OPSG

OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

Advice on IORP Stress Test 2019

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Contents

INTRODUCTION

This position paper is prepared by EIOPA Pension Stakeholder Group (OPSG) as a response to EIOPA's publication of the results of the stress test 2019 and to its technical specifications. This submission is prepared by a working group, discussed in OPSG plenary meetings and approved by the OPSG in February 2020.

GENERAL REMARKS

I. The OPSG in general appreciates the execution of a stress test for the largest European IORPs in order to assess the impact of – especially economically - adverse scenarios to the pan-European landscape of occupational pensions taken as a whole. The OPSG furthermore believes that if conducted with a suitable methodology such stress tests may also give valuable additional insight for the board of an IORP and its relevant stakeholders. The IORP-II-directive prescribes the duty of IORPs to carry out own risk assessments. Some of the stress test´s results may (in the discretion of the respective IORP) also be used in this context and - as far as they describe risks, which are borne by the beneficiaries - may also be communicated to the beneficiaries, if the IORP decides to do so. Any risks so disclosed in the scope of this own risk assessment should be in accordance with the IORP-II-directive. However, the respective IORP´s may also communicate their risks according to other suitable methodologies than those used in the stress test.

II. However, the OPSG also stresses again that EIOPA is – except for a few cases resulting out of article 8(2)f of the EIOPA Regulation - entitled neither to define any regulatory consequences nor to take any regulatory actions directly against any single IORP, since this is in principle within the tasks and responsibilities of the respective National Supervisory Authorities (NSAs). Additionally, any regulatory consequences have to be based especially on the respective national law and legal environment, which in many cases is not coherent with the valuation conventions of the common balance sheet (CBS). Hence, the OPSG accepts, that EIOPA has to use a certain consistent approach in order to integrate the different results from different member states and to make them somehow comparable. However, this can only be suitable for a macro-approach. It has to be recognized, that the CBS valuation results in many member states have no consequences for single IORPs with regard to national supervisory law and hence cannot serve the management of these IORPs for steering the company.

III. The OPSG supports EIOPA in further urging NSAs to deliver complete data which is needed to derive a true and fair picture about the robustness of occupational pensions in Europe and the NSAs in the member-states should therefore have the legal powers to force participants to deliver the information needed for such risk evaluation. Furthermore it could be reasonable, that - as a quality control measure - NSAs carry out, on a sample basis, audits of the data furnished by IORPs in order to ensure, that the data is complete, relevant and accurate, and to furnish to EIOPA a report on these audits, so that EIOPA can assess the level of confidence, which EIOPA can have in the data submitted. The OPSG is aware of the fact, that some NSAs are already doing this.

IV. EIOPA should also in the future clearly stick to a macro-prudential approach, as it did in the stress tests 2019 and 2017. With such an approach the stress test can help to identify dangers or weaknesses for certain national economies and can serve as an early warning indicator with regard to risks and dangers for the whole system of occupational pensions or for certain types of pension plans or types of providers in certain European member states.

V. The stress test report is by definition a risk report. Such kind of report is normally written to a governing body responsible for initiating risk mitigating actions, normally proposed by the report writer. Alternatively actions may be initiated by the governing body itself, as a result of discussion of the risk report content. The stress test report is discussing issues affecting at least four levels of bodies/stakeholders, which could be the addressees of the report: a) the EEA/EU and its governing and regulatory bodies, b) the EEA member states and its governing and regulatory bodies, c) the IORP's analyzed, their governing bodies and their beneficiaries and d) the general public. In this context the OPSG observes, that only a limited number of aggregated conclusions and tangible recommendations reflecting the first three levels of responsible bodies resp. stakeholders is given in the report. In the stress test report it would also be natural to state which findings are acceptable in EIOPA´s point of view, and which findings (from EIOPA´s perspective) need action by NSA´s or other responsible stakeholders.

