Activities Report 2000

EFRP

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EFRP - Annual Report 2000

An eventful year

The Commission proposal for a Directive on the activities of occupational pension funds which came out in October 2000 was an historic event. It signalled the first major movement towards a common European prudential framework for occupational pension funds since the ill-fated Commission proposal of the early 1990s.

The EFRP played an active role at the birth of this proposal both as a source of expert information and at EU-level as the representative of the most directly interested parties.

The proposal marked the beginning of a complex and - it must be said - uncertain legislative process which will involve the European Parliament and the Council. Although perhaps not quite the ideal measure the EFRP had hoped for, the proposal is undoubtedly a positive start.

The EFRP will continue to do all it can to ensure that a workable Directive finally emerges. This means ensuring that the Directive embodies the prudent person rule as the European standard for pension fund investment practice and ensure mutual recognition of supervisory regimes on the basis of minimum harmonisation of prudential rules. Only in this way will pension funds and related bodies likes be able to release their full economic - and therefore social - potential for the provision of sufficient old age income for future generations.

As the EFRP has continually stressed, the proposed Directive concerns just one element needed to ensure fair and effective cross-border mobility for occupational pension funds.

The other major and even more complex aspect is taxation. Here too the EFRP has been active, presenting its report on a pilot project for a Pan-European Institution for Occupational Retirement Provision (EIORP) to the European Commission. This initiative harnesses subsidiarity pro-actively, enabling progressively minded Member States to move together.

The EFRP also provided input as part of the European Commission's Pensions Forum which is generally regarded as a test-bed for ideas on future social policy initiatives in the pensions field whether statutory or occupational.

Last but not least, for the EFRP itself the year 2000 was one of important changes. In particular, it formalised its status under Belgian law, by Royal Decree, as a legal person in its own right. This transition reflects its expansion over the years from a small informal association to a significant player on the Brussels scene acquiring more and more Members.

Next year promises to be even more challenging than the year 2000....

Kees VAN REES
EFRP-Chairman

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1. Towards pan-European Pension Funds

1.1. The EU moves closer towards a Directive on a prudential framework for pension funds

At European Union level, activities were marked by the European Parliament adopting its Report on the Commission Communication of May 1999 and by the Commission's proposal for a Directive on the activities of institutions for occupational retirement provision (IORPs). The EFRP was able to provide both institutions with the benefit of its expertise.

European Parliament adopts its Report on the Commission Communication on supplementary pensions

In April 2000, the European Parliament responded to the Commission's 1999 Communication "Towards a single market for supplementary pensions" [1] by adopting the **KUCKELKORN REPORT**, [2] named after its German Social Democrat rapporteur, Wilfried KUCKELKORN.

The KUCKELKORN Report supports the European Commission's approach. [3]

- It not only "calls ... for a directive on prudential rules for pension funds" but also "stresses that ultimately complete freedom of investment presents the best guarantee of compliance with pension obligations".
- Furthermore, the EP "reiterates its call for the establishment of European pension funds open to workers from a company or group that has offices in several Member States".

These statements show that the European Parliament shared the EFRP's objectives. It should be said that the draft report had been severely amended, acquiring a tone to which the Rapporteur himself would perhaps not subscribe.

However, the report introduced a prescriptive 'biometric risk' element. Often discussion focussed solely on benefit type and the - related issue - of 'what is a pension?'.

A compromise was reached to the effect that pension plans covering biometric risks are "particularly advantageous for the person covered" and that "in the future legal framework, (….) they (should) be given preference". [4]

The EFRP is fully aware of the need for adequate old age income, however, the Federation has always held that EU level prudential legislation should not prescribe the benefit aspects of the occupational pensions. Those aspects are a social policy or, rather, a personnel policy matter which should not be included in a financial services measure.

Furthermore, in the context of Second Pillar arrangements, compulsory biometric risk cover, imposing for example, the provision of life-long payments, is a benefit aspect which should be left to the social partners - employers and employees - to contract voluntarily between themselves. If imposed by EU-level legislation, the EU-legislators will contradict their own stated position that the pension funds' directive should be neutral vis à vis Member States' social protection structures, in particular in respect of pension provision. It is obvious that EU legislation prescribing biometric risk cover, intrudes on Member States pension provision systems. In fact, it would come down to an occupational pensions harmonisation measure that has not been accepted as being the objective of the pension fund directive.

European Commission's Working Document

In parallel, the **European Commission,** issued a Consultation Paper on **14 March 2000** [5] which followed on from its Working Document of December 1999 [6]. Although similar, the March document was an improvement on the earlier text.

Both documents kept the **institutional approach**. This means legislating for particular kinds of entity rather than particular kinds of product. This is in line with existing European legislation for financial services. As such, it avoids compatibility problems with existing financial services directives, which are based on the same institutional approach.

[1] *COM(1999)134, 11.05.1999*

[2] *European Parliament "Report on the communication from the Commission 'Towards a single market for supplementary pensions - results of the consultations on the Green Paper on supplementary pensions in the single market'" 28.02.2000 - Final A5-0053/2000*

[3] *See in particular, Recitals 14, 15 and 23*

[4] *Recital 7*

[5] *"Commission Working Document - Draft proposal for a Directive of the European Parliament and of the Council on supervision of institutions for occupational retirement provision" - (MARKT/2076/99 Rev. 1) - 14.03.2000*

[6] *"A working document of the services", Markt/2076/99*

Although pension funds are identified in these Commission documents as institutions via their activities, a broad, inclusive approach is used to capture the full range of pension schemes offered throughout Europe under the Second Pillar. Such an approach also takes into account the correlation with the variety of First Pillar systems - whose own diversity in part explains the variety of Second Pillar structures. This open approach differs from a narrow, uniform product definition. Furthermore, experience shows that such product definitions impede product innovation. Therefore, the EFRP recommended omitting restrictive definitions, whether based on concepts such as "defined contribution", "defined benefit" or any other notion of what pension products are or, rather, should be.

The Commission's working documents favoured the qualitative approach to **investment rules** based on the 'prudent person principle' yet leaving an option to Member States to apply certain quantitative rules in this area.

The Commission identified as **objectives** of the prospective directive:

- provision of a high level of beneficiary protection
- improvement of investment strategies
- to guarantee a level playing-field between all providers of occupational pension services
- mutual recognition of prudential regimes
- allow cross border affiliation.

In its response to the Commission the EFRP supported four of the five objectives yet found that the level playing-field between all providers of occupational pension services should not be an objective in this EU-legislative measure. The directive on pension funds should focus on the EU level prudential framework for pension funds as specific providers of financial services. As the Commission had rightly found, "those institutions capable of providing occupational pension services and already subject to Community rules are not intended for inclusion in this new directive". [7] The Commission also found that "any inequality of treatment resulting from separate prudential frameworks must be avoided". [8]

Pension funds are the only major financial institutions not enjoying the freedom to provide services on a cross-border basis (i.e. have members residing in other Member States). Directly insured pension provision already has this freedom. Therefore, the EFRP feels that the most urgent need is to fill this particular gap in EU legislation.

Of course, prudential supervision should not distort competition between providers of pension products conditional upon the fact that those products are offered on the same relevant market and there are no issues of general interest to be taken into account.

The Commission Proposal of 11 October 2000 for a Directive on the activities of institutions for occupational retirement provision

On 11 October 2000, the Commission adopted its Proposal for a Directive on the activities of Institutions for Occupational Retirement Provision (IORPs) [9]. The (expectedly) long legislative journey through the EU institutions, Council and Parliament could start.

the proposal in a nutshell

The proposed Directive is designed to put in place a common prudential **financial services** framework for IORPs which specify:

- general operating conditions
- information obligations to members, beneficiaries and the home State competent authority
- funding requirements - there are different rules according to whether the scheme covers e.g. biometric risks and whether the IORP itself underwrites those risks
- investment principles - based on the **prudent person rule** into the Directive but with scope for Member States to add some quantitative elements.

