy option B.1 ('Investment funds to hold appropriate level of liquid assets using a principle-based approach') is the preferred option for policy issue B. The principle- and risk-based approach ensures that the level of liquid assets is effective in enhancing operational resilience without imposing any undue costs in terms of unnecessarily high buffers of liquid assets.

ANNEX II: SUMMARY OF SURVEY OF NATIONAL PRACTICES AND GAPS

RESPONSE

In March 2024, EIOPA conducted a survey among competent authorities (CAs) with the aim of:

- ▶ establishing good practices and gaps in the supervision of liquidity risk management by IORPs; and
- ▶ gathering evidence on liquidity risk of IORPs originating from derivative hedging exposures and other potential sources.

The survey covered the following areas:

- ▶ Sources of IORP liquidity risk;
- ▶ Regulation of IORP liquidity risk and its management;
- ▶ Supervision of IORP liquidity risk and its management.

Twenty-six CAs completed the survey and four CAs (CZ, IS, LT, RO) did not (have to) complete the survey because IORPs do not exist in their countries.

SOURCES OF LIQUIDITY RISK

CAs were asked to provide their assessment of liquidity risk exposures of IORPs in their MS due to (1) margin calls on derivative positions, both in cash and other collateral, (2) early withdrawals by plan members, (3) individual transfers by plan members to other providers, and (4) collective transfers of occupational pension schemes to other providers.

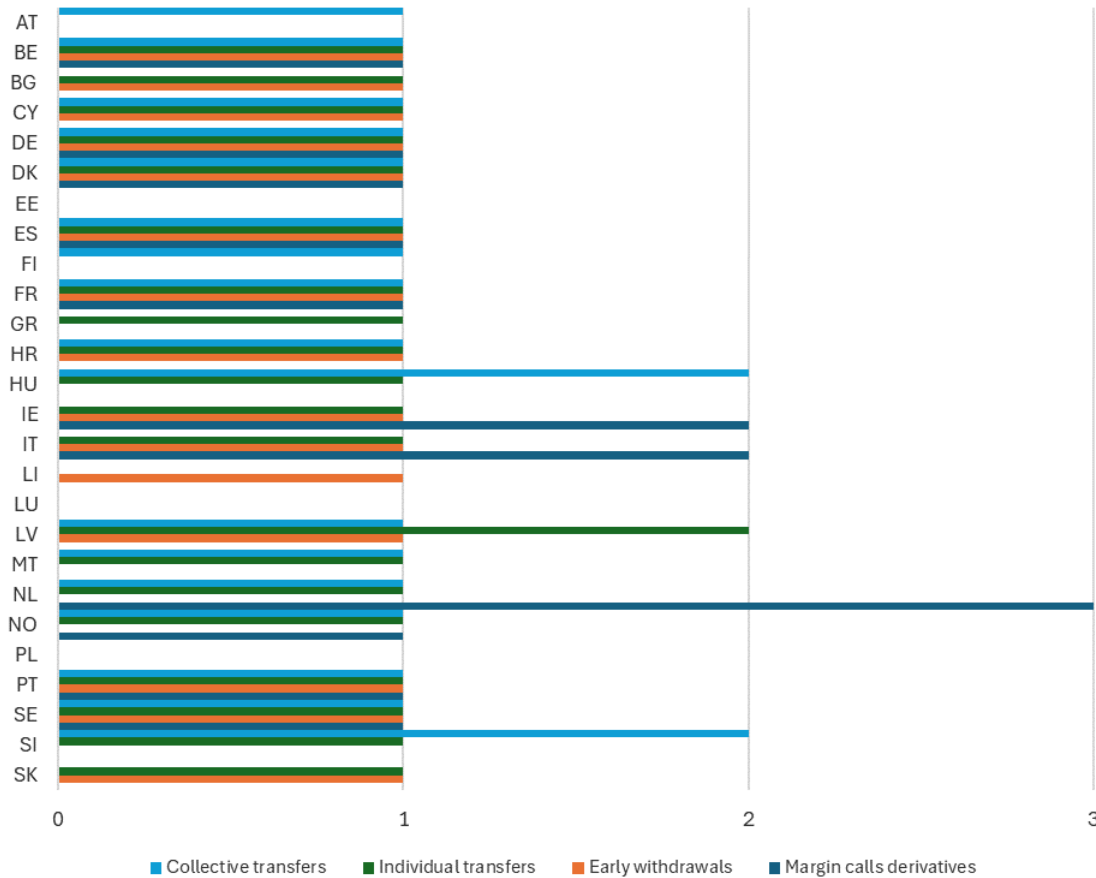
Most CAs responded that liquidity risk exposures are low (value of 1) or non-existent or that an assessment is not available (value of 0) (see Figure 1 below). Six CAs identified medium or high liquidity risk exposures:

- ▶ Liquidity risk in relation to margin calls on derivatives is considered high in NL and medium in IE and IT;
- ▶ Liquidity risk in relation to individual transfers is considered medium in LV; and
- ▶ Liquidity risk in relation to collective transfers is considered medium in HU and SI.

CAs were also provided with the opportunity to indicate other sources of liquidity risk considered important or that IORPs in their MS are exposed to. Four CAs indicated other sources of liquidity risk:

- ▶ Medium liquidity risk exposures in AT in relation to investments in real estate and unlisted equity;
- ▶ Low liquidity risk exposures in BG in relation to the costs for acquisition and sales of assets;
- ▶ Low liquidity risk exposures in HR in relation to investments in domestic securities markets;
- ▶ Low liquidity risk exposures in IE in relation to a sudden cessation of employer contributions to DB schemes.

FIGURE 1: ASSESSMENT IORP LIQUIDITY RISK IN MS, 0 = NONE OR N/A, 1 = LOW, 2 = MEDIUM, 3 = HIGH



Derivative holdings

CAs were asked to provide a (rough) indication of the use of derivative instruments with different kinds of underlying by IORPs in their MS.

Often CAs responded that IORPs do not use a certain type of derivative or that an indication is not available (value of 0) (see Figure 2 below). CAs also frequently indicated that the notional value of the derivatives is below 5% of IORPs' assets.

CAs from seven MS indicated notional values of derivatives between 5 and 20% of IORPs' assets, in particular in relation to derivatives to hedge foreign exchange and interest rate risk:

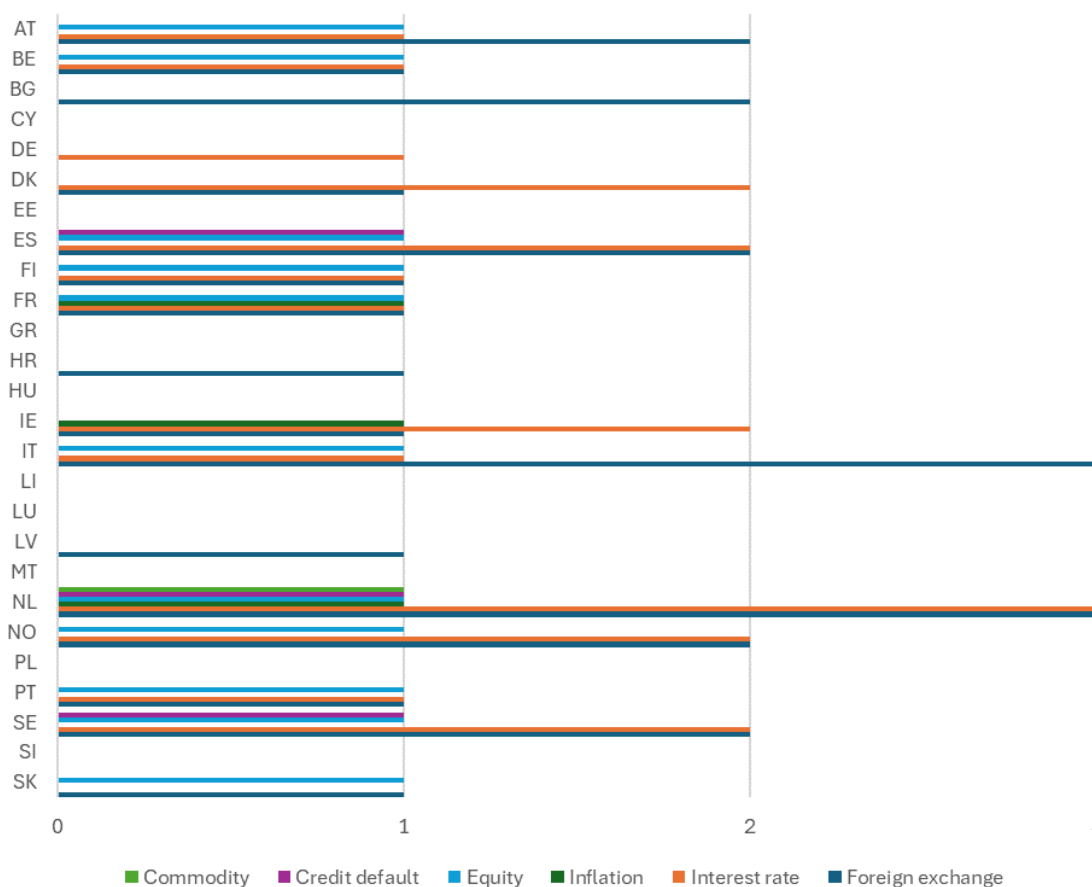
- ▶ Foreign exchange derivatives: AT, BG, ES, NO and SE;
- ▶ Interest rate derivatives: DK, ES, IE, NO and SE.