VI. The OPSG acknowledges, that EIOPA still uses the Common Methodology as one important stress test framework besides a cash-flow-analysis run in parallel. The OPSG has elaborated in earlier papers (e.g. "EIOPA Occupational Pensions Stress Test 2017 - Position Paper by the EIOPA Occupational Pensions Stakeholder Group (OPSG)" or "Position paper on EIOPA's Opinion to EU Institutions on a Common Framework for Risk Assessment and Transparency for IORPs" (from 2016)), why in many cases a cash-flow-based approach has definitive advantages compared with any valuation based approach (such as the "Common Methodology"; see below). In these papers the OPSG claims that such valuation based approach is less suitable for this pan-European stress test exercise. The key risk for any financial institution is not being able to meet its cash commitments. The OPSG would draw the attention to the fact that e.g. an asset may have a high value due to future high cash flow expectations. However, it is the cash flow generated today which is relevant for meeting today's payment commitments. Asset and liability balance sheet items also normally represent different volatilities, both in value and cash generation. An analysis of shortfall of assets over liabilities in a balance sheet may therefore not always be a relevant risk measure. Furthermore, the analysis does not consider how quickly IORP assets can be turned into cash. There may be substantial negative time and financial effects of "asset fire sales" (e.g. investments in liquid assets with a low degree of liquidity) required in case of a sudden occurrence of an adverse liquidity scenario.

VII. The OPSG emphasizes that a parallel run of two different methodologies should not be done permanently in the future. This would imply an inadequate und undue workload and costs for the affected IORPs, especially the smaller ones. Here, after some testing of the two methodologies, EIOPA should take a decision after consultation within the OPSG should be taken which way to follow in the future. If the right cashflow data is collected, EIOPA can additionally perform any analysis and any valuation, which would be suitable for EIOPA, based on this set of data.

VIII. In particular, the OPSG is concerned about the confusion that is created with two different measurement approaches. A cashflow projecting approach which includes appropriate and standardized assumptions for investment returns applied by all IORPS (in case of a simulation not covering the whole rest-lifetime of the IORP: along with best estimate liability projections) appears to be the most useful to assess the baseline situation. Such a base case would indicate to what extent there is already a potential need to increase sponsor support and/or lower benefits. Applying a set of appropriate standard adverse "stress " scenarios to this baseline would provide the necessary stress test information for assessing macro/systemic risks. Such stress scenarios would allow an understanding of how investment under-performance could impact the financial situation for IORPS and the potential impact on sponsor support/benefits. Using risk free assumptions in cashflow projections is in no way an appropriate base case, but it could be of interest as one of the stress scenarios. This cashflow approach would meet the desire for a standardized and objective methodology that can be applied consistently across member states. The OPSG appreciates that EIOPA already included such an approach in the 2018 Stress Test exercise following requests and proposals from the OPSG and others in previous years. However, it is disappointing that the report provided little information on the base-line situation and adverse scenario results based on the cashflows using reasonable investment return assumptions and also that no mention was made in the summaries and press releases. Further information about the results from the cashflow exercise would be appreciated by the OPSG.

IX. The OPSG supports EIOPA's decision to run the stress tests in three year intervals and use the time in between for more thorough analysis and the development of further improvements to the approach and technical specifications.

PART I: COMMENTS ON THE RESULTS OF THE STRESS TEST 2019

On December, 17th, 2019 EIOPA has published the results of the pan European stress test exercise 2019. In this part of the paper the OPSG gives feedback to EIOPA regarding these results, their presentation and the conclusions which can and cannot be drawn out of these.

1) EIOPA´s press release on the results draws a relatively dramatic picture regarding the shape of the pan European landscape of IORPs. Compared to that short statement the detailed report is much more balanced, since it is presenting the results in a much fairer view. Based on this press release some newspapers published articles, which definitely can cause unjustified fears on the side of the beneficiaries. In one extreme case a newspaper´s general advice to beneficiaries has been given "to act now", meaning they should terminate their occupational pension product (which in many jurisdictions is legally not possible at all). It should be within EIOPA´s interest to strengthen the occupational pension system. Sending too negative signals in an unbalanced way, however, can be detrimental to the system, because beneficiaries and employers may lose faith in IORPs and occupational pensions as a whole. In that context it also has to be noted, that the results of the stress test very much differ from country to country, and also between the single participating IORPs. Moreover in the current stress test the overall results are highly biased by the results of one country making it impossible to deduct conclusions for Europe as a whole as done in the press release. Hence, the OPSG advises EIOPA to choose a more balanced way of summarizing the stress test´s results. EIOPA could have included in the press release e.g. the fact that the EEA pension sector is on average better funded in the baseline scenario compared to previous exercises. Further, it could have been highlighted that in the vast majority of European member states the funding ratio is above 100 % in the baseline <u>and</u> in the adverse market scenario according to national valuation conventions. The vast amount of benefit reductions only relate to one country. The OPSG

proposes that EIOPA should consult beforehand with OPSG on future communications on stress tests.

