15 May 2020

Subject: **CRISIS 2020 – UPDATE 9**

Impact on pension funds of current financial markets turmoil and challenges to Europe and global economy

Action required:
For information

1. Impacts on IORPs and measures adopted by NCAs

a. Summary table

You can find below an updated summary table reporting the main measures adopted by NCAs and governments to mitigate the impact of the Covid-19 crisis on pension funds.
Please note that the table is currently under discussion within the WG IORP.

Disclaimer
The file aims to include, on a best effort basis, the measures taken by Governments and National Competent Authorities on pension funds.
The file does not aim to be a comprehensive database and it is based on the answers to our questionnaire and on information from other sources.
If data related to your country is wrongly reported or you would like to share additional information, please contact PensionsEurope's Secretariat.

Legenda:
In the table, countries indicated in green are those for which PensionsEurope's member has provided answers to at least one of our questionnaires; in red those for which an an:
In the table, number 1 corresponds to a yes. Numbers are indicated with the following colours to indicate the source of information. Sources are grouped with the following colours:
In green: information coming from PE questionnaires
In orange: information coming from the ESRB database
In blue: information coming from IOPS database
In red: other sources

Other clarifications:
The table reports those measures taken in the wake of the Covid-19 crisis. In countries where a certain measure has not been taken, it does not mean that pension funds, sponsor companies, members and beneficiaries are less protected, as the given measures could already be in place or there could be other measures set by the applicable national SLL that drive the national legislator to consider that additional protection at this point in time is not necessary.
Please note that the information reported under "Postponing supervisory reporting requirements" (11B) does not only refer to the reporting of assets and liabilities, but also to other reporting (e.g. annual accounts, IORPs SIP, other periodical communications to the NCAs) aimed at providing operational relief to pension funds.
On the opposite, "Increasing supervision / increasing reporting" (18B) refers to those measures aimed at increasing the supervision (with or without gathering additional information), which would possibly create an extra burden on pension funds.

PensionsEurope - Examples of national measures on pension funds

Last update: 14 May 2020

		AT	BE	BG	DE	DK	ES	FI	FR	GR	HR	HU	EE	IE	IS	IT	LU	NL	NO	PL	PT	RO	SE	UK	CH	TOTAL
TO ALLEVIATE FUNDING ISSUES	Providing more flexibility on recovery plans	1			1													1						1		4
	Providing reccomendations on investment policy													1							1					2
	Providing guidance on schemes funding																						1	1		2
	Providing more flexibility or guidance on deviations from investment policy				1													1								2
TO SUPPORT SPONSORING COMPANIES	Providing flexibility in the collection of contributions from employers or considering to provide	1						1										1						1		4
	Providing guidance for employers																							1		1
	Restricting or postponing distribution of dividends		1	1		1			1												1		1	1		7
	Recommending to periodically inform sponsor companies		1																							1
TO PROVIDE OPERATIONAL RELIEFS	Postponing supervisory reporting requirements	1	1	1	1		1	1	1		1	1				1		1	1	1	1		1	1		16
	Providing guidance to pension funds to ensure business continuity		1									1		1		1								1		5
	Postponing regular communication to members															1								1		2
	Setting exceptional measures on organizational issues	1	1		1							1				1		1		1						7
TO PROTECT AND INFORM MEMBERS AND BENEFICIARIES	Recommending to inform members		1	1								1		1							1			1		6
	Warning about scams	1	1					1	1																	4
	Relaxing rules on early withdrawal of pension savings to support members' liquidity						1								1											2
TO INCREASE SUPERVISION	Increasing supervision / increasing reporting					1																	1			2
CHANGES TO BROADER PENSION POLICY	Delaying pension reforms			1					1											1				1		4
	No impact envisaged on on-going reforms																								1	1
	Suspending state contributions to the second pillar												1													1

The table demonstrates that EU countries have been closely monitoring the Covid-19 developments in relation to the pensions sector and have intervened to ensure its protection.

Given that pension systems across Europe are very diverse, that in the field of occupational pensions the IORP II Directive sets only minimum prudential rules for IORPs, that the prudential regulation varies considerably between the Member States, and that occupational pension arrangements depend on national social and labour law, **the measures taken are very diverse and it is difficult to group them in a meaningful way**. Nevertheless, it is clear that governments and NCAs have taken numerous measures to mitigate the impact of the Covid-19 on pension funds and that some common traits can be drawn.

