

- **European Securities Markets Authority**
103 Rue de Grenelle
75007 PARIS
FRANCE

REFERENCE: B/12/6032/SR

DATE: April 2, 2012

SUBJECT: Response to ESMA. EBA and EIOPA Discussion Paper "Draft
Technical Standards on risk mitigation techniques for OTC Derivatives
not cleared by a CCP"

Dear Sir/Madam,

1. Introduction

On behalf of approximately 350 pension funds, the Federation of the Dutch Pension Funds promotes the pension interests of 5.6 million participants, 2.7 million pensioners and 8.3 million early leavers.

About 85% of the total number of Dutch employees is participant of a pension fund which is associated with the Federation of the Dutch Pension Funds. The Federation of the Dutch Pension Funds is a cooperation between the umbrella organizations for industry-wide (VB), occupational (UvB) and company (OPF) pension funds.

Our response to this Discussion Paper has been prepared by a working group of the Federation of the Dutch Pension Funds together with APG Asset Management, PGGM and Shell Asset Management. They are dedicated service providers of largest Dutch Pension Funds.

APG is a Netherlands based asset manager for Dutch pension funds with assets under management of approximately 285 billion euro as at 31 December 2011. APG is itself an indirect subsidiary of Stichting Pensioenfonds ABP, the Dutch pension fund for the government and education sector and the second largest pension fund globally. APG works for more than 20,000 employers and provides for the income of more than 4.5 million Dutch citizens managing over 30% of all collective pensions in the Netherlands.

PGGM Vermogensbeheer B.V. (PGGM) is an asset manager for Dutch pension funds in the care and welfare services based in The Netherlands, with assets under management of approximately €114 billion as at 31 December 2011. PGGM is a wholly-owned subsidiary of PGGM N.V., which is 100% owned by PGGM Coöperatie U.A., a co-operative with more than half a million members. PGGM manages the pension assets of about 2.5 million Dutch citizens.

Shell Asset Management Company B.V. (SAMCo) is an asset and fund management company that provides investment advice and asset management services to pension funds associated with Royal Dutch Shell worldwide. SAMCo has approximately € 40 billion assets under management.

2. General remarks

OTC derivatives are a key risk mitigation tool for us as we seek to match the duration of pension schemes assets with the duration of their liabilities. Pension funds use derivatives to manage risk and mitigate funded status volatility that would be harmful to participants in the pension schemes. The biggest risks faced by pension funds are interest rate risk and currency risk. Not hedging those risk would mean that pensions would be less well-funded and potentially less secure. Without hedging we expose ourselves – and the (future) beneficiaries of our pension funds to significant (volatility) risk. That translates into higher costs and lower pension returns. We do not use OTC derivatives to speculate or take a view on the market – we are not even allowed to do so pursuant to the IORP Directive.

As end-users of derivatives, pension schemes arrangements recognize that well-functioning derivatives markets are important. We fully support legislation to strengthen the OTC derivatives regulations that would promote transparency to facilitate supervision of markets and activities of participants.

However, since the start of the EU debate on derivatives reform, we have voiced our concerns about the negative (cost) impact that the imposition of margin requirements would ultimately have on pension funds. EMIR effectively addressed these concerns by including a temporarily exemption that is intended to avoid such a cost impact on pension schemes arrangements.

This exemption ensures that pension schemes arrangement can continue to hedge their risks, without a disproportionate cost impact. We are pleased with the (temporary) exemption in EMIR, and stress that the positive effects of such an exemption should not be partly negated by the imposition of insufficiently calibrated initial margin (hereinafter “**IM**”) requirements.

In our view, in the level 2 process of determining the exact scope of the margin requirements with potentially far-reaching detrimental effects the following elements should be taken into consideration:

- (i) the inherent intent of the EU in exempting pension schemes arrangement
- (ii) pension schemes arrangements’ capacity to mitigate the risks they encounter during the normal course of their business.
- (iii) the fact that the derivatives activities and exposures of pension schemes do not have the potential to create systemic risk.

We would like to stress that we are not against the concept of IM, but believe that it should come at an acceptable cost and take into account the credit risk posed by pension schemes arrangements. The level 2 regulations should not jeopardise the outcome of EMIR by imposing disproportionate IM requirements on OTC trades with pension schemes arrangements.