2) In the report EIOPA is mentioning the “stickiness” of the IORP´s investment allocation which might “lead to vulnerabilities”. In this context one should notice, that most DB/hybrid IORPs base their strategic asset allocation on ALM considerations. Within such ALM studies an “optimal” portfolio structure is determined, which (according to the actuarial/mathematical model used) is expected to be the most suitable one with regard to a sufficient financing of the pension promises given to the beneficiaries (what “sufficient financing” concretely means differs from country to country according to national law and regulation). Therefor this “optimal” portfolio structure mainly depends on long-term expectations regarding average returns of different asset classes, as well as volatility and correlation data (or data for similar dependencies in case copula based models are used). Especially the latter kind of input data often is derived out of long-term statistical historical observations, which usually do not change after a capital market shock in an abrupt manner. Hence, it is not too surprising, that also “optimal” portfolio structures do not significantly change after a shock event. Also the result found by EIOPA, that the overall exposure to equities will mostly be re-balanced within the first year after the shock, can be explained by these ALM-methods. As an additional aspect in this context it should be mentioned, that e.g. a sharp increase in the portion of more risky assets (anticyclical behavior) after a shock event as well as a sharp decrease in the portion of more risky assets after a shock event (pro-cyclical behavior) may lead to vulnerabilities as well – just as the “sticky” behavior mentioned by EIOPA. This would depend on the further concrete development of capital markets in every single case. All this is to result in the conclusion that the presumed “stickiness” is not a problem per se in terms of vulnerabilities.

3) The OPSG appreciates that the ambitious participation rate of 60% could have been reached and encourages EIOPA to strive (within its powers) for the transposition of the IORP II Directive all over Europe (i.e. EU/EEA), which would give the necessary legal powers to the relevant NSAs to force participation also in those countries where this legal power is still missing. But although the participation target has been reached, the focus on assets under management as a representation criterion leads to the fact, that in some countries only a relatively small number of IORPs participated whereas the occupational pension landscape in these countries (e.g. in Germany) consists also out of many smaller IORPs (which partially would also be needed to include in order to get a really representative picture). In light of the diversity of the European occupational pension landscape, it should be left to the NSAs to determine, which IORPs should be included in order to get a representative picture for the respective member state. Some OPSG members however argue that generally 1 billion EUR in assets under management should be used as a minimum threshold to participate in the exercise, since for pension funds with less assets performing the stress test exercise based on the common balance sheet would be too expensive.

4) EIOPA states that the value of sponsor support in the Common Balance Sheet exceeded 42 % of the sponsors´ market value under the pre-stress and 66% under the adverse scenario. The OPSG reiterates, that market value might not always be the right reference for comparison in this context. Take, for example, a publicly listed company: One could not necessarily draw the conclusion, that the ability of this company to give the necessary sponsor support has

decreased only because of a drop of its share-price on a public stock exchange, which may sometimes be influenced by erratic trading activities and emotional behavior of some investors. In addition, publicly quoted companies disclose their pension liabilities and therefore these liabilities are already reflected in the share-price and market value of the sponsor. Therefor the comparison of cashflows from sponsor support against the sponsors´ earnings, which was also partially done by EIOPA within the report, gives a much better insight into the abilities of sponsors to support the IORPs to the extent needed. As there is a host of earnings metrics in use, we suggest EIOPA to contact IASB on the relevant earnings metric.

5) The OPSG very much appreciates, that EIOPA has chosen a stress scenario which assumes increasing discount rates also on the liabilities´ side (as well as on the asset side) and which is from an economical point of view more plausible and consistent in itself than the “double hit” scenario used in the stress test 2017. Also the assumption, that shocks to interest rates are relatively higher on short maturities giving the bigger uncertainty and risks to growth caused by political tensions is plausible from the OPSG´s point of view.

6) In the DB section the relative weight only for the Netherlands (NL) is 77% in terms of total assets. Given this fact it could make sense to show also a total result excluding the NL in order to get a quick view over the rest of Europe, because in the current report the total results may be too heavily influenced by the figures for the NL alone.

7) The OPSG does not share the expressed opinion, that the Common Balance Sheet (CBS) is able to show to which extent “additional security benefit adjustment mechanisms may be needed in the future”. The reason is that the CBS is only a market-based valuation of assets and liabilities at ONE certain point in time, calculated by using certain special valuation conventions. Hence CBS based assessments can give only limited insight regarding the IORP´s capability to sufficiently finance all promised future benefits in the long run. Here, a cashflow-analysis can give much more insight. The OPSG hinted already to that point several times in the past (e.g. “EIOPA Occupational Pensions Stress Test 2017 - Position Paper by the EIOPA Occupational Pensions Stakeholder Group (OPSG)” or “Position paper on EIOPA’s Opinion to EU Institutions on a Common Framework for Risk Assessment and Transparency for IORPs” (from 2016)) and the corresponding arguments do not need to be repeated here.

