

Consultation paper on draft opinion on supervision of liquidity risk management of IORPs

Fields marked with * are mandatory.

Responding to the paper

EIOPA welcomes comments on the Consultation Paper on the draft Opinion on the Supervision of Liquidity Risk Management of IORPs.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA using the EU Survey tool **by Friday, 20 December 2024, 23:59 CET** by responding to the questions below.

Contributions not provided via EU Survey or submitted after the deadline will not be processed.

Publication of responses

Your responses will be published on the EIOPA website unless: you request to treat them confidential, or they are unlawful, or they would infringe the rights of any third party. Please, indicate clearly and prominently in your submission any part you do not wish to be publicly disclosed. EIOPA may also publish a summary of the survey input received on its website.

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Declaration by the contributor

By sending your contribution to EIOPA you consent to publication of all non-confidential information in your contribution, in whole/in part – as indicated in your responses, including to the publication of the name of your organisation, and you thereby declare that nothing within your response is unlawful or would infringe the rights of any third party in a manner that would prevent the publication.

Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725. More information on how personal data are treated can be found in the privacy statement at the end of the public consultation document.

Remarks on completing the survey

EU Survey supports the last two versions of Microsoft Edge and the latest version of Mozilla Firefox and Google Chrome. Using other browsers might cause compatibility issues.

After you start filling in responses to the survey there is the option to save your answers. However, please note that the use of the online saving functionality is at the user's own risk. As a result, it is strongly recommended to complete the online survey in one go (i.e. all at once).

Should you still proceed with saving your answers, the online tool will immediately generate and provide you with a new link from which you will be able to access your saved answers.

It is also recommended that you select the "Send this Link as Email" icon to send a copy of the weblink to your email - please take care of typing in your email address correctly. This procedure does not, however, guarantee that your answers will be successfully saved.

You will have the possibility to print a pdf version of the final responses to the survey after submitting it by clicking on "Download PDF". You will automatically receive an email with the pdf file. Do not forget to check your junk / spam mailbox.

About the respondent

* Please indicate the desired disclosure level of the responses you are submitting.

- ☒ Public
☐ Confidential
☐ Partly confidential

* Stakeholder name

BETTER FINANCE

* Contact person (name and surname)

Sébastien COMMAIN

* Contact person email

commain@betterfinance.eu

Contact person phone number

+32493259629

Questions to stakeholders

Q1: The draft Opinion aims to be consistent with the FSB's proposed policy recommendations to enhance the liquidity preparedness of non-bank market participants. However, the draft Opinion covers all sources of liquidity risks within its scope rather than only liquidity risk relating to margin and collateral calls. Do you agree that the draft Opinion takes a comprehensive approach to liquidity risk of IORPs?

- ☒ Yes
☐ No

Please explain.

BETTER FINANCE generally agrees with the proposed scope. We can however not elaborate further, since BETTER FINANCE is not an IORP or a representative body for IORPs.

Q2: Do you agree with the definitions of 'liquidity risk' and 'material liquidity risks' in paragraphs 3.1 and 3.2?

- ☒ Yes
☐ No

Please explain your answer and provide any suggestions to improve the definitions.

We agree with the definition, which captures the concept of "liquidity risk" in a straightforward way. We also agree the definition of "material liquidity risk", although we believe that further guidance is needed to ensure a common understanding of what should be considered "material".

Q3: The draft Opinion specifies that NCAs should gather relevant derivative data to assess liquidity risk exposures of IORPs. Are you aware of any issues or obstacles for IORPs:

	Yes	No
- in collecting derivative data from asset managers to monitor and assess liquidity risks in relation to margin and collateral calls?	<input type="radio"/>	<input checked="" type="radio"/>
- in reporting relevant derivative data to NCAs?	<input type="radio"/>	<input checked="" type="radio"/>

Q4: The draft Opinion envisages a two-step approach. IORPs should first assess whether they are exposed to material liquidity risk and, if so, integrate liquidity risk in their system of governance and risk-management system, including an assessment in their own-risk assessment (ORA). Do you agree with this two-step approach?

- ☒ Yes
☐ No

Please explain.

The two-step approach that the draft Opinion suggests appears sensible: assessing the size and nature of an IORP's liquidity risk exposure is the crucial first step towards managing it appropriately. Nevertheless, the suggested approach should not be taken to imply that IORPs whose liquidity risk exposure is not material need no management. IORPs with less than material liquidity risk should still have a policy in place, even if limited, to ensure that these limited exposures remain under control.

Q5: The draft Opinion provides in paragraph 3.6 suggestions for possible sources of liquidity risk that IORPs are exposed to. Are you aware of any other sources of liquidity risk that should in your view be explicitly addressed?

- ☒ Yes
☐ No

Please explain your answer.

The suggestions in paragraph 3.6 seem to capture all the main sources of liquidity risk that IORPs are exposed to. Nevertheless, as BETTER FINANCE is not an IORP, we cannot elaborate more on other potential sources of liquidity risk.