3. Key remarks

- Although Article 11 EMIR stipulates that pension schemes arrangement, as financial counterparties, are subject to bilateral collateral requirements, one cannot deduce from the text of that Article whether and to what extent pension schemes arrangements as defined under Article 2 EMIR will have to post IM for bilateral transactions. The reason for this is that Article 11 makes no distinction between “**IM**” and “variation margin” (hereinafter “**VM**”).
- Currently, pension funds and their dedicated investments vehicles only exchange VM with their counterparties in OTC derivative transaction, not IM, because they are regarded by their counterparties as highly creditworthy. The implementation of Article 11 of EMIR should not be used to impose high levels of IMs on pension schemes arrangements, which would effectively lead to a disproportionate cost impact. This would undermine the outcome of the exemption under EMIR.

- Pension schemes arrangements generally have very large and one-sided OTC derivatives positions. Mandatory IM requirements would necessitate new and costly incremental funding requirements for pension schemes arrangements. The outcome of IM calculations would be very high, due to the fact that the derivatives transacted by pension schemes arrangements are typically long-dated and one directional, meaning that very little offsetting options exist in the portfolio that would reduce the overall amount. Unlike derivatives dealers most pension schemes arrangements do not have expedient and low-cost access to liquidity sources.
- Given our large one-sided exposures, pension schemes arrangements are disadvantaged in being able to manage IM in comparison to derivatives dealers, who generally see more trading flow with offsets and have a broader base of counterparties to allow for lower margin requirements. Again, while unintended, the impact of IM requirement may be disproportionately high for pension schemes arrangements. Forcing high levels of IM on pension schemes arrangements could potentially mean that pension schemes arrangements would have to set aside large cash reserves to meet margin rules, thereby starving off new investments in European companies.
- If pension schemes arrangements are required to keep high cash margins to back their OTC derivatives based on their one-sided total positions/exposure, this will increase the costs associated with OTC derivatives, making it more expensive for pension schemes arrangements to insulate themselves from risk. Eventually the extra costs will be borne by the pensioners and many millions EU citizens saving for their retirement.
- The chance of a pension fund not being able to fulfil its obligations is very small for several reasons. Pension funds have significant control over their financial solidity because they can (i) increase pension premiums; (ii) decide on whether or not to provide indexation of pensions; (iii) decrease the value of pension benefits. Pension funds are non-commercial institutions: they operate as foundations which are independent and non-profit legal entities that are set up and governed by (representatives of) employee and employers (organisations) in equal representation.

They are not part of any company and do not have shareholders/investors to whom they have to pay dividends. Profits, losses and costs are only to the advantage or detriment of (the value of benefits of) future pension fund beneficiaries, pensioners and sponsoring employers, if bound by contract to pay up for deficits e.g. by increasing contribution levels. For these reasons the theoretical risk of a pension fund not fulfilling its obligation as a counterparty to a derivative transaction in a short term is very limited.

- Given the above and the size of the potential obligations, we suggest that credit risk should be taken into account when calculating margin. To capture the expected costs of default, IM should be a function not only of the impact but also the likelihood of a market participant defaulting. Objections to the concept of determining margin based on the credit risk posed by a client such as that a monitoring process across counterparties would then be required, would not hold, since on the contrary it is easy to establish such processes. Banks should also not be incentivized to classify pension schemes arrangements as high yield counterparties, and arrangements should be put in place to ensure that the IM requirements are not misused to collect high levels of IM.
- For the determination of IM it is of the utmost importance that there is one common methodology that sets out how IM should be calculated. This is necessary because there should be no ambivalence or arbitrage possibilities for the setting of IM by market parties. An option would be to have ESMA set a standard. In addition it is important from a systemic impact perspective to re-determine IM on an annual basis. Especially parties such as pension funds tend to have longer dated derivative transactions and due to e.g. interest rate movements or general volatility in the market the IM determination may lead to a different result over time, which would need to be reflected. For the shorter dated derivatives – e.g. shorter than 1 year – this would not be necessary.
- Alternatively, instead of imposing IM requirements, pension schemes arrangements could be required to post an independent amount, which is a fixed amount instead of a fluctuating amount based on the total outstanding exposure/positions of a counterparty. This should suffice in addition to the VM requirement.

