

OPINION

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ON THE SUPERVISION OF LIQUIDITY RISK MANAGEMENT OF IORPS

EIOPA-BoS-25/259
10 JULY 2025

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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.
- 1.2. EIOPA delivers this Opinion on the basis of Directive (EU) 2016/2341² (the IORP II Directive), in particular Articles 25, 28 and 49 thereof.
- 1.3. This Opinion is addressed to the competent authorities, as defined in Article 4(2) of Regulation (EU) No 1094/2010.³
- 1.4. The Board of Supervisors has adopted this Opinion in accordance with Article 2(8) of its Rules of Procedure⁴.

2. CONTEXT AND OBJECTIVE

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

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 Notwithstanding the fact that specific points of this Opinion describe supervisory expectations for IORPs, they are required to comply with the regulatory and supervisory framework applied by their competent authority based on Union or national law.

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

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

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

- 2.3. EMIR also requires that standardised classes of OTC derivatives – such as interest rate swaps, but generally not foreign exchange forwards – are cleared through a CCP. From 19 June 2023, the clearing obligation also applies to IORPs. IORPs tend to have low cash holdings since cash generates low long-term investments returns relative to other asset classes. As such, the requirement to fulfil variation margin with cash imposes high demands on the liquidity risk management of IORPs.⁷
- 2.4. The UK gilt crisis in 2022 demonstrated the adverse consequences of inadequate liquidity risk management in relation to derivative positions of pension schemes. UK pension schemes needed to raise cash quickly to meet margin and collateral calls or, in many cases, respond to capital calls from liability driven investment (LDI) funds, as a sharp rise in interest rates resulted in losses on interest rate hedging positions. Pension schemes and LDI funds had to sell UK gilts at steep discounts, aggravated by the concentration of investments in very long maturities and the shallow market for those long-dated, off-the-run gilts, resulting in further interest rate rises, necessitating the Bank of England to support the gilt market.⁸ The Pensions Regulator in the UK issued guidance to pension schemes⁹ and ESMA provided advice¹⁰ on liquidity buffers for LDI funds denominated in the British pound to enhance their short-term resilience.
- 2.5. Studies by the EU and national supervisory authorities (ESMA¹¹, ECB¹² and AFM¹³) provide evidence that IORPs in some Member States holding interest rate and foreign exchange derivatives are also vulnerable to interest rate increases and/or an appreciation of foreign currencies, most notably the US dollar, triggering substantial, short-term margin

⁶ BIS and IOSCO, [Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals](#), Final report, January 2025.

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

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

⁹ The Pensions Regulator, [Using leveraged liability-driven investment](#), 24 April 2023.

¹⁰ ESMA, [Advice on a proposed measure by the Central Bank of Ireland under Article 25 of Directive 2011/61/EU](#), 26 April 2024 and ESMA, [Advice on a proposed measure by the Commission du Surveillance du Secteur Financier under Article 25 of Directive 2011/61/EU](#), 26 April 2024.

¹¹ ESMA, [Report on the Central Clearing Solutions for Pension Scheme Arrangements \(No. 2\)](#), Report to the European Commission, 17 December 2020.

¹² See Box A Liquidity stress simulations of euro area pension funds' interest rate swap portfolios in [ECB, Financial Stability Review, May 2020](#).

¹³ AFM, [Liquiditeitsrisico van margin calls in maart 2020 - Een analyse van derivatenportefeuilles beheerd door Nederlandse vermogensbeheerders](#), Occasional Paper, December 2021 (in Dutch only).

requirements. EIOPA conducted a survey and nine competent authorities assessed that IORPs in their Member State hold derivatives to hedge interest rate risk and/or foreign exchange risk with a notional value exceeding in aggregate 5% of total assets.¹⁴ Based on data received from competent authorities in nine Member States, an increase in interest rates of 1%-point would potentially require IORPs to fulfil margin calls of in aggregate almost EUR 67bn (3.9% of assets), whereas an appreciation of foreign currencies, like the British pound, Japanese yen and US dollar, of 10% would potentially lead to margin calls of in aggregate EUR 60bn (3.1% of assets).

