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Strictly Private & Confidential
Ms Aisling Menton
Senior Economist - Economics Division
Central Bank of Ireland
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18 May 2016

Subject: ECB Fund Questionnaire

Dear Ms Menton

I am writing to you as the chairperson of the Irish Association of Pension Funds (IAPF) Registered Administrator Working Group. This is a sub-committee of the Benefits Committee of the IAPF, representing the views of Registered Administrators.

Registered Administrators are licenced by the Pensions Authority (of Ireland). There are currently 142 Registered Administrators. Registered Administrators carry out core administration activities such as record-keeping, annual benefit information for members and preparing trustee annual reports. Often, the trustees of pension schemes outsource the duties of the Registered Administrator to specialist third party administrators. Our working group consists mainly of the largest registered third party administrators. We thank you for the opportunity to be part of the consultative process.

1. **Executive Summary**
   Our view of the proposal from the ECB can be summarised as follows

1.1 The proposal represents a very significant increase in the reporting requirements for pension schemes in Ireland from the current base

1.2 There is no single point of contact, currently in existence, who can collect, collate and provide the statistical information proposed within the timescale envisaged.

1.3 The data required is not under the control of any single point of contact

1.4 It would be of great assisitance if the ECB included in the proposed legislation that investment managers regulated in the EuroZone should provide the data in a specified format required in quarterly reporting to the Trustees and their advisors

1.5 The collection, collation and reporting of the current proposal will add significant costs to whomever has the responsibility to do the work. Where Trustees outsource this work to others then these providers will need to be paid for their services. The fees would then have to be paid by the employer or passed onto the members of the scheme. This may reduce the pension funds of the individual members in some cases.

1.6 The proposal adds no value to the Trustees or members of the pension schemes and will impose significant costs. Therefore, as currently set out, the proposals would be very difficult to justify. We recommend further detailed cost-benefit analysis before any decisions are made.

1.7 We accept that some further statistical data reporting is required and we have set out below some suggestions on how this could be achieved in a more efficient and effective manner.

We have elaborated on these points in detail below.

2. Current Position in Ireland

It may be useful to document the current position for pension schemes in Ireland.

2.1 Landscape – the number of occupational pension schemes that would have their own fully resourced pensions administration office would be quite small. Many schemes would outsource activities to actuaries, administrators, investment consultants, investment managers and other third party service providers.

2.2 Preparation of accounts – The pension legislation mandates that all schemes should prepare full accounts on an annual basis. There is then a derogation for schemes with less than 100 members to prepare what are known as "abbreviated financial statements". These are often referred to as "short reports". Typically the preparer of a short report would not produce a trial balance or balance sheet as part of their workings, although practices vary from administrator to administrator.

2.3 Annual Scheme Information – there is a current requirement for the registered administrator of every scheme to submit annual scheme information to the Pensions Authority for Eurostat purposes. The data submitted summarizes membership, net assets, contributions and benefit payments and is generally extracted from the annual report for full accounts or prepared as part of the short report. The data must be submitted to the Pensions Authority on an annual basis, within 9 months of the scheme year end.

2.4 Accounting. The vast majority of Irish pension schemes are not preparing accounts to trial balance on any more regular basis than annually. Trustees and their advisors would be focussing on specific actions on a more regular basis e.g. ensuring contributions invested within 31 days, reviewing investment manager reports and rebalancing investment management portfolios. There will be a very limited number of schemes tracking accounting entries, other than recording bank movements, on a more regular basis or preparing monthly or quarterly trial balances or balance sheets.

3. Achieving coverage of Irish pension assets

3.1 The ECB has set out that it would like to achieve 85% coverage of pension assets initially, rising to 95% coverage eventually. Whilst the Pensions Authority should have the best data on this, we would think that there would be a high degree of overlap between those schemes preparing full accounts and the amount of coverage desired by the ECB. I can share Mercer's own data for 2014 which would show the following

Table 1 Full and abbreviated Trustees annual reports and asset coverage

Mercer coverage based on 2014 data*	% of schemes preparing full TAR	% of schemes preparing short TAR
75% of scheme assets	100%	0%
85% of scheme assets	96%	4%
95% of scheme assets	87%	13%

This shows that to achieve 75% coverage of assets for Mercer administered schemes then it would be 100% accounted for by full annual reports. It also shows that in order to achieve 85% coverage of assets then 96% of the schemes would be preparing full reports. When coverage moves to 95%, a small (13%) but significant amount of schemes are not preparing full reports and would have much work to do to meet higher requirements.