Q6: Do you agree that IORPs with material liquidity risk exposures should establish a contingency plan to deal with liquidity stress, as expected in paragraphs 3.8-3.10?

- ☒ Yes
☐ No

Q7: The draft Opinion provides in paragraph 3.12 that IORPs should define their own liquidity risk indicators for day-to-day risk management. Subsequently two examples of commonly used risk indicators (liquidity coverage ratio & excess liquidity indicator) are suggested. Are you aware of any other liquidity risk indicators that are commonly used by IORPs?

- ☐ Yes
☒ No

Q8: Do you agree that IORPs with material liquidity risk exposures should establish and maintain a clearly defined liquidity risk tolerance statement approved by the management or supervisory body of the IORP, as expected in paragraph 3.14?

- ☒ Yes
☐ No

Q9: The draft Opinion prescribes in paragraph 3.15-3.16 that IORPs should regularly review and update their liquidity risk-management system. What would in your view be appropriate triggers and minimum requirements for such a review?

We consider that a yearly review of the performance of its liquidity risk-management system balances the goals of maintaining up-to-date liquidity risk-management while limiting the burden on IORPs' management. Furthermore, any substantial change in an IORP's liquidity risk profile should trigger an in-depth review and update of the liquidity risk-management system. What a "substantial" change concretely means should be defined with reference to the risk indicators previously selected by the IORP. IORPs' liquidity risk management policies should include thresholds, agreed with the NCA, that would trigger a review of the liquidity risk-management system.

Q10: Do you agree that IORPs should perform stress tests and scenario analysis covering all material sources of liquidity risk, and assess the impact of a range of severe, but plausible liquidity stresses, as expected in paragraphs 3.17-3.20?

- ☒ Yes
☐ No

Please explain and provide any suggestions on the proposed minimum requirements for the stress tests and scenario analysis.

We agree. The minimum requirements for the stress tests and scenario analysis should be linked to the analysis of existing liquidity risk exposures, so that the stress tests and scenario analysis cover the sources of risk an IORP is actually exposed to while not overburdening IORPs' compliance functions.

Q11: Do you agree that IORPs should maintain an adequate buffer of liquid assets to cover any shortfall of incoming relative to outgoing cash flows, also under severe but plausible stress conditions, as expected in paragraphs 3.21-3.23?

- ☒ Yes
☐ No

Please explain and provide any suggestions on the conditions imposed on the liquid assets in paragraph 3.22 and 3.23.

IORPs should maintain an adequate buffer of liquid assets to cover shortfalls of incoming cash relative to outgoing cash flows. Such buffer should, however, not be expanded beyond ensuring that IORPs will be able to meet their upcoming payment commitments, in particular to scheme members. The size of these buffers need to be properly adjusted to ensure that IORPs can meet their payment commitments but avoid reinforcing the existing bias towards low-yield fixed-income investments by IORPs that severely damages members' returns on their savings (see BETTER FINANCE's "Will You Afford To Retire?" report, edition 2024).

Q12: Do you agree that IORPs with material liquidity risk exposures should periodically test their liquidity contingency plan through simulation exercises in order to ensure operational readiness, as expected in paragraphs 3.24-3.26?

- ☒ Yes
☐ No

Please explain and provide any suggestions on the conditions imposed on the periodical testing.

Q13: To prevent operational lags in fulfilling margin requirements, do you agree that IORPs should ensure that investment funds to which IORPs have outsourced the management of derivative instruments should hold sufficient buffers of liquid assets to cover margin calls in times of market stress?

- ☐ Yes
☐ No

Should this apply to all outsourced derivative arrangements or only a specific subset, considering for example segregated accounts/mandates versus multi-client/pooled funds and AIF versus UCITS funds?

- ☐ all outsourced derivative arrangements
☐ only a specific subset

Please explain.

Q14: Do the expectations put forward in the draft Opinion achieve a proportionate approach to liquidity risk management of IORPs?

- ☒ Yes
☐ No

Q15: Do you agree that the Impact Assessment in Annex I provides a balanced view of the costs and benefits of the relevant policy issues in the draft Opinion?

- ☐ Yes
☐ No

Please explain and provide any suggestions.

Q16: Do you have any other comments on the draft Opinion / consultation paper?

- ☒ Yes

☐ No

Please provide these other comments.

We would like to add some comments on questions where the online form does not allow to elaborate on a positive answer:

Re Q6: Yes. Establishing a contingency plan to anticipate the materialisation of liquidity risk should be considered as a pillar of good management for IORPs.

Re Q7: The choice of day-to-day risk indicators should be sufficiently flexible to adapt to the different forms that the business of IORPs may take. Nevertheless, IORPs should be required to justify their choice of indicators to NCAs.

Re Q8: Yes. This statement should also be communicated to NCAs.

Re Q14: BETTER FINANCE believes that the expectations put forward in the draft Opinion achieve a proportionate approach to liquidity risk management of IORPs. We argue that no less should be expected from institutions whose business it is to collect and manage the lifelong savings of EU workers.

Contact

[Contact Form](#)