- 2.6. The Financial Stability Board (FSB) identified weaknesses in risk management and governance as key causes of inadequate liquidity preparedness by some non-bank market participants, including occupational pension funds, during recent incidents of liquidity stress in financial markets. In response, the FSB issued eight policy recommendations to enhance the liquidity preparedness of non-bank market participants, including IORPs, for margin and collateral calls in centrally and non-centrally cleared derivatives and securities markets.¹⁵ The European Commission carried out a consultation to assess the adequacy of macroprudential policies for non-bank financial intermediation.¹⁶
- 2.7. The IORP II Directive requires that IORPs have in place an effective and well-integrated risk-management system, in accordance with Article 25 thereof. The risk-management system shall cover, where applicable, liquidity risk management, in a manner that is proportionate to the size and internal organisation of IORPs, as well as to the size, nature, scale and complexity of their activities. Furthermore, IORPs are required to carry out and conduct their own-risk assessment (ORA), in accordance with Article 28 of that Directive. Within the supervisory review process, as set out in Article 49 of the IORP II Directive, competent authorities are required to assess the risks that IORPs face and the IORPs' ability to assess and manage those risks.
- 2.8. Member States may supplement the IORP II Directive through national regulation or supervisory measures, but the results of EIOPA's survey show that only a small minority of Member States impose more specific requirements on liquidity risk management of IORPs. Although most competent authorities cover liquidity risk in the supervisory review process, supervisory practices to assess exposures to liquidity risk and IORPs' ability to assess and manage the liquidity exposures differ markedly. Although margin calls on derivatives constitute an important source of liquidity risk, more than a third of competent authorities did not collect relevant derivative data from IORPs. As from 1 January 2025, competent

¹⁴ See Annex: Summary of survey of national practices and gaps in EIOPA, Impact assessment – Opinion on the supervision of liquidity risk management of IORPs, EIOPA-BoS-25/260, 10 July 2025.

¹⁵ FSB, [Liquidity Preparedness for Margin and Collateral Calls - Final report](#), 10 December 2024.

¹⁶ European Commission, [Targeted consultation on the adequacy of macroprudential policies for non-bank financial intermediation \(NBFI\)](#), Summary report, 14 March 2025.

authorities have to collect and report item-by-item derivative data to EIOPA in relation to the direct derivative holdings of IORPs.¹⁷

- 2.9. Inadequate liquidity risk management may result in IORPs not having adequate liquid assets to settle their financial obligations towards members and beneficiaries as well as other counterparties when they fall due. The inability to fulfil obligations towards counterparties and forced asset sales to raise cash may have knock-on effects on financial markets and other financial institutions. The objective of this Opinion is to enhance supervisory convergence in the supervision of liquidity risk management by IORPs to foster the protection of members and beneficiaries and to enhance the stability of IORPs and the wider financial system.
- 2.10. This Opinion covers the management of all sources of material liquidity risks faced by IORPs. This means that the expectations on the supervision of liquidity risk management of IORPs do not only apply to potential margin and collateral calls, most notably on derivative positions, but also to other material sources of liquidity risk due to potential shocks in IORPs' incoming and outgoing cash flows.
- 2.11. The Opinion does not consider interest rate hedging strategies involving leveraged government bond positions financed through structural borrowing, as Article 19(3) of the IORP II Directive prohibits IORPs from borrowing. Member States may only authorise IORPs to carry out some borrowing for liquidity purposes and on a temporary basis.
- 2.12. There is not only considerable heterogeneity in IORPs, but also in liquidity risk exposures of IORPs in the different Member States. In EIOPA's survey only a minority of competent authorities responded that their IORPs are exposed to medium or high liquidity risk exposures. Recognising this heterogeneity, EIOPA expects that the expectations contained in this Opinion are applied in a proportionate manner.
- 2.13. This Opinion further aims to facilitate risk-based and proportionate supervision of IORPs. In this context, competent authorities may take into account national specificities of the IORP sector to determine the requirements necessary for implementing this Opinion, applying a risk-based and proportionate approach.¹⁸

3. CONTENT OF THE OPINION

3.1. DEFINITIONS

- 3.1. Liquidity risk is defined as the risk that IORPs are unable to realise investments and other assets in order to settle their financial obligations when they fall due.¹⁹

¹⁷ Large IORPs, exceeding EUR 1bn in assets, have to report the derivative data on a quarterly basis, while other (non-exempted) IORPs have to report the data on an annual basis, in line with the [Decision of the Board of Supervisors on EIOPA's regular information requests regarding provision of occupational pensions information](#), EIOPA-BoS-23-030, 10 February 2023.

¹⁸ For further guidance on risk-based and proportionate supervision, see EIOPA, [A common supervisory culture – Key characteristics of high-quality and effective supervision](#), 2017.

¹⁹ In accordance with the definition in Article 13 of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance, OJ L 335, 17.12.2009, p.1.

3.2. For the purposes of this Opinion, material liquidity risks are defined as the risks that threaten the stability and soundness of IORPs and the protection of members and beneficiaries.