CAs from two MS indicated notional values of derivatives exceeding 20% of IORPs' assets, also in relation foreign exchange and interest rate derivatives:

- ▶ Foreign exchange derivatives: IT and NL;
- ▶ Interest rate derivatives: NL.

Three CAs reported other types of derivatives that are used by IORPs in their MS, most notably derivatives exposed to multiple factors and derivatives that cannot be specified.

FIGURE 2: INDICATION OF IORPS' USE OF DERIVATIVES, 0 = NONE OR N/A, 1 = NOTIONAL VALUE <5% OF ASSETS, 2 = NOTIONAL VALUE 5-20% OF ASSETS, 3 = NOTIONAL VALUE >20% OF ASSETS



Reporting of detailed derivative data

CAs were asked whether they collect data on IORPs' detailed derivatives holdings, i.e. type of derivative contract, notional amounts and the underlying.

- ▶ Ten CAs (BG, ES, FR, HR, HU, IT, NL, PT, SE and SI) indicated that IORPs have to report derivative data on an item-by-item basis;
- ▶ Five CAs (FI, LI, LU, LV, SK) indicated that IORPs just have to report the (market) value of derivatives in the balance sheet;

- ▶ Five CAs (CY, EE²⁷, IE, MT and PL) indicated that no information is available on derivative holdings of IORPs;
- ▶ Six CAs (AT, BE, DE, DK, GR and NO) responded 'other'.

CAs that indicated 'other' provided the following explanations:

- ▶ In AT, IORPs have to report aggregate derivative data by type of underlying and purpose using a look-through approach;
- ▶ In BE, the CA collects data on IORPs' derivative positions via MiFIR;
- ▶ In DE, part of IORPs ("Pensionskassen" only) have to report aggregate data in relation to direct derivatives holdings only;
- ▶ In DK, the four largest IORPs may report derivative information on a voluntary basis, while the rest are exempt from reporting due to their (small) size;
- ▶ In GR, according to the data submitted, IORPs do not have direct exposures to derivatives;
- ▶ In NO, the 25 largest IORPs have to report derivative positions.

Data on exposures to derivatives to hedge interest rate and foreign exchange risk

CAs which collect item-by-item or 'other' derivative data were requested to provide quantitative information on aggregate IORP exposures to derivatives to hedge interest rate and foreign exchange risk, provided that CAs were able to calculate the requested statistics using reasonable time and effort.

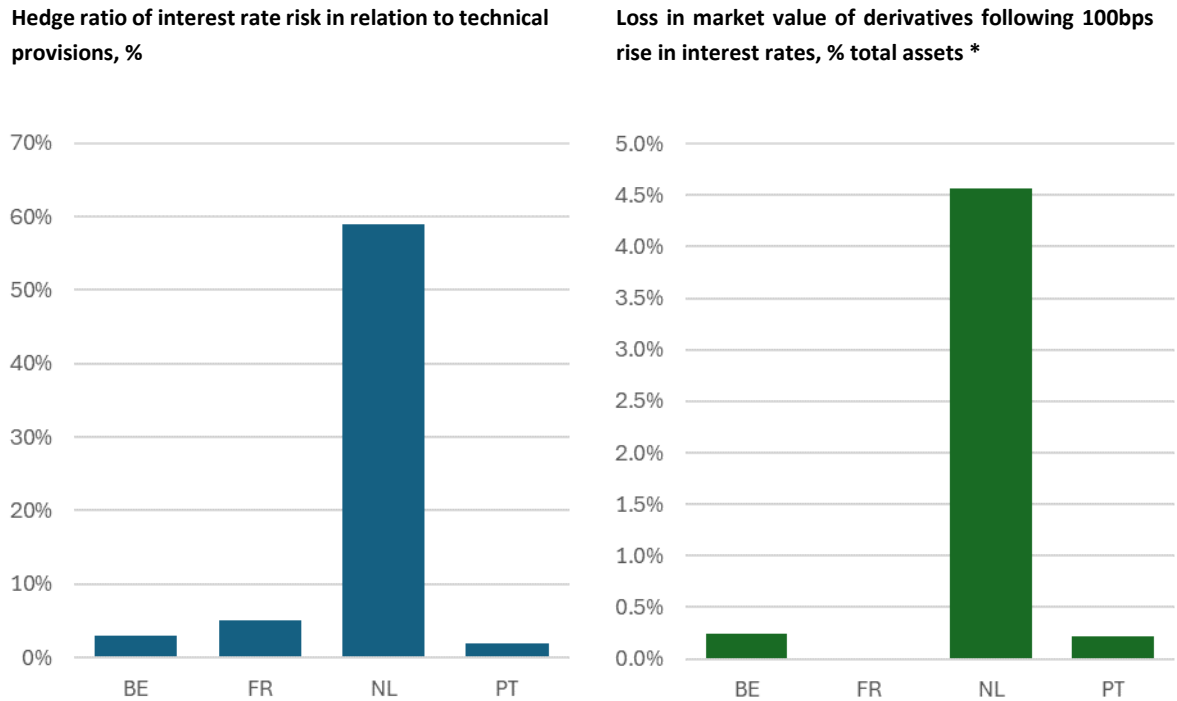
Ten CAs reported exposures to interest rate hedging derivatives in terms of notional amounts. Five of these CAs provided calculations on the extent to which the derivatives mitigated interest rate risk (hedge ratio) and the sensitivity of the market value of the derivatives - and hence margin calls - to a rise in interest rates. Since the calculations of one CA related to one single IORP, Figure 3 shows the results for the remaining four MS:

- ▶ In NL, IORPs in aggregate hedge almost 60% of interest rate risk through derivative instruments. An increase in interest rates by 100 basis points (bps) would result in an aggregate loss of more than 4.5% of the IORPs total asset value;
- ▶ In BE, FR and PT, the use of interest rate derivative hedging is much smaller with hedge ratios being 5% or lower. The loss in the market value of the derivatives is 0.2% of assets or lower following a 100 bps interest rate rise.

EU-wide, an interest rate increase of 100 bps would result in an aggregate loss in the market value of interest rate derivatives of EUR 67 bn. This loss would be predominantly located in NL due to the high degree of interest rate hedging and the large size of the IORP sector in NL.

²⁷ In EE, there are no IORPs.

FIGURE 3: IORPS' EXPOSURE TO INTEREST RATE HEDGING DERIVATIVES, END 2022 ^{a,b,c,d}



* Sensitivity to 1bps (DV01) rise in interest rate was linearly extrapolated to a sensitivity to a 100bps rise.

^a For BE, only five IORPs have reported that they were holding (or held) interest rate derivatives for hedging purposes in 2022.

^b For FR, the data only cover direct derivative holdings and not derivatives held through investment funds.

^c For NL, the data relate to a sample of 188 IORPs.

