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PRESS STATEMENT



EFRP SURVEY ON IORP DIRECTIVE IMPLEMENTATION

A 'CATALYST FOR CHANGE' BUT MORE TIME NEEDED TO ASSESS FULL POTENTIAL

On 21 November in Frankfurt, the European Federation for Retirement Provision (EFRP) presented the results of a market survey conducted in the second semester of the year, which collates for the first time the EU-wide industry opinion with regard to implementation of the IORP Directive.

Speaking in Frankfurt at the European Pension Funds Congress, Ms. Chris VERHAEGEN, Secretary General of EFRP commented "The prime objective of this survey was to find out the level of change – real or as perceived by market participants – that this directive had brought about at Member State level".

Participants' perception was that overall there had been a **significant impact**.

1. The first trigger was the prudent person rule : it has generated debate during the implementation process in most Member States and while not fully eradicating quantitative restrictions, it has led to a liberalised investment regime.
2. The second trigger was the minimum harmonisation rules for prudential supervision: these requirements not only fuelled a dialogue with supervisory bodies but also with the national regulators on the role and powers of the pension supervisor. It has resulted in more sophisticated regulation and supervision. It is perceived that there has been an increase in the regulatory burden, with reports ranging from a simple acknowledgement of the increase to calls that the burden has reached an unsustainable level.
3. The third trigger was the European passport introducing the free provision of services and establishment for Institutions for Occupational Retirement Provision, essentially pension funds. It sparked debate and led some Member

States (Belgium, Ireland, Luxembourg and the Netherlands) to devise specific legislation to become prime locations as home countries to pan-European pension institutions.

Chris VERHAEGEN further remarked : “All in all though, the impact of the IORP directive was judged as positive. Even some beneficial effects on pensions policy were reported : the directive sparked debate on pensions policy and put it in a less catastrophic context than the rhetoric about “pensions time bomb”. However, the protracted implementation period has meant that it is too early to judge the full potential of the Directive. This is a widely reported view. We conclude from this that an review of the IORP Directive in 2008 would be counter-productive.”

Also EFRP Chairman, Mr. Angel MARTINEZ-ALDAMA called “for the acknowledgment of the innovative nature of the IORP Directive. It is an EU level constitution for private pension institutions”. He continued : “At this point in time there are no signals in the market justifying the commencement of a review procedure. Since implementation has been hardly completed, the IORP Directive must be given more time to deliver and unleash its potential.”

EFRP sees a role for the European Commission in providing guidance where some interpretation of the directive may be required. The Transposition meetings were an example of good practice in this respect.

The survey reflects opinions of EFRP Members gathered from 20 EU Member States. The responses were received through a questionnaire complemented with one to one interviews of key persons.

An information leaflet on the EFRP survey is available at the EFRP website www.efrp.org

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IORP Directive - a catalyst for change

November 2007



EFRP SURVEY

Introductory remarks

With implementation edging close to completion the IORP Directive is set to have a decisive impact on the landscape of supplementary workplace pension provision.

However, the process of **implementation has been too lengthy and too protracted**. The result is that two years on from the official deadline for implementation, we are still only beginning to see initial results and glimpse the true potential of this significant piece of legislation. Early indicators nonetheless show that the Directive has begun to prove itself and contribute positively to market integration for IORPs and the development of occupational pension provision throughout Europe.

EFRP has actively followed the Directive long before it took shape. We have consistently contributed to the debate surrounding supplementary pensions and the need for open financial markets to enhance investment performance and to supply institutional capital to European economies. We are strongly convinced that the full **potential of the Directive still has to be uncovered**. In our view the Directive will enable companies and financial service providers to create a platform for pan-European pension provision secured by a pan-European supervisory network.

The **innovative nature** of the IORP Directive should be acknowledged. It heralds the beginning of a new era for institutions providing workplace pensions:

- it is an EU level constitution for private pension institutions. Apart from life insurance and investment funds, pension institutions have been given an appropriate and separate set of rules which must be afforded a place in every Member State's legislation;
- it is a new generation of financial services regulation: slim-line and principle based. Though there may be uncertainty about the full meaning of certain concepts, we urge that the text of the Directive be retained, while alternative routes are sought to provide guidance.