[7] *Explanatory Memorandum, Commission Working Document, MARKT/2076/99 Rev.1, article 3.*

[8] *Explanatory Memorandum, Commission Working Document, MARKT/2076/99 Rev.1, article 3.*

[9] *COM (2000)507, Official Journal, C 96E/136, 27.03.2001* (as revised)

Overview of the Commission's Proposed Directive on IORPs

LEGAL FORM

	Under the proposed Directive **an IORP need have no specific legal form** but *Recital 5, 6(a)*
	• it must be **legally separate** from its sponsors so as to safeguard assets against sponsor bankruptcy *8*
Member State ('MS') option:	• if a Member State wants to allow the occupational retirement provision business a life insurer to come under part of the proposed Directive, it must be set up under a **separate legal entity** *4*

BASIC RULES

	An IORP must
	• be **registered** - home State competent authority is informed of IORP's basic details *9(1)(a)*
	• not conduct activities other than retirement benefit related operations *7*
	• be staffed by **appropriate personnel** of good repute and professionally qualified *9(1)(b)*
	• have **properly constituted pension scheme rules** which are implemented *9(1)(c)*
	• if sponsor guarantees payment of pension, must have a commitment by **sponsor to fund regularly** *9(1)(e)*
MS option:	• comply with any **extra conditions** imposed by home Member State to protect members and beneficiaries *9(2)*
cross-border:	• be **authorized** - home State competent authority checks IORP compliance with above conditions *9(3)*
	• have satisfactorily gone through the **notification procedure** *20*
	• comply with **host State social and labour law** *14(5) and 20*

INFORMATION RULES

key:
r = on request
r = probably as "business document"
x = automatically

An IORP must provide the **listed information** to its - members and / or beneficiaries - home State competent authority	member	beneficiary	competent authority
• adequate information as to **pension scheme rules** *9(1)(c)*	x		*r*
• within a reasonable **changes** to pension scheme rules *11(2)(b)*	x	x	*r*
• sufficient information as to **contractual rights** *9(1)(f)(i)*	x		*r*
• sufficient information as to **financial and technical risks** *9(1)(f)(ii)*	x		*r*
• sufficient information as to **distribution of risk** *9(1)(f)(iii)*	x		r
• **annual accounts** and **annual report** *11(2)(a)*	r	r	x
• **target level of benefits** *11(3)(a)*	r	r	r
• actual financing of **accrued pension entitlements** *11(3)(b)*	r	r	r
• if member bears risk, range of **investment possibilities**, risk exposure *11(3)(d)*	r	r	r
• appropriate information on the **pension due** and corresponding payment options *11(4)*		x	r
• all **business documents** *13(a)*			r
• information on **contracts** between IORP and **third parties** *13(b)*			r
• **internal interim reports** + **actuarial valuations** + **assets liability studies** *13(c)(i)-(iii)*			x
• evidence of **coherence** with **investment policy principles** *13(c)(iv)*			x
• evidence to show **contributions paid as planned** *13(c)(v)*			x
• **statutory auditor' report** *13(c)(vi)*			x
• statement of **investment policy principles** *12*	r	r	x

FUNDING RULES

An IORP must establish at all times adequate amount of liabilities to reflect financial commitments arising from existing pension contracts *15(1)*

An IORP must have sufficient **technical provisions**, if it offers *15(2)*

- schemes covering **biometric risk**
- benefits include **guaranteed performance**
- benefits include **guaranteed level of payments**

technical provisions are to be calculated annually according to recognised actuarial methods *15(3) and 9(1)(d)*

MS option: calculations of technical provisions may be subject to additional requirements *15(5)*

cross-border: **technical provisions** are to be **fully funded** at all times *16(6)*

An IORP must have **regulatory own funds** (safety capital) if the IORP itself *17(1)*

- underwrites liability to cover **biometric risk**
- guarantees **investment performance**
- guarantees **level of benefits**

INVESTMENT RULES

all IORPs must "invest in a prudent manner", and shall *18(1) and 18(3)*

- take into account nature and duration of the future pensions
- ensure security, quality, liquidity and profitability of portfolio
- assets are to be properly diversified
- invest no more than 5% of technical provisions in sponsors

special rules apply where scheme members bear the investment risks *18(2)*

MS option: any Member State may introduce more detailed rules in accordance with the above principles *18(6)*

MS option: in the case of individual IORPs, a Member State may introduce **more stringent rules** if prudentially justified *18(7)*

IORP FREEDOMS

Apart from the qualitative 'prudent person' INVESTMENT RULE (above), all IORPs have the following freedoms:

freedom to invest

- in any category of assets *18(4)*
- with no decisions subject to prior state controls or approvals *18(5)*

cross-border: **freedom to accept cross-border sponsorship** (i.e. from undertakings located in other Member States) subject to

- **authorization** by, and satisfactory **notification** of home State competent authority and
- on-gong compliance with relevant **host State social and labour law**

freedom to appoint duly authorized:

- **investment managers** in any Member State to manage the investment portfolio *19(1)*
- **custodians** in any Member State to hold their assets *19(2)*

MS option: if a Member States wants make use of the small scheme exception, no cross-border sponsorship is possible and other freedoms may be restricted *5*

Note: Numbers in Italic refer to Articles of the proposed Directive except where otherwise indicated.

In addition, IORPs are guaranteed certain freedoms:

- freedom to accept cross-border sponsorship (but subject to compliance with host State social and labour law)
- freedom to invest in any category of assets
- freedom to invest without operational interference by prudential supervisors
- freedom to appoint asset managers and custodians anywhere in the EU.

A system of **national supervisors** is also envisaged to ensure compliance with the investment rules as well with general **conditions of operation** and funding requirements. Unfortunately, in the EFRP's view, there is scope for individual Member States individually to tighten up these requirements.

Superimposed on this was a **cross-border notification** procedure which allowed IORPs which were authorized in one Member State - the **home State** - to accept sponsorship from undertakings in other Member States - **host States**.

the 'level playing field' issue

The Proposal was generally consistent with the previously stated objectives and requirements but contained a strategic shift on the issue of the 'level playing field', i.e. the relation of pension funds to other market-based pension providers, in particular, life insurers. The European Commission had originally intended to concentrate on pension fund institutions. However, the final Proposal for a Directive included an unannounced U-turn proposing to give Member States an option to apply parts of the proposed Directive to life insurers and to disapply parts of the Life Insurance Directives.

[10] The Commission had noted in 1999 that:
"The choice of a directive covering pension fund institutions, and not all occupational pension products, would be consistent with existing European legislation on financial services. Products offered by life assurance companies and UCITS would not be affected as they are already covered by Community legislation." COM(1999)0134, Section 2, page 15
"In general, the Commission considers that a specific prudential framework should be defined for pension funds. Applying rules identical to those applicable to life assurance would not seem appropriate given the existence of several institutional and functional differences between the two." COM(1999)0134, Section 2, page 22

The Commission proposal in trying to extend parts of a prudential framework to operators falling primarily under another prudential system, is a flawed strategy which is likely to result in incoherent supervision.

This part of the proposal also contradicts the Commission's "explanatory memorandum" introducing the proposed Directive. That set out the need for a Community legal framework specifically covering institutions for occupational retirement provision - as distinct from life insurers - and explains the negative consequences of this gap in the Community rules. [11]

procedural role of the European Parliament in the progress of the draft IORP Directive

The proposed Directive is a **financial services** and a **single market** measure. Therefore the European Commission had to base it on those EC Treaty provisions that, under the **codecision procedure**, give the European Parliament a high level of involvement in the legislative process.[12] This procedure also precludes the possibility of one or a small group of Member States blocking the Proposal in Council.

The idea that IORPs be made responsible for social and labour law compliance is mistaken. This is an employer's responsibility arising as part of labour conditions and should not be passed on to a third party. The employer should be held liable for these aspects including the occupational scheme regardless of the fund or provider.

Other pieces of the puzzle need to be added: coordination of taxation of IORPs needs to be a priority. The Commission proposal is major step forward to extend to IORPs the benefits of the single financial services market.

[11] Explanatory Memorandum, section 1.1. (a) and (b), COM (2000)507, 11 October 2000

[12] Articles 47(2), 55 and 95(1). The codecision procedure is set out in Article 251 EC Treaty.

The different approaches of the European Commission and European Parliament

The activities of the Commission and the European Parliament during 2000 revealed different approaches on the key issue of whether one was dealing with a financial institutional or a social policy measure. The Commission proposal is a purely financial services measure.

As shown in during the discussions of the KUCKELKORN Report, it is to be expected that certain quarters of the Parliament may challenge the Commission approach. Instead, influenced by national, cultural as well as ideological differences as to what a retirement benefit should be some MEPs probably will try once more to push the proposed Directive into a more socially prescriptive direction.

If the proposed Directive remains financial institutional in nature, 2001 should see further steps in the co-decision procedure. Rapporteur Othmar KARAS (PPE-DE/Austria/ÖVP) already indicated that he wanted a First Reading before the 2001 summer break. The initiative would then pass to Council with a Second Reading by the Parliament being likely on this matter.

1.2. The EFRP Report on a European Institution for Occupational Retirement Provision (EIORP) - blueprint for a European pensions vehicle

In 2000, the EFRP Working Group[13] continued the work it started in 1999 on its initiative to test the practicability of pooling EU second pillar pension liabilities and assets into one vehicle.

A first discussion draft was circulated amongst EFRP Members in January 2000 to review feasibility and compatibility with different national systems. Most Members welcomed the idea and in July 2000 EFRP published its proposal as a final report.[14]

[13] *Chair : Ray Martin, then EFRP Vice-Chairman (UK). Members : Simon Gilliat - Watson Wyatt Worldwide (UK), Ruth Goldman - Linklaters and Alliance (UK), Henk Marius - Shell Pensioenfonds b.v. (NL), Jane Marshall - Hammond Suddards (UK) and Joachim Schwind - Pensionskasse Hoechst V Vag (D).*

[14] *"A European Institution for Occupational Retirement Provision" (EIORP), European Federation for Retirement Provision, July 2000, Brussels.*

A single license multi-taxation approach

The report proposes that a group of EU Member States voluntarily cooperate in facilitating the creation of "a single license multi-taxation pension vehicle".

The essence of the EFRP suggestion is that a single pension vehicle located in one Member State creates separate sections that are tax approved in other Member States.

From a fiscal perspective, each section would be subject to the tax law of the relevant Member State.

From a financial services perspective, the vehicle with its pooled assets and liabilities would be regulated and supervised in its home State.

This approach means that an EIORP need have just one license - a 'single European passport' - for prudential supervision purposes[15] yet is tax neutral in respect of all Member States involved.

