OPSG

OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

Advice on Methodological Framework for Stress-Testing IORPs

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CONTENTS

GENERAL COMMENTS

General comments	
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General introductory remarks	As stated already in many previous OPSG-comments regarding the pan-European stress test, the OPSG appreciates, that EIOPA is conducting this kind of stress test exercise so as to assess the macro impact of stress scenarios on financial stability and – more specific – on the landscape of IORPs in total Europe. We further support EIOPA in thinking over the methodology used in the latest stress test (2019) and especially the idea of a toolbox approach meaning that not all available tools within the stress test framework shall be used every time. In general, the OPSG thinks that this idea should lead to a reduction of effort and complexity for the participating IORPs. Some members are concerned about the horizontal approach proposed by EIOPA as huge differences between IORPs are in place across different member states, between DB and DC and within the two types of IORPs limiting comparability and requiring a very careful interpretation of the results of such horizontal approach. The OPSG stated several times in the past, that the Common Balance Sheet (CBS) approach (as an approach highly dependent on valuation conventions used) is not very suitable to assess the vulnerabilities of IORPs in a fair and comprehensive manner and that the OPSG in general prefers a cash-flow analysis approach instead. The arguments need not to be repeated in detail again here. One example: in case of negative risk free rates such approach can lead to giving wrong steering signals to IORP´s management. In such a situation market values of high-quality fixed income securities being held to maturity by the IORP for strategical reasons may be well above par and therefore well above the payback amount at maturity. At the same time also the market value of liabilities will be higher than the sum of all future benefit cashflows. If the duration of liabilities is higher than (or equal to) the duration of assets this may lead to a financial gap (on a market value level), which may in many cases automatically vanish until all the payments become due. If the duration of assets is higher than the duration of liabilities the same situation can lead to an over-estimation of risk buffers and of the IORP´s risk capacity. Another important point, which will be treated more in detail under the respective numbers in this paper, is, that assuming that IORPs are earning risk-free rates on the asset side in a baseline scenario is not correct from a methodological point of view. Since investments earning risk free rates are in fact hedged against most market relevant risks (otherwise they would earn the respective risk premiums) any stress scenario addressing these risks is not applicable (it would lead in fact to a "double-stress"). So, a baseline scenario should take the capacity of IORPs to earn additional risk premiums into account.

No. 22, 1st bullet-point	The OPSG suggests to add at the end of that paragraph "or any combination of these".
No. 26, 3rd, 4th and 6th bullet-point	The mandate of EIOPA includes to assess the consequences of such scenarios regarding financial stability in total and to assess the impact on the national economies. This can be estimated in a qualified manner by using e.g. the total amount of sponsor support calculated in the stress scenarios by the IORP. For this, further information about the individual sponsor companies is not needed – and is in many cases difficult or impossible for the IORPs to deliver (often also from a legal perspective). Furthermore individual sponsor companies are not subject of supervision by EIOPA – except for the case, that they are insurance companies themselves. EIOPA carried out an assessment of the different IORPs across MS, however it does not seem exhaustive. As regards DC plans two additional features should be considered. The first refers to the activities managed by DC IORPs. If they manage both accumulation and decumulation and if in this case they take over any longevity risks, IORPs have to accrue technical provisions for the purpose of the pay-out, meaning that they get in fact under DB framework (but only) from the starting point of the decumulation phase onwards. If DC IORPs are only focused on the accumulation phase, they do not manage longevity risks, moreover solvency issues in the classical sense do not matter. Such differences have a relevant effect on the practicability of any horizontal approach. The results of any projection tools for such IORPs are much more difficult to interpret and to compare by EIOPA/NCAs. If the scope of projections of future retirement income is to assess the effect on financial stability through the real economy, such analysis may be effective where IORPs account for a relevant share of retirement income, otherwise it is negligible. The second missing feature is the option for members of DC IORPs to select the investment option (if it exists) and to change it during the accumulation phase or even to change the IORP if they are not satisfied, both of which is legally not possible in some states of the European Union. It means that in this case it is up to the members to manage their risks stemming from the accumulation phase. Also, in this case, some concerns regarding the interpretation of the horizontal approach arise. If, for example, the projection should end up showing a shortage (however it might be defined) in the future retirement income for certain plan members, the explanatory power of such result with respect to the IORP would be negligible as the potential for management actions by IORPs would be very limited (if possible at all). It is up to the single member to choose and change the investment option, based on the findings of the projection of future retirement provided by the Pension Benefit Statement. For that reason, in such cases the projections of retirement income would have to be coherent to the results shown in the Pension Benefit Statements and should be used in this way to derive a macro prudential view.
No. 43	The OPSG generally supports the idea of a toolbox approach, where the tools are chosen depending on the concrete objective of the respective stress test. However, the catalogue of possible tools, which could be applied is larger than the list of tools which have been applied so far in former exercises. Therefore, when it comes to the selection of concrete