Industry and Governments alike need time to “digest” the raft of EU Financial Services Action Plan measures adopted over the last few years. Since implementation of the IORP Directive has hardly been completed, as of yet the perceptible signs in the market are timid. More has to come. Therefore, we judge any wide ranging review of the IORP Directive to be premature. The EU's own Better Regulation agenda promises regulatory intervention only if and when it has been clearly established that such a step is needed. If there is one major opinion to be extracted from the survey, it is that the IORP Directive **should be given time to deliver its full potential** – it just is too early to make any in- depth and wide ranging assessment.

To achieve the internal market for workplace pensions Europe should start to reflect on the most effective **structure for retirement income**. EFRP was pleased to hear Commissioner Mc CREEVY¹ recently underline the “need to manage the transition from a state-financed pension system to a partnership model, including work place and private pensions”. This comes very close to the call from EFRP to devise an EU pensions structure consisting of three pillars.

Europe is changing. Workplace pensions have undergone profound changes during the last years. The main trend is the shift from defined benefit towards defined contribution schemes. This involves a new and major challenge for European citizens and their governments. Those changes are affecting the risk profile of European households which tends to remain unnoticed by many of them. The mechanisms underpinning private pensions are different from statutory pension provision. EFRP stresses how small differences in annual return can make significant differences in private retirement income. Only a full understanding of comprehensive retirement income mechanisms will secure **affordable and adequate pensions for future generations**.

EFRP is pleased to present the results of its survey on the implementation of the IORP Directive carried out during the second semester of 2007. We hope that this collection of views will convey the view from market participants across the EU. It reflects the **perception at the moment when a key phase – implementation – has been completed** on the legal field.

Before starting on new initiatives, let us give the IORP Directive time to deliver and unleash its potential while continuously assessing the results across Member States.

Brussels, 21 November 2007



Angel MARTINEZ-ALDAMA
Chairman



Chris VERHAEGEN
Secretary-General

¹ Speech Commissioner McCreevy, 26 June 2007, Brussels – EFR Report on « Pan European Pension Plans »

1. Strategic targets met

...prudent person...

Survey participants strongly welcomed the introduction of the prudent person rule for pension funds. In many Member States asset allocation regulation has been relaxed and portfolios have undergone restructuring. A liberalised investment environment is seen by pension funds as crucial in order to fulfil their role as secure private pension providers over the long term. Survey participants regretted nevertheless that not all quantitative restrictions have been abolished.

...cross-border activities...

The possibility for IORPs to develop cross-border activities is a strategic step forward. It is felt that home country control and mutual recognition of supervisory systems should be fully exploited instead of following the convergence path. Survey participants believe that the pension industry will witness consolidation and more cross-border activities in the years to come. It is expected that these developments will lead to lower administration and investment costs.

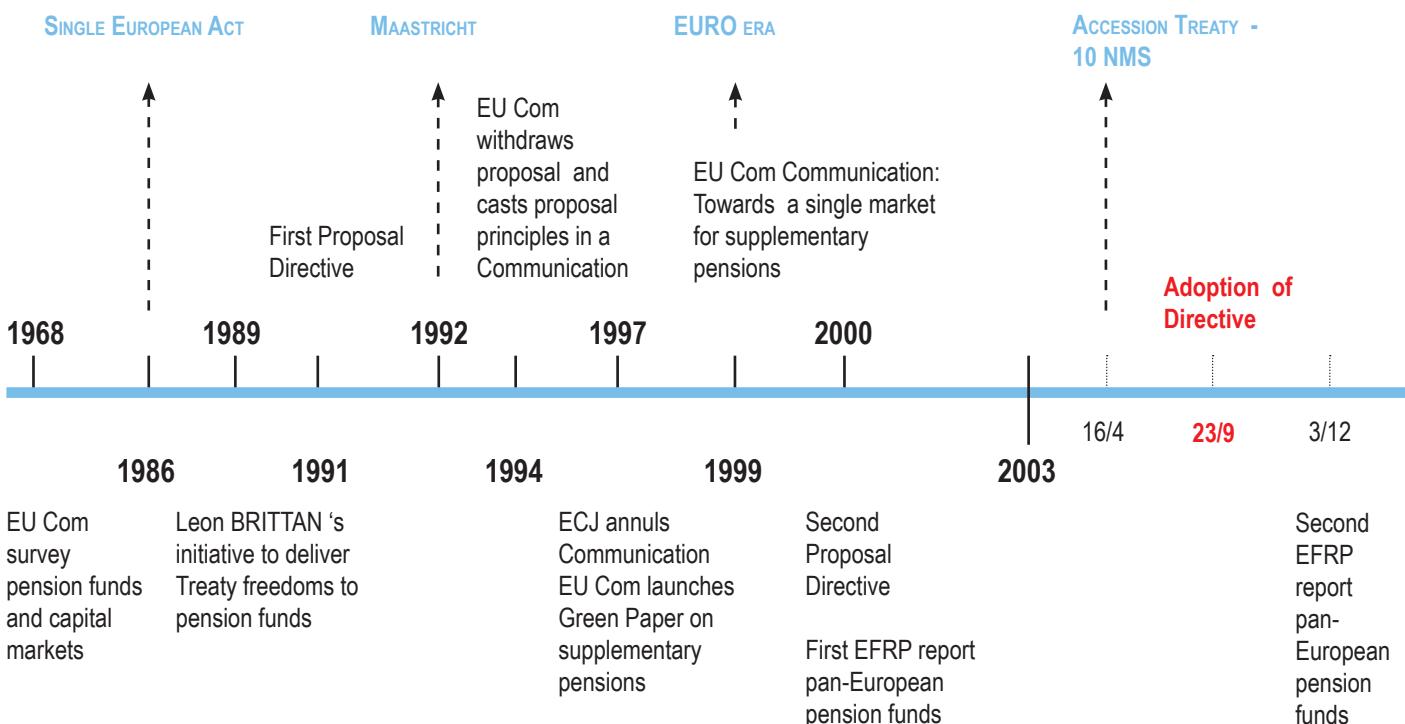
...strengthened supervisory approach...

