

EIOPA-BoS-19-245

10 July 2019

ANNEX 4 - ORA documents: illustrative templates

The following templates serve as examples of how to present:

- a policy on conducting the ORA and;
- results of the ORA (ORA results report).

IORPs are encouraged to use and adapt the illustrative templates to suit specific characteristics and needs in line with the size, nature, scale and complexity of their activities. The modular structure proposed in the template is illustrative and does not pre-empt a different presentation of the information to reflect, for instance, the methodology used by IORPs.

The ORA represents the IORP's own view of its risk profile, and the funding and other means needed to address these risks.

ILLUSTRATIVE TEMPLATE OF THE ORA POLICY

Date of adoption / last revision of the ORA policy:

Anticipated date for re-conducting an ORA, if known and different from the 3-yearly regular update:

1. Background information relevant to the IORP's risk profile

This section should provide a description of the IORP's risk profile in relation to:

- *risk objectives;*
- *risk tolerance limits;*
- *relevant elements concerning a partial assessment of a specific pension scheme(s), if applicable;*
- *consideration of the membership structure in relation to the IORP's risks;*
- *time horizon considered with respect to short-, medium and long-term risks;*
- *funding requirements, if applicable including description of the recovery plan where relevant;*
- *other relevant information such as outsourcing of key functions and other activities and associated conflicts of interest, elements of ORA to be outsourced (for instance because the actuarial function is outsourced);*
- *reference to other relevant documents, which are necessary or useful to interpret this ORA: e.g. SIPP, risk management policy...*

2. Description of the method(s) and risk measurement(s) used by the IORP to conduct the ORA

Description of the method(s) used for conducting the risk assessment as required under the IORP II Directive, making a distinction, if any, between the actuarial methods for determining the liabilities, the methods used for assessing the short-term risks and the methods for assessing the risks in the long term.

Illustrative examples: common balance sheet, full standardised risk assessment (SRA), specific modules of the SRA, ALM, cash-flow analysis, stress testing, scenario analysis...or corresponding national methods.

Description of any significant changes to the methods and/or parameters used for carrying out the ORA since the last assessment, including reasons for these changes and their expected impact on conducting the next ORA.

Description of data quality standards / requirements.

3. Description of the ORA within the IORP's management system and decision-making processes

Description of how the ORA is integrated into the management system and decision-making processes of the IORP (i.e. risk culture) including reference to where further information on the IORP's risk management system can be found.

Description of who is involved in the ORA within the IORP's management and decision-making processes and their responsibilities in relation to the ORA.

4. Description of adjustment and security mechanisms and risk mitigating techniques available to the IORP

Description covering all adjustment and security mechanisms, as well as any risk mitigating techniques (e.g. reinsurance) available to the IORP. The description should cover the functioning of the mechanisms, including in which circumstances these mechanisms will intervene and may mitigate risks (which risks) for the IORP and its members and beneficiaries. It should also describe the interactions between those mechanisms and the final expected result with regard to the risks and the funding needs of the IORP.

The section should specifically describe the extent to which accrued pension benefits can be reduced, under which conditions and by whom.

Possible benefit adjustment and security mechanisms:

- *indexation/reduction of benefits;*
- *sponsor support;*
- *increase in employee contributions;*
- *Pension Protection Scheme.*

Examples of risk mitigating techniques:

- *Reinsurance;*
- *Derivatives.*

This section should set out the context in which the IORP operates. As part of the ORA, the IORP will need to assess the effectiveness of the mechanisms. The results of this assessment is to be reported under section 12 of the results report.

5. Overview of the IORP's risks to be assessed in the ORA

As part of the description of the risk profile of the IORP, this section should include a full overview of all risks that are assessed in the context of the ORA. This overview should include both quantifiable and non-quantifiable risks using relevant, existing information in other governance documents e.g. risk register.

Non-exhaustive list of possible risks:

- *ALM risk, specifically the mismatching risk;*
- *market risks: equity risk, property risk, ... in particular derivatives; securitisations and similar commitments;*
- *pension liability risks: longevity risk, ...;*
- *counterparty risk: lenders, sponsor, ...;*
- *operational risk: outsourcing, cyber, etc ...;*
- *liquidity risk;*
- *concentration risk;*
- *strategy risk;*
- *compliance risk;*
- *expense risk;*
- *ESG risks in relation to traditional prudential risks (irrespective of whether ESG factors are being considered in the investment policy of the IORP)...;*
- *other risks: for instance, scheme specific (e.g. cross-border activities), reputational risk, sponsor covenant,....*

6. Potential reasons / triggers for re-conducting an ORA before the anticipated time

Description of the possible reasons and conditions, which may trigger the IORP to re-conduct the ORA earlier than anticipated within the three-year time limit, for instance as a result of an unexpected regulatory change.