	tools, EIOPA should take consideration, that such selection does not result in an increased effort for the participating IORPs, but in a reduced effort compared to previous exercises, since many IORPs struggled already in the past with the additional effort of the EIOPA stress test. This hint seems to be particularly relevant before the background, that not all kinds of tools are equally suitable for assessing e.g. the financial strength of single IORPs or for performing horizontal analysis or other kinds of assessments. The OPSG suggests to bring therefore a toolbox together with the aim of increasing the number of IORPs participating in the stress test in order to get a representative group of participating IORPs.
No. 44	The projection of retirement income is a completely new tool within the stress test toolbox for IORPs providing for DB plans. In case of DC plans replacement rates for respective members have been assessed so far. It is generally reasonable to assess the impacts of different scenarios on retirement income for the beneficiaries, if there is a meaningful risk in this regard from their perspective. In cases where such risk is only minimal, because far reaching sponsor support measures in combination with effective pension protection schemes are in place, the application of such additional tool is not necessary and causes only unnecessary extra cost and effort for the IORPs without any significant advantage. Some members argue that also in cases, where occupational pensions only play a marginal role with regard to the total pension level (taking also other pillars into account), such instrument would not be necessary. If such instrument is to be applied (because the aforementioned protection mechanisms do not exist at all or to an acceptable extent), such tool should be designed in a way, that also smaller IORPs are able to cope with this new requirement and thus contributing to our aim to increase the number of participating IORPs and maximize the representativeness of the exercise. That means, that IORPs should not be forced to do a stochastic analysis and that especially smaller ones could do also a deterministic analysis for the pre-defined scenarios, which would be much simpler. Of course, if an IORP is already using stochastic modelling techniques within its own internal risk management framework, it can also do a stochastic analysis in this context (if it wants so). However, as said before IORPs should not be forced generally into such stochastic modelling framework. Otherwise it has to be feared, that without any necessity a lot of additional cost would be caused on the side of the IORPs, which in the end would have to be paid by beneficiaries and employers and would cause a sustainable damage to the landscape of occupational pensions in Europe as a whole. Any deterministic approach or other shortcut to replace a stochastic approach should be on a best estimate basis and should ensure that the outcome will be coherent to the outcome in case a stochastic analysis would have been performed (in other words a deterministic approach should not be sued in order to deliberately get to more optimistic results than otherwise would be the case).
No. 47	The horizontal approach would be a perfectly right way to run the stress test if IORPs were comparable. However, huge differences between IORPs are in fact in place between different member states, between DB and DC and between the different types of IORPs. This is the reason why IORP2 is - and should stay - a minimum harmonization directive. In the reference to point 26. of the Discussion Paper, the OPSG already addressed some features of DC IORPs which have not been considered by EIOPA and the way they would compromise the achievements of the

