Brussels, 23 October 2012

Joint statement

EMPLOYER, WORKER AND INDUSTRY REPRESENTATIVES:
The IORP directive revision - a truly political debate

The European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) continue their preparatory work on the revision of the Pension Fund Directive ("the IORP Directive"). As an important part of this, EIOPA has just launched the Quantitative Impact Study (QIS) on changes to the IORP Directive. The revision of the IORP Directive, including the QIS, is a deeply political discussion where the voice of social partners, pension funds, and the wider pension industry should be heard.

The process of revising the IORP Directive must be driven by realistic timelines, and truly aim at improving the adequacy and sustainability of occupational pensions in Europe. This fits with the European Commission's White Paper on Pensions and the Commission's 2012 Ageing Report findings that, in an environment of strained public finances and rapid demographic ageing, occupational pensions must play a more prominent role in retirement provision.

The QIS, which is an important step in the revision process, will have a big impact on the valuation methods for pension assets and liabilities, and thus on the willingness of enterprises to continue (or begin) to offer pensions through the workplace.

The cornerstone of the QIS is the Holistic Balance Sheet (HBS) tool. We continue to question the appropriateness of this tool and fear that the outcome of the exercise will be to impose a Solvency II-like framework for pension fund supervision. Our concerns have been reinforced after the public consultation run by EIOPA on the draft technical specifications of the QIS in July 2012.

We therefore welcome the recognition from EIOPA that the very feasibility of the HBS tool is to be further investigated:

> *"[t]he adoption of the holistic balance sheet in practice needs to be further investigated with respect to the feasibility of developing a methodology for the quantification of the security and benefit adjustment*

mechanisms and the effectiveness in terms of costs and benefits of such a methodology.

Further information is needed on the feasibility in practice of a common level of security and its effectiveness in terms of costs and benefits, given the diversity of IORPs in the different member states…"[1]

We also welcome that EIOPA has recognized that more work needs to be done on a number of issues related to the HBS tool (including sponsor support, pension protection schemes and risk margins).

We therefore regret that the European Commission has not identified these issues in the final QIS specifications.

We commend EIOPA on its view that this *first* QIS will be a partial exercise to be complemented with further quantitative evaluations and assessment of fundamental aspects, such as supervisory responses, multi-employer IORPs treatment and a right assessment of the expenses borne by employers.

The European Commission has announced an initiative on long-term investing (which will include a Green Paper on long-term investing). At the same time the "trilogue" discussions on Solvency II are further considering the confidence level and the prudential treatment of long-term investments within the Solvency II framework. These issues are very important to IORPs, which are long-term investors by their very nature. As such they contribute to the stability of financial markets and to financing growth and jobs in Europe in line with the EU2020 Strategy. Undue risk weighting would further discourage long-term investing.

We thus call upon the European Commission to incorporate the results of the debate on long-term investments into the revision of the IORP directive, to allow European IORPs to continue financing long-term investments. At the moment, it feels as if the potential new IORP rules push for short-term security at the expense of long-term investment and pension adequacy. Whilst it is important to ensure the right balance between security and investment, it is also important to avoid contradictory processes within the European Commission.

In view of the ongoing impact studies and future revision of the IORP Directive, we remain committed to working with the European Commission and EIOPA to ensure that the right decisions are taken for employers, workers and the pensions sector, as well as for the economy as a whole and the future of occupational pension provision in Europe.

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[1] Draft Technical Specifications QIS of EIOPA's Advice on the Review of the IORP Directive, 2 October 2012, EIOPA_BOS_12/085

Bruno Gabellieri, Secretary General of the European Association of Paritarian Institutions (AEIP), said:
"The revision of the IORP directive is becoming more and more a topic of discussion for social partners across Europe in a number of industry fields. Indeed, occupational pension schemes in many Member States stem from collective bargaining and thus have a social nature and are undoubtedly regulated by national Social and Labour Law. As for the Holistic Balance Sheet, while its "holistic" stance admits a mixture of different elements, the mixture of prudential regulations and SLL remains an issue. This issue deserves more attention and requires a genuine rethinking of the current IORP revision approach, still too linked to the Solvency II framework."