- The Discussion Paper states that for IM to be effective it should be held on a segregated basis, separated from the receiving party's own assets and should not be re-used. We support that principle and would like to emphasize the importance of the introduction of IM not leading to additional risk for non-systemic institutions such as pension funds. However, even the posting of IM with more systemic relevant institutions could already lead to an increase in risk. Recent failures to properly segregate assets at some institutions have already led to losses for investors, as we have for instance seen in the MF Global case. Therefore we would strongly suggest having IM collateral held in a segregated account with a right of pledge in the name either with the parties' own or a third party custodian.
- Furthermore, we see a clear distinction between how the re-use of IM and VM should be treated. IM functions as a buffer and must be available when a counterparty defaults and therefore a right of re-use would be inappropriate. However, VM is the value of an outstanding contract and in case of a default can be offset against outstanding positions. As the (liquidity) risk of re-use of VM lies completely with the VM receiver we have no objections to the re-use of VM. It is already current market practice to re-use VM collateral – and in fact it needs to be re-used because certain collateral needs to yield a certain return that needs to be paid to the VM provider – and maintaining that practice would not increase systemic risk, while restricting would seriously impede on the pool of available collateral and could lead to a collateral squeeze with systemic relevance. We therefore strongly recommend that re-use of VM remains possible. If VM could not be re-used this would lead to an immediate liquidity squeeze and potentially systemic crisis under certain circumstances. We therefore strongly recommend that re-use remains possible.
- For pension funds, the one-sided exposure in particular in relation to interest rates is considered a reduction of the interest risk of the liabilities. By contrast, the financial markets perceive these interest rate transactions as increasing risk. (IV.10 Cost-benefit analysis) .

Please find below as an Annex to this letter our specific and more technical comments on certain elements of the discussion paper. We hope that our response is of assistance. Should you have any (remaining) questions or would like additional clarification, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Gerard Riemen', with a long, sweeping horizontal stroke extending to the right.

Gerard Riemen
Managing Director

ANNEX: SPECIFIC REMARKS**Q1. What effect would the proposals outlined in this discussion paper have on the risk management of insurers and institutions for occupational retirement provision (IORPs)?**

Please see our key remarks. VM requirements will have no impact if not required in the form of cash. However, if the creditworthiness of pension schemes arrangements is not sufficiently taken into account, the IM requirement may have a disproportionate cost impact. This may even undermine the transitional exemption for pension funds arrangements.

Article 11 EMIR applies to pension schemes arrangements and consequently they would have to meet the requirements for bilateral clearing. Although pension schemes arrangements are required to meet the bilateral collateralisation requirements, it is not specified whether and to what extent pension schemes arrangements should post IM. To our view, the application of Article 11 EMIR should be read in the context of the transitional exemption for pension schemes arrangements and imposing IM requirements should be done against the background of preventing a disproportionate cost impact.

Q2. What are your views regarding option 1 (general IM requirement)?

Our view depends on how this option will be implemented. We would like to stress that we are not against the concept of IM, but believe that it should come at an acceptable cost and take into account the credit risk of pension schemes arrangements. In our opinion, pension funds and the entities acting solely and exclusively in their interest, which would be the vehicles used exclusively for asset pooling purposes by pension funds and the dedicated treasury entities of pension funds, should not be treated the same as banks and broker-dealer. These “pension schemes arrangements” have a totally different risk profile than other commercial and risk taking market participants and do not create systemic risk.

For IM requirements, we would support a combination of option 1 and 3 (threshold). Pension schemes arrangements as defined in EMIR should be subject to a higher threshold or to no IM at all. The thresholds should not be their outstanding one-sided derivatives positions/exposures, but take the credit risk pension schemes arrangements pose into considerations.

Q3. Could PRFCs adequately protect against default without collecting IMs?

Yes. This is also the reason why pension schemes arrangements currently do not post IM. The IM requirements should be clearly linked to the risks of the counterparties. Pension funds are very creditworthy, conservative, stable, long-

term and non-commercial institutions. They operate as foundations which are independent and non-profit legal entities that are controlled by employee and employers organizations. They are not part of any company and do not have shareholders to whom they have to pay dividends. The theoretical risk of bankruptcy of pension funds is very limited. Pension funds can mitigate this risk by either (i) increasing the premiums (ii) no indexation of pensions, (iii) decreasing payments to the pensioners or (iv) prolonging the retirement age.

