Contribution ID: a64c1bdd-8114-44da-b573-116fdfab7fcf
Date: 19/12/2024 15:31:59

Consultation paper on draft opinion on supervision of liquidity risk management of IORPs

Fields marked with * are mandatory.

Responding to the paper

EIOPA welcomes comments on the Consultation Paper on the draft Opinion on the Supervision of Liquidity Risk Management of IORPs.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA using the EU Survey tool **by Friday, 20 December 2024, 23:59 CET** by responding to the questions below.

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Remarks on completing the survey
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After you start filling in responses to the survey there is the option to save your answers. However, please note that the use of the online saving functionality is at the user's own risk. As a result, it is strongly recommended to complete the online survey in one go (i.e. all at once).

Should you still proceed with saving your answers, the online tool will immediately generate and provide you with a new link from which you will be able to access your saved answers.

It is also recommended that you select the “Send this Link as Email” icon to send a copy of the weblink to your email - please take care of typing in your email address correctly. This procedure does not, however, guarantee that your answers will be successfully saved.

You will have the possibility to print a pdf version of the final responses to the survey after submitting it by clicking on "Download PDF". You will automatically receive an email with the pdf file. Do not forget to check your junk / spam mailbox.

About the respondent

*Please indicate the desired disclosure level of the responses you are submitting.
- (x) Public
- ( ) Confidential
- ( ) Partly confidential

*Stakeholder name

Asseuropea - Association established by Assofondipensione - Assoprevidenza - Mefop to represent Italian
pension funds at EU level

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Questions to stakeholders

Q1: The draft Opinion aims to be consistent with the FSB's proposed policy recommendations to enhance the liquidity preparedness of non-bank market participants. However, the draft Opinion covers all sources of liquidity risks within its scope rather than only liquidity risk relating to margin and collateral calls. Do you agree that the draft Opinion takes a comprehensive approach to liquidity risk of IORPs?

- ○ Yes
- ◉ No

Please explain.

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The liquidity risk is of utmost importance for IORPs. For that reason, the IORP 2 directive states that the risk
management of Institutions shall cover, in a manner that is proportionate to the size and internal organisation,
as well as to the size, nature, scale and complexity of their activities, inter alia, also the liquidity risks; liquidity
risk is also part of the own risk assessment. At national level, competent authorities already oversight the risk
under their supervisory processes, taking appropriate actions when the risk is deemed material.
We are concerned by the inclusion of IORPs in the definition of non-bank market participants as IORPs are
profoundly different from other NBFIs and differ deeply between them and at national level. This is mirrored in
the fact that the IORP 2 directive envisages a minimum harmonization. This approach is also reflected in the
oversight of the liquidity risk. The liquidity risk is already properly managed under the framework of the IORP 2
directive, and we do not see the need for further regulation at EU level on the topic.
Eiopa highlights as sources of liquidity risks the margin and collateral calls for derivatives, early withdrawals and
individual and collective transfer of accumulated pensions. However, early withdrawals and transfers have
much longer time horizons than variation margin calls which can result from derivatives, which must be
settled on an intraday basis. As a result, it is unlikely to provoke a liquidity crisis within a short period.
Moreover, Eiopa itself clarify that these options are only available under limited circumstances defined by the
national legislations.
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Q2: Do you agree with the definitions of 'liquidity risk' and 'material liquidity risks' in paragraphs 3.1 and 3.2?

- ◉ Yes
- ○ No

Please explain your answer and provide any suggestions to improve the definitions.

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We agree on the definitions of liquidity risk and material liquidity risk
proposed by Eiopa.
When evaluating the materiality of liquidity risk, it is important to consider
that IORPS are allowed to use
derivatives only for hedging purposes, in the interest of their members and
beneficiaries. In the case of foreign
exchange derivatives, it is also worthwhile to consider the constrain on
investments in asset denominated in
currencies different from Euro enshrined in the IORP 2 directive.
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Q3: The draft Opinion specifies that NCAs should gather relevant derivative data to assess liquidity risk exposures of IORPs. Are you aware of any issues or obstacles for IORPs:

	Yes	No
- in collecting derivative data from asset managers to monitor and assess liquidity risks in relation to margin and collateral calls?	○	◉
- in reporting relevant derivative data to NCAs?	○	◉

Q4: The draft Opinion envisages a two-step approach. IORPs should first assess whether they are exposed to material liquidity risk and, if so, integrate liquidity risk in their system of governance and risk-management system, including an assessment in their own-risk assessment (ORA). Do you agree with this two-step approach?