	horizontal approach, the interpretability of the results, their explanatory power and their usefulness for IORPs. EIOPA should further reflect on the opportunity to introduce such a horizontal approach for the next stress test, given the relevant distinctions between IORPs still in place. The OPSG welcomes the approach followed so far by EIOPA, based on a strong cooperation with stakeholders, however, for the OPSG it seems to be necessary to engage further in order to find the right way to deal with the huge differences in place that would undermine the results and the interpretability of the proposed tools for such approach.
No. 52-65	The OPSG has outlined several times in the past, where the OPSG sees fundamental problems regarding (valuation depending) balance sheet simulation techniques (please refer to the OPSG´s comments regarding the latest stress tests 2019 and 2017) and especially regarding the Common Balance Sheet (CBS). So, these arguments need not to be repeated in detail any more. So, just as a reminder and for the sake of completeness the main counter-arguments from the OPSG´s point of view shall be very briefly written down here: a) Balance-sheet-tools are one-periodic models based on certain valuation conventions (e.g. mark-to-market valuation conventions for the CBS), from which the results are heavily depending. b) Hence, if used as a steering instrument for IORPs or if any conclusions from an interpretation of the figures shall be drawn, the CBS delivers only short-term-oriented signals and allows short-term-oriented interpretations which contradict to the long-term nature of an IORP´s business. Long-term compensation effects over time cannot be assessed in such a framework, although they are highly important for the long-term-oriented business nature of IORPs. c) No IORP gets into financial difficulties just for the reason, that some kind of marked-to-market balance sheet (i.e. the CBS) shows certain financial gaps at one certain point in time. Financial problems, which trigger negative consequences for beneficiaries (and/or employers) can only arise out of two circumstances. Either on a short-term horizon the IORP is not able to pay the guaranteed (or expected, as the case may be) benefits. This would be more an issue of liquidity risk. Or on a longer term perspective it is highly probable, that the IORP at some point in the future is not able any more to pay the (guaranteed or expected) benefits, when they are due, because the IORP is running out of money. The latter risk can better be assessed in a multi-periodic cash-flow-oriented stress-test-approach. d) It is much more problematic to include national or individual specifics of an IORP into such a framework. e) Also the solidary and collective character of an IORP´s business as well as IORP-specific funding and financing measures, such as certain streams of additional financing by sponsor companies over a longer period of time, are much more difficult to integrate adequately into the model.

	f) If there is only one valuation after a shock event, it is nearly impossible to model, how an IORP and the related stakeholders (beneficiaries, employers, governing bodies etc.) most probably will react over time and which implications this might have in the long run. g) The integration of a risk margin on top of the best estimate of liabilities (which is usually capital cost based) does not make sense for IORPs – some members stress especially not for ones, which operate on a "not-for-profit" basis. Such an approach is only needed if a transfer to another entity is foreseen. These situations are rather rare, except when considering to transfer to an insurer.
No. 54	The discount rate for the valuation of the technical provisions as well as valuation conventions for assets in the NBS are based on national provisions, and hence these discount rates may differ significantly and the results based on NBS are significantly different and cannot meaningfully be compared in any horizontal approach.
No. 55	It is stated that the CBS is valued on a market-consistent basis. This is only partly true. The model is theoretically right when the cashflows are certain. Where pension payments are not certain, e.g. because the arrangement includes a reduction of pensions under certain circumstances, the valuation needs to take such uncertainties into account. This can e.g. be done by projecting the cash flows where this option of reductions is included and then use the risk-free rate for discounting those cash flows. Alternatively, the cashflows as if they were certain are used with a (upwards) correction for that in the discount rate. The adjusted discount rate would then be the risk-free rate plus a component (could be referred to as the risk premium) to allow for the conditionalities in the pension payment. Valuing such conditional pension payments with the risk-free rate results in a too high result, is overstating the liabilities and hence is not market-consistent.
No. 67	"Projections are inherently a challenging task, as most future developments cannot be predicted with certainty." Likewise, this is true for the two balance sheet approaches. A valuation is the discounted value of the future (uncertain) pension payments. So, there is no fundamental difference from this perspective between the approaches. In a projection such challenge is only seen more clearly, whilst in a valuation it is not made transparent as it is still in the underlying valuation approach (a valuation is also having cashflows at the basis for the discounting).
No. 68	"Depending on the objective of the ST exercise, the availability of such management actions may be important to assess.". Fully agree. That is why a cash flow analysis is providing more added value than a balance sheet approach where these actions are not taken into consideration.
No. 70	The OPSG already expressed some concerns on the practicability of projection tools (Internal Rate Return, Cash Flow tools and Projection of retirement income from IORP) for DC IORPs which only manage the accumulation phase and where members are allowed to select the investment option (please refer to 26.). As EIOPA stated in point 71. 2nd bullet point, that cash flow tools "*can provide insights into the timing and significance of cash-in and cash-out flows; as well as triggering points for supervisory measures or supporting actions by sponsors and members or pension protection mechanisms*". Against this background, the outcome of cash flow tools need to be