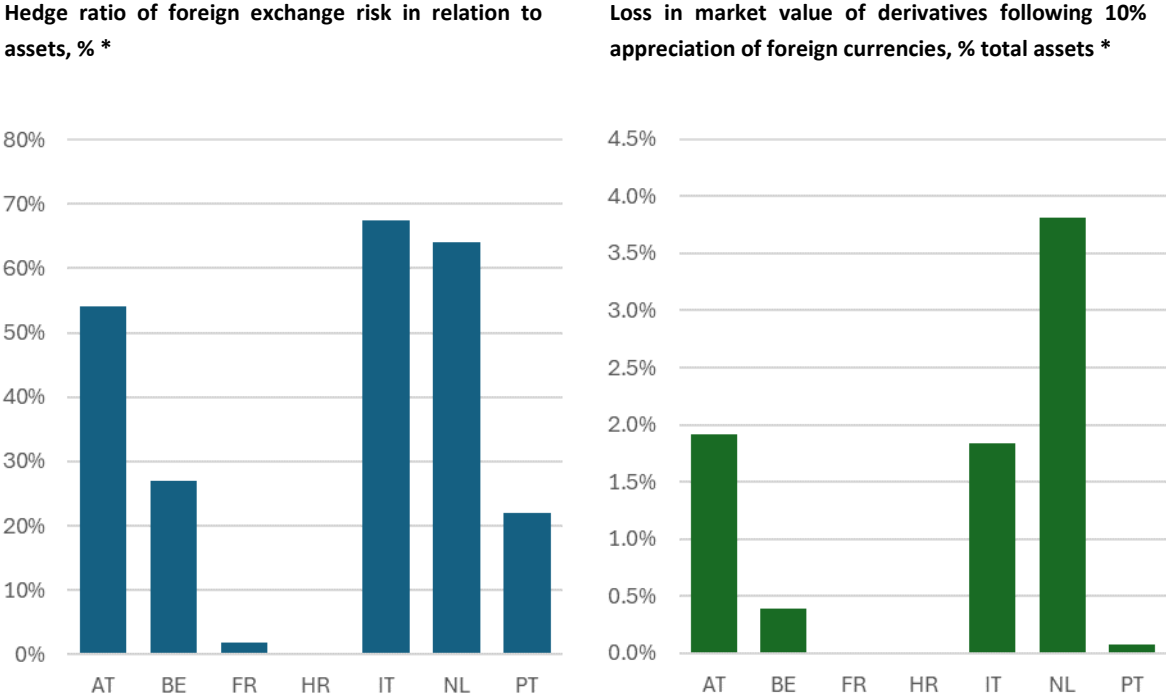
^d For PT, the data relate to end 2023 and only cover direct derivative holdings and not derivatives held through investment funds.

Twelve CAs reported exposures to foreign exchange hedging derivatives in terms of notional amounts. Nine of these CAs provided calculations on the extent to which the derivatives mitigated foreign exchange risk (hedge ratio) and the sensitivity of the market value of the derivatives - and hence margin calls - to an appreciation of foreign currencies. Since the calculations of two CAs related to one single IORP, Figure 4 shows the results for the remaining seven MS:

- ▶ In AT, IT and NL, IORPs hedge in aggregate more than half of foreign currency exposures. In AT and IT, the aggregate decrease in the market value of the derivatives amounts to almost 2% of total assets following an appreciation of foreign currencies by 10%. In NL, the aggregate loss amounts to almost 4% of total assets;
- ▶ In BE and PT, the hedge ratios lie between 20 and 30% and the loss on the derivative positions after an 10% appreciation of foreign currencies is below 0.5% of total assets;
- ▶ In FR and HR, currency hedging through foreign exchange derivatives is limited or non-existent.

EU-wide, an appreciation of foreign currencies by 10% would result in an aggregate loss in the market value of foreign exchange derivatives of EUR 60 bn. This loss would also be predominantly located in NL due to the high degree of currency hedging combined with the large size of the IORP sector in NL.

FIGURE 4: IORPS’ EXPOSURE TO FOREIGN EXCHANGE HEDGING DERIVATIVES, END 2022 ^{a,b,c,d}



* For NL, the hedge ratio refers to USD currency exposures. The hedge ratio corresponding to GBP and JPY currency exposure is somewhat lower, while the hedge ratio corresponding to other currencies is substantially lower.

* Sensitivity to 0.1% appreciation of foreign currencies was linearly extrapolated to a sensitivity to a 10% appreciation.

^a For BE, nineteen IORPs have reported that they were holding (or held) foreign exchange derivatives for hedging purposes in 2022.

^b For FR, the data only cover direct derivative holdings and not derivatives held through investment funds.

^c For IT, the data relate to end 2023 and only cover DC IORPs.

^d For NL, the data relate to a sample of 188 IORPs.

^e For PT, the data relate to end 2023 and only cover direct derivative holdings and not derivatives held through investment funds.

Liability-driven investment funds

Interest rate hedging strategies of UK pension schemes are often implemented through (leveraged) liability-driven investment (LDI) funds. These LDI funds not only hedge interest rate risk with derivatives, but also increase interest rate sensitivity on the asset-side by investing in long-term bonds financed by short-term borrowing (repo).

Three CAs (BE, IE, NL) indicated that IORPs in their MS make use of leveraged LDI funds to hedge interest rate risk (see Figure 5):

- ▶ In BE, these are “single-client” funds that are used for interest rate and inflation risk management;

- ▶ In IE, these are primarily multi-client/pooled funds, whereas the largest schemes have a mix of multi-fund and bespoke arrangements;
- ▶ In NL, LDI funds are primarily used by smaller IORPs which do not have direct access to derivative markets.

FIGURE 5: USE OF LIABILITY DRIVEN INVESTMENT (LDI) FUNDS BY IORPs, # MS

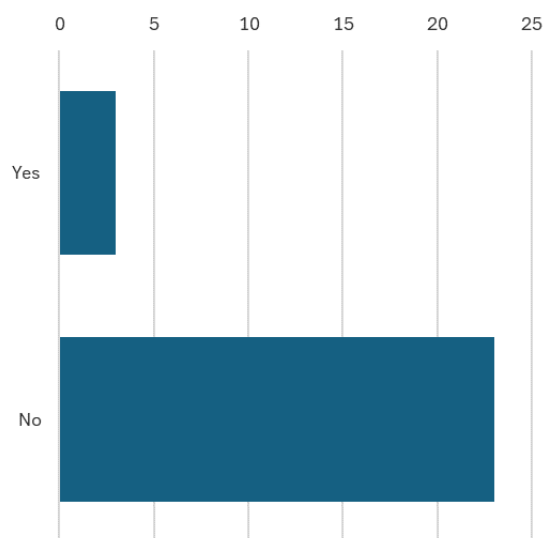
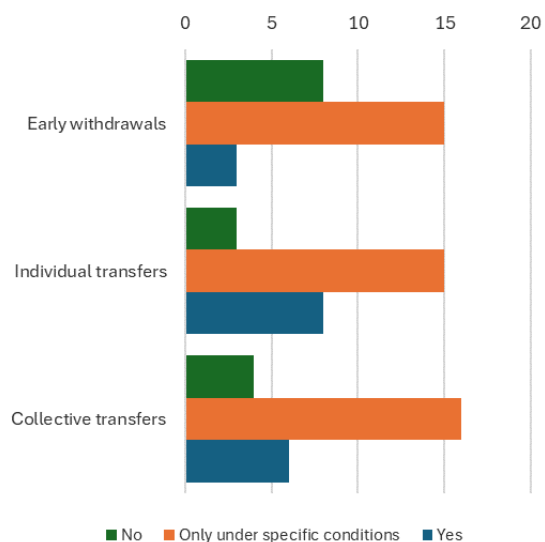


FIGURE 6: POSSIBILITY OF EARLY WITHDRAWALS AND TRANSFERS, # MS



Early withdrawals and transfers

CAs were asked whether early withdrawals, individual transfers and collective transfers are possible in their MS. In most case, early withdrawals and transfers are not possible or only under specific conditions. Early withdrawals and transfers are possible unconditionally in three to seven MS (see Figure 6).

- ▶ Early withdrawals by plan members are always possible in three MS (IE, LI, LU) and under specific conditions in 15 MS (BE, BG, CY, DE, ES, FR, GR, HR, IT, LV, PL, PT, SE, SI, SK). Often these conditions relate to life events, such as disability, long-term unemployment, and the purchase of a house (see Table A.1 in the annex).
- ▶ Individual transfers by plan members are always possible in eight MS (GR, HU, IE, LI, LU, LV, MT, SK) and under specific conditions in 15 MS (BE, BG, CY, DE, DK, ES, FR, HR, IT, NL, NO, PL, PT, SE, SI). Often individual transfers are possible when the plan member terminates / switches employment (see Table A.2 in the Annex).
- ▶ Collective transfers are always possible in six MS (BG, FI, HU, LI, LU, MT) and under specific conditions in 16 MS (AT, BE, CY, DE, DK, ES, FR, GR, HR, IT, LV, NL, NO, PL, PT, SE). Collective transfers are often subject to the approval of the sponsor, social partners, the transferring IORP and the receiving institution and/or the CA (see Table A.3 in the annex).