- Special attention has been paid to provide **operational relief** to pension funds, for instance through the **postponement of supervisory reporting requirements**. A large majority of countries postponed certain administrative incumbencies, ranging from the entirety of the pension funds annual reporting to just certain very specific documents. All in all, it seems that many NCAs have on their own initiative or following EIOPA's recommendation decided to be flexible with respect to deadlines for publication of documents and data considered less urgent given the current circumstances.
- The concerns driven by the **funding pressure** has led many jurisdictions to allow **more flexibility on recovery plans**, for instance postponing the deadline for presenting the plan, extending the recovery period, or lowering the funding ratio threshold that triggers the recovery mechanism.
- Most countries have taken initiatives to **support sponsoring companies**. The table does not include the various social security and tax support measures put in place to support businesses experiencing financial difficulties due to the COVID-19 outbreak. However, it shows some measures concerning pension funds, the most common being the introduction of new **restrictions for the distribution of dividends**, often put in place to strengthen the capital base and limit resource outflows by firms, and the provision of certain **flexibility in the collection of pension contributions from employers**.
- The Covid-19 outbreak also made it necessary in some jurisdictions to specifically **protect and inform members and beneficiaries**. In several countries, NCAs asked pension funds to **keep members and beneficiaries well informed** about the impact of the crisis on their pensions. Others have not deemed this necessary, as they considered that their national social and labour law already strongly protects them.
- Many jurisdictions reported an increase in fraudulent activities in the financial markets and considered opportune to **warn members and beneficiaries of the risk of fraud**.
- In jurisdictions where such actions are allowed, a common measure to protect members consists of **informing and advising** them **to carefully consider their intention to withdraw or transfer their pension savings**.
- Finally, it seems that in BG, FR, PL, and the UK the crisis is also **impacting and delaying the pension reform agenda**.

b. Additional information based on various sources

The Netherlands

Montae, Dutch pension funds consultancy. Pressure on Dutch pension funds is expected for them to deploy a combined total of €1.5trn to assist ailing companies and participants, if the COVID-19 pandemic causes a drawn-out economic recession.

In addition to provide support by granting delayed payment of contributions, pension funds could support participants and affiliated firms by ceasing cashing in premium payments as well as pension accruals for now.
Workers in critical financial need should be given the option to take out a lump sum from their pension entitlements, as will become possible for people at retirement in the new pension system.
Pension funds could assist companies with liquidity problems by offering bridging loans, whether or not government backed. Schemes for the hospitality and catering, and retail industries, for instance, could use their assets to save troubled firms in their respective sectors. The same goes for company pension funds with a sponsor in need of government support, such as KLM.

Finland
We would like to clarify that the information on Finland included in Membership note 2020/16 refers to 1st pillar statutory pensions that are administered by pension insurance companies and pension funds, not IORPs.

Germany
The German Finance Ministry may decide on a possible adjustment to the maximum interest rate on pension and life insurance products from 2021. The Ministry said the financial impact of the current crisis on pension funds and life insurers has so far been minor, when asked whether pension funds should review the interest rate in light of the current situation caused by the COVID-19 pandemic.

Switzerland
The funding ratio of Swiss Pensionskassen bounced back to 103% in April after declining to 99.8% for a short time at the end of March. Returns reached -3.9% at the end of April compared to 10.6% in 2019 while pension funds must generate a return of at least 2.2% in order to maintain a stable funding ratio.

c. AGE Europe, BETTER FINANCE and CFA Institute call for Measures to protect pension contributions, savings and pay-outs

On 23 April 2020, AGE Europe, Better Finance and the CFA Institute released a press release entitled "CORONA PENSIONS? - call for Measures to protect pension contributions, savings and pay-outs".
You can read it at this link.

2. Economic measures

EC:

On 13 May, President von der Leyen gave a speech at the European Parliament Plenary **on the new MFF, own resources and the Recovery Plan. In that speech, she e.g. highlighted that:**

- **The recovery package consists of two parts: (i) the European budget (MFF) and (ii) a recovery instrument funded through a larger headroom.**
  - The latter fixes the maximum amount of money, that the Commission can borrow on the capital markets with the guarantee of the Member States.

    - The entirety of the recovery funds will be channelled through EU programmes.
- The recovery money will be spent across three pillars:
    - **The first pillar will focus on supporting Member States to recover, repair and come out stronger from the crisis.**
        - The bulk of the money will be spent within this first pillar, on a new Recovery and Resilience tool - created to fund key public investment and reforms aligned with our European priorities: the twin transition to a climate-neutral and a digitalised and resilient Europe. This will be done within the European Semester.
    - **The second pillar is about kick-starting the economy and helping private investment to get moving again.**
        - It was known already before the crisis that the EU needs major private investment in key sectors and technologies: from 5G to Artificial Intelligence, from clean hydrogen to offshore renewable energy.
        - Actions include: strengthening InvestEU, creating a new Strategic Investment Facility, and a new Solvency Instrument.
    - **The third pillar is about learning the most immediate lessons of the crisis.**
        - Actions include: strengthening programmes that have proven their value in the crisis (such as RescEU or Horizon Europe) and creating a (new) dedicated Health Programme.
    - **The recovery instrument will complement the three safety nets agreed by the EU Leaders in April: (i) the SURE programme, (ii) the finance available from the European Investment Bank, and (iii) the European Stability Mechanism.**

On 11 May, the EC published an invitation to the member states and other stakeholders to comment on its updated proposal to exempt from prior Commission scrutiny under EU State aid rules aid granted through national funds for projects supported under certain EU centrally managed programmes.