Philippe De Buck, Director General of BUSINESSEUROPE, said:
"We still have concerns that the Commission wishes to apply a Solvency II-like framework for pension fund supervision. We strongly believe that this will not allow for cost-effective provision of occupational pensions by employers, despite their commitment to continue providing workplace pensions. Ensuring security of occupational pensions is important, however this must be balanced with a long-term view to ensure the sustainability of occupational pensions and to preserve their role as investors."

Valeria Ronzitti, General Secretary of the European Centre of Employers and Enterprises providing Public services (CEEP), said:
"Public services' employers gathered in CEEP reiterate their strong concerns regarding the European Commission's intention to apply Solvency II to pension schemes. We keep hearing that there will not be a cut and paste Solvency II framework to IORPs, however all the steps taken so far point in the opposite direction. We agree that safeguards are necessary but badly timed additional solvency rules threaten to result in a major increase in funding costs for pension schemes and for employers without improving security for members in the schemes. This would militate against the objective to increase the adequacy of pension benefits."

Peter de Proft, Director General of the European Fund and Asset Management Association (EFAMA), said:
""Applying Solvency II style regulation to pension funds would accelerate the overall shift away from equity in global asset allocation, making it more difficult for companies to raise equity, thereby constraining their long-term funding and the growth potential of the European economy. Furthermore, forcing all institutional investors with long liabilities to invest under the same rules, even if their structure is very different, would increase volatility and contribute to systemic risk. The QIS should therefore take into account the negative macroeconomic and financial impact of the proposed new regulatory framework for IORPs, in particular regarding market volatility and pro-cyclical effects."

Matti Leppälä, Secretary-General/CEO of the European Federation for Retirement Provision (EFRP), said:
"The QIS may seem very technical, but it is part of a deeply political process: it can have a big impact on the valuation methods for pension assets and liabilities, and therefore on the willingness of employers to provide supplementary pensions. We must keep the future of supplementary pensions in mind as the process goes forward. The use of the Holistic Balance

Sheet in practice will be very difficult, due to the huge complexity and subjectivity of the assumptions underlying it. What we need is a supervisory framework that recognises the unique characteristics of IORPs and that is workable for employers and IORPs."

Claudia Menne, confederal secretary of the European Trade Union Confederation (ETUC), said:
"Occupational pensions must continue to constitute an important and increasing share of pension schemes in Europe, which allow people to maintain living standards after a long working life. The actual European Agenda risks going into the opposite direction, by concentrating on poverty prevention on the one hand and higher capital requirements for IORPs on the other hand. This will lead to limited access to adequate pensions for workers in Europe. A top priority for every Single Market intervention must be to respect, preserve and promote the unique character of IORPs as part of the success story of the European Social Model".

Dörte Höppner, Secretary-General of the European Private Equity and Venture Capital Association (EVCA), said:
"Applying the market consistent approach of Solvency II to IORPs could create a perverse incentive for pension schemes to attempt to meet long-term liabilities with short-term investments. This will be further exacerbated by erroneous risk weights for long-term investments such as infrastructure, private equity and venture capital. A more certain future for Europe's savers and pensioners is certainly warranted. Protecting the virtuous relationship between long-term growth asset classes and long-term investors is the way to start."

Andrea Benassi, Secretary General of the European Association of Craft, Small and Medium Sized Enterprises (UEAPME), said:
"Europe requires the right framework conditions for the provision of supplementary pension schemes and only a safe system will create a real benefit for both employers and employees ensuring sustainability of pension funds. However, any attempt to apply 'Solvency II' type regulations to pension funds ignores the specificities of the occupational, non-profit driven pension schemes. Moreover, it seriously risks increasing the cost of pension funds and would be detrimental to encouraging SME employers to further invest in pensions."

