



EIOPA-BoS-19-245

10 July 2019

Opinion on the use of governance and risk assessment documents in the supervision 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 1094/2010¹. 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 by providing opinions to competent authorities.
- 1.2. EIOPA delivers this Opinion on the basis of Directive (EU) 2016/2341² (the IORP II Directive), in particular in relation to Articles 21, 25, 28, 30, 49, 50 and 51 thereof.
- 1.3. This Opinion is addressed to the competent authorities (CAs), as defined in point (i) of Article 4(2) of the Regulation (EU) No 1094/2010.
- 1.4. The Board of Supervisors has adopted this Opinion in accordance with Article 2(7) of its Rules of Procedure³.

2. Context and objective

- 2.1. For the purposes of this Opinion, 'governance documents' refer to the written policies (e.g. by-laws), procedures, reporting evidence and other internal documents concerning the strategies, processes and reporting procedures

¹ 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.

² 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.

³ Decision adopting the Rules of Procedure of EIOPA's Board of Supervisors, https://eiopa.europa.eu/Publications/Administrative/EIOPA-BoS-11-002_EIOPA-BoS-Rules%20of%20Procedure-Rev3.f.pdf.

established by IORPs⁴ to support their decisions and to comply with the laws and regulations adopted pursuant to the IORP II Directive.

- 2.2. The IORP II Directive introduced new requirements on the governance documents IORPs should prepare and make available to CAs. The extent to which CAs use governance documents in their supervision of IORPs varies across the EU depending on the national measures, specificities of the domestic IORP sector and requirements for the timely submission of information to CAs. An important distinction considered in this Opinion is whether IORPs submit relevant governance documents requested by CAs periodically or on an ad hoc basis.
- 2.3. Due to the significant differences among Member States in the organisation and regulation of IORPs, CAs have flexibility in obtaining at any time from IORPs information about all business matters or documents necessary for supervisory purposes, as stipulated by Article 50 of the IORP II Directive.
- 2.4. The objective of this Opinion is to promote consistent supervisory practices by providing guidance to the CAs on the use of governance documents in their supervision of IORPs within the supervisory review process, as set out in Article 49 of the IORP II Directive. This Opinion further aims to facilitate risk-based and proportionate supervision of IORPs. In this context, CAs may take into account the national specificities of the IORP sector to determine the requirements necessary for implementing this Opinion considering a risk-based and proportionate approach⁵.
- 2.5. This Opinion also provides guidance on the use of governance documents in the supervision of IORPs' investment policy, including the statement of investment policy principles (SIPP), as set out in Article 30 of the IORP II Directive⁶.
- 2.6. This Opinion further provides guidance on the own-risk assessment (ORA), a new requirement of the IORP II Directive, set out in Article 28, which CAs need to integrate in the supervision.
- 2.7. CAs should also take account of the changes resulting from new EU legislation on disclosures relating to sustainable investments and sustainability risks⁷, which seeks greater transparency on the integration of sustainability risks in policies such as remuneration policies, on IORPs' considerations of adverse sustainability impacts and on the promotion of environmental or social characteristics and of sustainable investments in the IORP's Annual Report and information given to prospective members.
- 2.8. Annex 3 to this Opinion provides an overview of the risk management rules within the system of governance in the IORP II Directive.

3. Governance and risk assessment documents in supervision

Use of governance documents in supervision

- 3.1. CAs should specify in their internal procedures how the governance documents pre-selected for the purposes of supervision (ex-ante) and requested periodically

⁴ Including the occupational retirement provision business of life insurance undertakings subject to Article 4 of the IORP II Directive.

⁵ For further guidance on risk-based and proportionate supervision: EIOPA (2017) A common supervisory culture, <https://eiopa.europa.eu/Publications/Speeches%20and%20presentations/A%20Common%20Supervisory%20Culture.pdf>

⁶ This is a follow-up to recommended actions from EIOPA's Peer Review available at: https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-16-170_SIPP_Peer_Review_Publication_of_Outcomes.pdf.

⁷ Although the IORP II Directive and new EU legislation refer to 'ESG risks' and 'sustainability risks' respectively, both terms are being used interchangeably.

or on an ad hoc basis are integrated in their supervisory framework. This should, however, not preclude CAs from obtaining, on a case-by-case basis or ex-post, other documents over the course of the supervisory cycle⁸, e.g. during an on-site inspection the issues log prepared and used by an IORP as a standard risk management practice.

3.2. CAs should specify in their internal procedures how they intend to use information contained in the governance documents at different stages of the supervisory framework. More specifically, CAs' internal procedures should indicate:

- which information, if not the entire content of the governance documents, they use for the purposes of supervising IORPs⁹;
- the extent to which governance documents are used as a primary source of information in supervision or as consequential information¹⁰;
- the most appropriate combination of both qualitative and quantitative information set in IORPs' documents;
- how to effectively phase in their periodical and ad hoc requests for governance documents within the supervisory cycle as part of conducting risk-based and proportional supervision¹¹.

3.3. CAs should consider using governance documents specified in the IORP II Directive, as well as other relevant documents IORPs may prepare as part of their governance and risk management practices without prejudice to the proportionality principle.

These documents include but are not limited to:

- remuneration policy;
- SIPP;
- risk management policy;
- risk appetite policy and risk tolerance statement;
- conflict of interest policy;
- internal audit policy;
- policy and procedure for conducting the ORA;
- underwriting policy, where relevant;
- policy on actuarial activities, where relevant;
- policy on outsourced activities, where relevant;
- IORP's by-laws including agreement, trust deed or rules on the operating requirements of the pension scheme(s) e.g. articles of association;
- any other business documents necessary for the purposes of supervision e.g. continuity strategy, contingency plan, business plan, management agreement

⁸ In the context of taking a risk-based approach, supervisory cycle refers to the period of time taken to complete a phase of off-site and on-site supervisory activities, often described in CAs' multi-year supervisory plan.

