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DRAFT OPINION OF THE EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

of [date Month YYYY]

on the governance and risk assessment documents to be provided by Institutions of
Occupational Retirement Provision to National Competent Authorities

1. Legal basis and scope

- 1.1. The European Insurance and Occupational Pensions Authority (EIOPA) provides this Opinion on the basis of Article 29 on Common supervisory culture of Regulation (EU) No 1094/2010¹ (hereafter the 'EIOPA Regulation'). 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. In addition, the Article permits EIOPA to develop new practical instruments and convergence tools to promote common supervisory approaches and practices.
- 1.2. EIOPA delivers this Opinion on the basis of Article 50 of Directive (EU) 2016/2341 ("IORP II Directive").
- 1.3. The extent to which NCAs use governance documents in their supervision of IORPs varies across the EU depending on domestic law, national specificities of the IORP sector and requirements for the timely submission of information to NCAs. An important distinction considered in this opinion is whether IORPs submit relevant governance documents requested by NCAs periodically or on an ad hoc basis.

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).

- 1.4. This Opinion is addressed to the competent authorities (CAs), as defined in point (i) of Article 4(2) of the EIOPA Regulation.
- 1.5. The Board of Supervisors has adopted this Opinion in accordance with Article 2(7) of its Rules of Procedure².

2. Context and objective

- 2.1. In this opinion, governance documents refer to the array of official records (e.g. bylaws), written policies and reporting evidence concerning the strategies, processes and reporting procedures established by IORPs to support their decisions and to comply with the laws, regulations and administrative provisions adopted pursuant to the IORP II Directive which National Competent Authorities (NCAs) may request and use in the discharge their supervisory functions (Article 49 of the IORP II Directive).
- 2.2. On 13 January 2019 date of transposition into Member States' national law, the IORP II Directive introduced new requirements on the governance documents IORPs should prepare and make available to NCAs. This opinion sets out EIOPA's supervisory expectations on the use of governance documents by NCAs in their supervision of IORPs.
- 2.3. In addition, the opinion provides a set of principles on the Statement of Investment Policy Principles (SIPP), as a follow-up to recommended actions from EIOPA's Peer Review³, and the Own-Risk Assessment (ORA). In the majority of Member States, the ORA is a new requirement upon IORPs which NCAs will need to integrate in their supervisory framework. Developing a set of principles on the ORA therefore presents ample scope to ensure a consistent application of Article 28 of the IORP II Directive and to foster supervisory convergence.
- 2.4. With a view to promote a common supervisory culture, this opinion provides guidance to NCAs on minimum expected information to request, soundness and timeliness of the information to be made available to NCAs. Its objective is also to encourage the consistent implementation of supervisory practices that:
 - integrate and use relevant information from governance documents into NCAs' supervisory framework in a transparent and proportional manner and;
 - assist IORPs' compliance with the Directive's new governance and risk assessment requirements in the future.

3. Taking the above into consideration, EIOPA is of the opinion that

Transparency on the use of governance documents in supervision

- 3.1. NCAs should specify how each governance document they request periodically or on an ad hoc basis in the course of the supervisory cycle⁴ is integrated in their supervisory framework

² Decision adopting the Rules of Procedure of EIOPA's Board of Supervisors, available at: https://eiopa.europa.eu/Publications/Administrative/EIOPA-BoS-11-002_EIOPA-BoS-Rules%20of%20Procedure-Rev3.f.pdf.

³ https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-16-170_SIPP_Peer_Review_Publication_of_Outcomes.pdf

⁴ 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 NCAs' multi-year supervisory plan

- 3.2. Pursuant to Articles 49, 50 and 51 of the IORP II Directive, all NCAs can request any governance documents necessary for the purposes of supervision to be made available to them and NCAs should be transparent about their supervisory tasks. Therefore, as part of the supervisory review process, NCAs should identify and be transparent about how they intend to use information contained in the governance documents at different stages of the supervisory framework. More specifically, NCAs should establish:
- Which information, if not all the content of the governance documents, is necessary for the supervision of IORPs⁵
 - The extent to which governance documents are used as a primary source of information used in supervision or as consequential information⁶
 - 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 supervision⁷
- 3.3. As part of conducting proportional supervision, NCAs should determine the frequency and granularity for the requested information taking into account the IORPs' characteristics and given their supervisory priorities and prudential objective of protecting the rights of members and beneficiaries and ensuring the stability and soundness of IORPs. EIOPA's Questions and Answers (Q&A) regarding the proportional supervision of IORPs provide further detail.
- 3.4. IORPs should strive to provide complete information when submitting documents requested by NCAs.
- 3.5. As part of reviewing IORPs' operating requirements necessary for their registration or authorisation (Article 10 of the IORP II Directive), NCAs should ensure that IORPs prepare the following documents setting out their strategies, policies and procedures and make them available at NCAs' request:

Policies:

- Remuneration policy
- Statement of Investment Policy Principles (SIPP)
- Risk management policy
- Conflict of interest policy
- Internal audit policy
- Policy and procedure for conducting the Own-Risk Assessment (ORA)
- Underwriting policy, where relevant
- Policy on actuarial activities, where relevant
- Policy on outsourced activities, where relevant

⁵ In principle all information requested by NCAs is used for supervision. However, because 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.