Signatories to the joint press statement of 23 October 2012:

The European Association of Paritarian Institutions (AEIP), **www.aeip.net**
AEIP represents the European Paritarian Institutions of Social Protection in Brussels since 1997. The Association gathers 27 leading large and medium-sized Social Protection Management Organizations which equally represent the employees and the employers through a joint governance scheme; plus 39 affiliates from 22 countries.

AEIP represents its members' values and interests at the level of both European and International Institutions. In particular, AEIP - through its working groups - deal with EU coordinated pension schemes, pension funds, healthcare schemes, unemployment schemes, provident schemes and paid holiday schemes. The final goal of AEIP is to achieve pan-European paritarian schemes of social protection.

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BUSINESSEUROPE, **www.businesseurope.eu**
BUSINESSEUROPE represents small, medium and large companies. Active in European affairs since 1958, BUSINESSEUROPE's members are 41 leading industrial and employers' federations from 35 European countries, working together to achieve growth and competitiveness in Europe.

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The European Centre of Employers and Enterprises providing Public services (CEEP), www.ceep.eu
CEEP gathers enterprises and organisations from across Europe, both public and private, at national, regional and local level, which are public employers or providers of services of general interest. CEEP members contribute to more than 26% of EU GDP and employ 30% of the EU workforce. CEEP is one of the three general cross-industry European Social Partners.

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The European Fund and Asset Management Association (EFAMA), **www.efama.org**
EFAMA is the representative association for the European investment management industry. EFAMA represents through its 26 member associations and 59 corporate members approximately EUR 14 trillion in assets under management of which EUR 8.4 trillion was managed by approximately 54,000 funds at end June 2012. Just above 36,000 of these funds were UCITS (Undertakings for Collective Investments in Transferable Securities) funds.

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European Federation for Retirement Provision (EFRP), **www.efrp.org**
The European Federation for Retirement Provision (EFRP) represents the various national associations of pension funds and similar institutions for supplementary/occupational pension provision. Its membership consists of institutions for workplace (2nd pillar) retirement. Some of them are also operating purely individual pension schemes (3rd pillar).

The EFRP has 22 member associations in most EU-15 Member States and other European countries with significant workplace pension systems. Together they cover 83 million EU citizens who participate in workplace pension plans. Through its membership, the EFRP represents approximately € 3.5 trillion in assets (2009) managed for future occupational pension payments.

EFRP Members are large institutional investors representing the buy-side on the financial markets. They are specialised financial institutions dedicated to the sole objective of accumulating and decumulating assets over a long period of time with the aim of providing a supplement to the State pension to avoid old-age poverty.

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European Trade Union Confederation (ETUC), www.etuc.org
The European Trade Union Confederation was set up in 1973 to promote the interests of working people at European level and to represent them in the EU institutions. At present, the ETUC has in membership 83 national trade union confederations from 36 European countries, as well as 12 European industry federations, making a total of 60 million members.

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European Private Equity and Venture Capital Association (EVCA), **www.evca.eu**
EVCA is the voice of European private equity and venture capital.

We promote and protect the interests of our more than 1,200 members, to ensure they can conduct their business effectively. EVCA engages policymakers and promotes the industry among key stakeholders, including institutional investors, entrepreneurs and employee representatives.

EVCA develops professional standards, research reports and holds professional training and networking events. EVCA covers the whole range of private equity, from early-stage venture capital to the largest buyouts.

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European Association of Craft, Small and Medium Sized Enterprises (UEAPME), **www.ueapme.com**

UEAPME is the employers' organisation representing exclusively crafts, trades and SMEs from the EU and accession countries at European level. UEAPME has 84 member organisations covering over 12 million enterprises with 55 million employees. UEAPME is a European Social Partner.

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