*It should be noted that the Mercer client base will be larger schemes and this may not make this table representative of the Ireland occupational pension scheme sector. A better analysis can be made by taking the full Pensions Authority ASI data and assuming that nearly all schemes who prepare short reports will take advantage of the derogation.

4. What stakeholders are required to collect the data

4.1 The following people would have a part to play in producing information for the statistical report

Table 2 Stakeholders

Person	Data required	Current position	Change required
Employer	Forwarding member movements and provision of new data.	Monthly for DC schemes. DB schemes may be sent less regularly.	DB schemes would have to update their records more regularly depending on how often they update records with new members.
Administrator	Member movements and geographic distribution.	Update for new and members leaving employment. Not recording geographic distribution.	Need new geographic distribution.
Investment Consultant	Interpretation of investment classes.		
Investment Manager	Investment reports.	Preparing quarterly investment reports.	Prepare detailed reports incorporating full details as required by ECB. ISIN data.
Actuary	Data to provide estimates of quarterly liabilities.	For DC assets = liabilities. For DB schemes, estimates currently prepared at annually.	DB will require a refresh of data on both assets and liabilities on a quarterly basis.
Trustee	Oversight.	Annually.	Quarterly.

5. Collecting the data

5.1 No single group would hold or have access to all of the data required to complete the statistical return. This is because the workings of a typical pension scheme are outsourced to separate entities, many of whom will not be related to each other. The collection of the data into one central group will be challenging, on either an annual basis or a quarterly basis.

Some of the issues to be overcome are outlined below.

5.2 Generally there are no underlying accounting systems at present where the data can be posted.

Implication 1 - there is no existing base on which to build systems which might automate some of the data collection work and/or produce quarterly trial balances

Implication 2 – it is likely that funds in transit at quarter ends will not be captured without intervention and reconciliation. This will add additional work.

5.3 The investment managers are widely spread. Mercer has completed an analysis of their 10 largest pension schemes. This shows the following spread of investment managers

Table 3 Location of investment managers – 10 largest Mercer schemes

Scheme(s) with	No of IMs	Ireland	Rest of Eurozone	UK	Rest of World
Largest number	13	8	0	2	3
Average number	6.4	4	0.1	1.9	0.4
Smallest number	1	0	0	1	0

Implication – for many large schemes, data from more than one investment manager will need to be collected, validated, collated and reported. This will be a sizable piece of work. There are currently no systems developed for such reporting that would make this task easier.

5.4 Obtaining the data from the Investment Managers. It can be seen from the table in 5.3 that there are a large number of investment managers involved in providing investment management services to Irish pension schemes. There is further complication in that the Investment Managers will need to obtain reports from Scheme Custodians. This will add additional time and incur additional costs.

Implication 1 - Irish pension schemes would need some external regulatory intervention to make the provision of the required information compulsory for Eurozone based investment managers. The deadline would need to be some weeks before the deadline required by the ECB.

Implication 2 - Irish pension schemes would have to find leverage for non Eurozone investment managers to make it part of placing funds with these investment managers that reports in the required format are made available as required within a timely period.

5.5 Actuarial data for DB liabilities. The actuarial requirements are for full actuarial valuations on a triennial basis. Schemes are also required to prepare actuarial data returns (AADR) on an annual basis to the Pensions Authority. There is currently no requirement to produce DB actuarial liability information on a quarterly basis. There is no direct link between the AADR return and the ASI return. Although some employers do look for updates on a quarterly basis, these would only be estimate of liabilities and would not constitute a formal evaluation by the Scheme Actuary.

It would also need to be agreed on what actuarial basis the liabilities should be valued.

Implication – it will add significant costs to value DB liabilities on a quarterly basis.

5.6 DC Liabilities. In DC schemes the DC assets are assumed to be equal to the liabilities. No further validation work would be carried out.