⁶ For instance, some quantitative information in IORPs' ORA results report may be a primary source of information used in NCAs' supervisory framework to determine IORPs' risk profile and exposure and prioritise their supervision. NCAs may also use some governance documents more indirectly as background material just before or during on-site inspections.

⁷ This is particularly relevant for NCAs supervising a large IORP sector

Other (key) documents:

- 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, business plan, management agreement between the IORP and the sponsoring undertaking
- 3.6. Whilst NCAs may use the aforementioned information as part of the registration or authorisation process of new IORPs, these governance documents may also be requested at any point in time to support other supervisory activities.
- 3.7. In the conduct of their off-site supervisory activities and on-site inspections, NCAs should identify and specify which reporting evidence should be made available to them.

Reporting evidence:

- Annual accounts and auditor's reports on the annual accounts
 - Annual report
 - Own-risk assessment 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
 - Assets-liabilities studies, where relevant
 - Actuarial valuations and detailed assumptions, where relevant
 - Any other reporting evidence necessary for the purposes of supervision
- 3.8. Because the way IORPs are organised and regulated significantly varies between Member States, Article 50 of the IORP II Directive specifies that NCAs can request at any time IORPs to provide information about all business matters or forward all business documents which are necessary for supervisory purposes. Where applicable, NCAs should therefore describe what other business documents and reporting evidence they may request periodically from IORPs for the purposes of supervision.
- 3.9. The aforementioned list should not be treated as an exhaustive list of separate, stand-alone documents. For instance, IORPs may be requested to combine and integrate information in an all-inclusive document tailored to national specificities and also adapted to the NCA's supervisory needs. NCAs may also encourage IORPs to combine information in their governance documents in the most effective way that is proportionate to their size and internal organisational as well as the nature, scale, size and complexity of their activities.

Clear requirements for the submission of governance documents

- 3.10. NCAs should specify to IORPs their requirements for the periodical or ad hoc submission of governance documents to them.
- 3.11. When requesting governance documents for the purposes of supervision, NCAs should provide detail to IORPs of the available communication means, time limits and, if applicable frequency, for effectively submitting their governance documents.

- 3.12. As the IORP II Directive introduces provisions for new governance documents (e.g. ORA) and changes to existing ones (e.g. public disclosure of the SIPP), NCAs should clarify when IORPs are expected to comply with the applicable provisions of the IORP II Directive and, for the periodical submission of information, when the relevant governance documents should be made available to them.
- 3.13. If not specified in Member States' national law, NCAs should communicate to IORPs detail of any transition period giving the latter time to implement the relevant requirements. When setting out their expectations of the transition period NCAs should have regard to the use of the governance documents in their risk-based supervision, the supervisory cycle and relevant indicators in relation to the proportional supervision of IORPs as defined in EIOPA's Q&A regarding the proportional supervision of IORPs provide further detail.
- 3.14. For instance, some NCAs, subject to their national measures, may choose to stage the request for periodical submission of the ORA results report over time, expecting high-risk or more complex IORPs to be the first to conduct and provide their ORA results report within a specific time following the transposition of the Directive. In Member States where the document should be made available ad hoc at the NCA's request and is used for the preparation of on-site visits, NCAs may initially choose to phase their request of the ORA results report according to the scheduled plan for on-site inspections until the development of a new multi-year supervisory plan.

Using IORPs' governance documents in the supervisory review process

- 3.15. NCAs should verify as part of their supervisory review process that IORPs maintain information consistency across all governance documents.
- 3.16. An effective system of governance is essential to ensure the transmission of information so as to support, account for and regularly review IORPs' actions and decisions in line with the strategies, processes and reporting procedures described in their governance documents (Article 21 of the IORP II Directive).
- 3.17. NCAs' supervisory review process (Article 49 of the IORP II Directive) seeks to verify the compliance of IORPs' strategies, processes and reporting procedures with the laws, regulations and administrative provisions adopted pursuant to the IORP II Directive.
- 3.18. As part of their supervisory review process, NCAs should check to what extent the strategies, processes and reporting procedures put in place by IORPs to support their decisions and be legally compliant are well-documented. In the relevant stage of the supervisory review process, NCAs should verify that the governance documents they have requested have been timely reviewed by IORPs and contain correct, up-to-date and consistent information. For instance, NCAs should check on the timeliness for reviewing some governance documents such as the SIPP and the ORA which have at least a three-year time limit or earlier in case of a significant change.