8) With regard to the stress test based on national valuation methodologies it is worth to mention, that eight countries, whose results are shown separately, and the “Rest of EEA” show funding ratios at a level of 100% or above even after the assumed stress event. It would have been fair and more balanced to mention also such aspect in EIOPA´s press release and provide a brief explanation as to why this is the case.

9) Box 2 on pages 41-42 indicates that the stress scenario has serious impact for the Dutch pension benefits and for private consumption in the Netherlands. The simulations reveal that the stress impacts both benefits and consumption in the Netherlands gradually over the first ten years. As the report says, this effect as such does not cause instability. However, the remaining effect is a long lasting lower level of both pension benefits and private consumption (-4%). Whether small downward adjustments in wages and prices partly offset this effect, as the report suggests, remains doubtful, since prices and wages tend to be rather

rigid to the downside. Therefore, such ‘low for long’ results are a substantial risk, as the report also seems to conclude. This finding corroborates the argument that the sheer size of the Dutch pension assets as compared to GDP (the penetration rate) causes macro-stability risks. The OPSG already pointed to this risk in its Feedback Statement to the EIOPA Financial Stability Report December 2016 .

10) The OPSG fully supports the integration of ESG aspects into investment analysis, investment decisions and risk management. However, it should be kept in mind, that in many countries IORPs have neither a legal nor a moral justification to take ESG factors into account in cases where this would lead to lower financial returns. In these countries an IORP has to act only in the best interest of its beneficiaries, who might have individually very diverse views and opinions on certain ESG-related questions. However, the OPSG also notes that – based on empirical studies - the trade-off between investment returns and ESG investments seems to decline, so that there may be a chance, that the two aims can very well commensurate. Also, it is widely believed that ESG goals do serve the interests of pension beneficiaries, especially in the longer run.

11) The approach used in the ESG-related part of the stress test to identify “greenhouse gas-intensive economic activities” only depending on the NACE classification as done in the stress test exercise is much too rough. Hence, the conclusion, that the overall-exposure of e.g. equity investments to greenhouse-gas intensive activities amounts to 37%, cannot be drawn. As argued by EIOPA in the report itself one NACE activity can be done in a very greenhouse-intensive way and also with very few greenhouse gas emissions depending on the company and the techniques used. Agriculture e.g. is not necessarily greenhouse-gas intensive by itself. A closer look into single cases would have to be done in order to really figure out the ecological footprint of portfolio companies within IORPs´ investment portfolios. But the amount of work needed for such a detailed and sufficient approach would by far exceed the operative capabilities of most of the participating IORPs. Furthermore it should be mentioned, that the (NACE) industries showing a higher greenhouse gas intensity than the total of all NACE activities (figure 4.12 of the report) form the backbone of the economy of many European states and are still absolutely crucial to fulfill todays needs of European citizens.

PART II: COMMENTS ON TECHNICAL SPECIFICATIONS OF THE STRESS TEST 2019

This part of the document contains the OPSG´s input to EIOPA regarding technical aspects and specifications, which the OPSG has already given to EIOPA in its OPSG-meeting on February, 21st, 2019. This input has not been published yet because of the fact, that it has been based only on draft specifications, which have been confidential at that point in time. Therefor it has been agreed in the aforementioned meeting to publish this input together with the OPSG´s comments of the stress test´s results within one document. Aspects, which have become irrelevant in the meantime (e.g. because EIOPA made changes or amendments to the draft technical specifications) or which are already sufficiently mentioned in part I of this document have been skipped in this part II. So the remaining OPSG´s comments on the specifications, the excel-sheets and the questionnaires are as follows:

1. In a cash-flow analysis a stress scenario should be followed by a realistic recovery of market parameters after the occurrence of a stress event. Additionally the OPSG proposes to use also some “safe haven assets” in the stress test calculation.

2. The value of sponsor support expressed as a percentage of the market value of the sponsor does not seem to be a suitable measure for potential spillover effects of a potential stress into the real economy, since these would very much depend on the financial strength of the sponsor´s business and the future operative cash-flows, which may not correctly be mirrored in the share price of the respective sponsor company. A concrete solution for a measurement of spillover effects into the real economy is e.g. given in 4.50 of the draft technical specifications. In addition, the assessment of spill-over effects into the real economy should be based on real world assumptions (allowing for risk premia as a part of the investment returns) and not on a risk free rate.

