Assessing the adequacy of macroprudential policies for Non-Bank Financial Intermediation

European Commission’s consultation

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Table of contents

1 Key vulnerabilities and risks stemming from NBFI 3
2. Overview of existing macroprudential tools and supervisory architecture in EU 6
Legislation 6
2.1 Asset management and open-ended funds (OEFs) 7
2.2 Insurance 7
2.3 Other NBFIs and markets 7
3. Unmitigated liquidity mismatches 7
3.1 Money Market Funds (MMFs) 7
Questions 8 to 15: Supervisory powers 7
Reporting requirements 8
Stress testing framework 8
Reverse distribution mechanism 8
Liquidity and short-term instruments 8
3.2 Other open-ended funds (OEFs) 9
Questions 16 to 25: Link between liquidity mismatch and liquidity risks 9
Stress testing 10
Questions 26 to 42: Other NBFIs 10
Pension Funds 11
Short-term funding markets 12
Other markets 14
4. Excessive leverage 15
4.1 Open-ended funds (OEFs) 15
Questions 43 to 46 15
Questions 47 to 51 15
Commodities markets 16
5. Monitoring interconnectedness 16
Questions 52 to 56 16
6. Supervisory coordination and consistency at EU level 18
Questions 57 to 64 18
Enhanced coordination mechanism (implementation and adoption of NMMs) 18
Supervisory powers of EU bodies 19
International coordination 20

1 Key vulnerabilities and risks stemming from NBFI

Please consider how the question applies to different NBFI sectors (entities and markets) and specify the NBFI sectors concerned when providing a response. Please also provide quantitative evidence, where possible.

Question 1: Are there other sources of systemic risks or vulnerabilities stemming from NBFIs' activities and their interconnectedness, including activity through capital markets, that have not been identified in this paper? **(5000 character(s) maximum)**

First of all, it is important to consider that EIOPA assesses that IORPs(2015 IORPs stress testing exercise) have limited connections with other financial institutions and their ability to trigger systemic risks is very small, if any. This condition is due to the different nature of IORPs compared to other financial institutions. Pension funds are long-term investors with very predictable liabilities. Due to rebalancing, they often trade counter-cyclically. As such they provide stability, rather than instability, to the financial system.

The IORP 2 directive states that "IORPs as pension institutions with a social purpose that provide financial services. However, such institutions should not be treated as purely financial service providers. IORPs themselves are organized and operate differently, both at the EU level and at the national level. Based on that we believe that IORPs should not be treated as NBFIs given their social role and how they are regulated. We are concerned by the horizontal approach of regulations which concern NBFIs as they are not adequate to address the specificities of IORPs. Some horizontal regulations like DORA and SFDR are triggering huge efforts and costs for IORPs that in the end will affect negatively the income of retirement for members. Therefore, we do not believe that more horizontal legislation should become applicable to IORPs at the EU level

Question 2: What are the most significant risks for credit institutions stemming from their exposures to NBFIs that you are currently observing? Please provide concrete examples. **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 3: To what extent could the failure of an NBFI affect the provision of critical functions to the real economy or the financial system that cannot easily be replaced?

☐ 1 - To a very low extent
☒ 2 - To a low extent
☐ 3 -To a significant extent
☐ 4- To a high extent
☐ 5-To a very high extent
☐ Don't know / no opinion / not applicable

Please explain in particular to which NBFI sector, part of the financial system and critical function you refer to, and if and how you believe such knock-on effect could be mitigated. **(5000 character(s) maximum)**

In theory, the failure of an IORP or other type of pension fund could lead to a situation where present and future pensioners receive a lower pension, which would have some negative implications for domestic demand and could cause old age poverty for some affected persons. However, in reality, the insolvency of pension funds is an improbable event. In almost all countries, pension funds are required to be fully funded with capital requirements, and EIOPA stress tests show that solvency ratios are resilient even under financial stress. Pension funds are also banned from leverage. In some countries they are required by legislation to reduce benefits in case of underfunding. Liabilities are predictable and based on the longevity of the participants. Decumulation often can only be taken as an annuity. In cases where different decumulation options exist, these typically are predictable in nature and do not lead to liquidity problems.

Although pension funds play an important role in providing pools of capital, they do so in a diluted fashion, mostly by purchasing securities on the secondary markets. As such, individual companies or financial institutions do not rely on individual pension funds to meet their (short-term) funding needs, as is the case with banks.

