

Pension funds to address new implementing legislation on IORP II key functions in 2019

The European IORP II Directive was implemented in the Netherlands on 13 January 2019, bringing changes that pension funds will need to address. These include: introduction of three key functions; an obligation to integrate ESG risks into risk-management and to perform an own-risk assessment at least every three years; new rules for cross-border collective value transfers; and further rules on providing information. The implementation of IORP II is one of the Dutch Central Bank's supervisory priorities for 2019. DNB has also given [guidance on suitability and integrity requirements](#).

The Dutch Central Bank will carry out integrity tests for key function *holders* before they are appointed. In addition, if the central bank deems this appropriate, it may also test whether these key function holders are suitable for the position. If a new board member is to be appointed as a key function holder, the Dutch Central Bank will also perform a *suitability* test. This equally applies to board members who are to be appointed as key function holders, unless the pension fund can demonstrate that the appointment does not constitute a change in the board member's current role.

As to key function *performers* (to be distinguished from key function holders), the central bank will only perform suitability and integrity tests if it believes it is appropriate to do so.

The Dutch Central Bank has indicated that the suitability test will be performed in a proportional and risk-based manner. Its assessment will be based on the knowledge, skills and professional behaviour required for the performance of the key function. Candidates will be deemed suitable on the basis of a combination of their education, knowledge, work experience and competences. The central bank has set out the required knowledge and experience for each type of key function holder (risk-management function, internal audit function and actuarial function). The depth of knowledge and amount of experience required will depend on the size, nature, scale and complexity of the activities, and therefore also on the pension fund's own funds and complexity of investments. A key function holder does not need to have in-depth expertise in all knowledge areas. Key function holders must have a sufficient amount of knowledge and experience to be able to execute their position and must be able to delegate more specialised tasks to key function performers.

In this [overview](#) we provide practical recommendations for embedding the key functions and key function holders at pension funds. The practical application in specific circumstances depends on various factors, such as the size of the funds, the governance model, the set-up of the organisation, and how the independence of key function holders can be best safeguarded.

The requirements entered into force on 13 January 2019 and this overview can help with making final tweaks. The Dutch Central Bank has also acknowledged that the implementation period is not long and that it is taking this into consideration, for instance, by setting reasonable terms for the application of key function holders for the Dutch Central Bank's suitability and integrity tests.

For a Dutch version of this article, click [here](#).