3. In general, the OPSG appreciates, that EIOPA included cash-flows resulting out of sponsor support into the cash-flow-analysis. This is necessary to derive a complete picture regarding the financial capacity of an IORP. Projecting cash-flows resulting out of sponsor support and/or benefit reductions and/or pension protection schemes will be a very complex and burdensome exercise at least in some countries, because they depend on national future funding and solvability ratios, which have to be projected in any of the scenarios for any future year.

4. Using risk-free investment returns in the cash-flow analysis does not give a realistic and fair view of the future development of the IORP at all. Using a risk free rate is an extremely conservative assumption - even with the current low interest rate environment, EIOPA's own analysis, for example for the insurance LTG report, confirms that investors can and do earn significantly above the risk free rate. In addition, this approach would be contradictory in itself, because an IORP would earn risk-free yields only in that case, in which it is completely hedged against all market risks. But if the IORP were completely hedged, it would not be affected by the market risks resulting out of the stress scenarios any more! This shows, that the risk-free return assumption is not suitable for a stress-test. So, as a consequence, realistic assumptions (incl. returns allowing for risk premia which should individually be derived by the participants themselves so as to reflect the structure of the existing asset portfolio best) should be used when projecting cash-flows. Future pension cash-flows should also be based on realistic biometrical assumptions (e.g. longevity), which are appropriate for the respective individual scheme.

5. It is appreciated, that IORPs could use voluntarily an open modelling approach in addition.

6. It is very much appreciated, that IORPs could use their own simplifications if this is appropriate and still delivers a true and fair view.

7. A very large majority does not see any value in publishing the individual names of participating IORPs. This may in addition put pressure on these IORPs to publish at least parts of their stress test results, which cannot be the aim of a consolidated pan-European stress test exercise having a macro-prudential background. It may also confuse members and sponsors of the IORPs if the pen-European stress test leads to different results than the national stress tests, which exist in many countries. It also has to be taken into account, that occupational pensions are linked to a working contract and that hence in many cases plan members do not have a free choice, which IORP should provide their pensions. In general the OPSG thinks that EIOPA should clearly stick to a pure macro-prudential approach. The stress test can help to identify dangers or weaknesses for certain national economies and can serve as an early warning indicator with regard to risk and dangers for the whole system of occupational pensions in single European member states. Publishing individual names of participating IORPs does not contribute to this objective.

8. The OPSG very much appreciates integrating qualitative questions regarding the integration of ESG in risk management and investment strategies of the IORPs. This gives EIOPA the possibility to assess, how much this important issue is taken into account on the side of the IORPs and which risks may exist due to ESG-factors resp. non-sustainable assets within the investment portfolios of European IORPs or because of a not sufficient integration of ESG aspects in processes and decisions. It also helps to get an overview, which definitions, methodologies and principles are mainly used by IORPs and what the

general behaviors and approaches (e.g. best-in-class, exclusions, voting policies etc.) are preferred by them. The OPSG further appreciates, that for 2019 the integration of ESG aspects into any quantitative part of the stress test has not been done, since this would have been more than problematic, because this necessarily would have to be based on a pre-defined common ESG-taxonomy. The latter may have dangerous consequences, since due to the many different ESG-indices, criteria, classifications and methodologies, where many of them may have a sound justification (may be just from different points of view), it will be to a certain extent a subjective decision which one to choose. Such decision will hence always be based on individual moral or ethical opinions and criteria. But any quantitative supervisory tool (such as the stress test) has to be based only on objective (and scientifically proven) facts. Additionally stressing certain assets more than others in the long run on the basis of such a (subjectively chosen) ESG taxonomy would clearly lead to herding effects: investors would shy away from e.g. stocks, which are seen as less sustainable and therefore are stressed more strongly than other ones. This can cause severe damage for national economies and capital markets and it would to a large extent create additional systemic risks! Furthermore, the OPSG believes, that building capacity and sharing knowledge between NCAs is necessary before taking a further step regarding the integration of ESG aspects into the stress test.

9. The NACE classification system is a classification, which is currently not very common in the investment industry, which is mainly using industry classifications from index providers (e.g. MSCI). So it would cause additional costs for IORPs to derive this information. In this context the OPSG very much appreciates the compromise solution described in section 3.8 of the technical specifications.