For this reason, as stated by EIOPA (2015 IORPs stress testing exercise) the extent to which IORPs transmit the shocks to the rest of the financial sector and the real economy is limited and direct linkages to other financial institutions are limited for IORPs when compared to different financial institutions.".

However, a technical default due to the inability to meet short-term obligations is not as extremely unlikely as insolvency, particularly due to margin calls stemming from positions in interest rate swaps (IRS). This is the case mostly for countries that they extensively use derivatives such as the Netherlands and Denmark. Such a default would have ramifications for CCPs and counterparties, which have to deal with closing the positions. The participants of the pension funds will become unhedged and will face a high level of interest rate risk.

In those countries, to manage liquidity needs in the case of large margin calls, pension funds can make use of a liquidity waterfall including deposits, liquidity facilities with banks, repos, and cash-like instruments (commercial paper). Margin calls affect fixed receivers similarly, putting stress on money markets and money market funds, as was the case in 2020. However, given the fact that deposits and bank-based liquidity lines are insufficient to cover large interest rate hikes for large pension funds, the repo market is the most relevant liquidity source on an intra-day basis. Only in the case both the repo market and the money markets (and MMFs) are failing, a pension fund will resort to selling stocks and bonds to avoid technical default. In such a scenario, pension funds could put significant downward pressure on these markets, undermining investor confidence and raising interest rates even further.

Nevertheless, these kinds of damage which indeed can have negative consequences on the real economy and can be of systemic relevance, have a very low likelihood of occurring given the fact that EU IORPS in contrast with the UK ones, invest much more in different markets .

Question 4: Where in the NBFI sectors could systemic liquidity risk most likely materialise and how? Which specific transmission channels of liquidity risk would be most relevant for NBFI? Please provide concrete examples. **(5000 character(s) maximum)**

One source of liquidity risks with relevance for IORPs and other types of pension funds comes from margin calls from derivatives. This is a relevant issue only for a few MSs but with very big and well-developed funded pension schemes such as the Netherlands and Denmark.

As an integral part of their investment approach, many pension funds use derivatives to manage their financial solvency risk as their liabilities are often long-dated, one-directional and linked to interest rates. Pension funds are invested in assets and the return on these assets must be maximised to meet future pension liabilities (pensioners' retirement income). From the perspective of the pension fund participant, interest rate risk is a non-rewarded risk. Pension funds typically invest in high-quality government bonds to hedge their interest rate risks but can optimise the hedging strategy by using derivatives. Derivatives have the advantage of being available for longer maturities and can also be tailored to match the dates of pension funds' liabilities more accurately, which is not generally possible with bonds. Derivatives can often also be the best matching asset for pension fund liabilities that are discounted using swap rates.

PensionsEurope has warned repetitively in the past about the liquidity risks involved in central clearing. In the EU, so-called pension scheme arrangements (PSA) were granted an exemption from central clearing for this very reason. After more than ten years of deliberations between PSAs, clearing members, CCPs and policymakers, the exemption expired without any solution being implemented. Thus, the liquidity risk arising from the central clearing of derivatives has been left to pension funds to manage, on top of their normal liquidity management activities.

In adverse market conditions, the spike in margin calls for pension funds that they use derivatives can be very serious. We therefore recognize the importance of liquidity risk management policies and governance.

The seriousness of the UK LDI crisis only reinforced the attention given to the subject. However, it is a fact that there are fundamental differences between the UK and the EU pension funds and we believe that even under extreme circumstances, it is very unlikely to face a similar crisis with the same seriousness and systemic relevance for the EU. We would like to stress the following differences to justify our evaluation:

1. In the UK, LDI strategies are executed by investing in pooled investment funds. In EU countries such as the Netherlands, pension funds appoint a fiduciary manager who enters into derivate positions on behalf of the pension fund and at the same time oversees treasury functions. By centralizing both functions, the pension fund is operationally better prepared to meet margin calls. This structure also avoids incorporating entities that are leveraged by taking on more than 100% interest rate exposure.
2. The level of interest rate hedging is lower. Most pension funds, including the large industry-wide pension funds that manage the majority of assets, hedge somewhere between 30% and 70% of interest rate risk. Moreover, as the pension system in the EU is moving from defined benefit to defined contribution (based on the Dutch pension reform shift from DB to DC will be finalised in 2027), the level of interest rate hedge could arguably go down, particularly in the longer maturities which are more sensitive and less often hedge with bonds. On the other hand, in the UK many large DB legacy funds had fully hedged all interest rate risk when the LDI crisis hit.
3. In the EU, the derivative exposures of the pension sector can be large, nevertheless, it does not nearly play the same role in the EU bond markets as the UK pension funds do in the UK gilt market. This preponderance set off the negative feedback loop when UK pension investors were selling off gilts to meet margin requirements pushing bond prices down further, and leading to more margin calls. On a European level, pension funds seem to be making

