PENSIONS EUROPE

PensionsEurope's position paper on initiative about reducing administrative burden/rationalization of reporting requirements

November 2023

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General comments

PensionsEurope welcomes this EC call for evidence initiative that aims to identify reporting requirements in EU legislation that can be removed or rationalized without undermining the policy objectives of the EU.

Pension funds are important due to their social role. In many cases, occupational pensions are part of the employment conditions, which are negotiated between employers, employees, and their representatives. In many cases, there are very limited and often no possibilities for employees to choose or switch pension schemes or pension funds which operate them. As a result, EU regulations that empower consumers to make decisions based on better financial information are in many cases not relevant. The governance structure of many pension funds with the participation of employee and employer representation protects participants, i.e., members and beneficiaries, in a way which is different from retail investment fund customers, who rely on consumer protection regulations.

Over the past years, the regulatory burden on pension funds has and will continue to increase significantly due to IORP II Directive and cross-sectoral legislation such as the Sustainable Finance Disclosure Regulation (SFDR) and Digital Operational Resilience Act (DORA) resulting in unnecessarily high reporting burden and administrative costs. These costs restrict the industry´s capacity to make investments contributing to economic growth and the twin transition, i.e., green and digital transformation. This in turn will have a negative consequence on pension funds' possibility to provide good retirement incomes as pension benefits increasingly depend on investment returns.
In general, the ESAs, the ECB and regulatory authorities are requesting more information and data, but the costs and their impact are not properly considered. A recent experience is the introduction of new reporting standards for pension funds (i.e., IORPs), e.g., the forthcoming Taxonomy 2.9.0. These reporting standards are merely a copy of reporting standards for insurance companies without considering proportionality in general and many NCAs also require extensive national reporting for pension funds. EIOPA's empowerment regarding reporting for IORPs should not be extended further.

Sustainability

Concerning the SFDR, the majority of investments made by many pension funds are in UCITS and AIFs, whose providers are already covered by the SFDR. Consequently, there is double reporting for these assets which is burdensome and costly. Pension funds, being long-term investors, maintain a highly diversified portfolio, with sometimes thousands of individual investments. Since many pension funds only provide one pension scheme, it would not be reasonable to separate product and entity levels. Therefore, we suggest reducing or simplifying the reporting requirements if a pension fund only provides one pension scheme, if a pension fund implements the guidelines/specifications of sponsoring companies for a pension scheme, or if a pension fund offers only one pension scheme and materially does not distinguish between company- and product-related disclosure requirements.

Furthermore, there are also challenges in preparing Principal Adverse Impact (PAI) disclosure under the SFDR. It is hard to add up PAI disclosures provided for investment mandates by external managers. The Key Performance Indicators (KPIs) are often unclear and do not provide pension funds with actionable information for their responsible investment decisions.

When the CSRD is put into effect, a significant number of companies that are already subject to the SFDR's disclosure requirements will also need to comply with additional company-level reporting requirements. If there are disparities, a significant amount of extra work is anticipated. We believe that entities that already report under the SFDR should not have to additionally report under the CSRD. A single framework for sustainability reporting is desirable over a fragmented reporting framework.

Finally, the ESRS have recently been finalized. They will provide pension funds with the necessary data to make responsible investment decisions as well as fulfil their SFDR reporting requirements. With its proposal, the European Commission has announced the need for changing the SFRD according to choices made within the ESRS. It is paramount that these choices are quickly translated into the SFDR, to align these pieces of legislation.

The EU is developing integrated SFDR and CSRD sustainability reporting through the ESAP. Pension funds have to report their remuneration policy under the SFDR and ESAP. National authorities and the European Supervisory Authorities (ESAs) should work towards streamlining these reports, so that pension funds only have to report once, according to a single format. The same goes for the annual statement, which is reported under the IORP II and in ESAP.

Securities reporting

Many pension funds have large portfolios of derivatives to hedge their interest rate risk. Derivative trading comes with high reporting requirements. The usefulness of their intensity can be questioned.