- With the aim of improving the interplay between EU funding rules and EU State aid rules, the Commission is proposing to streamline the State aid rules applicable to national funding of projects or financial products, which fall under the scope of certain EU programmes.
- The rules on EU funding and State aid rules applicable to these types of funding should be aligned to avoid unnecessary complexities, while at the same time preserving competition in the EU Single market.
- The Commission's updated proposal, now subject to a second public consultation, addresses the key concerns raised by stakeholders in the first consultation. In particular, the changes in the proposal aim to improve clarity and to further align the rules with the relevant EU funding rules.
- The changes are detailed in the Explanatory note accompanying the updated proposal.

<u>Video conference of the Eurogroup, 8 May 2020:</u>

The Eurogroup e.g. agreed on the:

- features of the Pandemic Crisis Support instrument of the European Stability Mechanism, and adopted a statement.
- features and standardized terms of **the Pandemic Crisis Support, available to all euro area Member States for amounts of 2% of the respective Member's GDP as of end-2019**, as a benchmark, to support domestic financing of direct and indirect healthcare, cure and prevention-related costs due to the COVID-19 crisis.

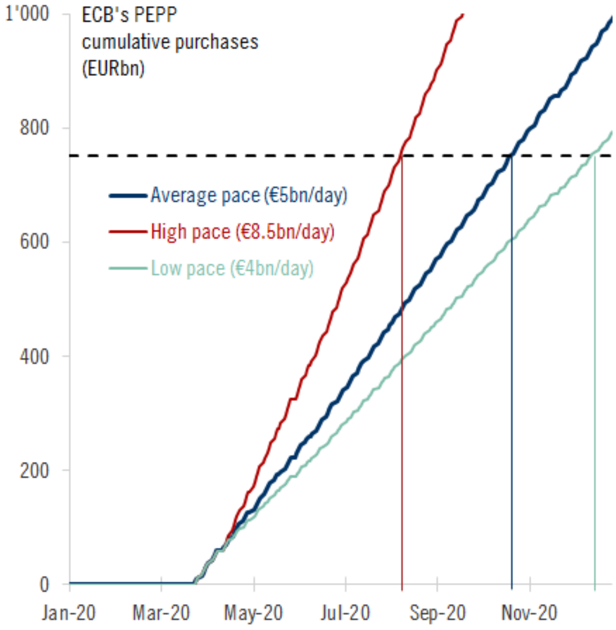
EP:

- On May 13, the European Parliament held a Joint Plenary debate on the Conclusions of the extraordinary European Council meeting of 23 April 2020 and new MFF, own resources and recovery plan. All speakers agreed on the unprecedented nature of the crisis and the need for the EU to come up with a sustainable and long-term solutions for the future of the Union. During the debate, Commission President von der Leyen presented the Commission's intentions for the recovery plan and MFF. The MEPs that took the floor highlighted the importance of having the revised MFF proposal and the proposal on the recovery plan as soon as possible. The recovery plan needs to be financed by fresh money and not from the MFF and new own resources must be decided, they pointed out.
- **On 12 May, the ECON Committee of the European Parliament** published **a new state of play on the EU/EA measures to mitigate the economic, financial and social effects of coronavirus.**
- **the Parliament's Economic Governance Support Unit (EGOV)** published **a briefing providing a comparison of key figures in the 2020 Stability and Convergence Programmes and European Commission spring 2020 forecast. It identifies significant differences which reflect the uncertainties regarding the economic impact of the COVID-19 pandemic. A paper providing a summary of some recent analyses of the economic and financial effects of the coronavirus can be found** here**.**

3. Monetary policy

The ECB Balance sheet has hit new all time high at €5,451bn and the total assets now equal 45.8% of Eurozone GDP, highest ratio on record.