	carefully interpreted for such types of DC IORPs. Safeguards from NCA or sponsors or protection schemes based on such flows are out of scope for DC IORPs. The projections of the income of members and beneficiaries from the IORP should "*provide insights into the projected out-payments of IORPs as well as the effects on members and beneficiaries of an IORP*". With reference to the first objective, if an IORP does not manage the decumulation phase since fully outsourced to a life insurance company, some members of the OPSG question the need to project out-payments for such IORPs. As regards the effects on members and beneficiaries of an IORP, the OPSG is of the opinion that the Pension Benefit Statement is the tool institutionally designated for this purpose. In IORPs where members are allowed to choose the investment option (basically DC IORPs), the latter are responsible for the accumulation process and it is up to them to select according to their opinion and preferences the "best" tool to hedge the risk of an inadequate benefit at retirement (change investment option-or the IORP itself if allowed-, increase contribution etc.). The potential for management actions for such IORPs is rather limited. Furthermore, for a full assessment of the effect on financial stability through the real economy, all sources of retirement income should be considered, including public pensions. In member states, in which the first pillar usually provides the bulk of the retirement income, a projection of the future retirement income limited to the one stemming from the IORP would have no real value with regard to assessing the effect on financial stability (through future consumption).
No. 71	In an IRR approach EIOPA should not compare the necessary IRR so determined with the risk-free rate only (and determine the necessary level of risk premiums). Instead, one should also take into account the ability of an IORP to earn these risk premiums in the long run, which can e.g. be estimated by assessing the strategic asset allocation of the respective IORP. However, when doing so, one would also have to consider, that a higher level of (long-term-average expected) risk premiums because of a more risky asset allocation most probably coincides with a higher expected volatility of the investment results.
No. 73	Assessing the IRR for stress test purposes is not so much in terms of "profitability". It is more in terms of "long-term investment return needed".
No. 75	Very true that the cash flows have to take full account of national prudential mechanisms and all actions and measures that could play a role. This is an important advantage of such a cash flow analysis above either the NBC or the CBS.
No. 77	Some remarks on that number: - From the OPSG´s point of view it is still not right to calculate cash-flows based on the assumption of risk-free-returns while applying at the same time a stress-scenario, which should not have much impact on the IORP if it invested all its assets on a risk-free basis. - It should be remarked that such long-term simulations as proposed here of course fit to the long-term nature of an IORP´s

	business. However, one has to be aware of the fact, that assumptions, which are often based on current circumstances, might not be valid any more in the longer term future, which limits the potential for interpreting the results. - An inflation adjustment should only be applied in case of an IORP, which carries an inflation risk – and not in cases where there is absolutely no inflation risk for the IORP. In the latter case, in which usually the beneficiaries carry the inflation risk, such risk can be taken into account in benefit projection tools.
No. 77, 2nd bullet-point	"The concept of the CBS specifies that IORPs should be in a position to yield risk-free returns." This statement is not true. Market-consistent valuation is based on applying (expected) risk-free rates to certain liability-oriented cash flows. This does not imply that the investment strategy is in any way aimed at "just" generating risk-free returns. The risk-free concept applies just to the valuation of liabilities itself.
No. 78 - 85	It has to be considered, that applying too complex stochastic simulations (or stochastic simulations at all) to IORPs would result in an undue and inadequate burden for most – but especially smaller – IORPs in many member states. Also, in that case the underlying probability distributions for the stochastic variables have to be thoroughly discussed. Also, a stress test exercise assessing the impact on cohorts in a way, that calculations for all individual contracts within such cohort become necessary, is much too complicated. Experience shows, that defining cohorts and doing the calculation for "average cohort members" (i.e. persons having an average age, an average benefit level etc.) gives a fairly realistic picture about what happen to the beneficiaries in the respective stress scenarios. Some members are in general concerned about such an assessment and hint to the fact, that individual projections are already given in the pension benefit statement. Moreover, in member states, where the fist pillar accounts for the main share of the retirement income, such projections limited to retirement income received from an IORP are not suitable for an assessment of future macro-economic effects. Additionally, as already said, using risk free returns as return assumptions for assets does not seem to be appropriate, because this would mean, that the IORP holds an asset portfolio which is hedged against many market risks, such as equity risks, credit risks, liquidity risks etc. In such an approach, the stress scenario should not assume realisations of such risks, otherwise the stress test would be inconsistent in itself. So, from that angle using standardized investment returns by asset classes reflecting the asset allocation of the IORP seems to be a more reasonable and easier approach.
No. 81-96	*The background survey is aimed at collecting some context information from the NCAs and IORPs so to shred light on the Stress Test results in terms of comparability, robustness and completeness of the results.*

