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IORP II comes to a good closure

AFTER A LONG AND ARDUOUS PROCESS, THE IORP II DIRECTIVE IS TO BE PUBLISHED IN JANUARY 2017. PENSIONSEUROPE CEO MATTI LEPPÄLÄ STATES HOW THE DIRECTIVE HAS GOT TO THIS STAGE AND WHAT THE FUTURE INVOLVES

OCCUPATIONAL PENSIONS VARY GREATLY ACROSS EUROPE AND A ONE SIZE DEFINITELY DOESN'T FIT ALL

The new pension fund directive, IORP II, has gone through the legislative motions and all that remains is to publish it in January 2017. And then of course implement it within two years. IORP II is minimum harmonisation and it is extremely important that how it is implemented is not decided at EU level by the European Commission or EIOPA, but at the member state level according to local decisions and practices. This enables to take better into consideration the fact that occupational pensions vary greatly across Europe and a one size definitely doesn't fit all.

The IORP II Directive sets common standards and aims to ensure the soundness of occupational pensions and better protection of pension scheme members and beneficiaries. For this there are new governance requirements, new rules on IORPs' own risk assessment, and enhanced powers for supervisors. An important goal is to facilitate IORPs' at present time nearly nonexistent cross-border activities, by introducing new transfer rules and by clarifying procedures.

IORP II is also linked to very ambitious EU objectives such as the Capital Markets Union: IORPs play an important role in the long-term financing of the Union's economy. Pension funds invest a lot of money, more than €4 trillion, and are of course active in the financial markets. But it is essential that the new directive recognises that IORPs are first and foremost institutions with a social purpose.

No delegated acts!

For the past 15 years financial services legislation has been drafted using the so-called Lafalussy process. In this process the supervisory European authority drafts, together with the European Commission, binding delegated and implementing acts, which are called Level 2. IORP II is a remarkable exception as the legislators abolished these delegated acts from the Commissions original proposal. As a result EIOPA and EC do not have the competence to harmonise the implementation of the directive. There will be guidelines and recommendations from EIOPA and national supervisors will play their part, but nevertheless it is a major achievement that the competence to decide on many vital details are decided locally in the way that better fit the pensions funds in different countries.

No new solvency capital requirements!

In this IORP II process the European Commission and EIOPA aimed to introduce Solvency II-based capital requirements for IORPs. This would have been lethal for existing defined benefit pensions, which still are the majority of occupational pensions in Europe. After very long debates, also EIOPA acknowledged that new solvency capital requirements could have significant negative impacts on IORPs, sponsors, and members. They would significantly increase IORPs' costs and decrease the future coverage of occupational pension schemes. IORP II doesn't include any new solvency requirements and the will of the legislators is that none should be developed. We can only hope that also this view is respected by EIOPA and the European Commission.

A review of the IORP II Directive shall take place six years after its entry, so we should have a period of legislative calm in order that pension funds can concentrate on delivering adequate, safe and affordable pensions and retirement provisions.

EIOPA's IORP stress tests 2017

EIOPA plans to launch its second IORP stress tests in May 2017. The first tests were conducted in 2015 and pension funds didn't find this exercise very useful. Hopefully this time will be different. We already know that the tests will particularly focus on the effects of the low interest rate environment and the impact on sponsors. These are certainly important issues. ■

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