⁹ In principle, all information requested by CAs is used for supervision. However, IORPs may include, for coherence and completeness, in the documents they submit information which are relevant and useful for them but not for the supervisor.

¹⁰ For instance, some quantitative information in IORPs' ORA results report may be a primary source of information used in CAs' supervisory framework to determine IORPs' risk profile and exposure and prioritise their supervision. CAs may also use some governance documents more indirectly as background material just before or during on-site inspections.

¹¹ This is particularly relevant for CAs supervising a large IORP sector.

between the IORP and the sponsoring undertaking, documentation of the governance systems, IT system policy.

- 3.4. CAs should consider the aforementioned documents, as relevant, in the procedures for the registration or authorisation of IORPs, as stipulated in Article 9 of the IORP II Directive, and for the associated operating requirements, as stipulated in Article 10 of the IORP II Directive, or in other supervisory activities at any point in time.
- 3.5. When conducting off-site supervisory activities and on-site inspections, CAs should specify which reporting evidence should be made available to them, either documents specified in the IORP II Directive or in national measures, or other reporting evidence IORPs may prepare as part of their governance and risk management practices (e.g. risk register) without prejudice to the principle of proportionality.

Reporting evidence includes but is not limited to:

- annual accounts and auditor's reports on the annual accounts;
 - annual report;
 - own-risk assessment results report;
 - evidence of consistency with the investment-policy principles;
 - evidence of up-to-date record-keeping of assets;
 - evidence of timely paid contributions;
 - internal interim reports, where relevant;
 - risk register;
 - assets-liabilities studies, where relevant;
 - actuarial valuations and detailed assumptions, where relevant;
 - any other reporting evidence necessary for the purposes of supervision.
- 3.6. Pursuant to Article 50 of the IORP II Directive CAs should, where applicable, communicate to IORPs which other business documents and reporting evidence they may request periodically.
 - 3.7. CAs should communicate to IORPs their expectations regarding the completeness of information to be submitted and should verify upon receipt that the submitted information is complete.
 - 3.8. The aforementioned lists are not exhaustive or prescriptive lists of stand-alone documents. The IORP II Directive leaves flexibility to reflect national specificities of the IORP sector and CAs' supervisory needs on the type of documents and how they should be organised.

Requirements for the submission of governance documents

- 3.9. CAs should specify to IORPs the requirements for the periodical or ad hoc submission¹² of governance documents.
- 3.10. CAs should specify the available communication means, time limits and, if applicable, frequency for effective submission of the governance documents. The IORP II Directive introduces provisions for new governance documents (e.g.

¹² Periodical submission refers to documents IORPs should provide to CAs on a regular basis e.g. by a certain date every year. Ad hoc submission relates to documents CAs request from time to time for a specific purpose or foreseen occasion e.g. authorisation procedure, on-site inspection, as a result of the IORP reporting an underfunding issue.

ORA) and changes to existing ones (e.g. public disclosure of the SIPP). If not specified in the national measures, CAs may set a transitional period, allowing IORPs sufficient time to implement the relevant requirements, including the expected date for submitting periodical information for the first time. When setting the transitional period, CAs should take into account the use of the governance documents in their risk-based supervision, the supervisory cycle and planned engagement with IORPs. For instance, some CAs may choose to phase the requests for periodical submission of the ORA results report over time, expecting IORPs considered “high-risk” or “more complex” to be the first to conduct and provide this document within a specific timeframe following the transposition of the IORP II Directive. In Member States where the ORA results report should be made available ad hoc and is used for the preparation of on-site visits, CAs may initially choose to request this document according to the scheduled plan for on-site inspections until a new multi-year supervisory plan is developed.

Use of governance documents in the supervisory review process

- 3.11. In the relevant stage of the supervisory review process, CAs should review the effectiveness of IORPs’ systems of governance and, in particular, whether the IORPs’ strategies, processes and reporting procedures to support their decisions and comply with national measures, are well-documented.
- 3.12. CAs should also verify that the governance documents they have requested (e.g. SIPP and ORA) have been reviewed by IORPs within a prescribed time limit and that they contain correct, up-to-date, complete and consistent information.

Use of governance documents in the supervision of IORPs’ investment policy

- 3.13. Annex 1 to this Opinion provides guidance for the CAs on the use of relevant governance documents in the supervision of IORPs’ investment policy. The first five principles concern the SIPP whilst the remaining four principles relate to all relevant governance documents CAs use in the supervision of IORPs’ investment policy.
- 3.14. CAs may provide further guidance or refine EIOPA’s guidance, taking into account the national specificities in the IORP sector.

EIOPA’s guidance on the ORA

- 3.15. Annex 2 to this Opinion provides guidance for the CAs on IORPs’ ORA. CAs may provide further guidance to IORPs or refine EIOPA’s guidance, taking into account national specificities of the IORP sector and information needed to evaluate IORPs’ risks and their ability to assess and manage those risks.
- 3.16. The ORA guidance should be read in conjunction with Opinion on the practical implementation of the common framework for risk assessment and transparency for IORPs, BoS-19-246, 25 June 2019, Opinion on the supervision of the management of operational risks faced by IORPs, BoS-19-247, 25 June 2019, and Opinion on the supervision of the management of environmental, social and governance risks faced by IORPs, BoS-19-248, 25 June 2019.
- 3.17. For the purpose of reviewing the ORA results, CAs should obtain from IORPs documentation which describes the IORP’s objectives, risk measurement and process for carrying out the ORA and using the results. This documentation is referred to as the ‘ORA policy’, which may be formulated as a stand-alone document or integrated, for instance, in the risk management policy. The ORA policy is established on the basis of the Articles 21 and 25 of the IORP II Directive, which require IORPs to establish written policies in relation to risk management,

and adopt strategies for the reporting of risks to the management or supervisory body of the IORP.