	We are supportive of the introduction of a background survey and are convinced it's an excellent tool to introduce appropriate proportionality in the stress test exercise. It also allows to put the stress test results in the right perspective especially when trying to compare the results of different member states. It also allows to identify the appropriate tools and to assess the cost/benefit/relevance of each stress test exercise. This tool allows to take into account proportionality triggers such as: • AUM of IORPs in the member state / GDP, e.g. when evaluation of the potential for systemic risk. The AUM/GDP does not exceed 25% for all member states except for one. It only exceeds 10% for seven member states. • AUM of IORPs in the member state / total assets of the financial sector, e.g. when evaluating the cost/benefit/relevance of cross-sectoral stress tests. • Number of IORPs in the Member state, e.g. in member states with a large number of IORPs the assessment of the resilience of financial institutions can be measured based on a limited sample of IORPs without aiming to have a sample that represents x% of the AUM in the member state. • Distribution of the AUM per IORP in the member state, e.g. to assess the cost/benefit of a cash flow exercise and the tools used. • Average amount of assets/benefits per beneficiary, e.g. in some MSs IORPs AUM and pension savings per individual are relatively small. Use different perspective for RI (and related risks) for those MSs where occupational pensions deliver large(r) part retirement income. • Number of active IORP members / working population e.g. to assess the relevance of the transmission effects onto the financial stability. The use of derivatives, e.g. IORPS that do not use derivatives and have no options for early pension withdrawal before retirement age, liquidity risk is very limited/non existing
No. 89	The OPSG already expressed in previous comments regarding stress tests the opinion, that it will be almost impossible to do a reasonable assessment of a sponsor´s financial strength by using data provided by IORPs. Sponsor companies belong to different industries and e.g. balance sheet data or P&L data for different sponsor companies cannot be seriously compared if these sponsors belong to different industries. That is why professional rating agencies have experts for different industries and why they apply also different credit KPIs and different thresholds for different industries.
No. 92 – 99	The Investment Behaviour Survey (IBS) has already been quite a complex, burdensome and extremely laborious exercise within the 2019 stress test showing a high degree of dyssynergy to other supervisory reporting of IORPs. The OPSG would have hoped, that EIOPA tried to simplify this survey and to reduce the effort related to it. In opposite, it seems that EIOPA wants to put even more emphasis and detailed analysis on some aspects, which will not enhance the quality of results but putting additional efforts and costs on the IORPs.