significant use of the IRS in a few countries and pension assets compared to GDP stands much lower compared to the UK. Total pension assets, in the EU stand at 32% of GDP, while it is 100% in the UK.

Furthermore, there are other sources of liquidity risks, that can be also relevant to pension funds in some countries, but it is more unlikely that a systemic event will occur because of them due to the fact that there is a higher time horizon. Therefore, it is unlikely to provoke a liquidity crisis within a short period. Those are:

- An inadequate and unrealistic cashflow planning by IORP management assets that turn out to be much less liquid in certain scenarios than expected or can be monetized only with huge discounts. This can be the case for certain real estate projects.
- Unexpected huge benefit payments when options exist. Those can arise during the decumulation phase due to e.g. a stronger-than-expected exercise of lump sum options

Question 5: Where in the NBFI sectors do you see build-up of excessive leverage, and why? Which NBFIs could be most vulnerable? Please provide concrete examples. **(5000 character(s) maximum)**

Article 19(3) of the IORP II directive only allows IORPs to borrow under specific short-term liquidity risks to protect members and beneficiaries: "*The home Member State shall prohibit IORPs from borrowing or acting as a guarantor on behalf of third parties. However, Member States may authorise IORPs to carry out some borrowing only for liquidity purposes and on a temporary basis*".

The aim is to prevent IORPs from taking too many risks by borrowing. In addition to the European framework, some national regulations prohibit IORPs from taking leverage. For instance, German IORPs in the legal form of a "Pensionskasse" are legally not allowed to take any leverage. This is similar for the Italian IORPs. In the Netherlands, national regulation limits the use of repo for Dutch pension funds to guarantee temporary liquidity needs.

Question 6: Do you observe any systemic risks and vulnerabilities emerging from crypto assets trading and intermediaries in the EU? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 7: Considering the role NBFIs have in providing greater access to finance for companies and in the context of the capital markets union project, how can macroprudential policies support NBFIs' ability to provide such funding opportunities to companies, in particular through capital markets? Please provide concrete examples. **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

2. Overview of existing macroprudential tools and supervisory architecture in EU Legislation

2.1 Asset management and open-ended funds (OEFs)

2.2 Insurance

2.3 Other NBFIs and markets

3. Unmitigated liquidity mismatches

3.1 Money Market Funds (MMFs)

Questions 8 to 15: Supervisory powers

Question 8: What are pros and cons of giving the competent authority the power to increase liquidity buffer requirements on an individual or collective basis in the event of system-wide financial stability risks? Under which other situation do you believe MMF liquidity buffers should be increased on an individual or collective basis by the competent authority?

Question 8.1: Please explain what are the pros? **(5000 character(s) maximum)**

The advantages we see are potentially larger liquidity buffers and alignment among money market funds.

Question 8.2: Please explain what are the cons? **(5000 character(s) maximum)**

We see the following potential negative implications:

- Potential negative spiral due to 'preventive' redemptions out of the funds.
- Over-regulation, please note the decreased liquidity in money markets due to the heavy regulations on banks.
- Loss of return, even though pension funds use MMFs primarily for liquidity management and not return.