- 3.18. Annex 4 to this Opinion provides an illustrative template for the voluntary use by CAs and IORPs. The template can be adapted to meet CAs' requirements (for instance, when issuing further guidance to IORPs), or if used by IORPs, to suit their needs and characteristics.
- 3.19. In due course, CAs should review market practices and consider using the ORA documents as part of their supervisory review process (e.g. using the ORA results in a simple traffic light system or similar, to indicate the developments of each risk since the last ORA and in the future).

Proportionality

- 3.20. Without prejudice to national measures, CAs should encourage IORPs to arrange information in their governance documents and submit them in the most effective way which is proportionate to their size and internal organisational as well as the nature, scale and complexity of their activities.
- 3.21. CAs should determine the frequency and granularity for the requested information taking into account the size, nature, scale and complexity of the activities of the IORP, supervisory priorities and the main objective of prudential supervision laid down in Article 45 of the IORP II Directive.

4. Monitoring

- 4.1. Two years following the publication of this Opinion, EIOPA will look into the supervisory practices of the CAs with a view to evaluate supervisory convergence.
- 4.2. This Opinion will be published on EIOPA's website.

Done at Frankfurt am Main, 25 June 2019

[signed]

For the Board of Supervisors

Gabriel Bernardino

Chairperson

ANNEX 1: Guidance on the use of governance documents in the supervision of IORPs' investment policy

1. Structure and minimum information content of the SIPP

- 1.1. CAs should encourage IORPs to prepare a SIPP (or other relevant document) which follows a coherent and logical structure and includes specific and concrete information on the IORP's investment policy.
- 1.2. The structure and content of the SIPP varies among Member States depending on differing national measures but also on the characteristics (e.g. scheme type) and preferences of IORPs. Also, in some Member States, the SIPP is a stand-alone document whilst in others it is part of a more comprehensive document prepared by IORPs. Some IORPs¹³ may also prepare more than one SIPP. Although such diversity requires flexibility in both the SIPP structure and content, there is a minimum information that the SIPP should contain.
- 1.3. With the new requirement of Article 30 of the IORP II Directive on the public disclosure of the SIPP that needs to be easily accessible to members and beneficiaries, it is even more important to draft the investment policy in a structured and logical manner also taking into account the nature and type of the pension scheme(s).
- 1.4. In the context of the public disclosure requirement, subject to national measures, factors to consider when structuring the information in the SIPP include but are not limited to:
 - focusing on essential information in the core document. Information subject to frequent or minor changes that would not trigger a review of the investment policy (e.g. change of assets manager) could, for instance, be put in annex or separate document;
 - distinguishing between common and individual information to facilitate easily retrievable SIPPs that can, for instance, be tailored to relevant employer in the case where IORPs manage schemes for multiple unconnected sponsors.

Main/minimum elements of the SIPP (or other relevant document) include but are not limited to:

- scope of the investment policy;
- measurable objectives¹⁴;
- constraints such as liquidity needs, funding, regulation e.g. domestic investment rules;
- investment horizon;
- whether or not ESG factors are incorporated;
- the date of approval/entry into force and the body(ies) of the IORP approving the investment policy;
- choice of asset management style;

¹³ For instance, mixed IORPs managing different types of schemes or those managing schemes for multiple unconnected employers.

¹⁴ Examples of measurable objective include but are not limited to measurable target investment return (e.g. rate of return exceeding by x percentage points a benchmark index over a specific number of years for a DC scheme); a target level of risk exposure or risk tolerance (e.g. a tolerance level that does not exceed a certain number of negative investment returns over a set period).

- strategic asset allocation;
- investment risk measurement methods;
- implemented risk management processes;
- number of investment options for DC schemes offering member choice;
- timeline for reviewing the investment policy including potential trigger events.

Other information (if applicable):

- the benefit structure (i.e. defined benefit, defined contribution or hybrid, single or multiple sponsors);
- whether the IORP is only operating in the accumulation phase, or also in the pay-out phase including the coverage of biometric risk (Article 15 of the IORP II Directive);
- specific requirements with regard to cross-border activities e.g. applicable social and labour law of the host Member State.

- 1.5. When using the SIPP (or other relevant document) in supervision, CAs should verify that IORPs describe the investment strategy for the whole investment portfolio of the IORP and, where applicable, provide details for:
- each investment option including default investment option for DC schemes permitting members to make fund choices;
 - each sponsoring undertaking where there may be differences in the investment policy;
 - the investment horizon including stages when the strategic asset allocation is set to change (e.g. glide paths of a lifecycle investment strategy), expected frequency and own internal investment limits (e.g. limits for rebalancing the strategic asset allocation) and the factors that may be taken into account when rebalancing (e.g. investment performance).

2. Transparency about ESG information in the SIPP

- 2.1. When the investment policy incorporates ESG factors, CAs should verify that the SIPP (or other relevant document) contains transparent information about the incorporation of ESG factors.
- 2.2. CAs should verify that the SIPP (or other relevant document) clearly states whether the investment policy incorporates ESG factors. The SIPP (or other relevant document) should describe to what extent and how each of the three factors are incorporated in part or all of the IORP's investment policy. For instance, ESG factors may apply to the whole portfolio or to specific assets classes or some investment options.
- 2.3. The SIPP (or other relevant document) should explicitly state if IORPs chose to use, in partial or in full compliance, widely accepted ESG frameworks set by international organisations and standard setters (e.g. European Investment Bank, International Standards Organisation, United Nations, OECD) and should describe how they have implemented the relevant ESG framework(s).
- 2.4. For instance, the SIPP (or other relevant document) should state if an IORP is a signatory of the United Nations-supported Principles of Responsible Investment

(UNPRI)¹⁵, and explain how the investment policy is embedded into and complies with these principles. The SIPP (or other relevant document) should also explain which ESG method(s) and common approaches apply to the investment policy and its implementation.

- 2.5. The SIPP (or other relevant document) should describe any specific arrangements linked to incorporating ESG factors and managing ESG risks in IORPs' investment governance e.g. role and delegated responsibilities of potentially newly appointed responsible investment or ESG advisors in the IORP's governance structure (see also Title 9. of this Annex on transparency of the IORP's investment governance).