	With reference to the regulation of investments, EIOPA could rely on NCAs for regulations applying on a general bases, limiting the request to that added by the IORPs under their investment policies (if any). On derivatives, the request could be limited to the cases in which the use of such instruments is relevant, while excluding the cases in which the use of derivatives is negligible. The length of 5 years after the shock to indicate the expected adjustment of asset class allocation, by net selling or net buying, and the new asset allocation could be too long - especially when investments are made through mandates that could be shorter than 5 years or having a residual length less than 5 years.
No. 100	The description of the Stock Take Survey in this paragraph is not very concrete. Hence, a qualified opinion on this issue cannot be given. Broadly speaking the use of such tool should be very limited to avoid an unnecessarily burdensome and costly stress test.
No. 106	In table 3.1 EIOPA states, how appropriate certain tools may be for assessing the financial position of an IORP. The OPSG doubts, whether the CBS is really suitable to asses solvency risk, because as mentioned before the OPSG believes, that the Common Methodology cannot be relied on giving the correct economic steering signals regarding solvency of an IORP and because the application of solvency requirements according to the IORP-II directive are still subject to more specific regulations on a national level and national supervisory law and to national legally prescribed valuation practices, which will – as EOIPA noted itself in the table – in many cases deviate from country to country. Hence, one, purely mark-to-market based CBS, which is more or less a "snapshot" at a certain moment and hence neglects to a certain degree the long-term nature of an IORP´s business cannot tell much about IORPs being able to fulfil solvency requirements. The CFA can also be used to provide information on solvency risk, albeit in a different way. Measuring whether or not there will be a point in time where the IORP has insufficient financial means to cover the pension payments. The timespan, the amount of shortage and, in case of a stochastic approach, the probability of the occurrence of such an event provide valuable information about whether the IORP is likely to meet its obligations under the current rules, regulations and agreements with stakeholders. As such the CFA provides a more detailed view of the solvency risk of the IORP.
No. 110	"…the valuation of the assets and liabilities should be performed based on the same methodologies and parameters." We note that the CBS measures all pensions as guaranteed as they are discounted on the basis of risk-free rates. The CBS methodology should also take the conditionalities of pensions into consideration. (see further our comment to No. 55 under the detailed comments)
No. 111	Projecting balance sheets under different scenarios over several years into the future is also an extremely complex exercise, which cannot be done with adequate effort and costs especially be smaller IORPs.

No. 112	The proposed comparison of projected IORP´s assets and the remaining expected future benefit payments comes with regard to costs and effort already quite close to a balance sheet projection. Hence, the last comment also applies to this number.
No. 118	The proposed liquidity indicator normally can be a simple way to determine a figure allowing a quick and rough assessment of the liquidity risk of an IORP for certain periods of time. However, as EIOPA itself recognized in point 116., liquidity is often not one of the most relevant risks of IORPs and consequently its assessment on a quantitative basis should be limited to the cases where that risk really matters. Possible criteria to assess the materiality of the risk could be the size in the use of OTC (and hence less liquid) derivatives, possibilities early withdrawal without restrictions, if allowed, the share of illiquid assets and quantitative limits defined by national regulations for the investment in illiquid assets. This information could be obtained e.g. by engagement with NCAs.
No. 120-122	EIOPA should be cautious in drawing conclusions out of simple quotient figures. If in a given year the income of an IORP is a certain percentage of the assets under management, that does not mean, that this ratio stays constant. In a held to maturity bond portfolio which is currently valued at 100% of the nominal amount and which pays a fixed coupon, a decrease in market value due to rising yields in the markets would mean nothing regarding the ability of the IORP to generate sufficient income: after that event the IORP would receive exactly the same amount of coupon payments and at maturity the bonds will be paid back at par (of course, if no default occurs). Also the ratio between income and contributions is meaningless for an assessment of that type. In a DB system where there is sufficient capital accumulated to cover the liabilities it just does not matter if contributions fall, because in that case also no new benefits will accrue. Please take into account that there are some very old DB IORPs, who do not receive contributions anymore, because they are completely in the decumulation phase and which may be nevertheless financially healthy.
No. 152	The methodology has to be flexible enough to include national specifics such as e.g. contract boundaries which exist in some European countries.
No. 177	The introduction of the concepts of unprotected and protected DC schemes is confusing. It is unclear where the different terms of pension plan, scheme and fund refer to. The table amalgamates the pension plan, the funding vehicle and the underlying investments (e.g. when talking about a protected DC IORP). It introduces also a new concept of "plan provider" without any definition. The OPSG advises EIOPA not to try to invent new definitions for DB and DC in order avoid any confusion with existing definitions. Especially, it has to be insured, that an IORP for a given pension product does not have to participate in DB AND DC stress tests at the same time.
No. 180	The OPSG very much agrees, that is very important to do a cost/benefit analysis when selecting the tools to be used in a concrete stress test exercise. Since many tools are available in the toolbox, which are suitable