The survey indicates that implementation has had a substantial impact on national supervisory frameworks. In almost all instances national legislation has led to more sophisticated regulation and supervision:

- single supervisory regime for financial services;
- more methodological approach to supervision, and,
- clarification of certain roles and responsibilities.

... beneficial policy effects...

It is felt that the Directive has brought the issue of occupational, and more generally, private pensions to the fore. Public debate on retirement provision, ageing and social policy has been given an added impetus. The issue is now firmly established in national agendas and has led to an increased awareness not only of the demographic challenge facing Europe, but of possible strategies to meet that challenge.



2. Implementation included

... 43 months wait...

Implementation proved to take longer than anticipated. The EU Commission has been very active in speeding up the process starting 16 infringement procedures for non notification and 3 infringement procedures for improper implementation. The formal implementation process seems now to be complete in all Member States, though detailed regulation is still expected in some Member States. Survey participants expect that focus will now turn to ensuring compliance and enforcement.

...dialogue and cooperation...

Survey participants expressed satisfaction with the role of national regulatory and supervisory authorities in facilitating national implementation processes. A high level of dialogue and cooperation was reported in most cases, including initiatives such as guidelines or working parties in some instances.

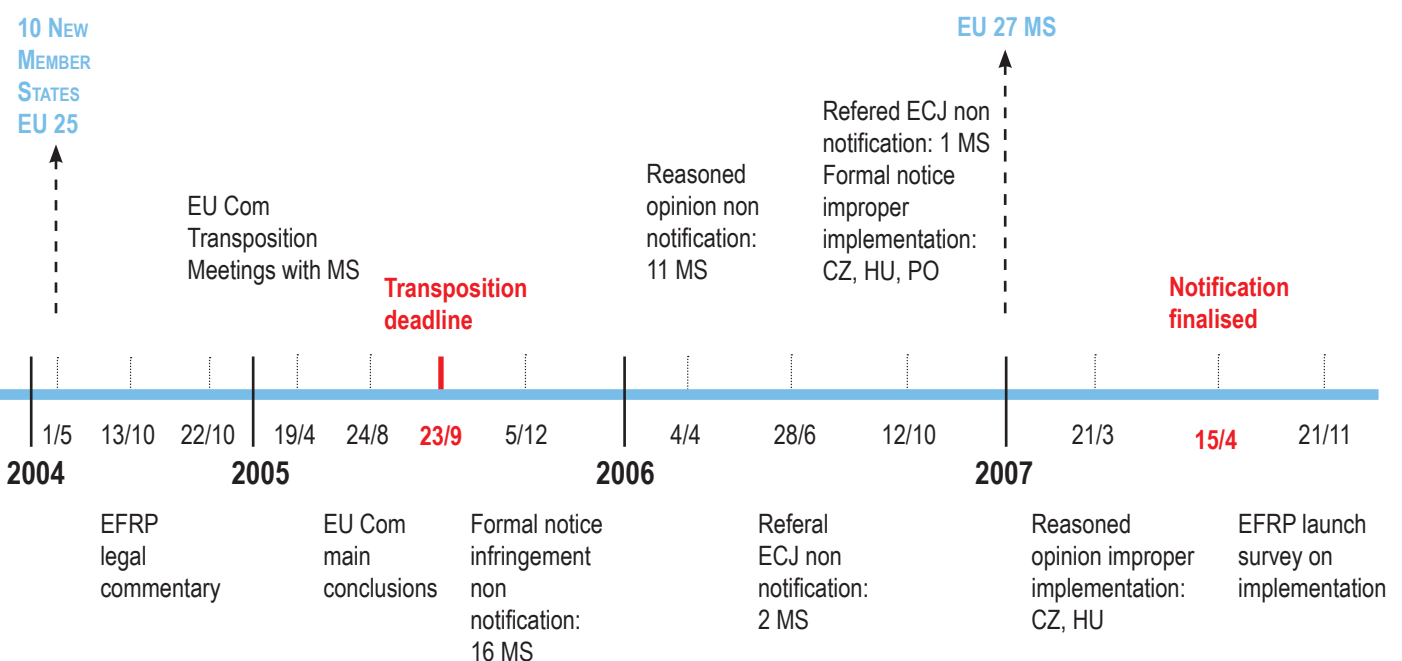
... limited gold-plating...