3. Review of the investment policy

- 3.1. CAs should verify that IORPs' investment policy is forward-looking. The SIPP (or other relevant document) should outline which significant factors and events may prompt a review of the investment policy including a description of the procedure for identifying possible change in the investment policy within a period of three years or less.

Triggers that may lead to a review of the investment policy:

- new regulatory requirements;
- change to the investment objectives, deviation from the strategic asset allocation, investment limits, risk tolerance thresholds as a result of revised market conditions, performance review (e.g. investment returns);
- changing market conditions;
- availability of new financial instruments;
- changes in the risk profile, for instance following completion of the ORA;
- change in the funding position based on the latest actuarial valuations report
- organisational change;
- change in members' investment behaviour and investment option.

- 3.2. The SIPP (or other relevant document) should contain a description of the IORP's procedure for monitoring and reporting on these potential triggers.
- 3.3. Excluding significant changes in the investment policy, the SIPP should overall be a stable document.

4. Public disclosure and signposting of the SIPP

- 4.1. CAs should encourage IORPs to carefully consider to what extent and how to understandably communicate to prospective and existing members relevant elements of the investment policy that are contained in the SIPP and in other information documents, making reference to the SIPP.
- 4.2. Upon approval by the persons effectively running the IORP, the SIPP should be promptly published using the most effective communication channel. The SIPP submitted to CAs and the published SIPP are identical. Therefore, the publication of the SIPP needs to be updated if necessary, e.g. in case of a significant change in the investment policy.

¹⁵ PRI, PRI Reporting Framework Main definitions 2018, November 2017; <https://www.unpri.org/download?ac=1453>

- 4.3. The most effective mean may consist of publishing the SIPP on the IORP's website. In the absence of a website, some IORPs may publish the SIPP e.g. on the website of the sponsor or association of pension funds. In some Member States, existing reporting IT infrastructure and tools IORPs use to report certain information to their national supervisor which is eventually disclosed on a public website may also be considered.
- 4.4. Public disclosure of the SIPP should also be considered in the context of disclosure requirements in Title IV of the IORP II Directive and, if applicable, in relevant national measures, to:
- specify in the Pension Benefit Statement where to obtain supplementary information, as set out in Article 40;
 - provide prospective members with investment options and information on whether and how ESG factors are considered in the investment approach, as set out in Article 41;
 - provide the SIPP upon request to members and beneficiaries, as set out in Article 44.
- 4.5. Information on the investment options and the investment approach should be contained in the SIPP. While information associated with the SIPP should be signposted in relevant aforementioned disclosure documents and be easily retrievable to members and beneficiaries, it is important to stress that, as a governance document, the SIPP contains highly technical information. Signposting of the SIPP or information contained in the SIPP in the aforementioned documents may not necessarily help members to better understand the investment approach or assist them with investment decisions e.g. choice of investment options.
- 4.6. Developing a SIPP that is understandable to members whilst used as a technical document to steer, for instance, the mandate of assets managers is challenging.
- 4.7. As the documents cited in Title IV of the IORP II Directive constitute the primary sources for disclosing key information that is easily understandable to prospective, active and deferred members as well as beneficiaries, signposting of the SIPP or information contained therein in these documents should be considered in the context of providing information with clear behavioural purpose that gives prospective and existing members a clear course of action of what to do with the information.
- 4.8. Without prejudice to disclosure requirements of Title IV of the IORP II Directive and relevant national measures, possible approach may be to create and direct members and beneficiaries to a short and understandable summary of the investment policy's main elements, which could also entail a link to the SIPP for interested and more technically educated members. Layering information and using digital channels may also help facilitate such approach.

5. Information consistency of the SIPP with other documents

- 5.1. CAs should verify that the information contained in the SIPP (or other relevant document) is consistent throughout the document and with other relevant governance, risk management and information disclosure documents, including any interdependencies.
- 5.2. Information in the SIPP (or other relevant document) should be coherent and focus on the issues concerning the investment policy which are not covered in other documents or policies. For instance, the strategic asset allocation outlined in the SIPP should always be compatible with the investment policy's objectives

(e.g. investment performance, risk tolerance) and constraints (e.g. liquidity) which should in turn be consistent with the investment principles (or beliefs).

- 5.3. A review of the SIPP (or other relevant document) every three years or earlier as a result of a significant change in the investment policy should prompt a consistency check of the information in the SIPP and in other relevant documents.
- 5.4. Whether the SIPP is a stand-alone statement or part of a larger document will determine how to present interdependencies with other documents in the SIPP e.g. make clear cross-references to other documents in the relevant part of the SIPP.
- 5.5. The supplementary information included in the Pension Benefit Statement on investment options for members bearing investment risk, in accordance with Article 40 of the IORP II Directive, should remain up-to-date and consistent with the information set in the SIPP. Where applicable, information consistency with the SIPP is equally important for the disclosure of available investment options to prospective members and for the disclosure of pay-out options to members during the pre-retirement phase pursuant to Article 42 of the IORP II Directive.
- 5.6. CAs should take account of Directive (EU) 2017/828¹⁶ (Shareholders Rights Directive) which requires IORPs to have a written policy specifying how shareholder engagement is integrated in the investment strategy and how they engage with and monitor investee companies. Shareholders Rights Directive also requires IORPs to explain how the main elements of their equity investment strategy are consistent with the profile and duration of their liabilities and how they contribute to the medium and long-term performance of their assets in accordance with their engagement policy.
- 5.7. In light of these new requirements, IORPs' engagement policy may be integrated in the SIPP (or other relevant document) or alternatively prepared as a separate document, which should then be cross-referenced in the SIPP. The SIPP may also be an appropriate place for IORPs to provide a reasoned explanation for not preparing an engagement policy.
- 5.8. In the same vein, where IORPs have incorporated ESG factors in their investment policy, explanations of the approach to responsible investment may be contained in the SIPP or in separate documents (e.g. policies on responsible investment, divestment, voting) which should then be cross-referenced in the SIPP.