   The OPSG understands that regarding investment funds, the issuer sector is the sector of the fund manager´s classification as defined in EIOPA's regular information request to NCA's. We urge EIOPA to be very careful to deduct any conclusions in relation to ESG based on the NACE split up of the assets as NACE is only a systematic classification of different industries and economic activities and hence does not provide any information on sustainability itself.

10. The OPSG is still convinced that the application of a risk margin based on a cost of capital approach in many cases does not adequately map the real life situation of IORPs. This is especially true for those countries, where the majority of IORPs are non-for-profit organizations which do not have to earn any cost of capital. In such cases, the change compared to the last stress test, that the risk margin is zero in case of an excess of liabilities over assets, does not go far enough.

11. Projecting cash-flows for the full lifetime of the pension obligation may include a high degree of uncertainty with regard to cash-flows, that occur far away in the future – especially in case, that the pension scheme is not very mature. We recommend, that

EIOPA thinks also about limiting the time scope of the cash-flow analysis to a common and reasonable period (e.g. 15 years into the future). Of course, a suitable estimate measure for the financial status (using realistic assumptions) at the end of the projection period has additionally to be taken into account (e.g. the estimate internal rate of return needed to sufficiently finance the future benefits).

12. As it has already been argued by the OPSG in its position paper regarding the stress test 2017, most sponsor companies are belonging to industries, which are very different from the insurance industry. And it is already well known, that a serious assessment of the financial strength of e.g. a utility company differs with respect to its methodology very much from a corresponding assessment for e.g. a pharmaceutical company – and a fortiori for an insurance company. This is by the way also the reason why professional rating agencies have different methodologies – and, hence, different analysts as well as valuation methodologies – for different industries. The OPSG generally strongly doubts, that it would be feasible, to produce a serious and comparable analysis, how the occurrence of stress scenarios would impact the financial strength of the sponsor companies (or any potential spillover effects) in the different industries. Therefor it is just not possible to draw serious conclusions regarding this issue. We also note again that often industry wide pension plans do not have a fixed relation to one sponsor company, since many employers in an industry contribute, and pension entitlements may outlive employers. The OPSG has also in the past often hinted to the difficulty of collecting the requested financial data regarding sponsor companies in cases, where an IORP has a large number of sponsor companies and in cases where sponsor companies are non-listed. Notwithstanding this the knowledge of the global state of play of funded pensions all across Europe and their combination is a necessity for EIOPA and the public. It is necessary to assess the level of old-age pension coverage of workers and its robustness, and the part of it which is provided by sponsors. It is important to be able to follow how it evolves and to assess its resilience too, years after years. Moreover, facing the risk of future insufficiency of pay-as-you-go-pensions schemes and voluntary individual plans, the collection of maximum of information from that prospective could really be of added value. And, of course, a rudimentary assessment of potential spillover effects into the real economy should be included into this whole exercise. In this context the OPSG proposes, that aggregate losses resulting out of stress scenarios can be put into a relation to a suitable volume measure for the respective size of a national economy (e.g. the size of GDP, amount of total investments, size of total consumption etc.) in order to assess the systemic relevance of such events.

13. In the DC part of the stress test vulnerability of plan members to adverse scenarios should ideally be seen in conjunction with first pillar pension entitlements.

14. The two questionnaires “Investment Behavior” and the “ESG questionnaire” contain many questions, which are quite burdensome be answered, e.g. the extremely detailed part

where changes between pre and post stress asset allocations have to be delivered in an extremely granular breakdown into asset segments.

In addition, the reaction or response in terms of potential changes in the asset allocation mix will be also determined by the reason why the world has encountered the adverse scenario. If the scenario has developed because of strongly weaker economic conditions or if it is a more pure risk premia increase, reactions of IORPs would be very different. So in short, answering this question without knowing the why, would make it more or less impossible for EIOPA to draw any useful conclusions.

15. One OPSG member found, that the ESG questionnaire is quite general and hardly challenging to organizations that already report to PRI and/or prepare a sustainability report, whereas other members stress, that we need to take care, that we do not overburden this questionnaire, so that it stays practicably doable even for smaller IORPs (which usually do NOT report to PRI).

    Furthermore question 11 of the ESG questionnaire should be amended in the following manner: “Physical risks with an impact on profitability due to the direct impact of environmental degradation and climate change (economic losses due to natural disasters, **water stress**, deforestation, pollution, resource depletion, etc.)”.

    However, in everything, which we include into the questionnaire, we should have in mind, to limit the workload for IORPs participating in this exercise to a tolerable amount.