EFRP
European
Federation
for Retirement Provision

4 JUNE 2002

PRESS STATEMENT

ECOFIN REACHES POLITICAL AGREEMENT ON PENSION FUNDS DIRECTIVE

EFRP PAYS TRIBUTE TO PERSEVERANCE OF SPANISH PRESIDENCY

1. Reacting to the ECOFIN political agreement on the pension fund directive on 4 June 2002, **EFRP Chairman Alan PICKERING congratulates the Spanish Presidency for persevering in its pursuit of agreement on this directive.**

The Spanish Presidency was preceded by more than six months of deadlock on the pension funds issue. Therefore, it is all the more laudable that the hard work of the Presidency and Council freed the logjam, opening up the way to political agreement. This now makes it likely that the pensions fund directive will be adopted in 2002 - as scheduled in the Financial Services Action Plan.

The agreement also means that the last legislative gap in EU financial services legislation will at long last be filled once the directive is adopted. Pension funds remain the only major financial services providers without an EU-level prudential framework.

The EFRP also congratulates Commissioner Frits BOLKESTEIN for standing firm throughout the Council discussions. He has upheld the principle of prudent person rule and respected the need for pension funds to have members affiliated across the EU.

2. The EFRP warmly welcomes the European passport for pension funds

This should enable company pension funds as well as sectoral pension funds to administer occupational pension schemes across borders. Such freedom will undoubtedly lower administration and investment costs.

As it stands, the agreement leaves scope for limiting the European passport : some quantitative investment restrictions may be imposed by a host state and this would result in a consequential need to ring fence those assets. But this was the price of reaching an agreement - even if the citizens of some Member States will not benefit from integrated financial markets and better performance of their pension funds.

3. The EFRP is particularly happy to see the "prudent person rule" enshrined as the harmonised standard for investment practice. This basic principle in pension fund investment practice has been made explicit, in line with the relevant European Parliament amendment. EFRP sees this as essential – on the same level as the European passport issue.

Only the prudent person principle is sufficiently dynamic to cope with financial markets developments and changes in economic environment in general. There is overwhelming evidence that "prudent person" approach results in optimal performance. This is badly needed if pension funds are to build up their reserves effectively. A liberalised investment environment is crucial for pension funds to be able to perform optimally in financial markets. Only then can they fulfil their role as secure private pension providers over the long term.

Unfortunately, Member States can choose to keep in place quantitative regimes as a 'derogation' to the general prudent person rule. Some specific quantitative restrictions can be imposed by a Member State not only on its domestic pension funds but also on pension funds from across border on assets covering liabilities in that host state.

EFRP regrets that the option for quantitative restrictions is left with Member States. Such restrictions do not bring any added value in terms of security or enhanced protection of pension fund members and beneficiaries.

Therefore, the EFRP hopes that the European Parliament's amendment to **phase out quantitative restrictions** on investments over a five years' period will be considered again in the next stages of the legislative process.

4. The EFRP notes with satisfaction that the Council supports the European Parliament's proposals for anchoring the principle of "home state control" into the Directive. It should radically simplify the reporting duties of the pension funds which has beneficial effects in terms of management time. Since the "home country control" principle is standard in EU financial services legislation, such as banking and insurance, it is only logical that this approach should also apply to pension funds.

The European passport is based on mutual recognition of supervisory regimes and a minimum harmonised standard for investments and technical provisions. Although there are strong voices among Member States to step up detailed harmonisation of liability calculation - such as technical interest rates, mortality tables - the EFRP advocates that each national supervisor retain some leeway for setting the rules most appropriate for the market and the pension funds concerned.

5. The EFRP welcomes the Council's decision not to follow those amendments of the European Parliament that would turn this directive into an initiative for **social policy reform or a measure designed to harmonise aspects of social legislation.** These concerned European Parliament amendments such as :

- a compulsory biometric risk option
- a compulsory option for guaranteed redemption of contributions
- governance requirements in pension funds.

Such matters remain either the responsibility of Member States or of social partners.

6. The EFRP notes that a true single market for occupational pensions will only be accomplished once **a more coordinated approach on taxation** is possible. The European Commission is working on the issue and there is justified hope to see the process moving once the IORP directive will be adopted.
This is needed if the Directive is to become an effective tool in developing pension funds in the EU and, more in general, to promote occupational pension provision in a cost effective way.

CONTACT :

Chris VERHAEGEN
Secretary General
EFRP
Hertogsstraat 85 rue Ducale
B - 1000 Brussels
Tel : +32-2-289.14.14; Fax : +32-2-289.14.15
chris.verhaegen@efrp.org

About the EFRP

The European Federation for Retirement Provision represents the various national associations of pension funds and similar institutions for pension provision. The EFRP has members in all EU Member States, except for Greece.

Its membership at large consists of institutions for occupational (2nd pillar) retirement some of them also operating purely individual pension schemes. In some Member States up to 90-95 % of the work force have their occupational pension funded through EFRP membership (e.g., Denmark, Netherlands, Sweden). Whereas in Germany, Spain, Ireland, the United Kingdom 80 % of the occupational pension provision is funded by EFRP members.

EFRP members are non-profit making associations.

Members and beneficiaries are usually represented in their governance structures; many of them are managed on a paritarian basis between unions/employees and employers.

83 million of EU citizens are covered for their occupational pension plan by EFRP Member Associations.

The EFRP's aim is to provide Europe with a financing vehicle (pension fund or similar) – not precluding any others catered for by commercial undertakings – that is affordable for large sections of the population and that provides a degree of intra- and inter-generational solidarity. This is feasible if the conditions for investments and the proper prudential framework facilitate this type of collectively organised occupational pension provision.

Through its Member Associations EFRP represents € 2.819 billion of assets managed for future occupational pension payments.