Application of EIOPA's principles on the SIPP in national supervision

- 3.19. NCAs should integrate EIOPA's guidance on the SIPP (see Annex 1) in their supervision of IORPs' investment policy tailored to national specificities and, if relevant, provide further guidance to IORPs on their application. The guidance concerns the SIPP or the most relevant document used by NCAs in the supervision of IORPs investment policy.
- 3.20. EIOPA has identified nine principle-based guidance with respect to the SIPP. Whilst the first and ninth principles relate to the structure of the document and

disclose and information transparency respectively, the remaining principles focus on its content. EIOPA developed high-level principles in order to cater for the great diversity of SIPPs and their usage in supervision across the EU. NCAs should consider further refining these principles to take into account the national specificities of the IORP sector and information needed to fulfil their supervisory functions.

- 3.21. These principles are aimed at the SIPP in accordance with Article 30 of the IORP II Directive. In cases where information about IORPs' investment policy is included in a more comprehensive governance document than the SIPP, NCAs should consider the application of these principles for the most relevant document(s) they request from IORPs and use to supervise IORPs' investment policy and their compliance with the investment rules set in Article 19 of the IORP II Directive.

Application of EIOPA's principles on the ORA in national supervision

- 3.22. NCAs should integrate EIOPA's principles on IORPs' own-risk assessment in their supervision (see Annex 2), tailored to national specificities and, if relevant, provide further guidance to IORPs on their application. The guidance concerns the ORA documents or the most relevant documents used by NCAs in the supervision of IORPs' assessment and management of risks.
- 3.23. The ORA principles should also be read in conjunction with the supervisory opinions with respect to the practical implementation of the Common Framework for risk assessment and transparency of IORPs, operational risks and ESG risks.
- 3.24. EIOPA has identified five principles with respect to the ORA. Since the ORA is a new requirement introduced by the IORP II Directive, these principles seek to promote a consistent application of Article 28 of the IORP II Directive by NCAs with respect to the supervision of IORPs' risk management.
- 3.25. These principles remain at a high level, giving NCAs flexibility to adapt them to the national specificities of the IORP sector and its prudential supervision.
- 3.26. These principles are aimed at the ORA in accordance with Article 28 of the IORP II Directive. In cases where NCAs request that information about IORPs' own-risk assessment should be part of a more comprehensive document than the ORA, NCAs should consider the application of these principles for the most relevant document(s) they request and use, as part of the supervisory review process, to evaluate IORPs' risks and their ability to assess and manage them in accordance with Article 49 of the IORP II Directive.
- 3.27. Article 28 of the IORP II Directive describes the main elements expected in IORPs' ORA. In order to conduct and document their ORA, IORPs need to define their objectives and risk measurement as well as explain the process for conducting the ORA and using the results from the ORA report. Prior to conducting their ORA, IORPs should first prepare a policy. EIOPA has developed an illustrative template (see Annex 3) for the ORA documents for the voluntary use of NCAs and IORPs. The template can be further adapted to meet NCAs' requirements, for instance, as part of issuing further guidance to IORPs or to suit the needs and characteristics of IORPs if used by the latter.
- 3.28. Further down the line, NCAs should review market practices and consider the use of the ORA documents as part of their supervisory review process.

4. Monitoring

To be drafted

ANNEX 1: Guidance on IORPs' Statement of Investment Policy Principles (SIPP)

1. Structure and minimum expected information

- 1.1. The SIPP (or most relevant document) should follow a coherent and logical structure and include specific and concrete information on the IORP's investment decision-making, investment principles and objectives, strategic asset allocation and implementation of the investment policy
- 1.2. The SIPP comes in all shapes and sizes. This is because its structure and content may vary according to different Member States' national measures but also IORPs' characteristics (e.g. scheme type). In addition, in some Member States, the SIPP is a stand-alone document whilst in others the SIPP is part of a more comprehensive document prepared by IORPs. Some IORPs⁸ may also prepare more than one SIPP. Whilst such diversity in SIPPs across EU Member States requires some flexibility in both the SIPP structure and content, there is, however, minimum expected information that all IORPs should include in their SIPP.
- 1.3. With the new requirement of public disclosure of the SIPP (Article 30 of the IORP II Directive) that is easily accessible to members and beneficiaries (see also guidance on public disclosure and signposting of the SIPP), it is even more important to ensure that the investment policy is drafted in a structured and logical manner also taking into account the nature and type of the pension scheme(s). The structure of the SIPP should clearly distinguish between the set-up of the investment policy and the process for implementing, monitoring and reporting on the investment policy (see also guidance on implementation of the investment policy).
- 1.4. In the context of the public disclosure requirement, subject to Member States' national measures, other considerations to be given on how to structure the information in the SIPP may include:
 - 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.
 - 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 elements of the SIPP (or most relevant document) including but not limited to:

- Scope of the investment policy
- Objectives including measurable target investment return⁹ and target level of risk exposure or risk tolerance¹⁰
- Constraints such as liquidity needs, funding, regulation e.g. domestic investment rules
- Investment horizon

⁸ For instance, mixed IORPs managing different types of schemes or those managing schemes for multiple unconnected employers

⁹ e.g. rate of return exceeding by x percentage points a benchmark index over a specific number of years

¹⁰ For instance, a tolerance level that does not exceed a certain number of negative investment returns over a set period

- Governance regarding IORP's decisions on the investment policy and its execution
- Choice of asset management style
- Strategic asset allocation
- Investment risk measurement methods
- Implemented risk management processes
- Number of investment options for DC schemes offering member choice
- Compliance of the investment policy with the Prudent Person Rule (Article 19 of the IORP II Directive), with the requirements on the safekeeping of assets, depositary and oversight duties (Articles 33 to 35 of the IORP II Directive) and with the IORP's engagement policy (Articles 3g and 3h of the Shareholders Right Directive¹¹)
- Timeline for reviewing the investment policy including potential trigger events

Other potential elements relating to the IORP and its activities:

- The benefit structure (i.e. defined benefit, defined contribution or hybrid)
- 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)
- The membership profile e.g. projected membership growth/decline, members' age, occupational profile and reasonable expectations
- Specific requirements with regard to cross-border activities e.g. applicable Social and Labour Law of the host member State

2. Considering the membership structure in the investment policy

- 2.1. The SIPP (or most relevant document) should contain tangible explanations of how the membership structure has been taken into account in the design of the investment policy
- 2.2. The SIPP shall explicitly describe how the investment policy is geared to the membership structure and characteristics (e.g. expectations, objectives) of the IORP. To keep the SIPP concise, IORPs may consider presenting detailed analysis of the membership structure separately and make a reference in the SIPP.
- 2.3. IORPs need to understand their membership in order to design an appropriate investment policy, where applicable in cooperation with the sponsor. The SIPP 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.
- 2.4. In doing so, bearing in mind the membership profile and scheme design, IORPs should consider factors such as the size, stability and growth rate of the assets

¹¹ In accordance with Directive (EU) 2017/828, IORPs are required to prepare and disclose an engagement policy of how shareholder engagement is integrated in their investment strategy and how they engage with and monitor investee companies. IORPs shall also 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

under management, and any other factors affecting its financial position; the wider state of financial markets and economies, its solvency position and security mechanisms such as the probability of continued sponsor support, increased employee contributions, recovery plan.

- 2.5. **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**. IORPs should have a good understanding of the membership, for instance regarding:
- 2.6. **Members' overall retirement income objective and investment horizon in order to set adequate risk and return objectives in the investment policy**
- 2.7. Where biometric risk is not borne by members: scheme demographic and biometric data for IORPs to understand their future obligations and formulate an appropriate investment policy geared to the liabilities
- 2.8. Where member choice during the accumulation and/or decumulation phases is permitted: members' level of pension and investment knowledge, engagement level and ability of the membership to make active choices
- 2.9. Where members bear the investment risk: membership's aversion to risk and loss in order to determine adequate levels of risk acceptance
- 2.10. IORPs who incorporate ESG factors in their investment policy should explain the circumstances in which relevant characteristics of the membership were taken into account (see also guidance on integration of ESG factors in the investment policy). For instance, an IORP managing the occupational pension of disabled workers may decide, without prejudice to the Prudent Person Rule, to invest in companies that employ people with a work disability.
- 2.11. IORPs should seek to understand the future changes to the membership profile as it is one of the factors that may influence the size, stability and growth rate of the assets under management, its financial position and so on.