Therefore, banks do not run counterparty risk when entering into transactions with pension funds as the counterparty risk of pension funds is very limited, or even non-existent.

Pension schemes arrangements could also be protected against default by pledging portfolios of government bonds or similar securities.

Q4. What are the cost implications of a requirement for PRFC, NPRFC and NFCs+ to post and collect appropriate IM? If possible, please provide estimates of opportunity costs of collateral and other incremental compliance cost that may arise from the requirement.

We currently do not collect nor post IM. If we have to post IM based on our one-sided large derivatives positions/exposure, the cost impact of this would be tremendous. This is why it would be essential to base any IM requirement on the creditworthiness of pension funds. Alternatively, a fixed independent amount could be considered.

Q5. What are your views regarding option 2?

Whether or not IM is collected from a counterparty should not be dependent on whether the counterparty falls in the category PRFC or NPRFC, but rather on a rigorous risk analysis of the counterparty.

Q6. How – in your opinion – would the proposal of limiting the requirement to post IM to NPRFCs and NFCs+, impact the market / competition?

This would create undesired arbitrage possibilities for market parties. For example, NPRFCs will trade with each other in order to avoid having to post IM and e.g. PRFCs could restructure themselves in order to fall into the NPRFC category.

Q7. What is the current practice in this respect, e.g.

- If a threshold is currently in place, for which contracts and counterparties, is it used?
- Which criteria are currently the bases for the calculation of the threshold?

As one of the largest pension funds in the world, it should be clear that our positions are large and one-sided. We would certainly favor a threshold. However, such a threshold should not be based on the positions/exposure we have, but should instead take into account the credit risk we represent.

As said above under Q3, our counterparties do not run counterparty risk when entering into transactions with us. Pension schemes arrangements' counterparty risk is very limited or even non-existent. Pension schemes arrangement are no commercial undertakings and bankruptcy risk is very limited or non-existent. They can rebalance "bad economic times" by either (i) increasing the premiums (ii) no indexation of pensions, (iii) decreasing payments to the pensioners or (iv) prolonging the retirement age.

Q8. For which types of counterparties should a threshold be applicable?

See under Q7.

Q9. How should the threshold be calculated? Should it be capped at a fixed amount and/ or should it be linked to certain criteria the counterparty should meet?

It should be linked to certain criteria, such as the creditworthiness of the counterparty. Alternatively an independent fixed amount could be considered provided that this is not set too high and reflects the creditworthiness of pension schemes arrangements.

Q10. How - in your opinion - would a threshold change transactions and business models?

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Q11. Are there any further options that the ESAs should consider?

Yes, we have difficulty with the way in which parties are placed into the categories. As indicated under Q6 the categories should be linked to the amount of risk the members of that category pose to the financial system.

Q12. Are there any particular areas where regulatory arbitrage is of concern?

Please refer to our answer to Q6.

Q13. What impacts on markets, transactions and business models do you expect from the proposals?

In general, trading in derivatives will become more expensive, hence leading to a reduction in risk hedging transactions, creating additional risk in the system rather than reducing it. The price of eligible collateral will rise due to increased demand and also the eligible collateral will be locked away for a considerable period of time. The market will become heavily dependent on the repo markets

for collateral transformation purposes with an increased danger of liquidity squeezes.

Pro-cyclicality is another important issue. Depending on the way IM is calculated and prescribed, under certain stressed circumstances, the IM requirements may lead to liquidity being absorbed, which may have an adverse impact on market participants and the financial markets.

Q14. As the valuation of the outstanding contracts is required on a daily basis, should there also be the requirement of a daily exchange of collateral? If not, in which situations should a daily exchange of collateral not be required?

Yes, there should be the requirement of a daily exchange of collateral.

Q15. What would be the cost implications of a daily exchange of collateral?

We do not expect additional costs compared to the current situation.

Q16. Do you think that the “Mark-to-market method” and/or the “Standardised Method” as set out in the CRR are reasonable standardised approaches for the calculation of IM requirements?

No, because the chances of default of the counterparty should be incorporated in the approach for the calculation of IM requirements.

Q17. Are there in your view additional alternatives to specify the manner in which an OTC derivatives counterparty may calculate IM requirements?

Please refer to our answer to Q16 for a general approach to calculating IM requirements.

Q18. What are the current practices with respect to the periodic or event-triggered recalculation of the IM?