At last week's pace, ECB's pandemic emergency purchase programme (PEPP), which has an overall envelope of €750 billion (to ease the overall monetary policy stance and to counter the severe risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus pandemic) would be exhausted by mid-August:

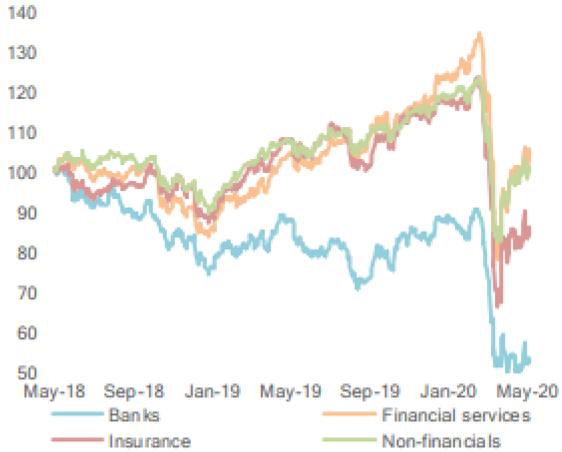


4. Market developments

ESMA released its first complete risk dashboard for 2020 and highlights the very high risks in all areas.

During Q1 2020, the equity markets saw very large corrections due to a combination of the Covid-19 pandemic and existing valuation risks. Since then, and despite the high uncertainty and worsening economic outlook, markets have seen a remarkable rebound. This should also be viewed in light of massive public policy interventions in the EU and elsewhere.

R.4
Equity prices
Rebound for all sectors but banks



Note: STOXX Europe 600 sectoral return indices. 01/04/2018=100.
Sources: Refinitiv Datastream, ESMA.

This potential decoupling of financial market performance and underlying economic activity leads ESMA to see a prolonged period of risk to institutional and retail investors of further – possibly significant – market corrections and very high risks. The extent to which these risks may materialise will critically depend on two drivers: the economic impact of the pandemic, and any occurrence of additional external events in an already fragile global economic environment. The impact on EU corporates and their credit quality, and on credit institutions are of particular concern, as are growing corporate and public indebtedness, as well as the sustainability of the recent market rebound.

Note: Assessment of the main risks by risk segments for markets under ESMA's remit since the last assessment, and outlook for the forthcoming quarter. Assessment of the main risks by risk categories and sources for markets under ESMA's remit since the last assessment, and outlook for the forthcoming quarter. Risk assessment based on categorisation of the European Supervisory Authorities (ESA) Joint Committee. Colours indicate current risk intensity. Coding: green=potential risk, yellow=elevated risk, orange=high risk, red=very high risk. Upward arrows indicate an increase in risk intensities, downward arrows a decrease and horizontal arrows no change. Change is measured with respect to the previous quarter; the outlook refers to the forthcoming quarter. ESMA risk assessment based on quantitative indicators and analyst judgement.

5. Recent regulatory developments in the financial markets

- **ESRB takes first set of actions to address the coronavirus emergency at its extraordinary meeting on 6 May 2020**

  The ESRB discussed a first set of actions to address the impact of COVID-19 emergency on the financial system from a macroprudential perspective. A timely and coordinated policy response is key, in particular to achieve important synergies between fiscal, monetary and regulatory policies. To this end, the General Board decided to focus its attention on five priority areas, specifically:
  - implications for the financial system of guarantee schemes and other fiscal measures to protect the real economy;
  - market illiquidity and implications for asset managers and insurers;
  - impact of procyclical downgrades of bonds on markets and entities across the financial system;
  - system-wide restraints on dividend payments, share buybacks and other payouts;
  - **liquidity risks arising from margin calls.**

  Regarding liquidity risks arising from margin calls, the ESRB stressed the importance of: (i) mitigating procyclicality that could be linked to the provision of clearing services and to the exchange of margins in bilaterally cleared markets; (ii) enhancing central counterparty stress test scenarios for the assessment of liquidity needs; and (iii) limiting excessive liquidity constraints related to margin collection.

- **ESMA supports ESRB actions to address COVID-19-related systemic vulnerabilities**
  ESMA expresses its support to the ESRB Recommendation, which suggests that relevant NCAs across the European Union (EU), coordinated by ESMA, undertake focused supervisory engagement with investment funds that have significant exposures to less liquid assets, focusing on corporate debt and real estate. In this context, ESMA also welcomes the ESRB public communication around the importance of the timely use of liquidity management tools by investment funds and insurers with exposures to less liquid assets.

- **ESMA highlights challenges for rating collateralised loan obligations**
  In its thematic report on collateralised loan oblivations (CLOs) credit ratins in the EU, ESMA highlights the impact that COVID-19 may have on CLO methodologies. ESMA expects credit rating agencies to continue to perform regular stress-testing simulations and to provide market participants with granular information on the sensitivity of CLO credit ratings to key economic variables affected by the pandemic.

- **Andrea Enria, Chair of the ECB's Supervisory Board, discussed how European banks are managing amid the COVID-19 crisis, whether they are using the recently announced supervisory relief measures, what risks lie ahead and what it all means for Europe.**

- **IIF has released an article that provides a visual summary and numerical stock take of the banking sector prudential regulatory measures taken across the world in response to the COVID-19 pandemic.** It is based on an IIF database of measures.