The EFRP does not wish to limit a solution purely to pension funds. It believes a solution could cover all forms of occupational pension provision, including life assurance products and any other approved occupational pension products.

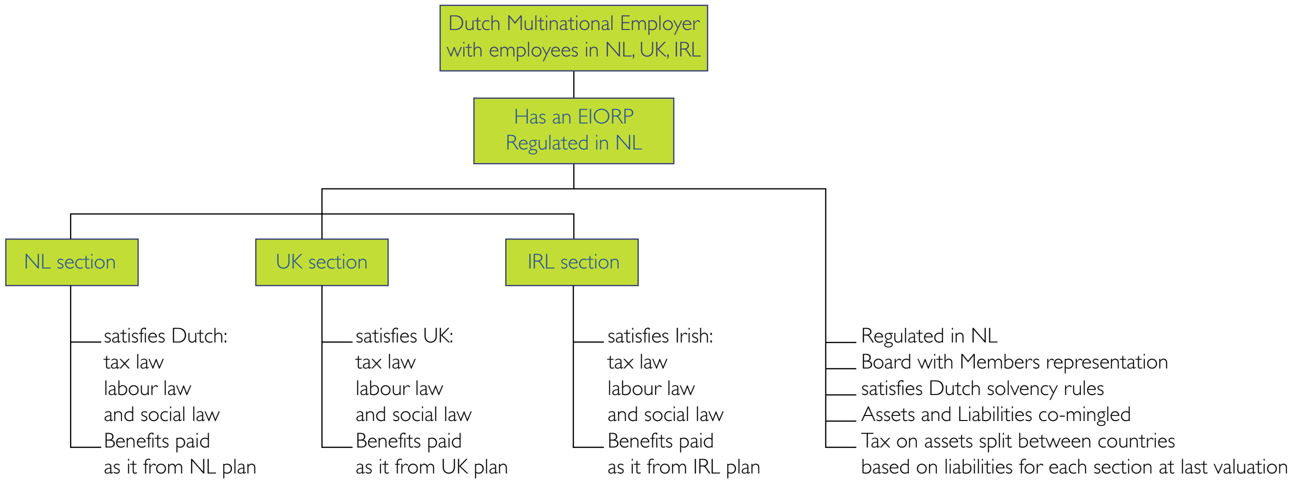
Employers will like the advantage of being able to provide consistent benefits to their employees across Europe in line with their remuneration objectives and business strategy. Pooling European pension liabilities means employers can focus on just one plan. This should reduce the chance of financial and public relations damage that may result from poor governance. It would simplify communication with employees, reduce the risk of misleading comparisons between countries and help create a single culture within the business. In addition it would facilitate cross border movement of employees within the organisations.

Employers would also benefit from the cost savings generated by having to comply multiple administrative and regulatory regimes.[16]

[15] *This European passport should be realized through the adoption of the proposal for a Directive on the activities of Institutions for Occupational Retirement Provision, COM(2000)507.*

[16] *Annual cost savings have been estimated at 1.3 million for an average multinational.*

1. Towards pan-European Pension Funds



Employees will be interested in a single consistent benefit structure that allows them to make meaningful comparisons between Member States and encourages greater mobility.

Member States should also be inclined to look at this proposal as it means that their tax base will not suffer erosion because the proposal is tax neutral vis à vis national taxation systems. Furthermore, it offers a high degree of occupational social protection whilst trying to enhance competitiveness of industry.

Taxation hurdles need to be overcome

To understand the EFRP proposal it is necessary to separate the taxation of contributions from the taxation of investment proceeds and the ultimate taxation of benefits.

Under the EFRP proposal, contributions to a national section of an EIORP located in another Member State would be treated by the tax authority in the same manner as currently applies to an IORP in the Member State of that authority. Any limits on contributions, or benefits would apply to that section as if it were similarly based in the Member State, if not the tax authority would have the right to remove tax approval.

For the purpose of taxation of investments proceeds, it is necessary to determine what portion of the assets of an EIORP belongs to each national section and is thus subject to the taxation policy of the appropriate Member State. The EFRP proposes that the assets are apportioned between each section in accordance with the corresponding liabilities at the last actuarial valuation and taxed accordingly.

Similarly benefits paid would be treated as if they were paid from an IORP of the relevant Member State. However, dual taxation treaties at present provide that tax is only payable in the Member State of residence, so there would be no major change as a result of the proposal

The Plan Administrator and plan governance

Each national section would have its own Plan Administrator. He or she would be responsible for communication with the members, the relevant Member State's tax authority - although not liable for taxation claims - as well as to any other interested party.

For scheme members, the EFRP proposal means that their occupational pension scheme complies with the

labour and social law of their country of normal employment and that they have a national Plan Administrator to provide them with information.

The EFRP suggests that employee representation should follow the system used in the country of regulation of the EIORP. However, the selection of any employee representatives would no longer be on a national basis but at a European level. This may include the involvement of a European Works Council or any other selection process agreed upon between plan sponsor(s) and members.

Putting it to the test: a pilot project between likeminded Member States

The EFRP approach is pragmatic and avoids relying on cumbersome EU-level mechanisms - which in the area of taxation do not allow for swift and decisive action. The initiative must therefore come from the level of individual Member States.

The EFRP proposes to launch an initial, voluntary pilot project between Ireland, the Netherlands and the United Kingdom.This could then be extended to include Belgium and Luxembourg. Preferably, the pilot project would involve the pension fund of a multinational group of companies.

The selection of these EU Member States is guided by the fact that they all use the prudent person approach.The Irish, Dutch and UK supervisors are well established and meet regularly to exchange views and information. Occupational pension systems in each country have a long history of defined benefit pension funds and display, in comparison to other Member States, a high degree of similarity.

This pilot project is easy to implement. It would be a working model from which practical lessons could be learned - and it could even provide the basis for an EU wide approach at a later date.

Such a pilot project may also avoid leaving the initiative in this area exclusively to the outcome of test cases brought before the European Court of Justice. Decisions in such cases could undermine the tax neutrality of the pension systems in a number of Member States.

Role of European Commission

The EFRP presented its EIORP Report at the European Commission in September 2000. Initial reactions were positive and officials said that the ideas deserved attention in view of the Commission initiative on taxation of occupational pension provision.

The EFRP expressed its readiness to work with the European Commission, the relevant Member States, their tax authorities and prudential supervisors to develop a workable system. The European Commission would be involved as a facilitator because competence for taxation lies firmly with individual Member States.

Member States need to be know that if there is to be a single license for EIORPs then a tax neutral system needs to be found. If the EFRP proposal, or one like it, is not adopted by Member States in the near future then it could be the European Court of Justice that decides how the single license will operate from a tax perspective. This could undermine the tax neutrality principle that the EFRP seeks to maintain, and could be unworkable from a Member State's perspective.

Multinationals should be able to pool their pension liabilities and assets on a tax neutral basis. A single European IORP is urgently needed for European industry to be competitive and grant a high degree of social protection to the work force.

EFRP believes its proposed solution to be both workable and desirable.

2. Liberalisation of Financial Services

2.1. Lamfalussy Group (EU Consultative Committee – September 2000)

On 17 July 2000, the EU's Council of Economic and Financial Ministers (ECOFIN) established a Committee of Wise Men on the regulation of European Securities markets under the chairmanship of Alexander LAMFALUSSY (also referred to as the Lamfalussy Group), to investigate and report on the possibilities of a Single Market for securities markets. Their first task was getting a clearer view on the current obstacles and problems that are blocking the road to a full realisation of this single market. The Group therefore sent out a questionnaire to several experts in the industry, using their replies in a later stage as background knowledge for the group's own reporting.

The EFRP mainly focused its **response to this questionnaire** on explaining the various obstacles (regulatory/legal environment, division between regulation and self-regulation, cultural differences, differences in maturity of securities markets as well as accounting standards, amongst others), which currently stand in the way of such a single market.

The EFRP furthermore suggested to the LAMFALUSSY Group:

- not to seek solutions in the creation of new structures and Directives, but rather update and enforce the existing laws, especially because of the highly heterogeneous character of the various EU security markets
- to update, for instance, the Investment Services Directive simplifying the prospectus and listing rules
- to induce greater co-operation between national supervisors at EU-level - this could be developed within the FESCO framework (Forum of European Securities Commissions)
- not to put the cart before the horse by wanting to create any grand schemes such as a European SEC, before closer cooperation between supervising authorities has been achieved.

The Committee released its **initial report in November 2000**, stating that that the current EU legislation process is too slow and hence unfit to tackle the urgently needed upgrades let alone new framework legislation. Therefore, the Committee proposed an original, step-wise approach to speed up integration of the European capital markets.

The EFRP supports the content of the initial report and feels that the Committee has taken account of the remarks and concerns being made by the industry experts.

2.2. Forum Groups

The Commission's Action Plan for Financial Services of 1999 envisaged groups of market experts to assist the Commission identify imperfections and obstacles to the functioning of specific areas in the single market. These groups operating under the auspices of DG Internal Market would have a fixed life, to be wound up on completion of their tasks.