	to answer different kinds of questions and allowing different insights, it would be not appropriate to apply too many of them at the same time in a single stress test exercise. So, it is of utmost important, that EIOPA limits the effort and cost for participating IORPs to an adequate level by clearly defining concrete aspects, which shall be assessed in the specific exercise, and carefully selecting the appropriate tools accordingly. Choosing too many tools at the same time would create unnecessary and inadequate burdens for the participating IORPs and hence would create inadequate costs, which in the end will be passed on to beneficiaries and/or employers. Additionally, it could lead to a decrease in quality, since doing too much at the same time could lead to the situation, that the IORPs resp. their advisors prepare the answers and calculations to the stress test exercise less thoroughly.
No. 193	The OPSG supports the idea, that NCAs should select participating IORPs, so that a representative view is given for their respective country. We note that a representative view could go beyond selecting only some of the largest IORPs in case the smaller IORPs have clearly different characteristics and have together still a significant market share.
No. 196-198	In this context it makes absolutely sense that NCAs do not only take pure balance sheet size but also other risk characteristics of certain IORPs into account.
No. 204-206	We welcome the considerations concerning proportionality (e.g. if a large number of (small) similar IORPs exist in a member state, this could be taken into account to reduce the participation rate. See comments on the background survey (No 81-96) for some other examples where proportionality could be taken into account.
No. 221	EIOPA is right in saying, that the NBS has the disadvantage of not being directly comparable for IORPs located in different member states. However, one further advantage not mentioned here is, that usually IORPs steer their business according to the rules of their NBS (and have steered their business in the last decades according to NBS rules, which cannot be simply switched to a different convention). So, the CBS offers better comparability across member states, but the NBS delivers more meaningful steering signals for the respective IORPs (and is not only simpler to be calculated).
No. 239	The OPSG agrees that a hybrid approach for defining a stress scenario has definite advantages against a purely historic and a purely forward-looking approach.
No. 269-276	IORPs should assess inflation risk only to the extent they are really exposed to it. Some IORPs might not be imposed to inflation risk at all, e.g. because the benefits do not contain any inflation component and the costs are completely carried by the employer.
No. 296-297	To which extent the use of derivatives increases liquidity risk is very much depending on the types of derivatives used – and on the liquidity of the derivative instruments themselves. Standardized derivative contracts which are publicly traded on an exchange (e.g. EUREX) tend to be

	extremely liquid whereas OTC-derivatives are usually much more less liquid. This has to be taken into account.
No. 304	It is too simple to say that real estate is 0 % liquid. One constructive idea: A good approach for assessing liquidity risk might be to analyse how many % of assets can be liquidated without any big discount within 2 days, one week, one month etc.. By doing that one gets a liquidity profile of an asset portfolio over the time axis.
No. 305	Please refer to comment on No. 118
No. 315-320	The OPSG agrees, that it seems almost impossible to find a good and objective approach for a quantitative assessment of operational risk. Hence, a qualitative approach seems to be most reasonable.
No. 326-328	The OPSG agrees not to assess labour market is as a risk category of its own (with regard to the financial position of IORPs). Furthermore, such an assessment would be much more difficult given different social law and different labour market structures in different European member states.
No. 329 and following	The OPSG notes, that the level of granularity in the stress test 2019 was already extremely high going far beyond the granularity of national reporting requirements.
No. 390 and following	General: Regarding the assessment of ESG risks the OPSG thinks that it is problematic to do any quantitative stress testing regarding ESG risk factors just as in a "traditional stress test" by applying certain stress factors to certain pre-defined economic activities. The qualitative assessment in the 2019 stress test made already the difficulty transparent, e.g.: Agriculture may be done in a more and a less sustainable way (whereas there might be already a debate for that economic activity about what is sustainable and what is not). A similar statement holds for other activities. In general, it has to be feared, that such uniform stress applications for all IORPs will lead to a worsening of risk adjusted yields and hence to a decrease in funding probabilities. Additionally, it could lead to herding effects and put damage to capital markets and create additional structural risks.
No. 404	The OPSG agrees, that there is a lack of reliable methodology and data so that physical risks should not be explored.
No. 408 and 416	A majority of OPSG members believes, that it is problematic to assess the climate sensitivity of the individual assets held by an IORP. This would require a lot of inadequate effort and costs on the side of the IORP (which in the end are paid by beneficiaries and/or sponsors). A certain degree of grouping certain assets to asset segments and assuming average impacts for these might be a reasonable approach for simplification. This is particularly true (but not only then) when the investments are through funds. However, some members think that looking at average impacts in a certain sector or geography does not provide a clear picture of transition risks in the portfolio and that the stress test of IORPs should align with the