All in all, respondents rated gold-plating as moderate. While potential problems and inconsistencies were flagged in relation to Member State interpretation of specific articles, there is the sense that these inconsistencies do not arise from the Directive itself.

... EU Commission initiatives...

Survey participants welcomed Commission initiatives which aided the implementation process, such as the FSAP Transposition Table maintained by DG MARKT and their IORP transposition meetings with Member States. Survey participants suggested that EU level initiatives could be further strengthened through:

- regular updates of the transposition table;
- comparative table of areas where there was scope for national options;
- a database dedicated to information on the provision of cross-border services;



3. Managing progress

...accommodating diversity...

The application of the IORP Directive in the CEE Member States is cited as a cause for concern by industry representatives in the region. Many consider that the specificities of their reformed pension systems have not been taken into account, and that the IORP Directive is incompatible with their private funded pension system, inspired by the World Bank model of pension reform. This can be explained by a reading of the timeline of accession of EU-10 New Member States and the adoption process of the IORP Directive.

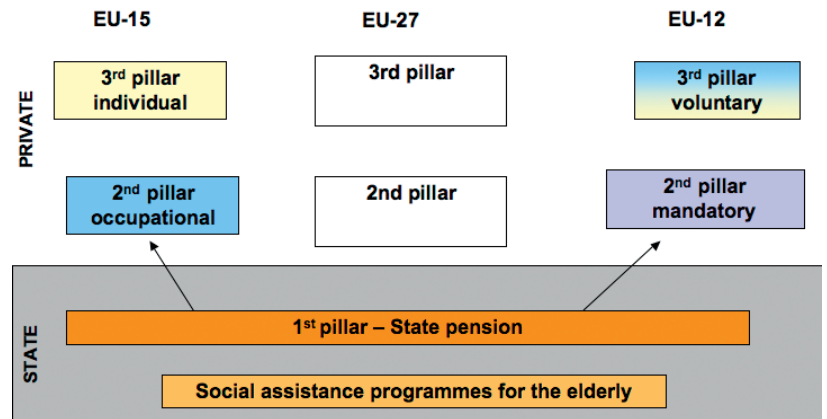


Figure 1 - EU-27 pension pillar classification

...balancing regulatory burden...

Several survey participants reported an additional administrative and regulatory burden resulting in a severe cost impact and even unintended consequences. For example, a number of pre-existing cross-border schemes closed and some employers have been forced to establish separate pension arrangements for employees in other countries.

...promoting soft law...

Survey participants would welcome that some concepts in the Directive be clarified such as full funding, information rules and ring-fencing. The main conclusions of the EU Commission Transposition Meetings² could be upgraded and expanded to become “Transposition Guidelines” in response to a demand which emerged from the survey. In the view of survey respondents a ‘soft-law’ approach is both more useful and effective in this instance.

² Meetings were held on 22 October 2004 and 19 April 2005.

4. Towards pan-European Pension Funds

...additional cases reported...

Survey participants reported more cross-border cases than the 48³ identified in 2006 by CEIOPS. However, they indicated that most of the cases are confidential or are of unclear status. Industry would appreciate more information from CEIOPS on the exact status and details of cross-border application of IORPs. Such initiatives would contribute to the learning process of going cross-border.