Under the European Market Infrastructure Regulation (EMIR) and Securities Financing Transactions Regulation (SFTR), pension funds' service providers deliver daily reports, which is an unproportionate administrative burden. In the EMIR refit, the required information fields for daily reports have increased from 129 to 203. The high-quality standards in terms of pairing and matching percentages as well as notification of wrongly reported transactions bring high operational risks and reporting burdens. A lower reporting frequency, with weekly or monthly updates, can be more suitable for supervisors to gain the necessary insights.

Pension funds also mandatorily report to ESMA on derivative contracts in Trade Repositories. These Trade Repositories provide regulators and supervisors with insight into (over-the-counter) derivatives markets, increasing transparency in these markets. Financial entities have to notify derivatives trades within a day after the trade. That gives enormous work pressure. The reporting workload could be reduced by extending the deadline to four or five days after the trade.

Pension funds experience double reporting because of an overlap between EMIR and MiFID regarding derivative transactions. Double reporting is enhanced because EMIR is supervised by the ESMA, while MiFID is supervised by the national supervisor. Overlaps between EMIR and MiFID reporting requirements should be removed.

MiFID

In the context of MiFID and AIF, pension funds' service providers have to provide extensive documentation to get permits. It could be reviewed whether all this documentation serves a purpose.

According to MiFID Art. 3 of Commission delegated Regulation 2017/576 (RTS 28), investment firms providing services to pension funds publish an annual statement of information on the identity of execution venues and the quality of execution. It includes reporting on the top five execution venues in terms of trading volumes. These statements are barely read or regarded. We think there is no added value to publishing this information for investment firms servicing exclusively institutional investors.

The annual MiFID cost report is almost identical to regular cost reports but requires a different format based on MiFID requirements. More freedom with regards to the format would avoid duplicate work.

Stress Tests

The costs of completing EIOPA's stress tests are excessive for pension funds. As EIOPA requires exploring the complete portfolio and EIOPA has used mappings of assets that differ from portfolio information available in the administration, the cost of analysing and capturing the necessary market data can be significant. Using the common balance sheet as a tool for the common framework also increased costs, since this tool is not used in practice and has to be calibrated for the sole purpose of EIOPA's stress tests.

The costs run into the tens of thousands of euros per pension fund, with much higher costs for bigger and more complex pension funds. These costs are even higher when a pension fund does not have the competencies in-house and has to hire an (expensive) consultant. As an example, one pension fund paid a consultant a hundred thousand euros for a stress test. With EIOPA's intention to broaden the spectrum of the percentage of pension funds participating in its stress test, more medium-sized pension funds would get into scope. For these, the relative burden and costs would be even higher.

ALIGN REPORTING REQUIREMENTS

In addition to EU reporting requirements, pension funds in some member states need to comply with national reporting obligations.

ESA's (EIOPA, ESMA and EBA) reporting requirements that overlap with some national reporting requirements should be coordinated such as concerning the asset allocation in some Member States. Unnecessary reporting should be decreased. For example, the ESAs should to a higher extent collect the data which is already reported at the national level and to the NCA. The ESAs should specify reasons for justifying reporting obligations that exceed national regulations.

Finally, we experience several ad hoc information requests by ESAs in the pension sector which are unnecessary and burdensome. Recent examples concern an information request on DORA from EIOPA in 2022 (before the Act even entered into force) and requests for the supervisory review and evaluation process for investment firms (SREP) from EBA and ESMA in 2023. The questions in these requests are not tailored to the pension sector and it remains unclear what goals these requests serve and how the data will be used. Moreover, the formats are hard to work with and ESAs are not available to give additional guidance to their requests.

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 4 other European countries[1].

PensionsEurope member organisations cover different types of workplace pensions for over **110 million people.** Through its Member Associations PensionsEurope represents **€ 7 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 **20 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

- 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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[1] 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, UK.

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