6. Membership structure in the investment policy

- 6.1. CAs should assess how IORPs consider the membership structure in their investment policy and look for tangible explanations of how the membership structure has been taken into account in the design of the investment policy.
- 6.2. IORPs need to understand their membership in order to design an appropriate investment policy, where applicable in cooperation with the sponsor. They should have clearly-defined objectives, principles (or beliefs) and risk appetite supported by explanations of how these are tailored to the current and changing characteristics and needs of the membership. Simply stating that the membership's characteristics has guided the IORP's investment strategy is not self-explanatory and requires supporting evidence.
- 6.3. In doing so, and taking into account the membership profile and scheme design, CAs should verify that IORPs have considered factors such as the size, stability

¹⁶ Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement, OJ L 132, 20.5.2017, p. 1.

and growth rate of the assets under management, and any other factors affecting their financial position, the wider state of financial markets and economies, their solvency position and security mechanisms such as the probability of continued sponsor support, increased employee contributions, recovery plan. Information should also be forward-looking, taking into account future changes to the membership profile as one factor that may influence the size, stability and growth rate of the assets under management, its financial position and so on.

- 6.4. Membership information is diverse and can be drawn from several sources. Information may, for instance, consist of basic demographics data e.g. distribution by age cohorts including projected retirement age, expected retirement date, scheme data trends provided by the administrator, recruitment plans and benefit strategy objectives of the sponsor, gauging members' views e.g. survey, view of member representatives. Evidence of IORPs' understanding of the membership, could, for instance, consist of explaining:
- how IORPs considered members' overall retirement income objective and investment horizon to set adequate risk and return objectives in the investment policy;
 - where biometric risk is not borne by members, how IORPs used scheme demographic and biometric data to understand their future obligations and formulate an appropriate investment policy geared to the liabilities;
 - where member choice is permitted, how IORPs accounted for members' levels of investment knowledge, engagement and ability to make active choices to design suitable investment options ;
 - where members bear the investment risk, membership's aversion to risk and loss in order to determine adequate levels of risk acceptance.
- 6.5. When IORPs incorporate ESG factors in their investment policy, CAs should recognise that the membership structure may have driven some of their ESG considerations (see Title 7. of this Annex on compliance with the prudent person rule). The quality and availability of observable information on the membership as well as the governance structure of the IORP are two elements that may influence the extent of taking the membership structure into account.
- 6.6. Visible information may include the socio-economic demographics of the membership (e.g. specific occupation or sector of activity). Depending on their internal organisation, IORPs may gauge the views of employees or trade unions representing members in the management or the views of a panel of members advising the management of an IORP managing the pension scheme for multiple unconnected employers. Single-sponsor IORPs may also use the commitments set in the employer's social corporate responsibility policy as a suitable proxy.
- 6.7. Whilst it is up to IORPs, subject to national measures, to consider the relevance of members' views and; if so, the process for gauging these, it is also reasonable for members to find information on the circumstances in which the membership structure and, if relevant, their views were taken into account given the new requirement to publicly disclose the SIPP and signpost it in the Pension Benefit Statement (see Title 4. of this Annex on public disclosure and signposting of the SIPP).

7. Compliance with the prudent person rule

- 7.1. To assess IORPs' compliance with the prudent person rule, CAs should obtain and use both qualitative and quantitative information from relevant governance documents looking for evidence of:

- a well-diversified choice of asset mix: the information should not only identify the types of investments to be held and their allocation but also demonstrate an adequate diversification in the composition of these investments which are subject to multiple sources of risk and return. Portfolio diversification should, for instance, be considered in terms of investments across multiple assets and sub-asset classes, different issuers, counterparties, sectors and geographical regions to mitigate risks such as home bias and concentration risks. Diversification within each assets class is also of considerable importance;
- how the nature and extent of risks anticipated in the investment portfolio are to be addressed to ensure the security of the portfolio striking a balance between the objectives of capital preservation and capital appreciation in accordance with the risk tolerance set by the IORP. This should include a description of the processes and measurement methods put in place to manage investment risk;
- the quality of assets to be held in the whole portfolio. In addition to a well-diversified portfolio, CAs should pay attention to the quality rating of each asset class and sub-class IORPs plan to hold which should align with risk appetite set in the investment policy, the complexity (e.g. structured products), pricing transparency, transaction costs, expected volatility and issuer's credit quality of the asset class and sub-asset class in relation to the IORP's liquidity needs. In the context of securitisation, CAs should assess IORPs' compliance with Regulation (EU) 2017/2402¹⁷;
- how the IORP's future obligations and liquidity needs will be met as and when they arise over the investment horizon, for instance by looking at the IORP's liquidity position for each investment option and expected changes to the liquidity profile at key transitional stages of the investment strategy;
- how the strategic asset allocation is best suited to the membership profile (see Title 6. of this Annex on considering the membership structure in the investment policy) and is constructed in such a way to ensure investments in the best interest of members and beneficiaries and the profitability of the portfolio;
- the purpose(s) for using derivative instruments and investment on unregulated markets (e.g. crypto-assets) and how the intended objective(s) will be achieved e.g. hedge investment risk. CAs should pay attention to the risks linked to using derivative instruments and investing in unregulated markets and to the adequacy of the investment risk management procedures in place to monitor for and mitigate against these risks;
- the assessment of ESG risks in relation to the investment portfolio and, if applicable, any mitigation measures put in place (e.g. portfolio adjustments to reduce exposure to stranded asset risk)¹⁸;
- the relevance and financial materiality of incorporating ESG factors in the investment policy (if applied by the IORP) and explanation of how the inclusion of ESG factors complies with the prudent person rule so as to ensure the

¹⁷ Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012, OJ L 347, 28.12.2017, p. 35.