The original five 'Forum Groups' set-up in 1999 covered:

1. Investment Services Directive Green Paper
2. Market Manipulation
3. cross-border use of collateral
4. Consumer Information
5. Market Obstacles

In 2000, they were joined by a **sixth on Cross-border Corporate Financial Services** which included three members proposed by the EFRP.

In December, the Commission expressed satisfaction with the input of the Groups which had now mostly achieved their purpose. At the end of the year only the Group on Consumer Information was still serving albeit on hold until the adoption of the Communication on E-Commerce on Financial Services and a new group on Financial Conglomerates was planned for 2001.

Periodic progress meetings were organized in January, July and December by DG Internal Market to inform the industry representatives committee, including the EFRP, that monitors of progress made by each of the Groups

and to receive updates of various financial services legislative initiatives.

Although it was not intended that such Groups publish findings, in March 2000, the **Group on Market Obstacles** issued a paper "Retail financial services - overcoming remaining barriers". This provided a legal analysis of the issues involved including the impact of national marketing and 'general good' requirements on cross-border trade. It was recommended that the 'institutional approach' give way to a 'product based' approach in the long term. In June, the **Group on cross-border corporate financial services** issued a paper as well identifying issues which needed to be tackled in order to make it easier for business to make use of cross-border supplies of corporate services.

2.3. Financial Services Policy Group

The **Financial Services Policy Group (FSPG)**, founded in 1999 under the chairmanship of former internal Market Commissioner **Mario MONTI** (now Commissioner for Competition), met three times in 2000. This Group, now chaired by Commissioner **Frits BOLKESTEIN**, consists of personal representatives of EU Finance Ministers and the European Central Bank.

Their major task is to monitor implementation of the **Financial Services Action Plan**[17] with the 2005 deadline for overall completion set at the Lisbon Council (March 2000). In this respect the Commission is to set a 'critical path' indicating stages and deadlines for the Commission Parliament, Council and Member States to adopt measures within the 2005 deadline.

The Financial Services Action Plan ticks the Commission proposal for a Directive on the Prudential Supervision of Supplementary Pension Funds as a number one priority with adoption of the Directive due in January 2002.

During 2000, the FSPG focussed on:

- the **securities markets** with the Lamfalussy wise men working party mandate as one of the main achievements.
- **market information**: company prospectuses, listing and regular reporting requirements was found to be in need of urgent overhaul.
- **company accounts**: need to increase transparency. The International Accounting Standards would serve as a benchmark.
- **ISD** (Investment Services Directive): the pressure of the Euro and new technologies meant that this Directive of 1993 had to be overhauled.
- **e-commerce**: the need for EU-wide legal coherence particularly in the areas of advertising and marketing and also in deciding the applicable contract law for consumer contracts.
- **financial conglomerates**: reassess EU legislation applying to the banking, investment and insurance operations to prevent inconsistent overlaps and gaps.
- **market manipulation**: The need to extend the Insider Dealing Directive (89/592/EEC) to cover market manipulation was discussed and new legislation is expected.

[17] *"Financial Services: Implementing the framework for financial markets: Action Plan", COM(1999)232, 11.05.1999*

3. Pension and Economic Reforms

The Lisbon Summit on the New Economic and Social Strategy of the European Union (23-24 March 2000) marked a decisive moment in the development of a comprehensive policy on social reform. The Council recognised that economic growth and social protection were two sides of the same coin. In practice, this meant that social protection policies should be as important as economic stability and growth or market liberalisation. It was felt that whereas the economic single market concept was getting more and more grip on European societies, that of a 'single market' in social protection was not even on the agenda.

One of the issues made important through what is now called "the Lisbon process" is the modernising of the European social model. Looking at the demographics and at the major differences between Member States in this area, pension reform is considered a major challenge in that process.

The European Commission has been the driving force in this process under the particular guidance of the Directorate General for Social Affairs (formerly DG V). It has issued a series of Communications on the subject, of which the one on Safe and Sustainable Pensions has reached the formal "action" agenda of the Council of Ministers.

3.1. Safe and sustainable pensions

In October 2000, the European Commission issued its Communication on the future evolution of safe and sustainable pensions".[18] Its simultaneous publication with the proposal for a Directive on the activities of IORPs (see Chapter 1) signalled that the Commission sees pension reform as requiring a synchronised mix of policy measures.

This Communication should also be seen in the light of the work of the High Level Working Party on Social Protection, set up by the Lisbon Council to *"prepare on the basis of a Commission Communication, a study on the future evolution of social protection from a long-term point of view, giving particular attention to the sustainability of pension systems in different time frameworks up to 2020 and beyond, where necessary".*

The Communication turned the spotlight onto the Community dimension of a problem for which Member States remain individually responsible - the design of their own social protection systems. Furthermore, according to the Commission, pension systems comprise both public and private schemes.

The Communication outlined ten principles and objectives for pension reform. Most relevant in EFRP's view is the reference to the three-pillar system which is said to ensure financial autonomy in old age. Also key is the objective of ensuring "the consistency of pension schemes within the overall pension system; pension pillars should be mutually supportive and well co-ordinated".

The **main principles and objectives** for proposed pension reforms as follows:

❶ Maintain the adequacy of pensions – three pillar pension systems should enable people to remain financially autonomous in old age

❷ Ensure intergenerational fairness

❸ Strengthen solidarity in pension systems – incl. redistributive element

❹ Maintain a balance between rights and obligations

❺ Ensure that pension systems support equality between men and women

❻ Ensure transparency and predictability

❼ Make pension systems more flexible in the face of societal change

❽ Facilitate labour market adaptability

❾ Ensure consistency of pension schemes within the overall pension scheme different pension pillars should be mutually supportive and co-ordinated

❿ Ensure sound and sustainable public finances

[18] *"Communication from the Commission to the Council, to the European Parliament and to the Economic and Social Committee - Future evolution of Social Protection from a long-term point of view" (COM(2000)622), 11.10.2000*

How to achieve pension reform? The Communication referred to agenda-setting steps such as a "Euro-barometer of pensions and pensions reform"; an economic report providing a quantitative assessment of the ageing phenomenon in respect of public finance and economy in general. Perhaps most importantly, the Commission promised to promote the exchange of information about pension systems and reforms between Member States.

3.2. EPC on impact of ageing on public finances [19]

In February 2000, ECOFIN asked the Economic Policy Committee (EPC)[20] to prepare a first progress report on the impact of ageing populations on **public pension systems**. The main purpose of this report was to analyse the impact of demographic changes on public finances that would characterise all European countries in the first half of the current century.

Beyond including an overview of the main characteristics of the various pension systems within the EU, it incorporates long-term simulations (up to the year 2050) of public pension expenditure on the basis of harmonised demographic and macroeconomic assumptions.

The results of these analyses suggest that demographic developments will soon result in pressures on public pension expenditures. Variations between Member States as to the intensity of these effects will reflect both the different impact and timing of demographic pressures as well as significant differences between pension regimes across Europe.

The Report urges Member States to take appropriate measures to ensure that these pressures do not undermine the long-term sustainability of their public finances. The EPC's recommendations, already published in an earlier EPC Opinion, were repeated and reinforced.

EPC's recommendations

❶ The **containment of the benefits** should represent the primary instrument for guaranteeing the solvency of the pay-as-you-go pension system. To limit the reduction in the standard of living of the elderly, reforms should **primarily aim at delaying retirement**.

❷ The breathing space that pension expenditure projections outline for the next few years should be used to meet the ageing of the baby-boom generation and put it on a **sounder fiscal policy footing**. Public debt decumulation would also smooth the changes to be implemented in present pension policies.

❸ The **link between social contributions and benefits** at the individual level should be **strengthened** in order to limit the negative effects of contributions and benefits on the labour market and employment.

❹ The **role of funded schemes** should be **gradually increased**. Public policies should support this development by providing a legal and fiscal framework, but without hampering the process of budgetary consolidation.

The November 2000 ECOFIN meeting, at which the report was first presented, instructed the EPC to broaden the scope and investigate further the treatment of taxation issues, the economic and fiscal consequences of different pension systems, to assess possible reforms and to extend its work to include the impact of ageing on health budgets.

3.3. High Level Working Party on Social Protection on the future evolution of social protection – pensions

At the Nice European Council of 27 and 28 November 2000, the High Level Working Party on Social Protection (HLWPSP) presented its progress report on the future evolution of social protection as regards pensions.

[19] *EPC/ECFIN/581, 26.10.2000, Brussels*

[20] *The EPC is an advisory body to the Council and Commission and helping to coordinate the economic policies of the Member States and Community. It was created on 18.02.1974 and includes representatives from the Member States, the Commission and the European Central Bank.*

3. Pension and Economic Reforms

This Working Party looked at the long-term evolution of social protection, paying particular attention to the sustainability of pension systems in different time frameworks up to 2020 and beyond. The report is based on the Commission Communication of 11 October on Safe and Sustainable Pensions (see page 14) and takes into account the preliminary results of the analysis undertaken by the EPC (see page 15).

In its report the Working Party considered that the issue of sustainability of pension schemes cannot be reduced to a purely financial dimension. Their capacity to fulfil their social aims should also be ensured. It also stressed that if pension schemes are to be sustainable, the growing imbalance between the actively employed and the number of pensioners must be addressed by **restoring full-employment** - a step which must involve greater inclusion of women and older workers.