Please refer to our answer to Q16 for a general approach to calculating IM requirements.

Q19. Should the scope of entities that may be allowed to use an internal model be limited to PRFCs?

Please refer to our answer to Q16 for a general approach to calculating IM requirements.

Q20. Do you think that the “Internal Model Method” as set out in the CRR is a reasonable internal approach for the calculation of IM requirements?

Please refer to our answer to Q16 for a general approach to calculating IM requirements.

Q21. Do you think that internal models as foreseen under Solvency II could be applied, after adequate adjustment to be defined to the internal model framework, to calculate IM? What are the practical difficulties? What are the adjustments of the Solvency II internal models that you see as necessary?

Please refer to our answer to Q16 for a general approach to calculating IM requirements.

Q22. What are the incremental compliance costs (one-off/on-going) of setting up appropriate internal models?

Please refer to our answer to Q16 for a general approach to calculating IM requirements.

Q23. To what extent would the „mark-to-market method“ or the „standardised method“ change market practices?

Please refer to our answer to Q16 for a general approach to calculating IM requirements.

Q24. Do you see practical problems if there are discrepancies in the calculation of the IM amounts? If so, please explain.

Yes, the problem is that the cost of maintaining IM is not distributed fairly between the parties commensurate with the risk they pose to the system.

Q25. Would it be a feasible option allowing the party authorised to use an internal model to calculate the IM for both counterparties?

No.

Q26. Do you see other options for treating such differences?

The way IM is calculated should be agreed on a bilateral basis and fixed in contracts such as ISDA master agreements.

Q27. What kinds of segregation (e.g., in a segregated account, at an independent third party custodian, etc.) should be possible? What are, in your perspective, the advantages and disadvantages of such segregation?

We would prefer that the IM collateral is held in a segregated pledged account either with the parties' own or a third party custodian and it should be possible to exchange IM collateral for other eligible IM collateral on a daily basis. The advantages are that there is no danger that the parameters of the portfolio are changed by collateral transformation and the collateral is not lost when the counterparty defaults. The disadvantage could be the cost of maintaining and monitoring multiple segregated pledged accounts.

We do not see the need to implement segregated pledged accounts for VM collateral. We see a clear distinction between IM and VM and the way it should be treated. IM functions as a buffer and must be available when a counterparty defaults. VM is comparable to the cash settlement of outstanding contracts (like with futures contracts), and must not be segregated. In case of a default the VM can be set-off against outstanding positions. As the (liquidity) risk of re-use of VM lies completely with the VM receiver we have no objections to the re-use of VM.

Q28. If segregation was required what could, in your view, be a possible/adequate treatment of cash collateral?

We are not in favour of using cash for IM collateral. This would create all kinds of practical problems and undesirable risks, e.g. cash will be held on a cash account with a bank leading to (increased/additional) exposure to that bank.

Q29. What are the practical problems with Tri-Party transactions?

Tri-Party transactions would lead to more payment and collateral flows, is more time-critical and would require more intensive monitoring. The contracts are also more difficult and expensive to negotiate.

Q30. What are current practices regarding the re-use of received collateral?

Most VM is re-used.

Q31. What will be the impact if re-use of collateral was no longer possible?

If VM could not be re-used this would lead to an immediate liquidity squeeze and systemic crisis. We therefore strongly recommend that re-use of VM remains possible.

Q32. What are, in your view, the advantages and disadvantages of the two options?

A major disadvantage of option 1 is that there simply will not be sufficient collateral available. An advantage of option 2 is that it creates more flexibility to choose the appropriate collateral to mitigate a specific risk.

Q33. Should there be a broader range of eligible collateral, including also other assets (including non-financial assets)? If so which kind of assets should be included? Should a broader range of collateral be restricted to certain types of counterparties?

Yes. In theory every asset can function as collateral as long as the appropriate haircuts are applied. The type and range of collateral should for example be linked to the credit quality of the counterparty.

Q34. What consequences would changing the range of eligible collateral have for market practices?

If the range of eligible collateral is too narrowly defined, the market for these types might dry up. In times of stress there will be a huge demand for this collateral, driving up prices and decreasing liquidity. The risk of a party not being able to get hold of eligible collateral in time (and consequently the risk of default of that party) increases. A too narrow range of collateral therefore can increase systemic risks, while its purpose is to decrease it.