REGULATION OF IORP LIQUIDITY RISK AND ITS MANAGEMENT

Liquidity plans

Article 14(2)(b) of the IORP II Directive requires that IORPs take into account their liquidity plan in drawing up a recovery plan when assets are insufficient to cover the technical provisions. CAs were asked whether national regulation and/or supervisory measures in their MS require IORPs to have a liquidity plan.

Seven CAs (BE, DE, FI, GR, LU, NO, PT) indicated all IORPs are required to have a liquidity plan, whereas four CAs (CY, DK, HR, LI) replied that a liquidity plan is only required as part of a recovery plan (see Figure 7). Twelve CAs (BG, EE, ES, FR, HU, IE, LV, NL, PL, SE, SI, SK) responded that national regulation or supervisory measures do not impose a liquidity plan.²⁸ Three CAs responded that the requirement for a liquidity plan only applies to some IORPs and/or in specific circumstances:

- ▶ In AT, IORPs have the possibility to value certain debt securities designated hold-to-maturity at their net book value or their net current value. IORPs should outline the suitability of the securities dedicated as hold-to-maturity as a permanent investment based on a conservative liquidity plan. Where the IORP provides a guarantee, the IORP is expected to demonstrate to the CA that it has sufficient liquidity reserves to be able to meet the pension benefit obligations for the following financial years.
- ▶ In IT, a liquidity plan is required in the event of merger, transformation or termination of the scheme.
- ▶ In MT, IORPs would include information on liquidity in the information to be sent to the CA for review, normally as part of the statement of investment policy principles (SIPP).

In seven MS (BE, CY, DK, GR, HR, LU, NO) out of the fourteen MS where a liquidity plan is prescribed, the elements of the liquidity plan are not specified (see Figure 8). In GR, according to the new legislation, the details will be determined by a decision of the CA. Three CAs (AT, DE, PT) indicate that expected cash in- and outflows as well as projected cash in- and outflows under stressed circumstances must be included. Two CAs (LI, PT) responded that arrangements or measures to resolve potential liquidity needs must be covered by the liquidity plan. Four CAs indicated 'other' main elements:

- ▶ In AT, a specification of the hold-to-maturity debt securities and a breakdown of cash in- and outflows must be provided in the liquidity plan as well as an assessment of prescribed stress scenarios;
- ▶ In DE, supervisory guidance²⁹ stipulates an adequate liquidity planning and a sensitivity analysis, linking risk management to liquidity planning and ALM. Measures to resolve potential liquidity needs are foreseen for special cases when deemed necessary. Liquidity indicators have to be assigned to especially fixed income assets;

²⁸ IORPs in SE are not allowed to have less assets than technical provisions.

²⁹ Circular 11/2017 (VA).

- ▶ In FI, liquidity risk is covered by the investment plan, which has to include an actuary’s report for investment risk management in relation to the (nature of) technical provisions and maintaining liquidity;
- ▶ In IT, the elements of the liquidity plan are decided on a case-by-case basis depending on the situation of the specific IORP.

FIGURE 7: REQUIREMENT TO HAVE LIQUIDITY PLAN, # MS

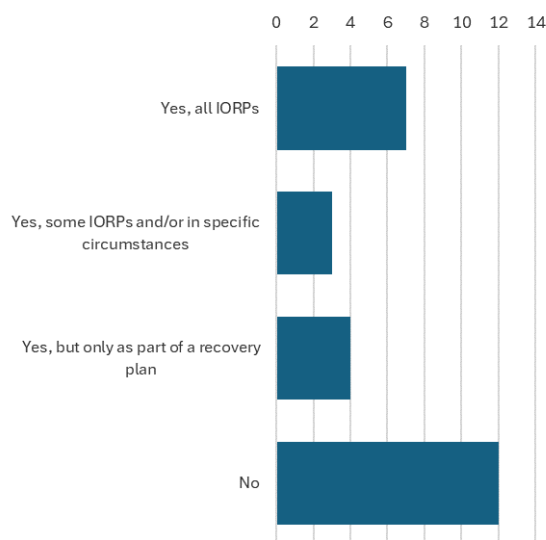
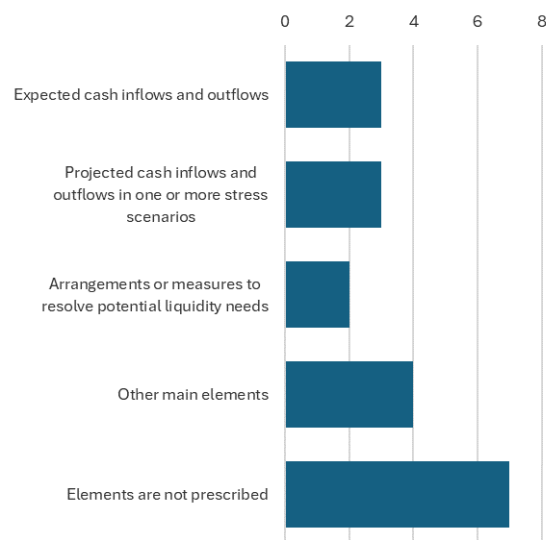


FIGURE 8: MAIN ELEMENTS LIQUIDITY PLAN, # CAS INDICATING ELEMENT



The time horizon of the liquidity plan is often not prescribed or depends on the IORPs’ specificities. In IT, it is decided upon on a case-by-case basis. Some CAs specified a time horizon:

- ▶ In AT, the time horizon extends until the maturity of the hold-to-maturity debt securities;
- ▶ In DE, the time horizon also depends on IORPs’ specificities, but a minimum of 5 years applies for supervisory practices, like on-site inspections;
- ▶ In LU, the time horizon equals three years;
- ▶ In NO, the time horizon should be at least 12 months.

The frequency of updating the liquidity plan is in some MS not prescribed or depends on the IORPs’ specificities. In IT, the frequency is decided upon on a case-by-case basis. A number of CAs specified a frequency of updating:

- ▶ In AT, the liquidity plan should be updated in the event of changes in hold-to-maturity securities and, where the IORP provides guarantees, at least annually;
- ▶ In BE, the plan should be updated every three years;
- ▶ In DE, the plan should be updated regularly and in case of need or special events;

- ▶ In FI and LU, the liquidity plan should be updated annually;
- ▶ In NO, the liquidity plan should be updated at least quarterly.

Liquidity of assets

Article 19(1)(c) of the IORP II Directive prescribes that the IORPs' assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Nine CAs indicated that national regulation and/or supervisory measures in their MS impose additional requirements on IORPs' investments in assets to ensure the liquidity of the investment portfolio:

- ▶ In AT, quantitative limits are imposed on the share of debt securities that can be designated as hold-to-maturity;
- ▶ In BG, national regulation prescribes eligible assets in which IORPs can invest and requires for certain assets that they are traded on regulated markets (or equivalent third-country markets). In addition, a national regulation³⁰ prescribes the minimum amount of liquid funds and the assets that are considered liquid for this purpose;
- ▶ In ES, national regulation imposes a liquidity coefficient, depending on projections of liquidity needs, the age of members and the possibility of advance payments, which has to be held in cash at bank, bank deposits and money market funds with maturities not exceeding three months. Moreover, regulation sets out liquidity requirements on investment in structured financial assets;
- ▶ In HR, national regulation lays down thirteen categories of assets in which IORPs are allowed to invest. Moreover, regulation and supervisory measures impose further quantitative restrictions on certain assets, promoting the liquidity of IORPs' investment assets;
- ▶ In IT, IORPs are not allowed to invest more than 30% of their assets in securities not traded on regulated markets;
- ▶ In MT, supervisory measures impose an extensive list of investment restrictions on IORPs;
- ▶ In PT, investments in assets which are not admitted to trading on a regulated market are not allowed to exceed 15% of the IORPs' portfolio value;
- ▶ In SE, IORPs need to ensure that they are able to fulfil their obligations towards the members and beneficiaries at all times;
- ▶ In SI, IORPs are required to formulate and implement a liquidity management policy, including the planning of cash in- and outflows, monitoring of liquidity and taking appropriate measures to prevent or eliminate the causes of illiquidity. Moreover, IORPs must calculate asset liquidity ratios on an ongoing basis.