¹⁸ Further guidance on ESG risks: EIOPA Opinion on the supervision of the management of environmental, social and governance risks faced by IORPs, BoS-19-248, 25 June 2019.

security, quality, liquidity, profitability and diversification of the IORP's portfolio.

8. Supervision of IORPs' implementation and execution of the investment policy

- 8.1. CAs should review IORPs' procedures for effectively implementing and executing their investment policy, also in relation with the prudent person rule.
- 8.2. The execution and effective monitoring of the investment policy requires availability and record-keeping of adequate information. When reviewing the implementation and execution of IORPs' investment policy, CAs should look for explanations and evidence of the due diligence procedures put in place by IORPs, such as:
- selection criteria and selection of each investment;
 - maintenance of the investment policy¹⁹;
 - selection, appointment and discharge of the persons or entities to whom investment management activities are outsourced, if applicable, with cross-reference to relevant documents e.g. outsourcing policy;
 - evaluation and monitoring of investment performance²⁰ and compliance vis-à-vis the investment policy, the prudent person rule (see Title 7. of this Annex on compliance with the prudent person rule) and other regulatory requirements;
 - internal reporting including compliance breaches, periodicity (e.g. quarterly reports on investment performance), line of reporting and delegations in relation to the governance structure (see Title 9. of this Annex on transparency of the IORP's investment governance) and relevant key functions;
 - review of investment processes (including management fees, transaction costs) and the investment policy (see Title 3. of this Annex on review of the investment policy);
 - remedial actions taken e.g. change in investment objectives and risk tolerances, compliance breach;
 - monitoring and mitigating risks with cross-reference to other relevant governance documents e.g. risk management policy, ORA results report;
 - managing conflicts of interest in line with the written policy to ensure investment in sole interest of members and beneficiaries in the event of a conflict of interest;
 - monitor members' investment behaviour, if applicable e.g. frequent or unpredictable switching of investment options might undermine the IORP's investment policy.

9. Transparency of the IORP's investment governance

- 9.1. CAs should pay attention to IORPs' investment governance in their supervision of IORPs' investment policy. They should verify that the relevant governance document(s) contains a clear description of the roles, responsibilities and tasks

¹⁹ This relates to the IORP's procedures for monitoring and maintaining the strategic asset allocation and description of reasonable range or limits that would permit and address deviations from the strategic asset allocation set in the SIPP (or other relevant document).

²⁰ Including performance relating to the investment objectives and performance of investment managers, selection of performance benchmarks.

at the different stages of the investment policy and the implementation process by main functions and by line of internal reporting.

- 9.2. Investment governance refers to the robustness of IORP's decision-making structure and implementation process to ensure that assets are invested effectively and in a risk-controlled manner. CAs should look for a clear division of roles and responsibilities (e.g. approval, performance monitoring, compliance reporting), effective delegation with regard to investment policy and day-to-day management of the assets (e.g. fiduciary management) and well-defined lines of reporting. Decisions on the investment policy and its implementation should be clearly assigned to a recommending body, a decision-making body and, where applicable, an overseeing body²¹. For instance, for the approval of the SIPP (or other relevant document), the investment committee may be the recommending body, whilst the management or supervisory body of the IORP (e.g. management of Trustees) is the decision-making body. The governance structure for decisions regarding investment costs may consist of the Chief Investment Officer as recommending body, the investment committee as decision-making body and the management or supervisory body of the IORP as overseeing body.
- 9.3. The description of IORPs' investment governance can be a useful source of information to CAs looking to review IORPs' compliance with the requirement for fit and proper management as set out in Article 22 of the IORP II Directive, in combination with the prudent person rule.
- 9.4. When examining IORPs' investment governance, CAs should also verify compliance with the requirement of Article 21 of the IORP II Directive for IORPs to include in their system of governance considerations of ESG factors related to their investment decisions.

²¹ The distinction between decision-making body and overseeing body may apply for decisions where in practice responsibilities are split between first-level oversight and higher-level oversight without prejudice to Article 20 of the IORP II Directive which states that the management or supervisory body of the IORP remains fully responsible for discharging all of their obligations under the Directive.

ANNEX 2: Guidance on IORPs' Own-Risk Assessment (ORA)

1. Structure and the minimum information content of the ORA documents

- 1.1. The ORA documents refer to both the ORA policy and the ORA results report. CAs should encourage IORPs to prepare ORA documents which follow a coherent and logical structure and include specific and concrete information of both quantitative and qualitative nature.
- 1.2. The ORA policy may be a stand-alone document or integrated in a more comprehensive governance document such as the risk management policy.
- 1.3. The ORA policy should set out the governance of the ORA process. It should clarify the roles and responsibilities within the ORA process and in relation to the IORP's risk management system.
- 1.4. The ORA policy should describe the processes and procedures for conducting the ORA and future reviews e.g. frequency and timing of the next ORA, reasons for reviewing the ORA earlier (if already known) or potential triggers to an early review (see Title 4. of this Annex on review of the ORA). The ORA policy and the ORA results report should indicate the date of adoption by the persons effectively running the IORP. The ORA results report should indicate the date of completion or reference period of the ORA or the date of adoption of the report.
- 1.5. The ORA policy should identify all material risks to which the IORP is or may be exposed. If the relevant information is described in a different document, such as the risk management policy (e.g. risk objectives) or the SIPP (e.g. investment risk measurement methods, investment risk tolerance), the ORA policy should signpost where such information can be found (see Title 3. of this Annex on information consistency).
- 1.6. The ORA policy should highlight requirements on data quality whilst the results report should explain data quality issues encountered in the conduct of the ORA, including any deviations from data quality requirements set in the ORA policy, and their potential impact on the interpretation of results.
- 1.7. The results report should contain the assessment, including its outcome, for each material risk identified in the ORA policy (e.g. market risk, counterparty risk, biometric risk, operational risk) and any interdependencies. The envisaged valuation for these risk assessments, short- or long-term, should be clearly reflected in the report. Short term assessments could, for instance, consist of stress tests, stress scenarios, standardised risk assessment, reverse testing in order to evaluate the IORP's resilience to negative events. Long term assessments could, for instance, consist of asset-liability management studies in order to evaluate further developments of the funding level, indexation and security mechanisms or; in some cases, back testing of assumptions and methodologies could also provide useful insights for the ORA. The assessment should be forward-looking, considering internal and external emerging developments likely to impact the IORP's future risk profile.