Regulation is needed to mitigate risks of course, but MMFs filled the gap left by banks when they retreated from Money Market activities, due to regulations and balance sheet management. Over-regulation could push activity to other parts of the Money Markets which are currently not accessible and provide less liquid for participants. Moreover, this could lead to less transparency for regulators

Question 9: How can ESMA and ESRB ensure coordination and the proper use of this power and what could be their individual roles?. Please provide specific examples or scenarios to support your view: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Reporting requirements

Question 10: In view of the new UCITS supervisory reporting obligations and improvements to AIFMD reporting, how could reporting requirements under the MMFR be aligned, simplified and improved to identify stability risks (such as liquidity risks) and to ensure more efficient data sharing? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Stress testing framework

Question 11: Do you believe that the proposed enhancements to the stress testing framework listed above are sufficient to identify and mitigate liquidity risks effectively? If not, what specific elements would you suggest including in the strengthened supervision and remediation actions for detecting liquidity risks? **(5000 character(s) maximum)**

The real solution for the tail-risk would be the US model, where MMFs can raise cash with the Central Bank versus lending assets. Central Bank providing liquidity through (cleared) repo directly to asset managers would mitigate liquidity risk even further.

Question 12: What are the costs and benefits of introducing an EU-wide stress test on MMFs?. Should this stress test focus mainly on liquidity risks? **(5000 character(s) maximum)**

We believe that the main benefit is alignment between funds and fund portfolios. Moreover, stress test results are comparable for the end-client of the money market funds. Indeed, we have the view that liquidity risks are the main risks for money market funds.

Reverse distribution mechanism

Question 13: What are your views on the EU ban on a reverse distribution mechanism by MMFs? **(5000 character(s) maximum)**

Money Market Funds should be of use for all market participants, and it is an advantage when participant types are diversified and balanced. A reverse distribution mechanism could support this. Clear accounting rules are important, but we prefer a diversified investor base at money market funds the most. This will result in a more stable Net Asset Value (NAV) for the money market fund and therefore decrease risk for all participants

Question 14: Can you provide insights and data on how the reverse distribution mechanism has impacted in practice the stability and integrity of MMFs? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Liquidity and short-term instruments

Question 15: Should regulatory requirements for MMFs take into account whether the instrument they are investing in is admitted to trading on a trading venue (regulated markets, multilateral trading facilities or organised trading facilities) with some critical level of trading activity? Please explain your answer: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

3.2 Other open-ended funds (OEFs)

3.2.1 Enhancing the supervisory framework on liquidity risks

Questions 16 to 25: Link between liquidity mismatch and liquidity risks

Question 16: How can NCAs better monitor the liquidity profile of OEFs, including redemption frequency and LMTs, in order to detect unmitigated liquidity mismatches during the lifetime of OEFs?: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 17: Only for NCAs and EU bodies: What is the supervisory practice and your experience with monitoring and detecting unmitigated liquidity mismatches during the lifetime of OEFs? What is the data that you find most relevant when monitoring liquidity risks of OEFs?: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 18: Only for NCAs and EU bodies: What supervisory actions do you take when unmitigated liquidity mismatches are detected during the lifetime of an OEF?: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 19: On the basis of the reporting and stress testing information being collected by competent authorities throughout the life of a fund, how can supervisory powers of competent authorities be enhanced to deal with potential inconsistencies or insufficient calibration between the LMTs selected by the manager for a fund or a cohort of funds and their assets and liabilities liquidity profile?

How can NCAs ensure that fund managers make adjustments to LMTs if they are unwilling to act? How could coordination be enhanced at the EU level?: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 20: Only for asset managers: What measures do you find particularly effective to measure and monitor liquidity risk in stressed market conditions?: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 21: Only for asset managers: What difficulties have you encountered in measuring and monitoring liquidity risks and their evolution?. Are there enough tools available under the EU regulations to address liquidity mismatches?: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 22: Only for asset managers: What are the challenges in calibrating worst-case and stress-case scenarios related to redemptions and margin calls? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Stress testing

Question 23: Only for NCAs and EU bodies: When monitoring or using results of liquidity stress tests, are you able to timely collect underlying fund data used by managers and the methodology used for the simulation? **(5000 character(s) maximum)**

Are there other aspects that you find very relevant when monitoring the stress tests run by managers?