Since high employment alone will in many cases not reduce the likelihood of a significant increase in the burden of expenditure on pensions as a proportion of GDP, **supplementary reforms** are needed. The HLWPSP recommends:

- a reallocation of public expenditure
- lifting the financial burden by establishing a reserve fund
- adjusting the different pension calculation parameters
- modifying the respective weight of the different tiers of the pension schemes; after thorough examination of the economic and social effects of developing supplementary schemes.

Finally, the Working Party stressed that pension scheme reforms should not only meet demographic requirements but also alleviate any clear deficiencies in pension schemes (such as partial coverage or limited effectiveness in reducing inequality) that would prevent them from attaining their objectives.

Furthermore, the reforms should be integrated into a more general approach that deals with the living conditions of elderly people. Any reform must thus not only be based on estimates of the financial implications, but also on an analysis of the intergenerational and intra-generational inequalities that it may cause.

It should be noted that the HLWPSP considers "pension systems" not only to cover public pension systems but also 2nd and 3rd pillar systems. The policy implications of this affirmation deserve our attention.

Further action in this respect will be that the Member States, in co-operation with the Commission, will exchange their experiences and present their national strategies on pension policies.

3.4. Social Policy Agenda [21]

As a follow-up to the political commitments made by the European Council in Lisbon, the European Commission issued in June 2000 a Communication on the Social Policy Agenda for the five-year period from 2000 to 2005.

This Agenda focuses on the modernisation of the European social model. Its objective is to respond to new challenges arising from radical changes to Europe's economy and society such as globalisation, demographic trends as well as the emergence of a new economy based first and foremost upon knowledge.

The achievement of the objectives and the implementation of the actions proposed in the social agenda should make it possible to attain the strategic objectives set in Lisbon, i.e., that Europe should become *"the most competitive and dynamic knowledge economy in the world, capable of sustainable economic growth accompanied by more and better jobs and greater social cohesion".*

The Social Policy Agenda 2000-2005 seeks to ensure the positive and dynamic interaction of economic, employment and social policy, and to forge political agreement, so as to mobilize all key actors to work jointly towards the new strategic goal. The wide range of actions outlined in the Agenda may be subdivided into three main pillars:

[21] *"Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions - Social Policy Agenda" COM(2000)379, 28.06.2000*

- **full employment**
  creating more and better jobs, anticipating and managing change and adapting to the new working environment, exploiting the potential of the knowledge-based economy and promoting mobility;

- **modernization and improvement of social protection**
  promoting social inclusion, strengthening gender equality and reinforcing fundamental rights and combating discrimination

- **enlargement**
  initiatives devoted to preparing for enlargement and promoting international co-operation and making the social dialogue contribute to meeting the various challenges.

A further innovation is that the method of **open co-ordination**, hitherto confined to the employment area, can now **be applied to other social policies**. This will ensure a more qualitative, and where appropriate, quantitative follow-up to agreed objectives and targets. The Agenda will provide key inputs for the annual synthesis report requested by the Lisbon Council.

In October 2000, the **European Parliament** adopted its resolution[22] (rapporteur: Anne VAN LANCKER) on the Social Policy Agenda, intended to strengthen the Commission document by placing greater emphasis on action and results. The Parliament made a number of key recommendations to the Commission, among which we highlight:

- taking into account the necessity of gender mainstreaming in all the sectors concerned by the social agenda and to monitor this process closely through regular reports;

- complementing its e-Europe action plan, its e-working, e-inclusion and e-learning initiatives with an action plan for the development of the social economy, local employment and the service sector;

- presenting a directive on social protection for the new forms of employment;

- proposing a legislative instrument on the introduction of a prior, binding test of the cross-border effects of social and fiscal legislation;

- ensuring that full account is taken of the social dimension in competition policy;

[22] *"Report on the Commission communication to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions on the social policy agenda"* - *A5-0291/2000 - 16.10.2000*

4. Pensions Forum

First year of operation

Already in its 1999 Communication "Towards a Single Market for Supplementary Pensions"[23] , the European Commission supported the idea of setting up a pension forum to address the issues of pensions and mobility. This suggestion, initially proposed by the High-Level Panel on Freedom of Movement, was again re-enforced in the Commission's Social Policy Agenda of 28 June 2000.

The forum, which comprised government representatives, social partners, pension funds and similar institutions, first met in January and then in September 2000. With its three seats, the EFRP is the major delegation among the pension institutions.

During 2000, the Pensions Forum devoted its attention to the Commission Communication "Towards a Single Market for Supplementary Pensions", especially as regards obstacles to the free movement of workers and the co-ordination of tax systems between Member States. As to the latter, the EFRP was granted the opportunity of presenting its report on a European Institution for Occupational Pension Provision (see Chapter 1). This was received with great interest, questions and the proposal itself met with sympathy.

Working groups

At the end of the year three Pensions Forum Working Groups were established to discuss in more depth the various answers to a Commission's questionnaire, which had been distributed to members of the Pensions Forum earlier that year:

1) Group I: Acquisition and preservation of supplementary pension rights

2) Group II: Transferability of pension rights

3) Group III: Cross-border membership in supplementary pension schemes.

The groups were created to identify obstacles to mobility arising from supplementary pension schemes and to explore solutions already existing within Member States and those that could be envisaged at European level.

The EFRP was represented in all three Working Groups.

[23] *COM(1999)134, 11.05.1999*

5. Pension Funds at Global Level

International Pension Funds Conference

With the object of encouraging a worldwide exchange of views on funded pension provision, INVERCO promoted the very first **International Pension Funds Conference in Madrid**, on 13-14 April 2000. This conference brought together the two major pension fund representative organizations in the world, EFRP and FIAP.

FIAP (Federación Internacional de Administradores Pensiones - International Federation of Pension Fund Administrators) is based in Santiago de Chile. Its members are essentially Central and South American but it has a strong presence in Spain with INVERCO. Further afield, FIAP has members in Poland, Kazakhstan, Russia, and Ukraine.

World Pension Association

This first international pension funds conference marked the agreement to establish a World Pension Association (WPA) to be based in Madrid that would liase pension funds around the world. It was also announced that the Second International Pension Fund Conference would be held in March 2001 in Santiago de Chile.

EFRP Chairman, Kees Van REES, elaborated on the topic of "The Changing Shape of the European Pensions Market". He gave an historical overview of the European occupational pensions' scene and the efforts to move towards a single market. He also gave an overview of the working documents drafted by the EU Commission as preparatory steps on the way to issuing a proposal for a Directive on the prudential supervision of pension funds.

In a second presentation, Kees Van REES shifted to the topic of "From PAYG to Funded Systems". The European retirement income structure and the interaction between the first and second pillar were explained. He touched further on the possible reforms in the EU and the different roles of the second pillar in the various Member States.

INVERCO Chairman, Mariano RABADÀN was delighted that this event could take place and expressed his commitment to continue to have pension fund summits.

6. Pension fund assets in 1999 - 2000

The results being published for the year 1999 are complete. However, due to serious time lags in reporting data in various Member States, the 2000 results are still preliminary.

1. Total pension fund assets[24]

The total 2nd pillar pension fund assets for the European Union rose at the end of 1999 to € 2,401 billion and to € 2,715 billion for the total EFRP Membership - including the Icelandic, Norwegian and Swiss assets.

At the end of 2000 (preliminary results) these amounts had increased to € 2,432 billion and € 2,767 billion respectively.

1999 turned out to be a top-year for the European pension fund industry. On average the assets grew by more than 15% from 1998 to 1999.

[24] *Book reserves included*

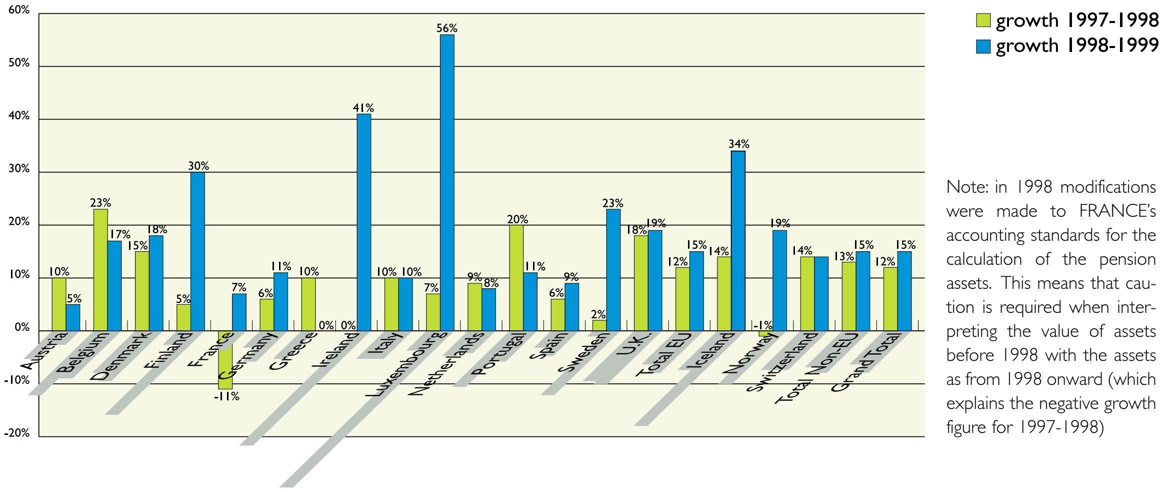
[25] *The following countries could not yet deliver the necessary (or complete/final) data, meaning that best estimates have been used for the 2000 figures: Belgium (growth figures from BVPF survey extrapolated), Denmark, France, Sweden and Switzerland.*
In some cases, instead of using best estimates, 1999 figures were also used as 2000 data. "(1999)" has been added in the relevant cells to indicate this peculiarity.