Q35. What other criteria and factors could be used to determine eligible collateral?

The liquidity (in stress) and non-correlation of the collateral is the most important factor, even more important than the credit quality of the collateral.

Q36. What is the current practice regarding the frequency of collateral valuation?

We perform daily valuation of collateral.

Q37. For which types of transactions / counterparties should a daily collateral valuation not be mandatory?

In theory, this would apply to less liquid collateral provided appropriate haircuts are applied. However we are in favour of daily valuation for all collateral.

Q38. What are the cost implications of a more frequent valuation of collateral?

We already perform daily valuation of collateral.

Q39. Do you think that counterparties should be allowed to use own estimates of haircuts, subject to the fulfillment of certain minimum requirements?

Yes, provided that the models behind these estimates are validated by independent third parties and both parties agree.

Q40. Do you support the use of own estimates of haircuts to be limited to PRFCs?

No, again, we feel the categorization of PRFC's, NFC's etc. is not appropriate. Also, this could lead to PRFCs adjusting their estimates of haircuts in such a way that they would always receive the collateral they most desire.

Q41. In your view, what criteria and factors should be met to ensure counterparties have a robust operational process for the exchange of collateral?

Counterparties should be able to value, collect and post collateral on a daily basis. They should be able to give full insight in all collateral positions (IM, VM, posted, collected) on a daily basis.

Q42. What incremental costs do you expect from setting up and maintaining robust operational processes?

We do not know. This depends on the difference between the current practice and the required practice.

Q43. What are your views regarding setting a cap for the minimum threshold amount? How should such cap be set?

We agree to a cap on MTAs. The height of the cap should be dependent on the size of the cash flow in relation to the cost of transferring the collateral.

Q44. How would setting a cap impact markets, transactions and business models?

This would depend on the height of the cap. We refer to the latter part of the answer to question 43.

Q45. In your views, what should be considered as a practical or legal impediment to the prompt transfer of own funds or repayment of liabilities between the counterparties?

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Q46. What is the current practice regarding the collateralisation of intragroup derivative transactions?

Please note that in the Netherlands, the largest part of the pension funds' assets is managed through collective investment vehicles in which multiple (and exclusively) pension funds invest. With the ongoing consolidation in the Dutch pension industry (currently representing approximately 400 funds as opposed to 800 funds in 2009) many Dutch pension funds have, for the purposes of professional management, improved risk management and to benefit from economies of scale, outsourced the day-to-day management of their assets to an individual or joint service administration company. These service administration companies are separate organizational entities, although owned/controlled by the pension funds and/or are dedicated to operating solely for the benefit of the pension funds.

Many of said service administration companies facilitate pooling structures for pension funds in order to efficiently maximize returns from a purely operational and administrative perspective against the lowest possible costs for (ultimately) the pension beneficiaries. These asset pooling structures are not available other than within the scope of overarching individual management mandates given by the pension funds to the service administration companies and are by no means marketed to nor available for parties other than pension funds.

Within such a pension pooling structure, both the pension funds and the collective investment vehicles enter into derivatives contracts with so-called treasury entities. These treasury entities are set up for “internal” netting purposes and operational efficiencies. By netting their positions through a treasury entity, pension funds limit their exposure to external counterparties. The treasury entity acts solely and exclusively in the interest of the pension funds.

All of these entities fall within the scope of the definition of pension scheme arrangements, but their transactions do not necessarily fall under the definition of intra-group transactions. If the transactions between these entities would be subject to (daily collateral exchange) requirements any benefit of using a pooled vehicle would be gone. To avoid a disproportionate cost impact the “internal” trades of the pension funds and the collective investments vehicles with the treasury entity should not be made subject to margin requirements.

Q47. What is the impact of the presented options on the capital and collateral requirements of the counterparties affected by the relevant provisions and the span of time necessary to comply with the Regulation?

For long-only investors (that are part of PRFCs) the availability of eligible collateral is crucial. Especially the posting of IM can have a severe drag on the performance as investors must hold large portfolio's of assets with low yields. If the costs of hedging risks increase, the business case for hedging could be reconsidered, possibly leading to less hedging and hence increasing risks in the system.

For pension schemes arrangements, the one-sided exposure in particular in relation to interest rates is considered a reduction of the interest risk of the liabilities. By contrast, the financial markets perceive these interest rate transactions as increasing risk.