TYPE YOUR TEXT HERE

Question 24: Only for NCAs and EU bodies: How do you use information collected from stress tests at fund level for other supervisory purposes and for monitoring systemic risks? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 25: Only for NCAs and EU bodies: What are the main benefits and costs of introducing a stress test requirement at the asset management company level and how could this be organised? ?**(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

3.3 Other NBFIs and markets

Questions 26 to 42: Other NBFIs

Question 26: What are your views on the preparedness of NBFIs operating in the EU in meeting margin calls, and on the ways to improve preparedness, taking into account existing or recently agreed EU measures aimed at addressing this issue? Please specify the NBFI sector(s) you refer to in your answer: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 27: What are relevant risk metrics or tools that can be used to effectively monitor liquidity and margin preparedness across all NBFI entity types? Please provide examples specifying the sector you refer to:? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Pension Funds

Question 28: How can current reporting by pension funds be improved to improve the supervision of liquidity risks (e.g. stemming from exposure to LDI funds, other funds or derivatives), while minimising the reporting burden? What can be done to ensure effective look-through capability and the ability to measure the impact of unexpected margin calls? Please provide examples also for other NBFI sectors. **(5000 character(s) maximum)**

Regular liquidity risk assessment relating to derivative portfolio are already today part of the treasury function and risk-management processes for IORPs and other types of pension funds. IORPs and other types of pension funds with significant exposures conduct internal stress test on a regular basis.

IORP II requires IORPs to establish a risk-management function proportionate to the risks and conduct an Own Risk Assessment (ORA). Supervisory authorities can assess whether this risk is treated adequately in the ORA. Risk indicators, such as the liquidity status of any liquidity planning which should be done even for a very adverse scenario, can be introduced. If at some point in the future, the projected liquidity status turns negative, an assessment can be used. This assessment combined with some general liquidity indicators can show in a stress scenario how many assets can additionally be monetized within which time frame and at which discounts.

While risk management and governance of pension funds are adequate, pension funds do not operate on their own. Pension funds rely on intermediaries and other actors to access cash to meet Variation Margin (VM) calls, as pension funds cannot hold sufficient cash to meet calls that occur under adverse market conditions. They will need to rely on liquidity facilities and transform assets.

Moreover, other institutions than NBFIs have a responsibility for keeping markets running in periods of severe stress. Central banks must ensure that cash is available for repo purposes. Banks must fulfil their responsibilities and ensure that central bank cash gets pushed through to NBFIs that need to transform assets into cash. PensionsEurope believes that in times of stress, a second line of defence is needed – involving central banks as the only reliable provider of liquidity. Central banks in the United Kingdom, the United States, and Canada have recognized this issue. They put in place, or are in the process of doing so, liquidity facilities to prop up the resilience of repo markets or to provide a backstop repo facility directly to pension funds and insurance companies, as is the case in the UK.

Unfortunately, the ECB has refused to consider similar arrangements, thereby exposing EU pension funds to risks that are beyond the scope of their own policies and governance structures. PensionsEurope is deeply concerned that repo markets cannot be relied on in stressed conditions. In these instances, the demand for cash by all market participants is likely to increase. At the same time, the supply of cash is likely to either shrink or at least not fully meet the increased demand as banks

reduce their risk appetite and pull back from deploying balance sheets to support clients to protect their businesses. Market participants unable to access cash will be forced to sell physical assets, which is likely to exacerbate any downward spiral of asset prices.

Question 29: What would be the benefits and costs of a regular EU-wide liquidity stress test for pension funds and with what frequency? What should be the role of EU authorities in the preparation and execution of such liquidity stress tests? **(5000 character(s) maximum)**

We see no additional value in introducing any additional stress test assessing liquidity risk, especially given that EIOPA is already preparing a 2025 liquidity stress test exercise for IORPs and because for them, liquidity risk is already part of ORA. EIOPA is currently consulting on an Own Opinion on the management of liquidity risks on the basis of the IORP2 provisions on risk management, provides NCAs with a more precise set of guidelines in the supervision of these risks.

Furthermore, IORPs from different countries are quite different from each other regarding liquidity risk sources and risk structure. Hence, there should be no one-size-fits-all approach. For example, the NCA in the Netherlands, where exposure to derivatives is significant, have conducted stress tests in conjunction with the pension sector: https://www.afm.nl/en/sector/actueel/2024/januari/pensioenfondsen-derivaten-geldmarkten. Given there are only very few countries where pension funds have significant derivatives exposures, EU intervention does not meet the subsidiarity threshold.

PensionsEurope believes that emphasizing only stress testing and scenario designs is not the solution to the liquidity issue. Stress testing is something pension providers and other NBFIs with substantial derivative exposures should perform to plan what actions to take in specific situations.

Short-term funding markets

Question 30: What would be the benefits and costs of creating a framework or a label in EU legislation for certain money market instruments (such as commercial papers) to increase transparency and standardisation?Should the scope of eligible instruments to such framework/label be aligned with Article 3 of Directive 2007/16/EC?