Temporary borrowing for liquidity purposes

Article 19(3) of the IORP II Directive prohibits IORPs from borrowing. However, MS may authorise IORPs

³⁰ Ordinance 10 of 29 June 2021.

to carry out some borrowing only for liquidity purposes and on a temporary basis.

Nearly all MS allow IORPs to borrow for liquidity purposes and on a temporary basis (see Figure 9) except for four MS (BG, HU, IT, PL). More than half of MS (AT, DE, DK, EE, ES, FR, GR, HR, LV, MT, SE, SI, SK) that allow temporary borrowing impose additional requirements (see Figure 10). In DE borrowing is only possible in exceptional cases, as generally assets have to be liquidated to fulfil liquidity needs. In DK and FR borrowing is subject to prior approval of the CA and in ES subject to prior notification. In GR, the CA should be informed in case of temporary borrowing for liquidity purposes by an IORP. Other MS specify the size and the time period of the borrowing:

- ▶ The maximum borrowing amounts to 5% of assets in HR, 10% of assets in LV, MT and SI and 25% of assets in EE. In AT borrowing should be at a cautious level and in SE small amounts are allowed;
- ▶ The maximum time period amounts to 3 months in HR and LV, 6 months in SI and 12 months in AT and SK.

FIGURE 9: TEMPORARY BORROWING FOR LIQUIDITY PURPOSES ALLOWED, # MS

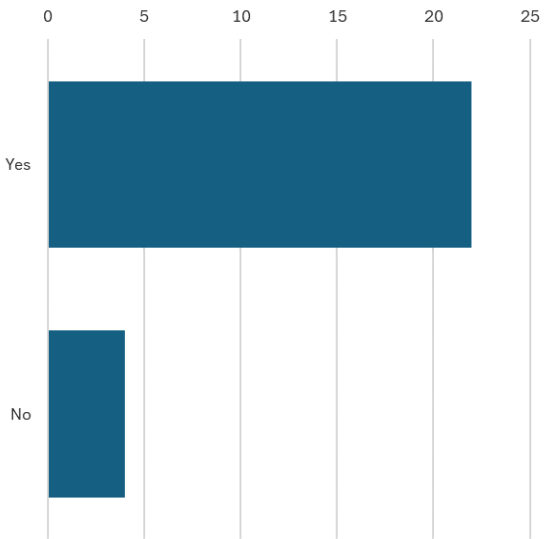
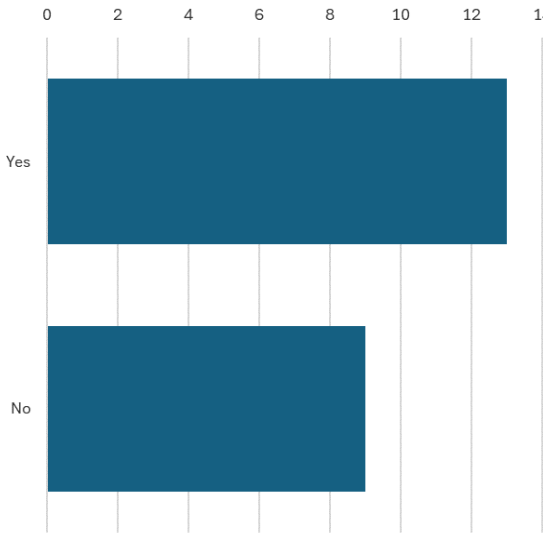


FIGURE 10: ADDITIONAL REQUIREMENTS ON TEMPORARY BORROWING FOR LIQUIDITY PURPOSES, # MS



Liquidity risk management and own-risk assessment

Article 25(2)(d) of the IORP II Directive requires that the risk-management system of IORPs shall, amongst others and where applicable, at least cover liquidity risk management. Article 28 requires IORPs to carry out and document their own-risk assessment (ORA).

Six MS impose additional requirements on IORPs through national regulation (Level 1/2) and/or supervisory measures (Level 3) with regard to the inclusion of liquidity risk in the risk-management

system (see Figure 11)³¹:

- ▶ In AT, the CA provided guidance on the holistic interpretation of the ORA, also in respect of liquidity risk management;
- ▶ In BG, national regulation³² requires IORPs to develop quantitative models and indicators for liquidity risk;
- ▶ In HR, national regulation imposes liquidity risk management requirements in relation stress testing and the maintenance of liquid assets;
- ▶ In PT, level 2 regulation lays down risk management requirements in respect of identifying risk measures and establishing risk tolerance limits, including for liquidity risk, while level 3 guidance provides a definition for liquidity risk, potential sources of liquidity risk and the elements to be taken into account in the risk management and internal control systems to ensure a sound and prudent management of liquidity risk;³³
- ▶ In SE, supervisory measures require IORPs to calculate a risk-based capital ratio, including liquidity risk;
- ▶ In SK, national regulation requires IORPs to prepare projections and assess the impact of investments on liquidity.

³¹ In GR, national regulation provides for the adoption of a decision by the CA on risk management.

³² Ordinance 59.

³³ ASF is in the process of revising Level 2 / 3 regulation with regard to the system of governance of pension fund management entities and changes to the provisions on liquidity risk management are expected.

FIGURE 11: ADDITIONAL REQUIREMENTS ON LIQUIDITY RISK IN RISK-MANAGEMENT SYSTEM, # MS

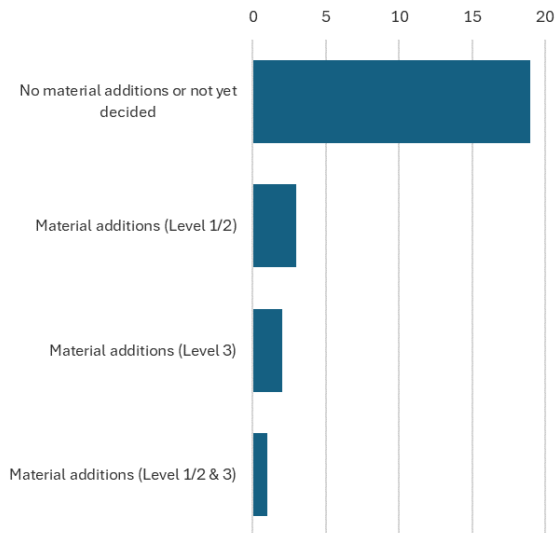
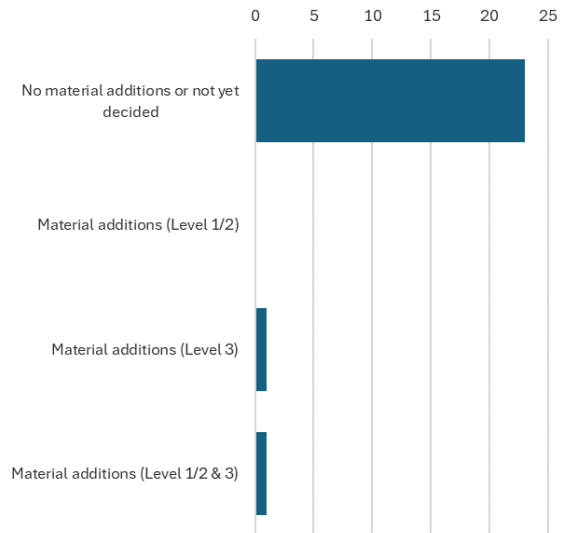


FIGURE 12: ADDITIONAL REQUIREMENTS ON LIQUIDITY RISK IN OWN-RISK ASSESSMENT, # MS



Two MS impose additional requirements on IORPs with regard to the inclusion of liquidity risk in the ORA (see Figure 12)³⁴:

- ▶ In AT, the guidance on the holistic interpretation of the ORA addresses several aspects related to liquidity risk management, such as the obligation of additional contributions, the financial soundness of the employer and pension reductions;
- ▶ In FR, supervisory guidance specifies that the ORA is expected to include an analysis of the quality and liquidity in the representation of the IORPs' commitments.

