

Appropriate IORP stress testing methodology

On 15 February 2018, PensionsEurope published [a position paper on appropriate IORP stress testing methodology and the EIOPA IORP Stress Test 2017](#). PensionsEurope will have a meeting with EIOPA before the closing event of the EIOPA IORP 2017 Stress Test on 21 March 2018 to discuss our proposals. The meeting is our initiative and representatives from AAE, AEIP, OPSG and some national supervisory authorities have been invited to this meeting as well.

The 2017 Stress Test for IORPs reconfirms the inherent limitations of the concept of the Common Balance Sheet (CBS). As outlined in our earlier position papers¹, the CBS is not an appropriate instrument to cover the wide range of diversity of IORPs in Europe as it has many shortcomings. The CBS is e.g. too complex, market consistent valuations in the CBS are unreliable and too dependent on arbitrary assumptions and approximations/simplifications, it contains the misconception that option values (e.g. of benefit reductions) should be considered as expected values, and its execution is too expensive.

Many of the practical and methodological problems related to the Common Balance Sheet (CBS) could be avoided by further developing the Cash Flow Analysis (CFA) and by replacing the CBS by it. One should be careful when drawing any conclusions from the CBS, as it is not an appropriate stress testing methodology for IORPs.

We are ready and willing to work together with EIOPA on developing the CFA as alternative stress testing methodology. For that reason, we have conducted a mapping exercise on developing the CFA further (including 3 possible scenarios) and on the usage of ALM studies in various Member States. We are willing to share our expertise, experience, and the results of our mapping exercise with EIOPA to continue developing an appropriate stress testing methodology.

EIOPA concluded in the 2015 stress test report that IORPs' investment behaviour was on aggregate and on average counter-cyclical. This time EIOPA e.g. noted that many IORPs follow a buy-and-hold strategy, and consequently alleviate selling pressure during stressed market conditions. The results confirm IORPs' countercyclical behaviour and their important role in stabilising financial markets. It is important that legislation continues to allow IORPs' countercyclical behavior.

¹ See [PensionsEurope Position Paper on EIOPA's IORP Stress Test 2015](#) and [PensionsEurope Position Paper on EIOPA's IORP Quantitative Assessment 2015 and EIOPA's opinion for Risk Assessment and Transparency for IORPs](#).