If not, please suggest what criteria would you consider for identification of eligible instruments: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 31: Would the presence of a wider range of issuers (notably smaller issuers) to fund themselves on this market, and therefore diversify their funding sources, be beneficial or detrimental to financial stability? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 32: What are your views on why euro-denominated commercial papers are in large part issued in the 'EUR-CP' commercial paper market outside the EU?. What risks do you identify?

Please provide quantitative and qualitative evidence, if possible: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 33: What could be done to improve the liquidity of secondary markets in commercial papers and certificates of deposits?**(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 34: Considering market practice today, is the maturity threshold for 'money market instruments' (up to 397 days) in the Eligible Asset Directive 2007/16 sufficiently calibrated for these short-term funding markets? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 35: Do you think there is a risk with the high concentration of this market in a few investors (MMF and banks)? Please elaborate: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 36: How could secondary markets in these money market instruments attract liquidity and a more diverse investor base, while relying less on banks buying back papers they have helped to place? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 37: What are the benefits and costs of introducing an obligation to trade on trading venues (regulated markets, multilateral trading facilities and organised trading facilities) for such instruments? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 38: Can the possibility to trade on a regulated venue increase the chances of secondary market activities in a systemic event, for instance by acting as a safety valve for funds that need to trade these assets before maturity (especially when facing strong redemption pressures, like for MMFs)? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Commodities markets

Question 39: How would you assess the level of preparedness of commodity derivatives market participants for each of the following sectors in terms of meeting short-term liquidity needs or requests for collateral to meet margins?

	1(very low level of preparedness)	2(low level of preparedness)	3(medium level of preparedness)	4(high level of preparedness)	5 (very high level of preparedness)	Don't know - No opinion - Not applicable
Insurance companies	☐	☐	☐	☐	☐	☐
UCITS funds	☐	☐	☐	☐	☐	☐
AIFs	☐	☐	☐	☐	☐	☐
Commercial undertakings	☐	☐	☐	☐	☐	☐
Investment firms	☐	☐	☐	☐	☐	☐
Pension funds	☐	☐	☐	☐	☐	☐

Please explain your answers to question 39: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 40: In light of the potential risk of contagion from spot markets or off-exchange energy trading to futures markets, do you think that spot market participants should also meet a more comprehensive set of trading rules for market participation and risk management?

Please elaborate on your response: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 41: How can it be ensured that the functioning of underlying spot energy markets and off-exchange energy trading activity does not lead to the transmission of risks to financial markets?
(5000 character(s) maximum)

TYPE YOUR TEXT HERE

Other markets

Question 42: To what extent do you see emerging liquidity risks or market functioning issues that can affect liquidity in other markets?

☐ 1 - To a very low extent
☐ 2 - To a low extent
☐ 3 -To a significant extent
☐ 4- To a high extent
☐ 5-To a very high extent
☐ Don't know / no opinion / not applicable

Please explain your answer to question 42, providing concrete examples: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

4. Excessive leverage

4.1 Open-ended funds (OEFs)

Questions 43 to 46

Question 43: What are other tools than those currently available under EU legislation which could be used to contain systemic risks generated by potential pockets of excessive leverage in OEFs? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 44: What are, in your view, the benefits and costs of using yield buffers[1] for Liability-Driven funds, such as it was done in Ireland and Luxembourg, to address leverage? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 45: While on average EU OEFs are not highly leveraged, are there, to your knowledge, pockets of excessive leverage in the OEF sector that are not sufficiently addressed? Please elaborate with concrete examples:
(5000 character(s) maximum)

TYPE YOUR TEXT HERE

Question 46: How can leverage through certain investment strategies (e.g. when funds invest in other funds based in third countries) be better detected? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

4.2 Other NBFIs and markets

Questions 47 to 51

[1] * The yield buffer is defined as the level of increase in yields that a fund can withstand before its net asset value (NAV) turns negative. See The Central Bank's macroprudential policy framework for Irish-authorised GBP-denominated LDI funds, p.3.