◉ Yes
○ No

Please explain.

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We agree with the two-step approach. Already now, under the IORP 2 framework
IORPs adopt
such an approach in the management of liquidity risk.
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Q5: The draft Opinion provides in paragraph 3.6 suggestions for possible sources of liquidity risk that IORPs are exposed to. Are you aware of any other sources of liquidity risk that should in your view be explicitly addressed?

○ Yes
◉ No

Please explain your answer.

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We are not aware of any other sources of liquidity risk that should be
explicitly addressed.
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Q6: Do you agree that IORPs with material liquidity risk exposures should establish a contingency plan to deal with liquidity stress, as expected in paragraphs 3.8-3.10?

◉ Yes
○ No

Q7: The draft Opinion provides in paragraph 3.12 that IORPs should define their own liquidity risk indicators for day-to-day risk management. Subsequently two examples of commonly used risk indicators (liquidity coverage ratio & excess liquidity indicator) are suggested. Are you aware of any other liquidity risk indicators that are commonly used by IORPs?

- ○ Yes
- ◉ No

Q8: Do you agree that IORPs with material liquidity risk exposures should establish and maintain a clearly defined liquidity risk tolerance statement approved by the management or supervisory body of the IORP, as expected in paragraph 3.14?

- ○ Yes
- ◉ No

Please explain why not and provide any suggestions on alternative practices used by IORPs.

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The liquidity risk tolerance statement is part of the risk strategy of IORPs and
therefore it already exists; it is
covered by the ORA. IORPs whit no material liquidity risk should not be
requested to define such a statement.
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Q9: The draft Opinion prescribes in paragraph 3.15-3.16 that IORPs should regularly review and update their liquidity risk-management system. What would in your view be appropriate triggers and minimum requirements for such a review?

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The IORP 2 directive requires IORPs to regularly review and update their risk
management system and
liquidity risk is part of that management. It is a process of continuous
monitoring. Any adjustments made in
the portfolio as well as in in/out flows automatically translate into updated
liquidity thresholds. As such
there is no need for additional triggers.
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Q10: Do you agree that IORPs should perform stress tests and scenario analysis covering all material sources of liquidity risk, and assess the impact of a range of severe, but plausible liquidity stresses, as expected in paragraphs 3.17-3.20?

- ◉ Yes
- ○ No

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

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Stress tests and scenario analysis covering all material sources of liquidity
risk are already part of the risk
management of IORPs, they are conducted under severe but plausible hypothesis on
liquidity position. IORPs
conduct such a stress test and scenario analysis using the proportionality
principle granted by the IORP 2
directive.
To assess the materiality of the liquidity risk, the hypothesis of the stress
tests and scenario analysis should be
defined by the IORP itself, considering its investment policy and in/out
payments, or by the national competent
authority; we would disagree with specifications of these measures at the
European level.
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Q11: Do you agree that IORPs should maintain an adequate buffer of liquid assets to cover any shortfall of incoming relative to outgoing cash flows, also under severe but plausible stress conditions, as expected in paragraphs 3.21-3.23?

- ○ Yes
- ◉ No

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

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We agree that only IORPs with material liquidity risks should maintain an
adequate buffer of liquid assets to
cover any shortfall of incoming relative to outgoing cash flows, also under
severe but plausible stress
conditions.
In any other case the liquidity buffer should be consistent with the investment
policy of the institution, aiming to
maximize expected pensions for members and beneficiaries.
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Q12: Do you agree that IORPs with material liquidity risk exposures should periodically test their liquidity contingency plan through simulation exercises in order to ensure operational readiness, as expected in paragraphs 3.24-3.26?