	ECB stress test, where emphasis is put on both past and future firm-level emissions, based on firm-specific emission reduction targets.
No. 421	The OPSG supports the idea of drafting the reporting templates in a way, so that a synergy to the existing disclosure and reporting requirements can be achieved to the maximum extent possible.
No. 440 and following	In general: When it comes to disclosure and communication of the results EIOPA should strive towards a purely fact oriented, balanced and careful communication. In the 2019 stress test the report itself was very fact oriented and balanced whereas EIOPA´s press statement and summary put an extremely strong emphasis only on negative findings and aspects (which were mainly driven by one single country). The problem is that journalists, when they write about the pan-European stress test usually do not seem to read the full report but focus only on the press statement and a summary. Hence any summary presentation and any press statement from EIOPA should take this very carefully into account. In the 2019 exercise there were countries (e.g. Germany and Portugal) where there has been problematic reaction towards some press articles (e.g. one serious and prominent German newspaper wrote that employees with occupational pension products would have to "act now" causing a lot of panic amongst beneficiaries) which definitely weakened the trust of employees (but also employers) into their occupational pension systems. In times when occupational pension systems (also due to some negative developments in first pillar pensions) need to be strengthened we simply cannot afford unnecessary mistrust against existing occupational pension systems in General. Of course, it is EIOPA´s duty to clearly and transparently address problems which have been found during a stress test exercise, but these have to be put into a holistic context.
No. 445	EIOPA is right in creating transparency regarding the sample of the participating IORPs by describing the selection criteria which have been applied and in explaining "how the sample of participating IORPs is consistent with the sampling criteria" – in an abstract manner. But the OPSG sees no additional advantage in identifying the participation IORPs by their name. This has already been a problematic point in the 2019 exercise and it leads to the phenomenon that the public tends to project certain results of the stress test which are valid for a certain country automatically to the single participating IORPs of that member state – irrespective if such projection is correct or not. This leads to increased uncertainty and to unnecessary and increased needs for explanations on the side of the IORPs. On the other hand, EIOPA did not explain where the concrete advantage of such publication of names is to be seen – even not in No. 446 and 447.
No. 451	The OPSG very much supports the overarching principle that results of individual IORPs are not disclosed. One further argument in favour of this principle (not mentioned in the discussion paper) is, that there is not ONE single result of the stress test for a given IORP and that (as a consequence) results of the exercise are often difficult to interpret in a correct way, so that aften a certain background (e.g. actuarial background) is needed to correctly read the results for a certain IORP. Publishing single results nevertheless could trigger a lot of unnecessary and damaging uncertainty, irritation etc..

DETAILED COMMENTS

Detailed comments	
reference	**Comments**
No. 405	Interesting research on the topic of the impact of climate change on mortality has been published by the Australian Actuaries Institute: https://actuaries.asn.au/public-policy-and-media/thought-leadership/the-dialogue/the-impact-of-climate-change-on-mortality-and-retirement-incomes-in-australia The study suggests that the impact of climate change on mortality could be quite significant, although it will differ very much to geographical circumstances (which are in Europe quite different from those in Australia)

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