This would, for example, be the case when IORPs would not be able to settle their financial obligations towards members and beneficiaries and other counterparties when they fall due or when investment assets would have to be sold at steep discounts, negatively impacting the funding position of IORPs or the retirement benefits of members and beneficiaries.

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

3.3. As part of risk-based and forward-looking supervision²⁰ and the supervisory review process²¹, competent authorities should assess the liquidity risks to which IORPs are and could be exposed. Where members and beneficiaries bear the risk, competent authorities should also assess the liquidity risks from the perspective of the members and beneficiaries.

3.4. Competent authorities may assess liquidity risk exposures through various supervisory means, including by analysing quantitative information, like data on investment assets of IORPs, and reviewing the IORPs' governance documents, most notably the own-risk assessment (ORA), statement of investment policy principles (SIPP) and the written policies on risk management. In the risk-management policies, IORPs should define and categorise the material risks to which they are exposed, including material sources of liquidity risk stemming from lower cash inflows and higher cash outflows, such as margin and collateral calls on derivative positions, collateral calls on secured funding transactions, capital calls on illiquid assets, like private equity, early withdrawals and outgoing transfers. Competent authorities should challenge the IORP's management or supervisory body on the identification of material liquidity risks and the results of their risk assessments.

3.5. To assess liquidity risk in relation to derivative positions, in particular where IORPs are significantly exposed to margin and collateral calls, competent authorities should gather and analyse relevant derivative data of IORPs and establish monitoring tools, including stress tests and sensitivity analyses.

3.6. Where IORPs are exposed to material liquidity risk, competent authorities should assess the ability of these IORPs to assess and manage those risks within their risk-management system. To that end, competent authorities should take the necessary supervisory actions to ensure that IORPs, and undertakings to which IORPs' activities have been outsourced, satisfy the below principles on the management of liquidity risk, in a manner that is proportionate to their size and internal organisation as well as the nature, scale and complexity of the liquidity risks inherent in the IORPs' activities²², also considering the potential impact on financial

²⁰ In accordance with Article 47(2) of the IORP II Directive.

²¹ In accordance with Article 49 of the IORP II Directive.

²² In accordance with Article 25(2) of the IORP II Directive.

stability, in line with paragraph 3.32.

- 3.7. Besides considering a proportionate application of the principles, competent authorities should determine the frequency and depth of their supervision of IORPs' liquidity risk management having regard to the size, nature, scale and complexity of the activities of the IORP concerned,²³ taking into account their supervisory priorities and prudential objective of protecting the rights of members and beneficiaries and ensuring the stability and soundness of IORPs.

3.3. IORPS' LIQUIDITY RISK MANAGEMENT AND GOVERNANCE

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

- 3.8. IORPs with material liquidity risk exposures should integrate the assessment and management of these exposures in their system of governance and risk-management system, including:
- a) a clear allocation of responsibilities in relation to the management of liquidity risks, which is documented;²⁴ and
 - b) a risk-management strategy²⁵ and written policies²⁶, implementing the strategy, covering the management of material liquidity risks.

Liquidity risk tolerance limits

- 3.9. IORPs with material liquidity risk exposures should establish clearly defined risk tolerance limits for liquidity risk, either as part of the risk-management strategy, the written policies or in a separate document, approved by the management or supervisory body of the IORP.
- 3.10. The liquidity risk tolerance limits should articulate the size and duration of the stresses and adverse scenarios for the sources of material liquidity risk that the IORP aims to withstand.

Plan to deal with liquidity stress

- 3.11. In case of material liquidity risk exposures, IORPs should have in place a plan, either as part of the written policies or another document, that sets out strategies to address liquidity shortfalls under stressed conditions to ensure timely yet flexible responses.
- 3.12. The plan should cover a decision-making process and range of actions that could be taken in response to a liquidity stress with clear escalation and prioritisation procedures,

²³ In accordance with Article 49(4) of the IORP II Directive.

²⁴ In accordance with Article 21(1) of the IORP II Directive.

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

²⁶ In accordance with Article 21(3) of the IORP II Directive.

detailing when and how each of the actions can and should be activated and an assignment of roles and responsibilities to specific decision-makers, setting out clear reporting lines.