Question 47: Are you aware of any NBFI sector entities with particularly high leverage in the EU that could raise systemic risk concerns? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 48: Do stakeholders have views on macroprudential tools to deal with leverage of NBFIs that are not currently included in EU legislation? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 49: Only for NCAs and EU bodies: Are you able to timely identify (financial and synthetic) leverage pockets of other NBFIs (such as pension funds, insurance companies and so on), especially when they are taken via third parties or complex derivative transactions? Please elaborate on how this timely detection of leverage could be obtained: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 50: How can it be ensured that competent authorities can effectively reconcile positions in leveraged products (such as derivatives) taken via various legal entities (e.g. other funds or funds of funds) to the ultimate beneficiary? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Commodities markets

Question 51: What role do concentrated intraday positions have in triggering high volatility and heightening risks of liquidity dry-ups?

Please justify your response and suggest how the regulatory framework and the functioning of these markets could be further improved? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

5. Monitoring interconnectedness

Questions 52 to 56

Question 52: Do you have concrete examples of links between banks and NBFIs, or between different NBFI sectors that could pose a risk to the financial system? **(5000 character(s) maximum)**

PensionsEurope believes that in times of stress, the repo market does not work efficiently to prevent risks occurred from liquidity challenges. While risk management and governance of pension funds are adequate, pension funds do not operate on their own. Pension funds rely on intermediaries and other actors to access cash to meet margin calls, as pension funds cannot hold sufficient cash to meet calls that occur under adverse market conditions. They will need to rely on liquidity facilities and transform assets. Moreover, other institutions than NBFIs have a responsibility for keeping markets running in periods of severe stress. Central banks must ensure that cash is available for repo purposes. Banks

must fulfil their responsibilities and ensure that central bank cash gets pushed through to NBFIs that need to transform assets into cash.

As mentioned in our answer to question 28, we believe that in times of stress, a second line of defence is needed – involving central banks as the only reliable provider of liquidity. Central banks in the United Kingdom, the United States, and Canada have recognized this issue. They put in place, or are in the process of doing so, liquidity facilities to prop up the resilience of repo markets or to provide a backstop repo facility directly to pension funds and insurance companies, as is the case in the UK. Unfortunately, the ECB has refused to consider similar arrangements, thereby exposing EU pension funds to risks that are beyond the scope of their own policies and governance structures.

Finally, a second less severe risk coming interconnectedness is that pension funds can sometimes have relatively high exposure to bonds and other kinds of debt issued by banks and financial institutions. For this reason, national competent authorities should be responsible and accountable for avoiding any negative implications arising.

In some Member States, IORPs and other types of pension funds manage their assets through mandates but the assets are legally segregated from those of the agent and cannot enter any resolution procedure involving the agent.

Question 53: What are the benefits and costs of a regular EU system-wide stress test across NBFI and banking sectors?Are current reporting and data sharing arrangements sufficient to perform this task?Would it be possible to combine available NBFI data with banking data? If so, how? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 54: Is there a need for arrangements between NBFI supervisors and bank supervisors to ensure timely and comprehensive sharing of data for the conduct of an EU-wide financial system stress tests? Please elaborate: **(5000 character(s) maximum)**

Question 55: What governance principles already laid out in existing system-wide exercises in the EU, such as the one-off Fit-for-55 climate risk scenario analysis or the CCP stress tests conducted by ESMA, could be adopted in such system-wide stress test scenario? Please elaborate: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 56: Only for NBFIs and banks: In your risk management practices, do you run stress tests at group level, and do you monitor the level of interconnectedness with (other) NBFIs (within and beyond your own sector; e.g. portfolio overlaps)? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

6. Supervisory coordination and consistency at EU level

6.1 Open-ended funds (OEFs)

6.1.1 An enhanced coordination mechanism (ECM) for adoption of macroprudential measures and conflict resolution

6.1.2 Supervisory coordination powers for large asset management companies

Questions 57 to 64

Question 57: How can we ensure a more coordinated and effective macroprudential supervision of NBFIs and markets? How could the role of EU bodies (including ESAs, ESRB, ESAs Joint Committee) be enhanced, if at all? Please explain **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Enhanced coordination mechanism (implementation and adoption of NMMs)

Question 58: How could the currently available coordination mechanisms for the implementation of macroprudential measures for OEFs by NCAs or ESAs (such as leverage restrictions or powers to suspend redemption on financial stability grounds) be improved? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 59: What are the benefits and costs of introducing an Enhanced Coordination Mechanism (ECM), as described above, for macroprudential measures adopted by NCAs? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 60: How can ESMA and the ESRB ensure that appropriate National Macroprudential Measures (NMMs) are also adopted in other relevant EU countries for the same (or similar) fund, if needed? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 61: Are there other ways of seeking coordination on macroprudential measures and possibly of reciprocation? What could this system look like?