ILLUSTRATIVE TEMPLATE OF THE ORA RESULTS REPORT

Insert reference to where the ORA policy can be found if the two documents are separate

Date of completion or reference period of the ORA:

Date of adoption of the ORA results report:

Scope of the ORA: [full assessment], [partial assessment of specific pension scheme(s): identification of the pension schemes assessed]

1. Assessment of investment risks

This section provides an overview of the assessment of investment risks with supportive explanations for each category e.g. market risk and interpretation of the results.

2. Assessment of pension liability risks

This section provides an overview of the assessment of pension liabilities with supportive explanations and interpretation of the results in relation to overall funding needs of the IORP.

3. Assessment of liquidity risk

This section provides an overview of the assessment of liquidity risks considering the investments and the liabilities, with supportive explanations and interpretation of the results.

4. Assessment of counterparty risk

This section provides an overview of the assessment on counterparty risks with supportive explanations and interpretation of the results.

5. Assessment of operational risks

This section provides results of the assessment of operational risks with supportive explanations for each relevant category (e.g. fraud) and interpretation of the results.

6. Assessment of concentration risk

This section provides results of the assessment of concentration risk, with supportive explanations for each relevant area (e.g. investment risk, outsourcing of activities) and interpretation of the results.

7. Assessment of strategy risk

This section provides results of the assessment regarding the IORP's business strategy, if relevant, with supportive explanations and interpretation of the results stemming from potential losses from the strategic decisions or choices of the IORP.

8. Assessment of ESG risks in relation to traditional prudential risks

This section provides results of the assessment of ESG risks with supportive explanations for each relevant area (e.g. market risk, operational risk) where ESG risks arise by type (e.g. transition risk, stranded assets risk) and interpretation of the results.

9. Assessment of compliance risk

This section provides results of the assessment regarding the IORP's ability to comply with existing laws and forthcoming, new regulation, with explanations and interpretation of the results.

10. Assessment of expense risk

This section provides results of the assessment regarding the risk that the fees (included in or on top of the contributions) do not cover the (expected) expenses, considering future developments, with explanations and interpretation of the results.

11. Assessment of other risks

This section provides results of the assessment for other risks identified by the IORP in the ORA policy and/or in the conduct of the ORA, with explanations and interpretation of the results.

12. Outcome of the ORA results

Relevant context to the interpretation of the ORA results

Assessment of the impact of any significant changes to the methods and/or parameters used for carrying out the ORA since the last assessment, if applicable and mentioned in the ORA policy.

Assessment of data quality issues, if applicable, encountered during the conduct of the ORA or if already mentioned in the ORA policy.

Interpretation of the ORA results vis-à-vis the IORP's funding policy and from the perspective of members and beneficiaries

This section should include an overview of all quantifiable results of the ORA, with supportive explanations for each of the figures, allowing full comprehension and a proper interpretation of the results. Part of this explanation should cover any differences between the results of the ORA compared to the national regulatory

standards with respect to valuation and funding. Such comparison can also be done where the IORP uses the common framework in the context of the ORA, in which case the quantifiable results for the assessment can be extracted from the excel tool.

Description of whether the ORA results will lead to a review and change of the IORP's funding policy and, where applicable the recovery plan.

Description of what the ORA results mean in relation to the risks from the perspective of members and beneficiaries.

Current and future material changes to the risk profile of the IORP

Description of any material changes in the IORP's risk profile since the adoption of the ORA policy. This would include the identification of specific risks accountable for material change in the IORP's risk profile and a forward-looking perspective on material change in the future.

Assessment of the impact of material changes in the IORP's risk profile on sponsor(s), members and beneficiaries (also distinguishing between short-, medium- and long-term risks).

Effectiveness of security mechanisms and risk mitigating techniques

Qualitative assessment of the reliance on and effectiveness of the security mechanisms, and any other risk mitigating techniques (e.g. reinsurance, derivatives hedging) available to the IORP, distinguishing between short-term and long-term risks.

This assessment should also include, where relevant, an analysis of the financial health of the sponsor, the maximum sponsor support, the value and effectiveness of the sponsor covenants.

13. Remedial actions and decisions of the IORP following completion of the ORA

The IORP should provide an overall conclusion of its ORA, including a statement on the effectiveness of the risk-management system. The conclusions should be forward-looking and include lessons learned collected during the exercise.

Possible elements to be included in this conclusion, including a conclusion on the need for updating/modifying:

- *adequacy of the parameters used for calculating the technical provisions and/or the risk assessment;*
- *adequacy of the actuarial methods used to determine the technical provisions;*
- *adequacy of the methods used to assess the short term risks/funding needs;*

- *adequacy of the methods used to assess the long term risks/funding needs.*

Action plan following the ORA

"As a result of this ORA the IORP will modify ..." (policies - e.g. SIPP, documents - e.g. recovery plan, methods, parameters, procedures - e.g. internal control system that will be modified and foreseen timing for modifying documents, procedures etc). When will the ORA need to be reviewed? Increased frequency of monitoring specific risks?

Description of how the IORP plans to take forward actions on the results of the ORA in its governance process to inform future strategic decisions.