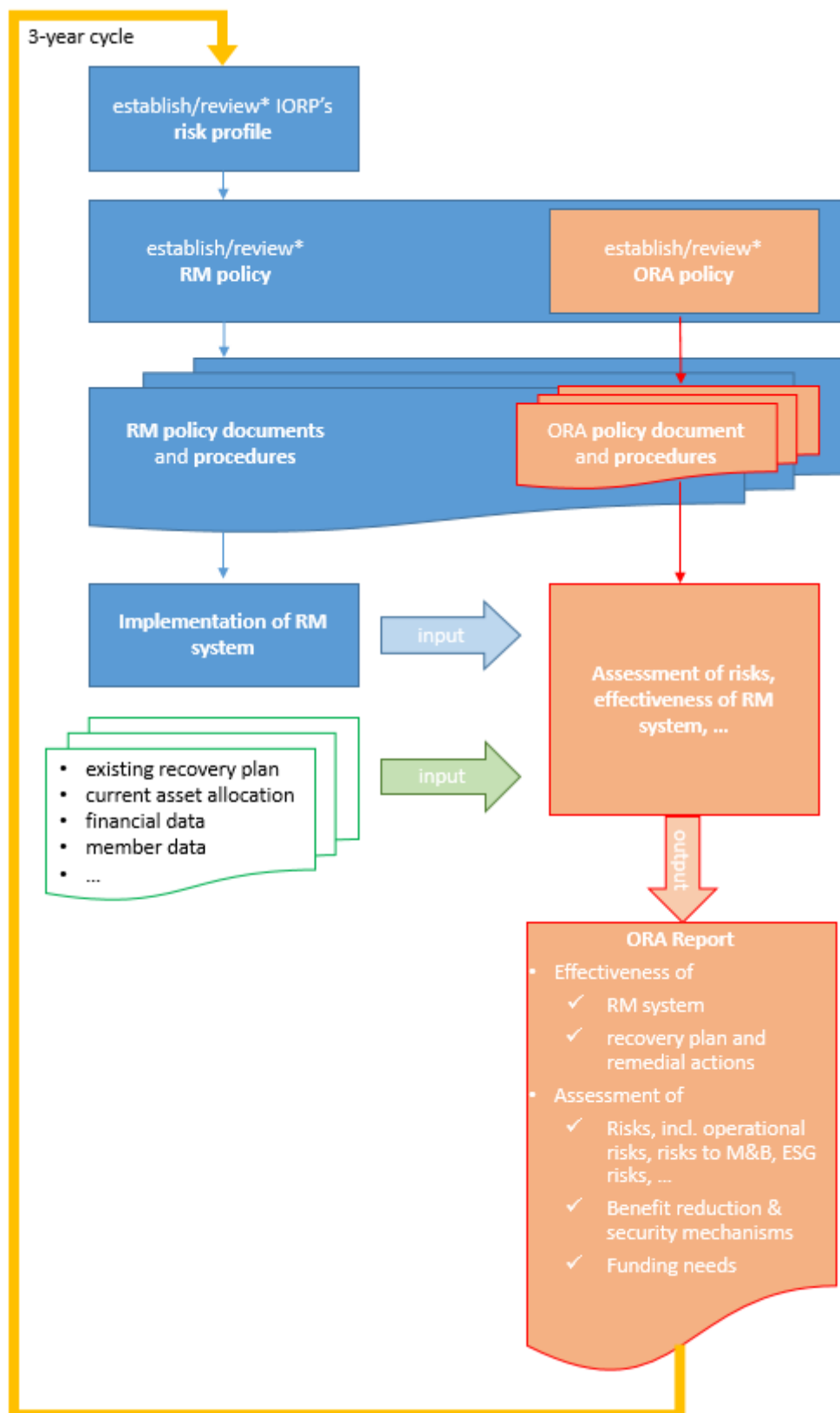
- 1.8. When reviewing IORPs' results report, CAs should also take into account the IORPs' assessment of ESG risks²².

2. Information consistency of the ORA documents with other relevant documents

- 2.1. CAs should verify that the information in the ORA results report is consistent with the description of the policy and procedures for conducting the ORA in the policy document.
- 2.2. The ORA should be conducted according to the method and procedures described in the policy document. CAs should clarify to IORPs that significant changes to the method and procedures for conducting the ORA should be minimised or avoided to ensure the comparability of IORPs' ORA results report over time.
- 2.3. The ORA policy should indicate if the conduct of the ORA is (partly or fully) outsourced, for instance as a result of outsourcing some key functions e.g. risk management.
- 2.4. The ORA policy and results report form part of the IORP's risk management system (see illustrative chart) and thus a set of documents supporting the risk management function. Information in the ORA documents should therefore be in line with other risk management documents (e.g. risk register). For instance, changes in the risk management policy (e.g. risk objectives) should be reflected in the ORA policy, if it is a stand-alone document. The ORA results report may use relevant data and information from interim risk-related reports carried out during the three-year cycle.
- 2.5. To minimise duplication, the ORA policy can also signpost where to find relevant information already contained in other documents such as the SIPP (e.g. investment risk measurement methods, investment risk tolerance).

²² Further guidance on ESG risks: EIOPA Opinion on the supervision of the management of environmental, social and governance risks faced by IORPs, BoS-19-248, 25 June 2019.