Supervisory assessment of liquidity risk

Article 49(1)(b) and (c) of the IORP II Directive provide that the supervisory review process shall comprise an assessment of the risks the IORP faces as well as an assessment of the ability of the IORP to assess and manage those risks. Two MS (AT, HR) impose more specific requirements on the supervisory review process in relation to liquidity risks that IORPs face (see Figure 13). In AT, the CA is tasked with supervising the use of hold-to-maturity designated instruments. In HR, the CA may revoke the IORP's licence, if it conducts its activities in a manner that jeopardises the IORP's liquidity or solvency.

³⁴ In GR, national regulation provides for the adoption of a decision by the CA on ORA.

FIGURE 13: ADDITIONAL REQUIREMENTS ON LIQUIDITY RISK IN SUPERVISORY REVIEW PROCESS, # MS

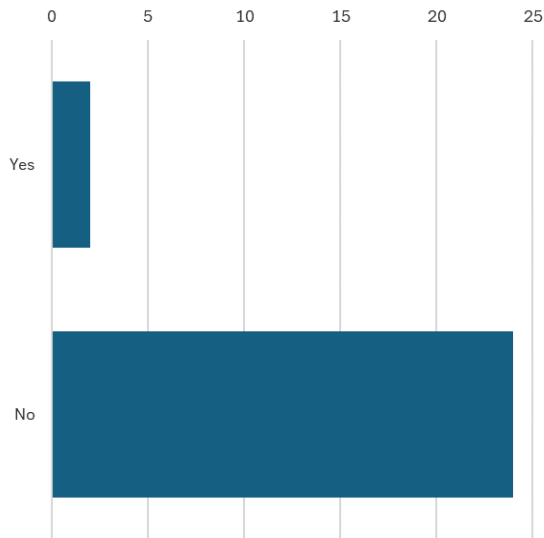
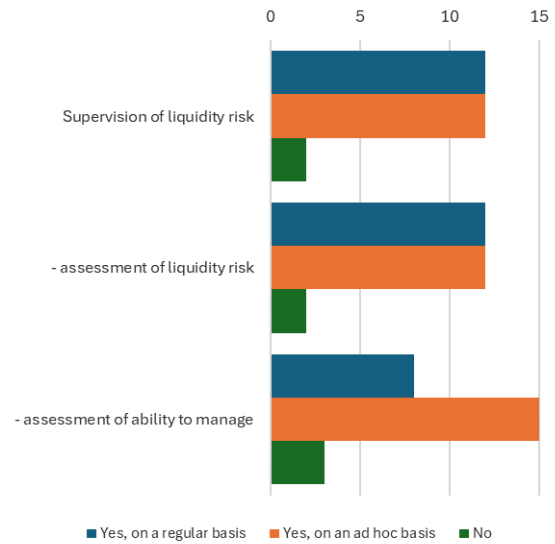


FIGURE 14: SUPERVISION OF IORP LIQUIDITY RISKS AND ITS MANAGEMENT, # CAS



SUPERVISION OF IORP LIQUIDITY RISK AND ITS MANAGEMENT

CAs were asked whether they supervise liquidity risks of IORPs, including an assessment of the liquidity risk the IORP faces and the ability of the IORP to assess and manage liquidity risks. In two MS (EE, SK) no supervision of liquidity risk is carried out because:

- ▶ in EE, there are no IORPs;
- ▶ in SK, the CA is transitioning towards risk-based supervision, including liquidity risk.

Supervision of liquidity risk on a regular basis

In almost half of MS (AT, BG, FI, FR, HU, LI, LV, MT, NL, PL, PT, SI) liquidity risk is supervised on a regular basis (see Figure 14).

In these MS, liquidity risk tends to be part of CAs' ongoing monitoring and risk assessment of individual IORPs and the sector as a whole. The liquidity risk assessment is based on information from the annual investment plan (FI), annual and quarterly reports (HU, LI), annual and quarterly financial statements (MT, PL), on-site inspections (LI) and dialogues with the IORP's management (LI). In LI, the CA applies different supervisory tools (dashboard, control forms, integrated risk assessment system) to process the information.

The frequency of liquidity risk monitoring ranges from weekly (FR), monthly (BG), quarterly (LV) to annual (BG, FI, FR, LV, NL, SI). Some CAs (BG, FR, LV) use multiple frequencies. The CA in BG calculates its liquidity indicator on a monthly and annual basis. Apart from the liquidity risk assessment on an

annual basis, the CA in LV performs liquidity checks on a quarterly basis. In FR, the CA also disposes of a weekly surveillance tool, which monitors IORPs' inflows (premiums) and outflows (withdrawals).

Several CAs have indicators in place to monitor liquidity risk. In BG, FI and PT, the (il)liquidity of investment assets is monitored. In FR, the liquidity of assets is checked in relation to the IORPs' commitments. In NL, IORPs are scored on a scale from 1 to 4 using two indicators: (1) stressed liquidity needs divided by high quality liquid assets (HQLA), and (2) stressed margin call divided by liquid assets.

A number of CAs mention that certain factors mitigate liquidity risks. In AT, IORPs are still maturing, with few members already receiving pension benefits and the schedule of pension payments being quite predictable. In PL and PT, the use of derivatives is respectively non-existent or low. Nevertheless, the CA in PT screens the impact of these instruments in the context of other risks, mainly foreign exchange, equity and interest rate risks.

The assessment of the IORPs' ability to manage liquidity risks is carried out on a regular basis by fewer CAs than the assessment of liquidity risks (see Figure 14). In BG, the CA does a qualitative evaluation regarding the application of internal rules for the procedures for monitoring, measuring and managing the liquidity risk. In MT, the CA assesses whether the IORPs' investments comply with the investment parameters and restrictions in regulation and the scheme rules. In PL, the CA also assesses compliance with the law, the provisions of the IORPs' statutes and appropriate consideration of the interests of IORPs' members. This assessment is based on information from the depositary, which has an important whistleblowing function. In NL, the assessment of IORPs' ability to manage liquidity risk is also based on a score in a range from 1-4 and based on a questionnaire with 24 questions.

In FR, almost all IORPs belong to insurance groups which are subject to Solvency II governance and risk management requirements. Those groups are subject to the Solvency II requirements liquidity risk management, which are supervised on a consolidated basis, i.e. including the IORP. For the largest insurance groups, the CA performs regular oversight of liquidity positions, projections and stressed projections.

Some CAs indicate that the supervision of liquidity risk takes a two-stage approach. Based on the broad monitoring and/or analysis of governance documents, a more detailed assessment may follow through using on-site or off-site inspections. In HU, a detailed assessment of the liquidity risk is only carried out occasionally, since there is only one IORP with a negligible market weight compared to voluntary pension funds. In LI, one major IORP dominating the rest of the sector is the focus of supervisory attention as far as liquidity risks are concerned.

Supervision of liquidity risk on an ad hoc basis

In almost the other half of MS (BE, CY, DE, DK, ES, GR, HR, IE, IT, LU, NO, SE) liquidity risk is supervised on an ad hoc basis (see Figure 14).

Also in these MS, liquidity risk is assessed through the review of governance documents, such as the ORA (BE, ES), SIP (BE) and financing plans (BE). In DE, EIOPA's liquidity survey was adapted and rolled out to a selected group of IORPs. Often liquidity risk (management) is assessed as part of on-site and/or off-site inspections of specific IORPs (DE, DK, HR, NO), explaining the ad hoc nature of the supervision.

In SE, supervision of liquidity risk depends on the unfolding of stressed events, like the pandemic during which time the CA assessed, and contacted IORPs about, the liquidity situation of IORPs.

Two CAs (CY, HR) mentioned that they assessed whether IORPs have sufficient liquid assets to meet anticipated liquidity needs. In DK, when liquidity risk is in the inspection's focus, the CA will review and challenge the IORPs' policies and processes to ensure that the risks are measured and managed adequately. In IT, the CA performs horizontal supervisory checks on IORPs' derivative exposures, in particular in relation to foreign exchange derivatives.

Two CAs (BE, DE) indicated a two-stage approach to the supervision of liquidity risks. In BE, additional supervision is carried out on an ad-hoc basis depending on IORP circumstances such as collective transfers or upon their use of LDI strategies. In DE, if the IORP's liquidity situation is deemed not to be sufficient, the IORP has to explain comprehensibly which will be taken to resolve the situation. Moreover, a liquidity planning for the past two and the coming five years has to be presented as well as adequate risk management tools and guidelines.