3. Compliance with the Prudent Person Rule

- 3.1. The **SIPP** (or most relevant) should clearly **explain how the IORP's investment policy complies with the Prudent Person Rule** (PPR)
- 3.2. The **SIPP should describe** the investment strategy for the whole investment portfolio of the IORP and, where applicable, should also provide detail 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)**
- 3.3. IORPs should demonstrate their compliance with the PPR. They should provide both qualitative and quantitative information in the SIPP (or most relevant document) and, if applicable, other reports showing evidence of:

- **A well-diversified choice of asset mix:** IORPs should not only identify the types of investments to be held and their allocation, they should 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 in the SIPP. 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, IORPs should pay attention to the **quality rating of each asset class and sub-class** they 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, IORPs shall ensure compliance with Regulation (EU) 2017/2402 introducing due diligence requirements upon IORPs to properly assess the risks arising from all types of securitisations and quality of the underlying assets, to the benefit of members and beneficiaries and to exercise appropriate due diligence with regard to "Simple, Transparent and Standardised" (STS) securitisations
- How the IORP's future obligations and liquidity needs will be met as and when they arise over the investment horizon, for instance by including detail of 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 also guidance 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. This includes providing detail of the risks linked to using derivative instruments and investing in unregulated markets and describing what adequate investment risk management procedures IORPs are putting in place to monitor for and mitigate these risks relevant factors that IORPs have considered such as the size, stability and growth rate of the assets under management, other factors affecting its financial position; the wider state of financial markets and economies, its solvency position and security mechanisms e.g. probability of continued sponsor support, increased employee contributions, recovery plan.

3.4. The level of detail expected in the SIPP should correspond to the size, nature, scale and complexity of the activities of the IORP.

4. Implementation of the investment policy

- 4.1. The SIPP (or most relevant document) should specify the procedures detailing how the IORP plans to effectively implement its investment policy ensuring its alignment and compliance with the PPR
- 4.2. The execution and effective monitoring of the investment policy requires the availability and record-keeping of adequate information. The SIPP should describe the due diligence procedures put in place by IORPs regarding:
- Selection criteria and selection of each investment
 - Maintenance of the investment policy¹²
 - Selection, appointment and discharge of the persons / 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 performance¹³ and compliance vis-à-vis the investment policy, the PPR (see also guidance on compliance with PPR) 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 also guidance 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 also guidance 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 (Article 19 of the IORP II Directive)¹⁴
 - Monitor members' investment behaviour, if applicable e.g. frequent or unpredictable switching of investment options might undermine the IORP's investment policy

5. Transparency of the IORP's investment governance

- 5.1. The SIPP (or most relevant document) should specify the IORP's investment governance structure with clear description of the roles, responsibilities and tasks at the different stages of the investment policy and implementation process by main function and by line of internal reporting

¹² IORPs should describe, in their SIPP, the procedures for monitoring and maintaining the strategic asset allocation and specify reasonable range or limits that would permit and address deviations from the strategic asset allocation set in the SIPP. IORPs should detail the procedures for managing and reporting any significant deviation from the strategic asset allocation should include information on how IORPs plan to return the portfolio to its strategic asset allocation, including the reasonable timeframe within which it intends to do so. The procedure should set how deviations with a significant effect on the investment policy (e.g. significant deviation from achieving investment objectives) will be identified and what remedial actions or options will be taken in accordance to the investment governance structure to address the deviation including the step of reviewing the appropriateness of the investment policy in case of substantial deviation.

¹³ Including performance relating to the investment objectives and performance of investment managers, selection of performance benchmarks

¹⁴ To keep the SIPP concise, IORPs may also consider providing more detail in the conflict of interest policy and make a reference in the SIPP to where the information can be found

- 5.2. Investment governance refers to the robustness of an IORP's decision-making structure and implementation process to ensure that assets are invested effectively and in a risk-controlled manner. The SIPP should detail the clear division of roles and responsibilities (e.g. approval, performance monitoring, compliance reporting) and effective delegation with regard to investment policy and day-to-day management of the assets (e.g. fiduciary management), well-defined lines of reporting. Relevant procedures described in other documents should be cross-referenced in the SIPP indicating where the information can be found e.g. procedures for appointing and removing the persons and third parties involved (e.g. asset managers, CIO), mechanisms to ensure that investment is made in the sole interest of members and beneficiaries in case of a potential conflict of interest.
- 5.3. For each decision regarding the investment policy and its effective implementation, the SIPP should specify who the recommending body, who the decision-making body and; where applicable, who the overseeing body are respectively¹⁵. For instance, for the approval of the SIPP, the investment committee may be the recommending body whilst the management or supervisory body of the IORP (e.g. Board of Trustees) is the decision-making body. The governance structure for decisions regarding investment costs may consist of the CIO as recommending body, the investment committee as decision-making body and the management or supervisory body of the IORP as overseeing body.
- 5.4. The description of IORPs' investment governance in the SIPP can be a useful source of information to NCAs looking to verify IORPs' compliance with the requirement for fit and proper management (Article 22 of the IORP II Directive) in combination with the PPR (see also guidance on compliance with the PPR).
- 5.5. However, the SIPP may not constitute the only source of information NCAs may request and use with respect to IORPs' investment governance. NCAs may, for instance, request IORPs to provide other relevant information to verify compliance with the requirement for IORPs to include in their system of governance considerations of ESG factors related to their investment decisions which shall be subject to regular internal review (Article 21 of the IORP II Directive).