Please provide concrete examples/scenarios, and explain if it could apply to all NBFI sectors or only for a specific one: **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Supervisory powers of EU bodies

Question 62: What are the benefits and costs of improving supervisory coordination over large (to be defined) asset management companies to address systemic risk and coordination issues among national supervisors?

What could be ESMA's role in ensuring coordination and guidance, including with daily supervision at fund level? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 63: What powers would be necessary for EU bodies to properly supervise large asset management companies in terms of flexibility and ability to react fast?

Please provide concrete examples and justifications. **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 64: What are the benefits and costs of having targeted coordinated direct intervention powers to manage a crisis of large asset management companies? What could such intervention powers look like (e.g. similar to those in Article 24 of EMIR)? Additional help available **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

6.2 Other NBFIs and markets

Questions 65 to 68

Question 65: What are the pros and cons of extending the use of the Enhanced Coordination Mechanism (ECM) described under section 6.1 to other NBFI sectors?

Question 65.1: Please explain what are the pros? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

Question 65.2: Please explain what are the cons? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

ESAs and ESRB's powers during emergency situations

Question 66: What are the benefits and costs of gradually giving ESAs greater intervention powers to be triggered by systemic events, such as the possibility to introduce EU-wide trade halts or direct power to collect data from regulated entities?

Please justify your answer and provide examples of powers that could be given to the ESAs during a systemic crisis: **(5000 character(s) maximum)**

The pension landscape is very heterogeneous with often small entities and very differentiated across EU Member States. The weight of each pension pillar varies a lot among EU Member States. For instance, Dutch IORP assets represented 155% of its annual GDP at the end of 2023, but only 8,5% for Italian IORP assets.

Against that background, current reporting requirements and regulatory practices bring many IORPs, especially smaller and medium-sized ones, already to their limit, what they can do without undue burden and undue costs. Hence, supervisory and/or reporting requirements for IORPs at the EU level should not be enhanced further. The respective situation in the Member States must be considered for pension funds and, if necessary, the national regulation of pension funds must be adapted.

Integrated supervision for commodities markets

Question 67: What are the benefits and costs of a more integrated system of supervision for commodities markets where the financial markets supervisor bears responsibility for both the financial and physical infrastructure of the commodity futures exchange, including the system of rules and contractual terms of the exchange that regulate both futures and (cash/physical) forward contracts? **(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

International coordination

Question 68: Are there elements of the FSB programme on NBFI that should be prioritised in the EU? Please provide examples:**(5000 character(s) maximum)**

TYPE YOUR TEXT HERE

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace and other funded pensions. Some members operate purely individual pension schemes. PensionsEurope has **25 member associations** in 18 EU Member States and 3 other European countries[2].

PensionsEurope member organisations cover different types of workplace pensions for approximately over **90 million people.** Through its Member Associations PensionsEurope represents approximately **€ 5 trillion of assets** managed for future pension payments. In addition, many members of PensionsEurope also cover personal pensions, which are connected with an employment relation.

PensionsEurope also has **18 Corporate and Supporter Members** which are various service providers and stakeholders that work with IORPs.

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope has established a **Multinational Advisory Group (MAG)** which delivers advice on pension issues to PensionsEurope. It provides a collective voice and information sharing for the expertise and opinions of multinationals.

What PensionsEurope stands for

- A regulatory environment encouraging workplace pension membership;
- Ensure that more and more Europeans can benefit from an adequate income in retirement;
- Policies which will enable sufficient contributions and good returns.

Our members offer

[2] EU Member States: Austria, Belgium, Bulgaria, Croatia, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden. Non-EU Member States: Iceland, Norway, Switzerland.

- Economies of scale in governance, administration and asset management;
- Risk pooling and often intergenerational risk-sharing;
- Often "not-for-profit" and some/all of the costs are borne by the employer;
- Members of workplace pension schemes often benefit from a contribution paid by the employer;
- Wide-scale coverage due to mandatory participation, sector-wide participation based on collective agreements and soft-compulsion elements such as auto-enrolment;
- Good governance and alignment of interest due to participation of the main stakeholders.

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