Three CAs (DE, IT, LU) explained why liquidity risk is not supervised on a regular basis. In DE, so far, no single IORP ever experienced a liquidity shortfall. In IT, liquidity risks are not considered material. In LU, one of the conditions for approval of IORPs is that the sponsoring undertakings commit to guarantee at all times the solvency and liquidity of the IORP.

Two CAs are planning to further develop their liquidity risk monitoring. In IE, liquidity positions are assessed as part of the monitoring of the largest DB schemes. However, the supervisory review process is currently under development, in particular in relation to larger DC schemes or master trusts in which a large number of smaller schemes are now consolidating following the introduction of IORP II. In SE, there is a planned activity to add a liquidity measure in the first automatic screening of the quarterly reporting templates.

ANNEX: CONDITIONS FOR EARLY WITHDRAWALS, INDIVIDUAL TRANSFERS AND COLLECTIVE TRANSFERS

TABLE A.1: CONDITIONS FOR EARLY WITHDRAWALS	
BE	Early withdrawals are not possible except for the purchase, construction or renovation of a property, in so far the pension plan allows this.
BG	Specific conditions, e.g. termination of the employment relationship, could be introduced in the collective agreements establishing the occupational scheme.
CY	For the majority of IORPs, possible in case of termination of employment before the retirement age.
DE	Only feasible before vested benefits are acquired, but early withdrawals rarely occur.
ES	Possible in cases of serious illness or long-term unemployment, provided that this is specified in the pension plan.
FR	Possible, for example, in the event of death of the spouse of the plan member, permanent disability of the plan member, or the children or spouse of the plan member, situation of over-indebtedness of the plan members, and the purchase of the main residence, for some contracts. The IORP is subject to a legal period within which it must complete the withdrawal.
GR	Possible if it is provided for by the IORP statute and the terms of the pension scheme and as long as the member has at least 15 years of membership and does not meet the conditions for advance payment. For schemes where members bear the investment risk the amount is paid once and cannot exceed 50% of the value of the accumulated capital.
HR	<p>Possible in the following situations:</p> <ul style="list-style-type: none"> ▶ Pension rights can be exercised earlier in the event of death of a member, under the conditions stipulated in the membership agreement (agreed between IORP and its member). ▶ Early one-time withdrawal or early multiple periodic withdrawals are possible in the occurrence of the complete loss of the member's ability to work or in the occurrence of member's general inability to work. ▶ Workers terminating employment in Croatia due to starting employment in another EU member state.
IT	Possible for personal circumstances, listed and regulated by law, such as medical expenses and purchase of the first house.
LV	<p>Possible in the following situations:</p> <ul style="list-style-type: none"> ▶ A pension plan member who is recognised as a person with a disability of the first group for life is entitled to receive payments under the terms of the pension plan before retirement age. ▶ In the event of the pension plan member's death, the accumulated funds are paid to the beneficiaries. ▶ In addition, there are rules that set out special professions for which the retirement age of workers in private pension funds' pension plans may be less than 55 years are approved.
PL	Only possible in the event of liquidation of the IORP. If the IORP member does not make a transfer payment to another IORP or to an individual retirement account (IKE) within the deadline specified by law, then the funds are returned without the need to submit an individual instruction.
PT	In contributory plans, members are entitled to receive the amount determined based on their own contributions in the event of long-term unemployment, serious illness or permanent incapacity to work.

SE	Possible as from age 55.
SI	Only part of the assets that was contributed by the plan member can be withdrawn. Early withdrawals are penalised by the tax system.
SK	Possible once every 10 years, but only to the amount of the plan member's contributions.

TABLE A.2: CONDITIONS FOR INDIVIDUAL TRANSFERS

BE	<p>When leaving the company, workers have the legal right to transfer their rights to the new employer's pension institution.</p> <p>To the extent that the pension plan provides for investment options, members usually have the option to change their options (within the plan). This depends on the scheme rules.</p>
BG	<p>Individual transfers of funds accrued from personal contributions are possible upon termination of the employment/analogous relationship with the sponsoring undertaking.</p> <p>Individual transfers of funds accrued from both personal contributions and contributions by the sponsoring undertaking could also be possible in the cases and under the conditions specified in the collective agreement establishing the occupational scheme.</p>
CY	Individual transfers are allowed in cases where the sponsoring undertaking provides such an option to its workers.
DE	Within one year after termination of an employment relationship, the worker can demand a transfer to the provider of the new employer.
DK	Transfer is possible if the beneficiary is in the accumulation phase, and no longer holds a position in the sponsoring company.
ES	Only possible in the event of termination of the employment relationship, unless it is expressly prevented by the specifications of the pension scheme, and the termination of the pension scheme.
FR	Only possible in certain situations, such as the termination of the employment relationship with the sponsoring company.
HR	<p>Possible, in accordance with the IORP's prospectus and statute, if the following IORP membership requirements cease to exist: (1) employment with the IORP sponsor employer, (2) membership in the IORP sponsor trade-union, (3) membership in the IORP sponsor professional or independent activity association, (4) self-employment status.</p> <p>Moreover, IORP members, which are not yet entitled to a pension, can terminate their IORP membership, provided that they simultaneously enter into IORP membership with another provider. Workers terminating employment in Croatia due to starting employment in another EU member state are exempt from this condition.</p>
IT	Possible to transfer accrued pension pot to another pension fund after two years of participation.
NL	Participants can request an individual value transfer, for example when changing employment. The IORP can only facilitate this if the funding ratio is 100% or higher.
NO	Plan members with an individual paid-up policy are permitted to transfer their earned pension rights to a life-insurance undertaking with a corresponding licence.

PL	An individual transfer of funds may be made by a IORP member at any time to the individual retirement account (IKE) after concluding an agreement on maintaining the IKE and submitting an instruction, or in the event of termination of employment with the current employer, making a transfer to another employer, provided that an employee pension plan is maintained.
PT	<p>Individual transfers to other pension funds may occur in the beginning or during the pay-out phase.</p> <p>Pension benefits may also be paid through a lifetime annuity provided by an insurance undertaking and, if allowed by the plan rules, members may request that part of the pension benefits be paid in the form of a lump sum. The total amount of own contributions can also be received as a lump sum. These situations also represent a cash-out flow for the pension fund.</p> <p>Considering that in Portugal a pension plan can be financed by more than one pension fund (e.g. DC pension plans with investment options, where each pension fund represents a different investment option), individual transfers may occur, subject to the contractual conditions, when a member decides to transfer a certain accumulated amount from one investment option to another.</p> <p>In plans with vested rights, after their acquisition, and also with regard to own contributions, members who cease their relationship with the employer are given the possibility to transfer of the amount to which they are entitled to another pension fund that guarantees the same benefits. For smaller amounts, and if allowed by the plan rules, the members may request the payment to be made in the form of a lump sum.</p>
SE	Possible for DC contracts with or without guarantees, but not for DB contracts.
SI	Possible if the receiving scheme is listed in the register of the approved pension plans.

TABLE A.3: CONDITIONS FOR COLLECTIVE TRANSFERS

AT	<p>A cancellation of the Pensionskasse contract by the employer or the Pensionskasse or a termination of the Pensionskasse contract by common consent shall only be admissible and legally effective if a transfer of the parts of the assets to another Pensionskasse, a foreign IORP, an occupational group insurance of an insurance undertaking licensed to operate the life assurance business within the domestic territory, or an institution of supplementary pension insurance pursuant to Article 479 ASVG is guaranteed.</p> <p>The cancellation or termination by common consent may typically only be made jointly for all beneficiaries covered by said Pensionskasse contract. By way of derogation, in the case of an intended transfer to a foreign IORP, the cancellation or termination by mutual consent of the Pensionskasse contract shall require prior approval of the majority of affected beneficiaries. In the event of the termination by the Pensionskasse and the intended transfer to a foreign IORP the termination shall require the approval of the employer in question and the aforementioned voting procedure.</p> <p>The notice period for the cancellation of the Pensionskasse contract by the employer or the Pensionskasse is one year. Notice may only be given effective as of the Pensionskasse's balance-sheet date. The termination of the Pensionskasse contract by common consent shall become effective on the Pensionskasse's balance-sheet date at the earliest, which must be at least six months after the agreement on the termination of the Pensionskasse contract by common consent.</p>
BE	The plan sponsor has the right to entrust the management of the pension plan to a new pension institution. In that case, subject to compliance with social consultation procedures, the sponsor may choose to transfer the assets to the new institution.
CY	The transfer is subject to the approval of the Registrar of IORPs.

