

IORP II

What we know so far!



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Timeline for Change

The pensions landscape in Ireland is undergoing an unprecedented period of change and consolidation.

In 2016 the Pensions Authority undertook its public consultation process on its **pension reform proposals**, which are closely aligned with the **EU Directive (IORPs II)**, aimed at strengthening governance risk management and transparency for occupational pension schemes. The authority also issued its **Codes of Governance** for DC Schemes in 2016.

The timeline for change

EU Directive (IORP II)

- Comes into force January 2019
- Greater governance for schemes
- Trustee qualification & experience
- Risk management / internal audit
- Investment rules to change

Pension Authority Reform Proposals

- Trustees must be qualified - FETAC
- CPD requirement
- Greater accountability
- Appropriate investments
- Value for money

Pension Authority Governance Codes

- Already in place
- Covers 11 topics
- Most notable – Governance plan / value for money & Investment defaults

What is IORP II?

IORP (Institution for Occupational Retirement Provision) is a term used by the EU.

It means “*An institution, irrespective of its legal form, operating on a funded basis, established separately from any sponsoring undertaking or trade for the purpose of providing retirement benefits in the context of an occupational activity on the basis of an agreement or a contract....*”

In an Irish context, IORPs are funded occupational DB and DC schemes

IORP II

- EU Directive which came into force on 12 January 2017.
- Prescribes requirements on the financing, governance and supervision of IORPs.

EU member states have until 13 January 2019 to bring in the local laws and administrative provisions needed to comply.

Objectives of IORP II?

Protection

Better protection for members by insuring good governance, risk management and disclosure of information.

Cross Border

Harmonisation of rules to encourage more cross border activity.

Supervision

Ensuring that national supervisors have the necessary tools to supervise schemes



Key Features of IORP II

1. Governance

Extensive requirements around governance that go beyond typical current practice of Irish schemes.

2. Investment

Consider and explicitly disclose ESG factors (Environmental, Social & Governance).

3. Information to Members

More information to members (including deferred members) on charges, best and worst case scenarios.

4. Cross Border Schemes

Changes to rules around funding of DB deficits for defined benefit schemes.

5. Prudential Supervision

Member states subject to prudential supervision and the competent authority has the 'necessary means, expertise, capacity and mandate to achieve the main objective of supervision

Governance under IORP II

Fitness and probity regime

- ❑ Requires that trustees are 'fit and proper' to carry out their duties.
- ❑ 'Fit' means trustees when looked at as a group have the necessary skills qualification and experience to carry out their duties
- ❑ 'Proper' means trustees are of good repute and integrity.
- ❑ The actual requirements will be set out by the Pensions Authority.
- ❑ Pensions Authority have issued paper on IORPS II for some level of guidance

Key Functions

- ❑ Establish key functions, **Risk Management**, **Internal Audit** and Actuarial.
- ❑ Have an **effective risk management system**, to include investment, liquidity and concentration risk.
- ❑ Carry out and document their '**own-risk assessment**' every three years.
- ❑ KFHs are expected to report material findings and recommendations to trustees.

Outsourcing

- ❑ Does allow outsourcing to service providers
- ❑ A number of completely new requirements are being introduced with respect to outsourcing
- ❑ For example with respect to any outsourced activity covered by the Directive trustees have to put a legally enforceable agreement in place with the service provider and to notify the Authority.
- ❑ If one the activities being outsourced is one of the key functions or relates to the scheme management the regulator has to be notified ahead of the contract coming into effect.

Written Policies

- ❑ All areas covered by the key functions need written policies in place.
- ❑ A written policy in respect of outsourced activities.
- ❑ 'Sound remuneration policy'. This policy is supposed to align with the long term interests of scheme members. Has to apply to everyone involved in running the scheme. Would cover the trustees and also those carrying out key functions.
- ❑ All policies need be reviewed at least every 3 years.

Pensions Authority - Adoption of IORP II

Already indicated by PA – likely to form basis for new regulations

- ❑ Codes of Governance published in 2016
- ❑ Consideration for Trustees Publication 2018



IORP II

Considerations for Trustees

Introduction

The objective of this note is to give trustees an understanding of the breadth of their responsibilities arising from the provisions of the IORP II Directive¹. It should therefore be helpful to trustees in preparing for what the potential impact might be and what actions they should consider now.

As the legislation transposing the IORP II Directive has not as yet been introduced, this note is provided for information purposes only. While the Pensions Authority has made every effort to ensure that the information contained within this note is correct and accurate, full details cannot be provided until the legislation is finalised. The relevant legislation to transpose the Directive is due to be introduced by Government later in 2018.

Pensions Authority - Adoption of IORP II Governance

- ❑ Changes in composition of Trustee Board: Roadmap suggested a minimum of 2 trustee – 1 has a level 7 qualification in the national framework of qualifications and the other has a minimum of 2 years experience acting as a trustee
- ❑ New annual CPD requirements for trustees
- ❑ A personal fitness and probity benchmark to ensure trustees are fit and proper persons.
- ❑ A new set of ‘professional standards’ to ensure they have the necessary knowledge and experience both individually and collectively to discharge their functions effectively.
- ❑ A new scheme authorisation process – will apply to both new and existing schemes trustees will be required to demonstrate compliance with these new fitness and probity requirements. Where trustees don’t meet these the Authority may have power to remove them as trustees.
- ❑ New governance codes and standards to be published by the Authority.
- ❑ Procedures would be put in place to ensure codes are complied with and reviewed regularly.
- ❑ Authority has indicated that it proposed binding codes of practice would be introduced.
- ❑ New powers and measures for the Authority to enable them take pre-emptive action to address shortcomings in schemes governance and processes.

Pensions Authority - Adoption of IORP II

Governance

Trustee meetings

- ❑ Trustee meetings are expected 'at least quarterly'.
- ❑ The minutes of meetings should provide sufficient detail to evidence appropriate trustee attention. the substance of discussions and their outcome and should be agreed at the subsequent meeting.
- ❑ Trustees must have policies and procedures in place for all significant activities and be able to demonstrate compliance with those

Scheme administration

Trustees need to have an admin policy which documents admin activities, their delegation and monitoring At a minimum, the policy should address the following matters:

- ❑ each of the main administration activities the approach to determining how they should be carried out,
- ❑ the procedures for appointing administrators, where relevant,
- ❑ the information to be provided by the administrator to the trustees, and
- ❑ The procedures for assessing and reviewing the performance of the administration There should be documented evidence of adherence to the administration policy. **Trustee monitoring of outsourced activities including administration**

Trustees should be able demonstrate they are monitoring the activities of the provider on an ongoing basis

Remuneration policy

A new requirement – more detail on what is expected would be useful. It may be difficult to identify remuneration of a KFH specific to a role where he / she performs a range of functions for a company.

Pensions Authority - Adoption of IORP II Supervision

- ❑ Forward looking and risk based approach to regulation - new in Ireland and quite significant.
- ❑ Shift from a reactive regulator to a proactive regulator.
- ❑ Change in relationship with pension schemes. PA has said that implementation of the Directive will lead to a thorough review of trustee culture and activity.
- ❑ Trustees will need demonstrate how they prioritise needs of members. Will need policies for all significant activities to be able to demonstrate that compliance.
- ❑ PA suggests the production of what they are calling a 'board manual' for each set of trustees – an all encompassing guide or document on how to run a scheme properly.
- ❑ All trustee papers must be made available to PA if requested includes minutes of meetings
- ❑ Expects trustees to have documented own due diligence such as obtaining evidence of professional qualifications, their CPD, previous experience, proper standard before a person is appointed.

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