[26] *The newly set up Luxembourg funds could not yet provide us with any information, meaning that the total 2nd pillar pension fund assets for Luxembourg are most probably underestimated.*

Total Pension Fund Assets 1999 - 2000

Countries	in bn. EURO 1999	2000[25]
European Union		
Austria	24.05	20.92
Belgium	14.87	15.16
Denmark	39.98	44.51
Finland	12.19	12.40
France	80.77	83.29
Germany	317.20	(1999) 317.20
Greece	5.06	(1999) 5.06
Ireland	48.51	52.54
Italy	26.23	30.30
Luxembourg[26]	0.05	(1999) 0.05
Netherlands	426.55	443.80
Portugal	12.37	13.07
Spain	21.49	25.20
Sweden	121.10	128.05
U.K.	1,250.38	1,239.74
Total EU	**2,400.83**	**2,431.92**
Non-EU		
Iceland	6.71	6.59
Norway	7.30	7.52
Switzerland	300.00	321.00
Total Non-EU	**314.01**	**335.11**
Grand Total	**2,714.84**	**2,767.03**

Growth rate pension funds 1997-1999 in %



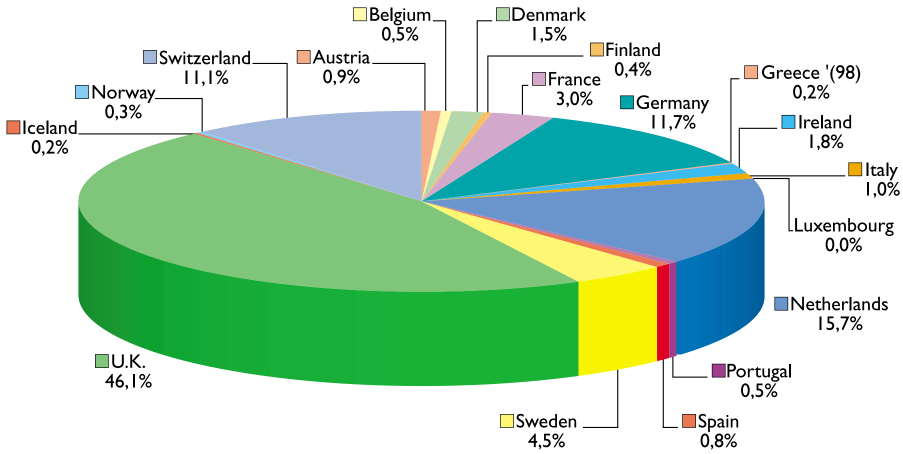
Note: in 1998 modifications were made to FRANCE's accounting standards for the calculation of the pension assets. This means that caution is required when interpreting the value of assets before 1998 with the assets as from 1998 onward (which explains the negative growth figure for 1997-1998)

Legislative changes to the statutory pension system as well as the revival of the Finnish economy have led to a remarkable growth figure of 30%. Ireland likewise benefited from its strong economy and realised a 41% growth rate in 1999.

Also Luxembourg, Iceland and Sweden realised total asset increases in 1999 of 56%, 34% and 23% respectively. A common denominator would certainly be their economic performance during that year.

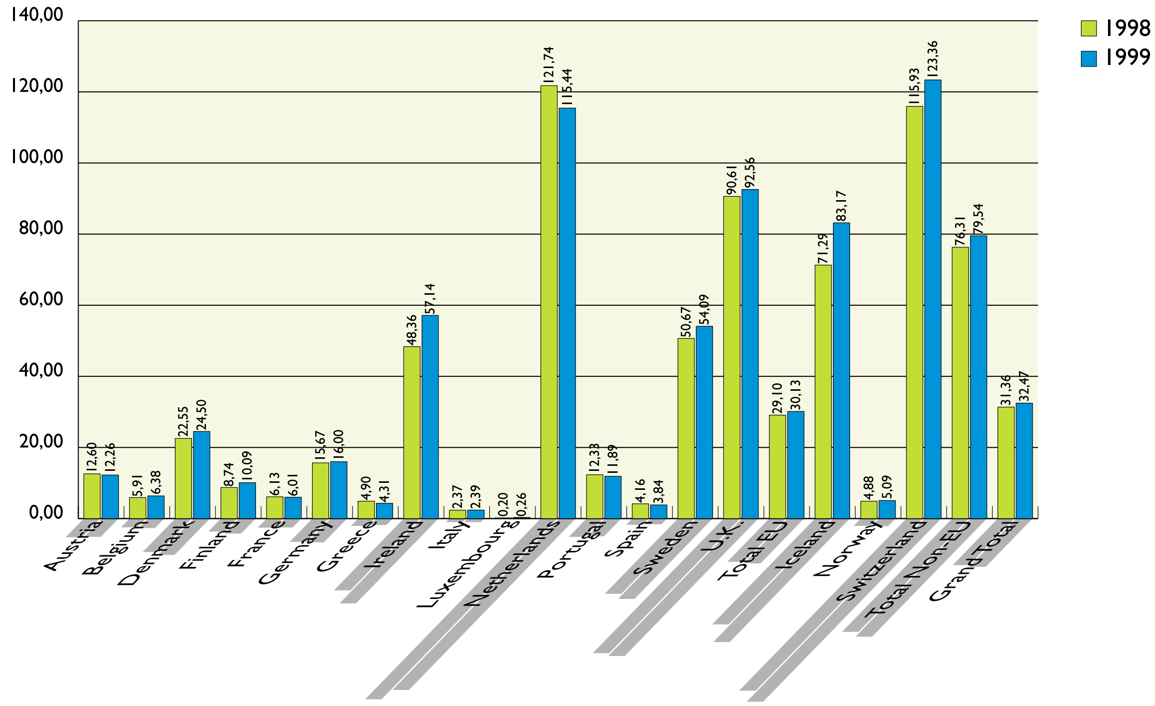
The geographical breakdown of 2nd pillar pension fund assets is illustrated as follows:

1999



Four countries (U.K., Netherlands, Germany and Switzerland) continued to dominate the European 2nd pillar pension scene, with market shares in 1999 of 46.1%, 15.7%, 11.7% and 11.1% respectively.

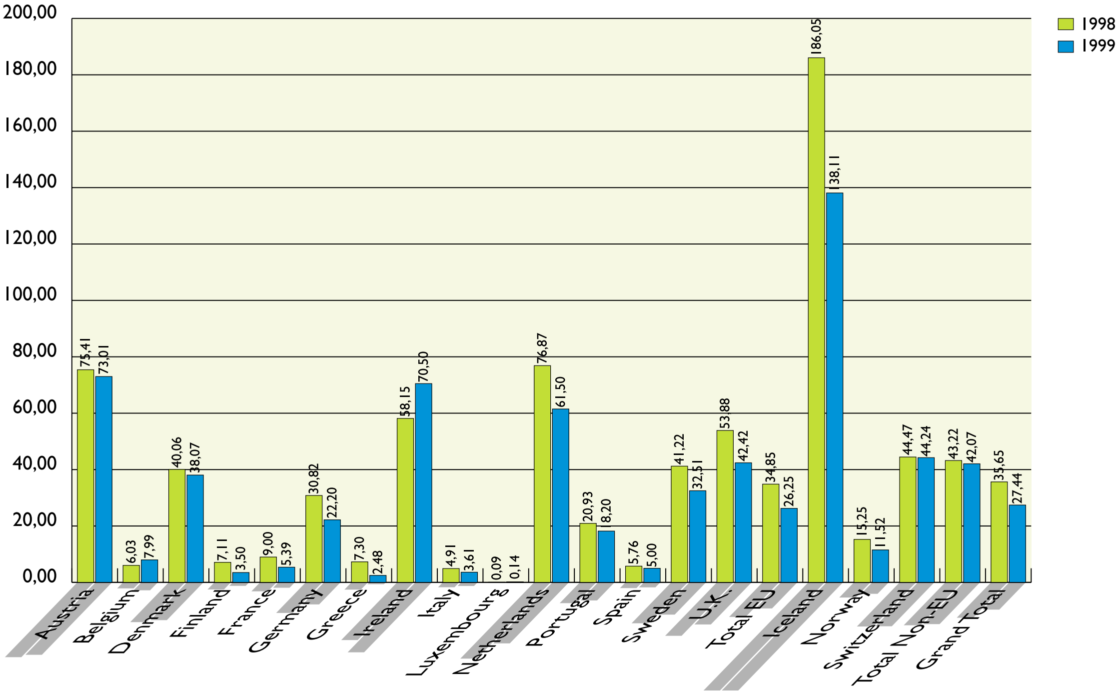
2. 2nd pillar pension fund assets as a percentage of GDP



Looking at the importance of 2nd pillar pension fund assets within the various national economies, Switzerland took over the lead from the Netherlands. Their total amount of assets under pension fund supervision exceeded the total GDP by over 15% in 1998 and by almost 24% in 1999. The Dutch pension funds went from almost 22% above GDP in 1998 to 15.4% in 1999. The top-five also included the U.K. going from almost 91% to nearly 93%, Iceland growing rapidly from 71% to 83% and Ireland jumping by almost 10% from 48% to 57%.