5.7 Geographical split of members – currently administrators will hold addresses for most members but they can be regarded as only indicative for deferred members. Deferred members would get in touch close to retirement and look for updated statements of their entitlements. It remains a significant issue to trace a small cohort of members at retirement age or on the winding-up of the scheme. Currently this relates to retiring members who largely tend to be of Irish nationality. This will become more problematic as pension schemes mature with the sizable influx of more mobile nationalities to Ireland over recent years.

Implication – new fields will have to be added to administration systems and maintained.

5.8 ISIN data – this is not tracked by any party outside of the investment managers

Implication – ISIN data will need to be reported as part of the Investment Managers reports.

6. Resourcing

6.1 It is extremely difficult at this stage to estimate the level and type of resources that would be required to establish the proposed reporting regime and to maintain it.

6.2 For discussion purposes, we have set out below an estimated level of effort and cost to establish and maintain the ECB proposal for one scheme.

Assumptions

a. DB scheme with active membership
b. 3 investment managers who must report data in required format
c. It is based on a model of a central team who would collect, collate and report the data from each of the individual sources
d. No automated systems or electronic information passed from source to central
e. 85 data items as per tables A,B and C of questionnaire
f. Quarterly collection of data

Table 4 Estimated hours and costings – single scheme

	Set-up			Quarterly Ongoing		Annual
By whom	Hours	Cost		Hours per quarter	Cost	Costs
	No.	€		No.	€	€
Central resource						
- Collating	25	6,250		3	750	
- Reporting	25	6,250		3	750	
Administrator	7	1,750		2	500	
Accountant	10	3,000		1	300	
Actuarial team	127	44,450		35	12,250	
Investment Manager	26	9,100		7	2,450	
Investment consultant	26	9,100		7	2,450	
Trustee	3	900		1	300	
Employer	3	900		1	300	
ISIN	120	36,000		7	2,100	
Totals	372	117,700		67	22,150	88,600

The costs exclude value added tax. The costings are just a reasonable estimate based on our current understanding of the requirements. They can be updated as the requirements become clearer. It can be seen that the set-up and ongoing costs of providing so much information on a quarterly basis would be very significant. Even if the work to meet the requirements is reduced, by say 50%, then it would still be a significant cost.

7. Value to the Trustees and members

7.1 The costs set out in the previous section would need to be paid for either by the Trustees, the sponsoring employer or by the members directly out of their schemes assets. We cannot identify any direct benefit to the Trustees, employers or members that this exercise would bring. We would recommend further cost-benefit analysis before proceeding with the proposal as currently set out.

8. Alternative proposals

8.1 We accept that there may be some justification for new requirements to provide additional information to central government, regulators, statistical bodies and the ECB. We would also not disagree with a statement that large pension schemes could improve their accounting systems, similar to those that exist for their corresponding sponsoring corporate entities. However we also believe that a better balance must be struck between these advances and the cost to the trustees, employer and ultimately the members.

8.2 We would recommend that the requirements be stratified by looking at the following factors and then deciding that some of them only need to be reported on a less frequent basis, probably annually. This is because many pension schemes change relatively slowly e.g. membership, contributions and asset values and could more easily be modelled by the central statistical teams or the ECB and Ireland rather than creating a data collection industry.

8.3 Our overall position would be that most data items should remain to be collected and returned on an annual basis within 3 months of the end of the accounting year of the scheme. This would tie in with the reconciliation of actuarial, administrative data and accounts preparation schedule for most large schemes.

Table 5 Alternative proposal for discussion

Data item	Proposal	Timeline
Scheme membership	Annually after scheme renewal complete	3 months after year end
Geographic location of membership	Annually after renewal data received from employers containing updated address information	3 months after year end
Actuarial liabilities estimates	Annually as part of completion of actuarial data return	3 months after year end
Balance sheet information including detailed analysis of scheme holdings held with investment managers	Annually	3 months after year end

9. Conclusion

We thank you for the opportunity to be able to give our views on the implementation of these additional statistical requirements. We have set-out above our views on the new requirements. We believe that further discussion would be best in order to introduce statistical regulations than achieve a reasonable balance between the ECB's requirements for more statistical data and the cost of producing this information. We would welcome an opportunity to discuss our views further with you, in whatever format is deemed most suitable.

Yours Sincerely,

Tom Gilligan
Chair – IAPF RA Working Group

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