6. Maintaining information consistency

- 6.1. The information contained in the SIPP (or most relevant document) should always be consistent throughout the document and with other relevant governance, risk management and information disclosure documents
- 6.2. Information in the SIPP should be coherent at all times and should focus on the issues concerning the investment policy which are not covered elsewhere i.e. 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).
- 6.3. To ensure and maintain information consistency, IORPs should identify the synergies between governance, risk management and disclosure documents and any interdependencies with the information contained in the SIPP. For instance,

¹⁵ 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.

the review of the SIPP may lead to changes to the investment policy, which may also necessitate partial or full amendments to other related documents such as the engagement policy, Own-Risk Assessment, conflicts of interest policy, recovery plan, assets manager's mandate.

- 6.4. A review of the SIPP at least every three years or as a result of a significant change in the investment policy would prompt a consistency check of the information in the statement and with other relevant documents.
- 6.5. 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.
- 6.6. In line with Article 40(2) of the IORP II Directive, IORPs shall ensure that supplementary information included in the Pension Benefit Statement on investment options for members bearing investment risk remains 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 (Article 41 of the IORP II Directive) and for the disclosure of pay-out options to members during the pre-retirement phase (Article 42 of the IORP II Directive).
- 6.7. In addition to making the SIPP publicly available, the Shareholders Rights Directive (SRD) introduced new disclosure requirements on IORPs to prepare and disclose an engagement policy of how shareholder engagement is integrated in the investment strategy and how IORPs engage with and monitor investee companies. SRD 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.
- 6.8. In light of these new requirements, IORPs should consider whether to integrate their engagement policy in the SIPP or alternatively prepare a separate document, which should then be cross-referenced in the SIPP. The SIPP may also be a good place for IORPs to provide a reasoned explanation for not preparing an engagement policy.
- 6.9. In the same vein, IORPs who have incorporated ESG factors in their investment policy may consider, subject to Member States' national measures, using the SIPP to explain their approach to responsible investment or developing separate documents (e.g. policies on responsible investment, divestment, voting) which should be clearly cross-referenced in the SIPP.

7. Review of the investment policy

- 7.1. The SIPP (or most relevant document) should outline what significant factors and events may prompt a review and procedure for identifying possible change in the investment policy within the three-year period

- 7.1.1.1. When formulating their investment policy, IORPs should be forward-looking and anticipate what potential events or changes may prompt a review of the investment policy within the three-year period. For instance, changing market conditions might lead to substantial deviations from the strategic asset allocation beyond the permitted range/limits. Other factors may result in no longer meeting the investment objectives or risk tolerance set in the investment policy.

Triggers that may lead 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)
- 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

- 7.2. In line with the guidance on the implementation of the investment policy, the SIPP should describe the procedure for monitoring and reporting on these potential triggers as part of the implementation of the investment policy or include a cross-reference to where the information can be found if contained in a separate document (e.g. risk management procedure).

8. Integrating ESG factors in the investment policy

- 8.1. The SIPP (or most relevant document) should clearly state if the investment policy does or not incorporate ESG factors. When the investment policy takes ESG factors into account, the SIPP (or most relevant document) should specify to what extent and how each of the three factors are integrated in part or all of the IORP's investment policy

- 8.2. IORPs should make it explicit in the SIPP whether or not the investment policy integrates ESG factors.
- 8.3. When the investment policy incorporates ESG factors, IORPs should clearly explain if ESG factors apply to the whole portfolio or for instance to specific assets classes or some investment options.
- 8.4. IORPs should make it explicit in their SIPP if they 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).
- 8.5. For instance, the SIPP should not only state if an IORP is a signatory of the United Nations-supported Principles of Responsible Investment (UNPRI), it should also provide explanations of how the investment policy has embedded and complies with these principles. The SIPP should explicitly explain which ESG method(s) and common approaches apply to the investment policy and its implementation.
- 8.6. In accordance with the guidance on considering the membership structure, IORPs should explain the extent to which the membership structure was taken into account in IORPs' considerations of ESG factors. The quality and availability of observable information on the membership as well as the governance structure of the IORP are amongst two elements that may influence the extent of taking the membership structure into account.
- 8.7. Visible information may include the socio-economic demographics of the membership (e.g. disabled workers, specific occupation or sector of activity). Depending on their internal organisation, IORPs may gauge the views of employees or trade unions representing members on the Board or the views of a panel of members advising the Board 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.
- 8.8. Whilst it is up to IORPs, subject to Member States' national measures, to consider the relevance and, if so, process for gauging members' views, 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 also guidance on public disclosure and signposting of the SIPP).
- 8.9. In line with the compliance with PPR, IORPs should not only specify what is the relevance and financial materiality of incorporating ESG factors in the investment policy and how the inclusion of ESG factors complies with the PPR so as to ensure the security, quality, liquidity, profitability and diversification of the IORP's portfolio.
- 8.10. IORPs should describe any specific arrangements linked to incorporating ESG factors and managing ESG risks in their 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 guidance on transparency of the IORP's investment governance).