From 1998 to 1999 the relative importance of the total 2nd pillar pension fund assets to GDP rose by 3.53%. Many countries followed this trend, especially Ireland, Iceland, Sweden and Switzerland showing a significant increase in the importance of occupational pension funds as to their national economy, which amounted to almost 18%, 17%, 7% and 6% respectively.

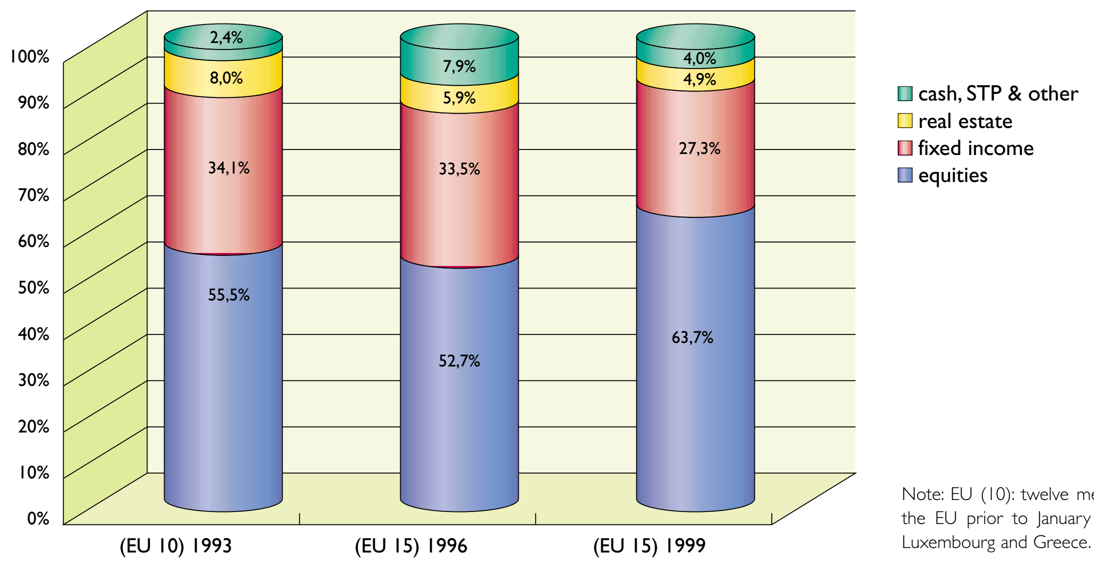
3. The importance of 2nd pillar pension fund assets as to stock market capitalisation



1999 certainly proved to be an outstanding year in more than one respect. The Euro was launched successfully on the first day of the year and marked the beginning of a splendid year for the European equity markets. This explains the reduction in many European countries as to the relative importance of pension fund assets towards stock market capitalization, despite the fact that European pension funds performed very well during the same period.

Three countries (Belgium, Ireland and Luxembourg) were, at first sight, able to consolidate their position. However, when looking at the performance of their respective stock exchanges during that same year, the picture becomes clearer. Although Belgian pension fund assets certainly grew, the rise in relation to stock market capitalization was mainly due to poor performance by the Brussels stock exchange in 1999. Likewise the Luxembourg and Irish stock exchanges under-performed in relation to their European counterparts.

4. Breakdown of funds into the major asset categories



Note: EU (10): twelve member states of the EU prior to January 1, 1995 minus Luxembourg and Greece.

Continental European pension funds have, between 1993 and 1999, changed the picture significantly by opting for a higher exposure of equities in their portfolios. During that same period the U.K.'s exposure to equities has edged the other way, however still remaining the European leader with 75% of the total amount of assets being invested in this category.

This change in attitude has been underpinned by flourishing stock markets during almost this entire period as well as by a relaxation of regulatory ceilings on equity exposure in several European countries.

A six year overview on a country-by-country basis, sketches the following picture:

In three countries equities remained (U.K., Ireland) or became (Belgium) the main asset category:

	1993	1996	1999
United Kingdom	80%	75%	75%
Ireland	55%	57%	65%
Belgium	36%	41%	53%

Although the United Kingdom still remained the European leader as to the amount of assets kept in equities (75%), its appetite for bonds increased, reflecting both the maturity of funds and the impact of the governments' enforced Minimum Funding Requirements (MFR).

The Irish Pension Funds all together saw a real average annual growth of almost 23% from 1996 to 1999. The health of the Irish economy as well as the search for increased returns and risk diversification have prompted the pension funds to raise their proportion of equities.

Belgian pension funds cut their allocation to cash, domestic bonds (not foreign bonds) and other types of investment to finance the switch into equities, leading to an overall increased investment in equities of 47% over 6 years.

Others made a definite shift in favour of equities:

	1993	1996	1999
Netherlands	24%	30%	50%
Sweden	31%	35%	47%
Finland	5%	10%	37%

The shift in the Netherlands has been among the most dramatic. In 1993 still 60% of its assets were invested in fixed income, while in 1999 assets held in equities were up to 50%. Some large Dutch company pension funds were the pioneers of equity investing in the Netherlands, holding already in 1995 over half of their assets in equities. By 1999 the total average equity exposure had increased by over 108% in comparison to 1993 largely due to the fact that, following company pension funds, the Dutch industry-wide pension funds started to shift towards increased equity investments in their portfolio.

Also two Scandinavian countries, Sweden and Finland took a definite swing towards equity investments. Relaxation of equity investment restrictions as well as the search for higher returns and more diversification have induced an allocation shift towards equities of 52% for Sweden and 640% for Finland from 1993 to 1999.

Finally some European countries held a relatively significant part of pension assets in fixed income:

	1993	1996	1999
Iceland	n.a.	91%	70%
Italy	72%	63%	46%
Luxembourg	70%	56%	49%
Norway	n.a.	65%	53%
Denmark	65%	60%	48%
Portugal	72%	66%	48%

Fixed-income investments still remained dominant in the above-mentioned countries. However, in most countries there was definitely a trend to reduce the amount of fixed income investments in favour of equities, bringing the average percentage of total amount of pension fund assets being allocated in equities around 30% (except for Italy).

1999 turned out to be a successful year for European Pension funds. Assets grew on average by 15%, without significantly changing the proportion of national shares in the overall pension scene.

Also in 1999 the bulk of European 2nd pillar pension fund assets were held in the UK, the Netherlands, Germany and Switzerland, which together represented about 84.5% of the total amount (EU + Switzerland, Iceland and Norway).

European pension funds have definitely started to embrace the penchant for equities. Often supported by new legislation on relaxation of equity investment restrictions and in search of higher returns and more diversification many countries have shifted their portfolio allocation towards higher equity exposure.

7. Using Public Platforms to present EFRP and its opinions

In 2000, the focus on EU initiatives in respect of pension funds and pensions generated a wave of conferences. The EFRP was selective in choosing where to participate as a speaker trying to balance its resources and the need to communicate its ideas to the widest possible audience

Institute of Directors, Vlerick School of Management, Ghent - 16.02.2000

Chris VERHAEGEN was invited to take part in a panel discussion on "Institutional Investors and General Assembly Meeting of the Shareholders".

Royal Institute of International Affairs (RIIA) in association with the NAPF, "European Pensions 2000 Conference", London - 29.02.2000

Kees Van REES accepted to chair the Session on "The Future Shape of the Pensions Industry".

International Bankers Forum (IBF), "European Asset Management Congress 2000", Frankfurt am Main - 29.03.2000

Kees Van REES took part in a panel discussion on "New Impulses for Private Retirement and Pension Schemes".

Financial Times, "European Pensions Conference", Brussels - 31.03.2000

The keynote address was given by Kees Van REES and focussed on "A proposal for a Pan-European Institution for Occupational Retirement Provision", an EFRP concept to pool assets and liabilities of occupational pension schemes in a tax neutral way. He highlighted the benefits, identified the obstacles in their way, and concluded with an outline of how a pilot project to test the idea in practice which would start with three likeminded Member States, Ireland, the Netherlands and the United Kingdom.

EFRP/INVERCO, "International Pension Funds Conference", Madrid - 13-14.04.2000

EFRP Member Association, INVERCO, hosted the first World Pension Fund Conference in Madrid. INVERCO had worked intensively to bring together two major pension fund representatives: on the one hand the EFRP for the European continent, and, on the other hand, FIAP (Federación Internacional de Administradores Pensiones) for South-America and the Caribbean. There were also pension fund industry representatives from the US, Canada, Australia and Thailand (see above: Pension Funds at Global Level).

ABA, "Annual Meeting", Bremen - 03-04.05.2000

During ABA's Annual Meeting 2000 Chris VERHAEGEN gave an update on the recent developments of the Pension Funds Directive Proposal.

IBC, "Cross-border Life and Pensions in Europe", Brussels - 03-04.05.2000

The EFRP was represented through Rhoslyn ROBERTS (NAPF – UK). She gave the opening address on 3 May by sharing her forecast on items and issues that were likely to be in a future pensions fund directive and outlining what the EFRP position was on each of them.