... barriers slowly dismantled...

Tax issues were the most commonly cited hurdles to cross-border activities of pension funds. This may soon change however given the line the European Court of Justice has taken in recent decisions. Social and labour law is seen as another barrier for pan-European pension funds. It is worth noting that the EFRP solution of national sections, proposed in 2003, remains a valid solution to deal with differences in social and labour law regimes.

...underused potential...

Survey participants felt that in general the landscape has become much more facilitative of cross-border activities but that a lack of certainty in relation to practical implications of cross-border activities continues to be dissuasive.

....prime locations identified....

Belgium, Ireland, Luxembourg and Netherlands have been seen to promote their jurisdictions as prime locations for pan-European pension funds. Arguably, it is multinational companies in particular who are exploring the different locations and possibilities to offer streamlined benefits plans in Europe while realising economies of scale in workplace pension provision.

³ CEIOPS listed 39 cross-border cases existing prior to the IORP Directive implementation and 9 cases where cross-border operations started after the IORP Directive's transposition date.

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About the IORP Directive

The IORP Directive - Dir. 2003/41EC on the activities and supervision of institutions for occupational retirement provision- is the basic regulatory framework for funded pension providers with a workplace connection:

- it introduces the prudent person rule as the standard for investment practice;
- it delivers an effective prudential framework;
- it acknowledges IORPs as specialised financial services providers with their own set of rules;
- it is the first EU law relating to pension matters to recognise that financial services issues must dovetail with labour and social policy.

About the survey

In order to collate the varied industry experience of the IORP Directive thus far, EFRP consulted with its Members, including Members of its CEEC Forum and beyond. In this manner, EFRP has uniquely succeeded in bringing together a cross-section of views from the market in a format which facilitates comparison and active analysis. Responses have been received from 20 EU Member States.

It is of note that in order to ensure that the voice of industry is fully heard, EFRP presented a preliminary account of its findings to the CEIOPS Occupational Pensions Committee meeting on 7 September 2007 in Frankfurt.

About EFRP

The European Federation for Retirement Provision (EFRP) represents the various national associations of pension funds and similar institutions for supplementary/occupational pension provision. It affiliates 16 EU Member States and 5 other European countries totalling to 29 Member Associations. It is recognised as the leading voice on workplace pensions in Brussels.

Within EFRP the Central & Eastern European Countries Forum (CEEC Forum) has been established (26 October 2006) to discuss issues common to pension systems in that region. The CEEC Forum brings together 10 CEE countries.

75 million EU citizens are covered for their workplace pension plan by EFRP Members. Through its Member Associations the EFRP represents approximately € 3,6 trillion of assets (2006) managed for future workplace pension payments.

ABOUT THE EFRP

The European Federation for Retirement Provision represents the various national associations of pension funds and similar institutions for supplementary/occupational pension provision. Its membership at large consists of institutions for occupational (2nd pillar) retirement. Some of them are also operating purely individual pension schemes (3rd pillar)

The EFRP has **members** in most EU-15 Member States and other European countries¹. In the Central & Eastern European region it affiliates Hungary, Slovakia as well as Croatia.

Within EFRP the **Central & Eastern European Countries Forum (CEEC Forum)** has been established (26 October 2006) to discuss issues common to pension systems in that region. The Forum may be viewed as a mechanism to phase in CEEC industry associations into the regular EFRP Membership while taking on board their specific needs for information and representation at EU level.

In some Member States up to 90-95 % of the work force have their occupational pension funded through EFRP membership (e.g., Denmark, Netherlands and Sweden). In countries such as Germany, Spain, Ireland, the United Kingdom 80 % of the occupational pension provision is funded by EFRP members.

Most EFRP members are non-profit making institutions. Their governance structures usually include the scheme members and beneficiaries representation. Many of them are managed on a paritarian basis between unions/employees and employers.

73 million EU citizens are covered for their occupational pension plan by EFRP Members.

Through its Member Associations the EFRP represents €approximately **3,6 trillion of assets (2005) managed** for future occupational pension payments.

EFRP has observer status with **OECD** and sits on several **EU Commission** advisory bodies such as the Pensions Forum and the Taxation Expert Group on Savings. The Federation has a two seat representation on the Consultative Panel of the **Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)**.

¹ EU Member States: Austria, Belgium, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Slovakia, Sweden, UK.
Non-EU Member States : Croatia, Guernsey, Iceland, Norway, Switzerland.