Chart: illustration of the three-year ORA cycle within the IORP's Risk Management (RM) system



* If needed, f.i. following the conclusions of an ORA report

3. Membership structure in IORPs' risk profile

- 3.1. CAs should verify that IORPs have carefully considered relevant risks associated with the membership structure, both when identifying material risks in the ORA policy and when reporting the outcome of their ORA in the results report.
- 3.2. Relevant risks stemming from the characteristics of the membership should help IORPs establish risk tolerance limits.
- 3.3. The membership structure represents one of the factors defining IORPs' risk profile. CAs should therefore examine that, in the conduct of the ORA, IORPs have a good understanding of specific risks associated with the membership structure.
- 3.4. Demographic data and longevity projections by age cohort are amongst relevant membership information IORPs underwriting biometric risk should use to establish their risk profile.
- 3.5. Levels of engagement and financial literacy of the membership may be relevant for the assessment of operational risks. For example, disengaged members may not actively inform IORPs of changes such as new home address. This may, in turn, impact IORPs' record-keeping, and potentially lead to future operational issues (e.g. failure to issue Pension Benefit Statement to the correct home address).
- 3.6. Membership demographic should be considered in relation to fraud risk. Scheme membership approaching retirement and characterised by low financial literacy may be the subject of pension transfer scams.
- 3.7. The business plan of multi-employer IORP providers may depend on maintaining a certain level of members actively contributing relative to the number of deferred members, if applying different charges is not permitted. IORPs may therefore gather proxy information e.g. data on sponsors' employee retention.
- 3.8. CAs should pay attention to the relevance of the membership's behaviour and its potential impact on IORPs' risks e.g. likelihood, scale and impact of individual pension transfers out of the IORP. CAs should review that IORPs set up by service providers to manage pension schemes of unconnected employers assess the likelihood, scale and impact of bulk pension transfers out of the IORP to another multi-employer IORP provider.

4. Review of the ORA

- 4.1. CAs should verify that the ORA documents include forward-looking information. The ORA policy should outline what significant factors and events may prompt a review within a three-year period with a description of the procedure for identifying potential events or changes in IORPs' risk profile.

Excluding significant changes in the IORP's risk profile, the ORA policy should overall be a stable document.

Triggers that may lead to a review of the ORA:

- new regulatory requirements;
- change in the risk objectives;
- change in the risk appetite or risk tolerance thresholds;
- change in the IORP's risk profile, for instance following completion of the ORA;
- change in the IORP's funding position;

- change in the risk profile of a specific pension scheme²³;
- organisational change;
- change in the IORP's business plan;
- outsourcing of the IORP's activities;
- cross-border transfers or activities;
- external factors or events such as falling interest rates, reputational damage, merger of service providers.

5. Transparency of IORPs' management of pension risks

- 5.1. CAs should consider the extent to which information contained in the ORA documents should be disclosed to relevant stakeholders in order to promote greater transparency on how IORPs manage pension risks.
- 5.2. Depending on the characteristics of the domestic IORP sector, CAs should weigh in the potential benefits of greater transparency to relevant stakeholders (e.g. improve member trust and confidence, trigger dialogue on sponsor covenant risk) over the potential disadvantages (e.g. to avoid creating market distortions between IORPs and other market participants providing occupational retirement benefits).
- 5.3. Factors for encouraging or discouraging greater transparency include but are not limited to:
 - the characteristics of the occupational pension market e.g. occupational pensions provided predominantly by not-for-profit IORPs;
 - relevance of disclosing information e.g. governance of IORPs include social partners and employer representatives already giving them access to the ORA documents;
 - which information, including level of detail, could be disclosed without causing any prejudice e.g. publication of the ORA policy, high-level summary of the ORA results or main conclusions;
 - specification to which stakeholders this information could be disclosed upon request, e.g. sponsors or their representatives, social partners, DC members.

²³ In line with Article 28(2) of the IORP II Directive, where there is a significant change in the risk profile of a specific pension scheme, the ORA may be limited to that specific pension scheme.

ANNEX 3: Overview of the risk management rules within the system of governance in the IORP II Directive

Art. 20 : Responsibility of the management or supervisory body

- The management or supervisory body of an IORP has ultimate responsibility for the compliance with laws, regulations and administrative provisions

Art. 21 : General governance requirements

- IORPs should have in place an effective system of governance which provides for sound and prudent management of their activities
- IORPs should establish written policies in relation to risk management, internal audit and, where relevant, actuarial and outsourced activities
- Written policies should be subject to prior approval by the management or supervisory body and should be reviewed at least every three years and adapted in view of any significant change in the system or area
- IORPs should have in place an effective internal control system, including administrative and accounting procedures
- IORPs should take reasonable steps to ensure continuity and regularity in the performance of their activities, including the development of contingency plans

Art. 22 : Requirements for fit and proper management

- Persons who effectively run the IORP should collectively have adequate qualifications, knowledge and experience to enable them to ensure a sound and prudent management of the IORP
- Persons who carry out the risk-management function should have adequate qualifications, knowledge and experience to properly carry out their key function

Art. 23 : Remuneration policy

- The remuneration policy of IORPs should be consistent with sound and effective risk management and should not encourage risk-taking which is inconsistent with the risk profiles and rules of the IORP

Art. 24 : Key functions

Art. 25 : Risk-management function

- Structured in such a way as to facilitate the functioning of the risk-management system

Art. 26 : Internal audit function

- Evaluation of the adequacy and effectiveness of all elements of the system of governance

Art. 27 : Actuarial function

- Contribute to the effective implementation of the risk-management system

Art. 25 : Risk management system

- IORPs should adopt strategies, processes and reporting procedures necessary to regularly:
 - Identify risks
 - Measure risks
 - Monitor risks
 - Manage risks
 - Report on risks to the administrative, management or supervisory body
- The risk-management system shall cover risks which can occur in IORPs or in undertakings to which tasks or activities have been outsourced

Governance documents - Art. 28-30 : Own-risk assessment, annual accounts & reports and statement of investment policy principles

- IORPs should carry out and document their own-risk assessment