9. Public disclosure and signposting of the SIPP

- 9.1. IORPs should use the most effective channel available to them for the public disclosure of the SIPP (or most relevant document), giving careful consideration on the extent to which and how relevant elements of the investment policy should be communicated in an understandable manner to prospective and existing members in other information documents making reference to the SIPP.
- 9.2. In line with Article 30 of the IORP II Directive, upon approval of the SIPP by the persons effectively running the IORP, IORPs should promptly make the document publicly available using the communication channel that is deemed most effective. The SIPP is a unique document in that the SIPP submitted to NCAs upon their request and the SIPP made publicly available are identical.
- 9.3. For some IORPs, the most effective mean may consist of publishing the SIPP on their website. In the absence of a website, some IORPs may find other proportionate solutions such as publishing the SIPP on the website of the sponsor or association of pension funds. In some Member States, existing reporting IT infrastructure and tool IORPs use to report certain information to their national supervisor which is eventually disclosed on the authority's website may also be considered.
- 9.4. When considering the most effective channel for the public disclosure of the SIPP, IORPs should also bear in mind relevant disclosure requirements set in Title IV of the IORP II Directive and, if applicable, relevant national measures, to:
 - Specify where and how to obtain supplementary information with regard to the SIPP in the Pension Benefit Statement sent annually to active and deferred members (Article 40 of the IORP II Directive)
 - Provide relevant options available to prospective members including investment options and information on whether and how environmental, climate, social and corporate governance factors are considered in the investment approach and where further information is available (Article 41 of IORP II Directive)
 - Provide the SIPP upon the request of members and beneficiaries (Article 44 of IORP II Directive)
- 9.5. Information on the investment options and the investment approach would be contained in the SIPP. Whilst information associated with the SIPP should be signposted in relevant Title IV disclosure documents and should be easily retrievable information 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 from the SIPP in relevant Title IV disclosure documents may not necessarily help members better understand the investment approach or assist them with investment decisions e.g. choice of investment options.
- 9.6. Developing a SIPP that is fully and easily understandable to members whilst used as a technical document to steer, for instance, the mandate of assets managers would be challenging.
- 9.7. Documents cited in Title IV of the IORP II Directive constitute the primary sources of information for disclosing key information that is also easily understandable to prospective, active and deferred members as well as beneficiaries.
- 9.8. Signposting of the SIPP or information contained in the SIPP in relevant Title IV disclosure 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.

9.9. Without prejudice to Title IV disclosure requirements and relevant national measures, one approach may consist of redirecting members and beneficiaries to or create a short and understandable summary of the investment policy's main elements, which could also embed a link to the SIPP for those members interested in and engaged with more technical matters. Layering information and using digital channels may also help facilitate such approach.

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

1. Structure and minimum information content of the ORA documents

- 1.1. The ORA documents refer to both the ORA policy and the ORA results report.
- 1.2. The ORA documents should follow a coherent and logical structure with specific and concrete information of both quantitative and qualitative nature.
- 1.3. The ORA policy should set out the governance of the ORA process. The policy should clarify the roles and responsibilities within the ORA process and in relation to the IORP's risk management system.
- 1.4. The policy should also 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 also guidance on review of the ORA).
- 1.5. The ORA policy may stand alone or integrated in a more comprehensive governance document such as the risk management policy. Both the ORA policy and the ORA results report (upon completion) may also form part of the same document.
- 1.6. The ORA policy should identify all material risks to which the IORP is or may be exposed. Alternatively, it should signpost where the information can be found, if the description is included in a different document (see also guidance on information consistency). For instance, the policy may refer to relevant information set in the risk management policy (e.g. risk objectives) or the SIPP (e.g. investment risk measurement).
- 1.7. The ORA policy should provide the expected date for completing the next ORA. The ORA results report should include the actual dates for conducting the ORA and adopting the document by the persons effectively running the IORP.
- 1.8. Another important consideration to be included in the ORA documents concern data quality. Where relevant, IORPs should consider potential data quality issues in the ORA policy. In addition, data quality issues encountered in the conduct of the ORA should be clearly explained in the results report as it is relevant and important information for the interpretation of the ORA results.
- 1.9. The results report should describe the assessment for each material risk identified in the ORA policy. IORPs should strive to present the results in a structured manner which distinctively show the outcome of their assessment for each type of risk identified e.g. market risk, counterparty risk, biometric risk, operational risk, ESG risk. The assessment should be forward-looking.
- 1.10. EIOPA has developed in a separate Annex an illustrative template for the ORA documents which can be used as a source of inspiration for NCAs to provide further guidance to IORPs or to IORPs themselves.