- ○ Yes
- ◉ No

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

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Periodic testing should be part of an effective liquidity contingency plan, it
should be conducted following a
proportionality criterion. The ORA is the right place where to conduct such a
test.
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Q13: To prevent operational lags in fulfilling margin requirements, do you agree that IORPs should ensure that investment funds to which IORPs have outsourced the management of derivative instruments should hold sufficient buffers of liquid assets to cover margin calls in times of market stress?

- ○ Yes
- ○ No

Should this apply to all outsourced derivative arrangements or only a specific subset, considering for example segregated accounts/mandates versus multi-client/pooled funds and AIF versus UCITS funds?

- all outsourced derivative arrangements
- only a specific subset

Please explain.

Italian IORPs do not use investment funds to manage derivatives, instead they use mandates under which
fiduciary managers invest on their behalf. These fiduciary managers are responsible for all aspects of
executing asset management, including derivatives.

Q14: Do the expectations put forward in the draft Opinion achieve a proportionate approach to liquidity risk management of IORPs?

- Yes
- No

Please provide your suggestions to improve proportionality of the draft Opinion.

We support the two steps-approach underlying the draft Opinion, requesting all IORPs to have in please the
right tools to assess the materiality of liquidity risk and for IORPs with material risk the need to put in place
adequate mitigation techniques and governance procedures. This approach is already followed by IORPs in
the management of liquidity risk under the framework of the IORP 2 directive. While assessing and
managing liquidity risks, IORPs follow a proportional approach, as stated in art. 25[1] of the directive.
Therefore, and against EIOPA technical advice for the IORP II review, all proportionality measures should
remain available for IORPs, and the Opinion should not change the framework envisaged by the IORP 2
directive. Liquidity risk is one risk among others, and it should be dealt with in the usual procedures and
structures of IORP risk management, namely within the ORA.

Q15: Do you agree that the Impact Assessment in Annex I provides a balanced view of the costs and benefits of the relevant policy issues in the draft Opinion?

- Yes
- No

Please explain and provide any suggestions.

Q16: Do you have any other comments on the draft Opinion / consultation paper?

- Yes
- No

Please provide these other comments.

The reason EIOPA wants to publish this Opinion is the events in the UK in 2022. LDI strategies of pensions
caused a negative feedback loop that pushed interest rates up sharply, as they were selling government
bonds to meet variation margin calls, gravely undermining financial stability and leading to BoE
intervention. To provide insights into the benefits of this Opinion, it would be useful to quantify the risks of
the European pension sector having a similar role in continental European bond markets. These risks are a
lot smaller than in the UK and largely concentrated on few countries. The Eiopa survey of national practices
and gaps carried out in Annex II highlighted that most CAs reported that liquidity risks exposure is small or
non-existent.
Also, in case where the liquidity risk has been evaluated as medium by CAs (for instance the case of Italy
with reference to foreign exchange derivatives) the estimates made by Eiopa do not seems realistic. In fact,
in the last 25 years (1 January 1999-15 October 2024) an appreciation of foreign currencies by 10%
materializes only one time; the highest appreciation of AUD and JPY vis-a-vis to Euro has been about 6%, about
4% for USD and CAD, about 3% for GBP and about 11% for CHF (in 2015, due to the exceptional circumstances
when the minimum fixed rate of 1.20 CHF for 1 Euro was abolished). Looking to outliers (exchange rate
movements greater than three times the standard deviation) it should be noted that only 0.8% of the days
recorded movements of individual currencies that exceeded this threshold (i.e. less than 2%).
The data in the previous tables indicate that a depreciation of more than 10% in a single day is truly exceptional.
It occurred in a single day and against a single currency, as mentioned above for the Swiss Franc.
Per se, having a sizable amount of derivatives on foreign exchange in the portfolio should not imply the
materiality of the liquidity risk.

Contact

Contact Form (/eusurvey/runner/contactform/ConsultationIORPLiquidityRisk)