CSIS "Global Aging Initiative Working Meeting", Paris - 23.06.2000

The Center for Strategic and International Studies (Washington DC) is a private think-tank for policy analysis and recommendations based on market economics. It established a wide-ranging programme on "Global Ageing" working together with global partners such as the International Chamber of Commerce, Watson Wyatt Worldwide, and others. Kees Van REES attended the working session on "Demographics and Dependency".

Federal Trust, "Pensions in Europe Conference", London - 29.06.2000

The aim of the London-based "Federal Trust for Education and Research" is to enlighten public debate on issues of national, continental and global government. It does this in the light of its statute which requires it to promote "studies in the principles of international relations, international justice and supranational government".

The conference marked the launch of the Federal Trust Report "Can Europe Pay for its Pension?" by Lord TAVERNE QC to which the EFRP had given a lot of preparatory input.

At this occasion the EFRP was represented through Jos Van NIEKERK (Unilever Pension Fund – NL). He gave some thought as to how Europe would cope the ageing problem in the context of the "Stability and Growth Pact" and the Maastricht criteria for the single currency zone.

Fachverband der Pensionskassen, "10th Anniversary", Vienna - 19.09.2000
Kees Van REES explained the proposals for the new EU pensions funds Directive.

National Association of Pension Funds (NAPF), "Global Conference", London - 21.09.2000
Ray MARTIN, then EFRP Vice-Chairman, gave an overview of European developments.

Pensions World Magazine, "Conference", Amsterdam, 22 September 2000 - 22.09.2000
This conference was chaired by Kees Van REES.

European Association of Public Sector Pension Institutions (EAPSPI), "10th Annual Congress – The Pension Scheme of the Future in the Administrators' Strategic Perspective", Amsterdam - 05-06-10.2000
Kees Van REES gave a presentation on the "European View of the Future European Pension Scheme"; historical developments, policy paradox, situation of the first and second pillar system, sustainability, key factors for reform and a European single market, can our first pillar systems survive, complex and gradual reforms, and a European pension fund for national occupational pensions. He concluded on a rather pessimistic note.

Japanese Delegation of the Association of Pension Funds of Local Authorities, Brussels - 19.10.2000
Chris VERHAEGEN welcomed a group of pension fund representatives from the Local Governments and explained the EU-initiatives in respect of pension funds.

EPF/NAPF/EFRP/KAS, "The Consumer and the Modernising of Social Protection in Europe" Conference, Brussels - 07.11.2000
This Conference was organised jointly by the European Policy Forum, the NAPF, the EFRP and the Konrad-Adenauer-Stiftung and chaired by Lord TUGENDHAT, Former European Commissioner and Chairman of the Council of the European Policy Forum.

Topics on the programme were:

- The Role of Private Pensions in Modernising Social Protection in Europe
- Making Pensions Sustainable – the Approach of the Commission
- Prospects for the Growth of Private Pensions in Europe
- The Consumer's Voice
- The Politics of Modernising Social Protection
- E-commerce and Regulation
- The Regulator's Perspective on Consumer Protection

Kees Van REES wondered whether retirement income will increasingly be provided through private pension provision, and if so, the impact this would have on consumer protection policies. To make a success of such policy shifts he highlighted four appropriate prerequisite conditions: prudential framework, low inflation, increased pension awareness, and individual responsibility. So he concluded: "Let's empower the consumer to protect him".

Europäische Rechtsakademie (ERA), "Supplementary Pensions and the Single Market", Trier - 13.11.2000
Rhoslyn ROBERTS gave a presentation on "Objectives, possibilities and limits for pension funds in Europe", taking the opportunity to explain the EFRP proposals for cross-border pensions.

Polish Chamber of Pension Funds, "II International Conference: Pension Reforms in Central and Eastern Europe", Warsaw - 06-07.12.2000
Kees Van REES gave an overview of the "European Pension Scene" throughout the EU including of course the proposed Directive on the activities of IORPs.

8. Organization for Economic Co-operation and Development (OECD)

OECD Working Party on Private Pensions

In 1998 the OECD Insurance Committee (Financial Affairs Division) decided to set up a new Working Party on Private Pensions to intensify and broaden the scope of its research capacity regarding private pensions issues. This Working Party, composed of regulatory and supervisory pension authorities as well as representatives from the pensions industry, started its activities in 1999 and meets twice a year to host information gathering as well as analytical and advisory activities related to pension activities. The working programme ranges from surveying and collecting information on coverage, adequacy and regulations of private pensions in Member Countries to specific policy recommendations on regulatory and supervisory aspects.

In 2000, Chris VERHAEGEN attended both meetings of the Working Party (June and December). Topics discussed included:

- Pension funds governance, investment strategies and their role in corporate governance
- Regulatory policies for private pension plans
- The creation of an International Network of Pension Regulators and Supervisors
- Data collection on private pension plans
- Ethical investments and sustainable development
- Private pension reforms in several EU and non-EU countries

The Working Party circulated the EFRP activities' report for 1999 as well as its EIORP report (European Institution for Occupational Retirement Provision) which provided these documents with a wider audience.

International Forum on Private Pensions

On 3-7 April 2000, the first OECD Forum on Private Pensions was held in Prague. Representatives from over fifty regulatory agencies and relevant ministries from both OECD and non-OECD countries as well as representatives from several international organisations participating in the meeting agreed to establish an International Network of Pension Regulators and Supervisors. This Network was set up to serve as a forum for policy dialogue and co-operation on regulatory, supervisory and financial issues related to pensions. The EFRP applied to obtain observer status.

9. EUROSTAT – pension fund statistics

For several years EUROSTAT has been working on amending Council Regulation 58/97/EC/Euratom concerning Structural Business Statistics (SBS), which is the main legal framework for collecting, compiling, transmitting and evaluating statistics on the structure, activity, competitiveness and performance of business. The proposal aims to complement the SBS Regulation by, amongst others measures, including as Annex 7 the specifications and technicalities for the creation a pension funds database.

Already in 1997 a special EUROSTAT Task Force was established to examine the possibilities of creating and monitoring a statistical system on pension funds. EFRP, being part of this group as pension fund expert, has from the beginning onwards been very actively involved in the discussions and steering of the proposals. One of its main concerns was preventing excessive detailed disclosure requirements being imposed on pension funds. The Taskforce supported the EFRP's point of view and concluded that the pension database should not be too complicated and detailed.

At the end of 2000, the European Commission adopted the final draft proposal on the incorporation of pensions and other financial services into the SBS Regulation.

In 2001, the Commission's proposal will be submitted to the European Parliament for discussion and final adoption is expected for end 2001. As a regulation, it shall be binding in its entirety and directly applicable in all Member States without transposition into national law.

10. EFRP Organization

EFRP Board of Directors,
31 December 2000

Chairman:	Kees J.	VAN REES (NL)
Vice-Chairmen:	Alan	PICKERING (UK)
	Ulrich	JÜRGENS (D)
Directors:	Tom	FINLAY (IRL)
	Georg	HAGSTRÖM (S)
	Jaap F.	MAASSEN (NL)
	Angel	MARTÍNEZ-ALDAMA (E)
	Dietmar	NEYER (A)
	Anne	SEIERSEN (DK)

As part of the restructuring of the EFRP, the Board of Directors has now replaced the Executive Committee. Just like the Executive Committee, the Board deals with the major issues and prepares policy the positions.

Under the new Constitution, the Board is elected by the Full Members by majority vote and for a two-year term.

The Chairman is chosen by the Directors on a recommendation of the General Assembly of the Members. The Chairman also chairs the General Assembly.

EFRP Member Associations

EU Member Associations

AUSTRIA

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Association Belge des Fonds de Pension - ABFP
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EFRP Supporters' Circle

In order to meet the various needs and interests of a wide variety of institutions (multinational headquarters, large national pension funds, consultants, insurers as well as bankers and asset managers) with regard to the European pension fund scene, the EFRP developed a Supporters' Circle in 1997. At the end of March 2001, the Supporters' Circle counted 30 sponsors from six different European Countries.

Sponsoring Companies

ABN-AMRO Bank

Allied Domecq Pensions Ltd.

AON Consulting

AstraZeneca Ltd.

The Bank of New York

Barnett Waddingham, Consulting Actuaries

British Aerospace Public Ltd. Company

Capital Group International Ltd.

Citibank Belgium s.a. Group Office

Citibank International Plc.

European Treasury & Benefits Center Mars

Fidelity Institutional Asset Management

Gartmore Investment Management Plc.

Goldman Sachs International

Halifax Plc.

Hammond Suddards Edge

ING Nederland

Invesco Continental Europe S.A.

Merrill Lynch Investment Managers Ltd.

Morgan Stanley & Co. International Ltd.

The Northern Trust Company – London Branch

Phillips & Drew

Pictet Asset Management U.K.

Pictet & Cie Banquiers (CH)

Scudder Investments (U.K.) Ltd.

Siemens Kapitalanlagegesellschaft mbH.

SmithKline Beecham Consumer Healthcare

State Street

Universities Super Annuation Scheme Ltd.

William M. Mercer Ltd.

EFRP Secretariat

Staff

Secretary-General:	Chris VERHAEGEN
Economist:	Christel RUTTENS
Legal Counsel:	Roger KOCH
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