DE	Both the assets and the liabilities are to be transferred and both the rendering and the receiving provider must agree. The transfer needs the permission of the CA. The CA checks that neither the plan members nor both pension providers have a disadvantage due to the transfer.
DK	A collective transfer is only possible with an approval from the CA. The CA will consider all information available and will make sure that the transfer is both economically and socially sound. Additionally, it is a condition that the protection of members and beneficiaries is ensured in the transfer. Before the transfer, the members and beneficiaries can raise with the CA objections against and concerns about the transfer.
ES	Possible in the event of corporate transactions, such as a merger, or in the event of a termination of the pension scheme.
FR	Collective transfers, at the initiative of the sponsoring undertaking or the subscribing association, are possible but must comply with certain conditions such as a notice period (contractual period up to 6 months) and be reasoned/justified, in particular as regards the choice of the new IORP / insurance undertaking.
GR	Possible subject to approval of the CA. Article 12 of IORP II, as transposed into legislation in Greece, covers internal collective transfers as well.
HR	Possible, if the transferring IORP and receiving IORP enter into a written agreement containing and defining the terms and conditions prescribed by the IORP Act, as well as acquire prior approval of the transfer by the CA. The CA has adopted an ordinance further defining the procedures, conditions and method of the respective transfer.
IT	Possible in the event of extraordinary operations of the pension fund that imply the closure of the pension fund/scheme.
LV	Possible if the employer wishes to contribute to another plan or pension fund for the benefit of its workers. The transfer must be coordinated with the supervisor. Until now, there have been no cases of employers wishing to transfer their accumulated funds.
NL	The pension administrator, at the request of the employer or, in the case of industry-wide pension funds, the parties who have agreed on the pension scheme, is authorised to carry out collective value transfers if: <ul style="list-style-type: none"> ▶ the value transfer aims to place the value with the receiving pension administrator with whom the employer has entered into an implementation agreement, in connection with the termination of the implementation agreement between the employer and the transferring pension administrator; ▶ the employer is taken over as a result of a transfer of a company, and the acquiring company has entered into or is going to enter into an implementation agreement with another pension administrator or the same pension administrator; ▶ the value transfer aims, in connection with a collective amendment of the pension agreements, to utilise the value of pension entitlements or rights with the same pension administrator in accordance with those amended pension agreements; or ▶ the value transfer aims to place the value in another collective circle at the same general pension fund.
NO	If the employer is no longer part of the sponsoring group, the employer may transfer the pension scheme to another IORP or a life insurance undertaking with a corresponding licence.
PL	Only possible in the event of a change in the manager of the pension scheme or its liquidation.
PT	The transfer has to be formalised through a termination contract to be signed by the sponsor and the pension fund management entity. Depending on the type of pension fund or scheme, this contract is either subject to prior authorisation from the CA or has to be notified to the CA.
SE	For DB contracts only possible after approval of the CA.

ANNEX III: SUMMARY OF QUESTIONS TO STAKEHOLDERS

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? Please explain.

Q2: Do you agree with the definitions of 'liquidity risk' and 'material liquidity risks' in paragraphs 3.1 and 3.2? Please explain your answer and provide any suggestions to improve the definitions.

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:

- in collecting derivative data from asset managers to monitor and assess liquidity risks in relation to margin and collateral calls;

- in reporting relevant derivative data to NCAs?

If 'yes', please explain.

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? Please explain.

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? Please explain your answer.

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? If 'no', please explain why and provide any suggestions on what other measures IORPs would put in place.

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? If 'yes', please explain.

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? If 'no', please explain why not and provide any suggestions on alternative practices used by IORPs.

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?

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

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

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

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? 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? Please explain.

Q14: Do the expectations put forward in the draft Opinion achieve a proportionate approach to liquidity risk management of IORPs? If not, please provide your suggestions to improve proportionality of the draft Opinion.

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? Please explain and provide any suggestions.

Q16: Do you have any other comments on the draft Opinion / consultation paper? If yes, please provide these other comments?

CP ON DRAFT OPINION ON SUPERVISION OF IORP LIQUIDITY RISK MANAGEMENT

▶ I Introduction

1. The European Insurance and Occupational Pension authority (EIOPA) is committed to protecting individuals' personal data in accordance with Regulation (EU) 2018/1725³⁵ (further referred as "the Regulation").
2. In line with article 15 and 16 of the Regulation, this privacy statement provides information to the data subjects relating to the processing of their personal data carried out by EIOPA.

▶ Purpose of the processing of personal data

3. Personal data is collected and processed to manage online public consultations EIOPA launches, and to conduct online surveys, including via online platform EUSurvey³⁶, and to facilitate further communication with participating stakeholders (e.g., when clarifications are needed on the information supplied or for the purposes of follow-up discussions that the participating stakeholders may agree to in the context of the consultations or surveys).
4. The data will not be used for any purposes other than the performance of the activities specified above. Otherwise you will be informed accordingly.

▶ Legal basis of the processing of personal data and/or contractual or other obligation imposing it

5. The legal basis for this processing operation are the following :
 - Regulation (EU) No 1094/2010, and notably Articles 8, 10, 15, 16, 16a and 29 thereof
 - EIOPA's Public Statement on Public Consultations
 - EIOPA's Handbook on Public Consultations
6. In addition, in accordance with Article 5(1)(a) of the Regulation, processing is lawful as it is necessary for the performance of a task carried out in the public interest.

³⁵ Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39–98.

³⁶ For more information on the processing of personal data in EUSurvey, please see the [dedicated privacy statement](#)

▶ **Controller of the personal data processing**

7. The controller responsible for processing the data is EIOPA's Executive Director.

8. Address and email address of the controller:

Westhafen Tower, Westhafenplatz 1

60327 Frankfurt am Main

Germany

fausto.parente@eiopa.europa.eu

▶ **Contact detail of EIOPA's Data Protection Officer (DPO)**

9. Westhafenplatz 1, 60327 Frankfurt am Main, Germany

dpo@eiopa.europa.eu

▶ **Types of personal data collected**

10. The following personal data might be processed:

- Contact details (name, email address, phone number).
- Employment details (company and job title).

▶ **Recipients/processors of the personal data collected**

11. Data will be collected and disclosed to the relevant staff members part of the Department/Unit in charge of the consultation/surveys and also to other EIOPA's staff on a need-to-know basis (e.g IT staff, security officer).

▶ **Retention period**

12. Personal data collected are kept by until the finalisation of the project the public consultation or the survey relate to.

13. The personal data collected in EUSurvey are deleted from EU Survey as soon as the period to provide answers elapsed.

▶ **Transfer of personal data to a third country or international organisations**

14. No personal data will be transferred to a third country or international organisation. The service provider is located in the European Union.

▶ **Automated decision-making**

15. No automated decision-making including profiling is performed in the context of this processing operation.

▶ **What are the rights of the data subject?**

16. Data subjects have the right to access their personal data, receive a copy of them in a structured and machine-readable format or have them directly transmitted to another controller, as well as request their rectification or update in case they are not accurate. Data subjects also have the right to request the erasure of their personal data, as well as object to or obtain the restriction of their processing.

17. Where processing is based solely on the consent, data subjects have the right to withdraw their consent to the processing of their personal data at any time.

18. Restrictions of certain rights of the data subject may apply, in accordance with Article 25 of Regulation (EU) 2018/1725.

19. For the protection of the data subjects' privacy and security, every reasonable step shall be taken to ensure that their identity is verified before granting access, or rectification, or deletion.

20. Should the data subjects wish to exercise any of the rights provided in paragraphs 16 and 17 above, please contact EIOPA's DPO (dpo@eiopa.europa.eu).

▶ **Who to contact if the data subjects have any questions or complaints regarding data protection?**

21. Any questions or complaints concerning the processing of the personal data can be addressed to EIOPA's Data Controller (fausto.parente@eiopa.europa.eu) or EIOPA's DPO (dpo@eiopa.europa.eu).

22. Alternatively, the data subjects can have recourse to the **European Data Protection Supervisor** (www.edps.europa.eu) at any time, **as provided in Article 63 of the Regulation.**