- 3.13. The plan should also assess options to monetise and, where applicable, to post as collateral the different types of liquid assets in stress scenarios, weighing flexibility and pre-defined processes, like liquidity and collateral waterfalls. Where IORPs rely on the sponsoring undertaking to provide liquidity or aim to raise liquidity through external funding arrangements, including temporary borrowing through repurchase agreements, the plan should set out the alternative sources of funding. The plan should assess to what extent the funding sources can meet liquidity needs in stressed circumstances, the costs involved and the time needed to raise the funds, taking into consideration the risk management practices of counterparties and the resilience of short-term funding markets during severe but plausible stress episodes.
- 3.14. Where IORPs are exposed to margin requirements on derivative positions, there should be a well-documented process for closing these positions in the event the IORP or its counterparty is unable to meet margin calls.

Monitoring and reporting

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

Own-risk assessment

- 3.17. IORPs with material liquidity risk exposures should include an assessment of liquidity risks and the approach to the management of these risks in their own-risk assessment (ORA)²⁷.

Regular review and update of the liquidity risk-management system

- 3.18. IORPs should regularly review and, where appropriate, update the risk-management

²⁷ Article 28 of the IORP II Directive.

system in relation to liquidity risk to ensure that liquidity risks are robustly managed and mitigated, particularly under severe but plausible stress scenarios.

- 3.19. IORPs should ensure through their risk-management function and the reporting procedures and processes that the effectiveness of the risk-management system in relation to liquidity risk is actively monitored and analysed and that appropriate modifications to the system are made, where necessary, also to ensure that emerging liquidity risks are taken into account.

LIQUIDITY STRESS TESTING AND SCENARIO DESIGN

Conduct of stress tests and scenario analysis

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

Severe but plausible liquidity stress events

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

BUFFERS OF LIQUID ASSETS

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

- 3.24. IORPs with material liquidity exposures should maintain adequate buffers of liquid assets to cover any shortfall of incoming relative to outgoing cash flows arising on an ongoing basis and under stressed conditions, in particular severe but plausible stress events. Depending on the nature and time horizon of the liquidity needs, IORPs should consider multiple buffers composed of different liquid assets.
- 3.25. The buffers should include cash and diverse liquid assets which are readily available and sufficiently reliable to monetise or, where applicable, eligible to post as non-cash

collateral, taking into account any encumbrances, the credit quality of the assets and the marketability of the assets. Competent authorities may allow IORPs not to apply the diversity principle to holdings of government bonds in the buffers of liquid assets.

- 3.26. IORPs should apply appropriate haircuts to the different types of assets in the buffer of liquid assets, corresponding to the loss in value when transforming the assets into liquidity under severe but plausible stress conditions within the relevant time horizon, including the potential costs and financial losses arising from forced sales.

Resilient and effective operational processes

- 3.27. To ensure resilient and effective operational processes, IORPs with material liquidity risk exposures should periodically review the plan to deal with liquidity stress and update it as appropriate. The review should include testing of the IORP's operational readiness to transform liquid assets into liquidity under stressed conditions. Such testing should, for example, ensure that the buffers of liquid assets are unencumbered and accessible within the relevant timeframe.
- 3.28. Where applicable, IORPs should also regularly review the availability of liquidity support by the sponsoring undertaking and the IORP's access to other committed arrangements with liquidity providers to ensure their continuity and availability for use in stressed conditions. Uncommitted arrangements are highly unlikely to be available in stressed situations.
- 3.29. Where applicable, IORPs should have regular dialogues with counterparties in collateralised derivative and funding transactions to evaluate the materiality of the liquidity risk that may arise during severe but plausible stress events. These evaluations should take into consideration how the risk management practices of the counterparties may respond during times of market stress.

OUTSOURCING TO THIRD-PARTY SERVICE PROVIDERS

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

prevent operational lags in fulfilling margin requirement where IORPs invest in derivative instruments through external investment funds which have recourse to the IORP through cash calls to meet margin or collateral requirements, like liability driven investment (LDI) funds.

PROPORTIONALITY

3.32. IORPs with material liquidity exposures should implement the expectations contained in this Opinion in a manner that is proportionate to their size and internal organisation as well as the nature, scale and complexity of the liquidity risks inherent in the IORPs' activities.²⁸ As such, the following characteristics would, *ceteris paribus*, impose higher demands on liquidity risk management:

- a) exposures to daily margin and collateral requirements rather than exposures that materialise over longer time horizons;
- b) reliance on other sources of liquidity than outright sales of assets, including secured and unsecured borrowing and the posting of liquid assets as collateral;
- c) larger liquidity exposures in terms of the size of the potential liquidity needs as well as the potential impact on financial stability.

4. MONITORING BY EIOPA

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

Done at Frankfurt am Main, on 24 June 2025.

[signed]

For the Board of Supervisors

Petra Hielkema

Chairperson

²⁸ In accordance with Article 25(2) of the IORP II Directive.