2. Considering the membership structure in IORPs' risk profile

- 2.1. As part of the supervisory review process, NCAs should verify that IORPs have carefully considered relevant risks associated with the membership structure, not only when IORPs identify material risks in the ORA policy but also when they report the outcome of their ORA in the results report.
- 2.2. Relevant risks stemming from the characteristics of the membership should help IORPs establish risk tolerance limits.
- 2.3. Part of the risks IORPs are potentially exposed may relate to the characteristics of the membership. In the conduct of the ORA, IORPs should gain a good understanding of specific risks associated with the membership structure.
- 2.4. Demographic data and longevity projections by age cohort are amongst relevant membership information IORPs underwriting biometric risk should use to establish their risk profile.
- 2.5. When considering operational risks, IORPs should, for instance, seek to better understand levels of engagement and financial literacy of the membership. For example, disengaged members may not actively inform IORPs of changes such as new home address. This may, in turn, impact on IORPs' record-keeping.
- 2.6. IORPs should also consider membership demographic in relation to fraud risk. Scheme membership approaching retirement and characterised by low financial literacy may be the subject of pension transfer scams.
- 2.7. The sustainability of multi-employer DC IORPs may also depend on maintaining a reasonable proportion of members actively contributing over the number of deferred members. IORPs may therefore gather proxy information e.g. data on sponsors' employee retention.
- 2.8. IORPs should also consider membership's behaviour such as likelihood, scale and impact of individual pension transfers out of the IORP. In the same vein, IORPs set up by service providers to manage pension schemes of unconnected employers should assess the likelihood, scale and impact of bulk pension transfers out of the IORP to another multi-employer IORP provider.

3. Maintaining information consistency of the ORA documents and with other relevant documents

- 3.1. Information contained in the ORA results report should be consistent with the description of the policy and procedures for conducting the ORA in the policy document.
- 3.2. The ORA should be conducted according to the method and procedures described in the policy document. IORPs should strive to minimise or avoid significant changes to the method and procedures for conducting the ORA described in the policy document so as to ensure the comparability of their ORA results report over time.
- 3.3. The ORA policy and results report form part of the IORP's risk management framework (see illustrative chart) and hence set of documents supporting the risk management function. Information set in the ORA documents should therefore be and remain 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 accordingly 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.
- 3.4. 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).

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



4. Review of the ORA

- 4.1. The ORA policy should outline what significant factors and events may prompt a review and procedure for identifying possible change in the ORA within the three-year period.
- 4.2. IORPs should make a forward-looking assessment to identify potential events or changes in their risk profile which may prompt a review of their ORA within the three-year period.

Triggers that may lead 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 scheme¹⁶
- Organisational change
- 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. Encouraging the disclosure of the ORA documents to relevant stakeholders

- 5.1. NCAs should encourage IORPs to disclose the ORA documents to relevant stakeholders in order to promote greater transparency on how they manage pension risks.
- 5.2. In with the objective of the IORP II Directive to ensure the transparency and safety of occupational retirement provision, IORPs should be transparent toward relevant stakeholders about their assessment and management of risks.
- 5.3. The IORP II Directive recognises the social function and the triangular relationship between the IORP, the employee and the employer.
- 5.4. Based on their characteristics (e.g. scheme type) and system of governance, IORPs should identify relevant stakeholders. These may for instance include the sponsors or their representatives, member representatives.
- 5.5. Because the ORA documents include highly technical content, it would not be appropriate to actively share these with members and beneficiaries who generally require simple, easy-to-understand pension information. However, the ORA documents should be made available to more engaged members and beneficiaries at their request.
- 5.6. Transparency is important to (re-)gain restore trust and confidence in occupational pensions.
- 5.7. Transparent disclosure of IORPs' ORA documents to relevant stakeholders should trigger a dialogue with relevant parties on the long-term sustainability of occupational pension promises and encourage their timely adjustments (e.g. sponsor covenant risk).
- 5.8. Transparency of IORPs' ORA to relevant parties also matter in order to ensure trust and confidence of members who who bear investment risk.

¹⁶ In line with Article 28 of the IORP II Directive, in case of a significant change in the risk profile of a specific pension scheme, the ORA may be limited to that specific pension scheme.