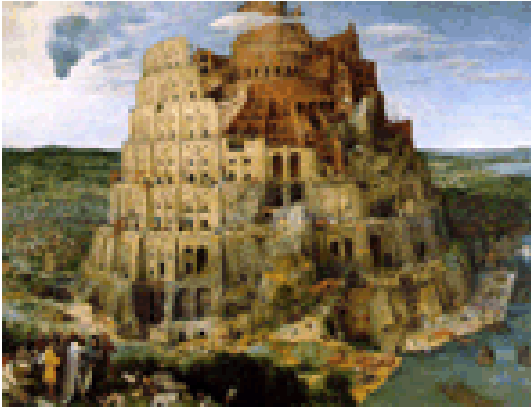


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## Brussels: The new Tower of Babel?

*Pensions terminology is a confusing mishmash and needs to be simplified. Jeremy Woolfe asks whether it is causing problems not just for legislators but for all those who are pushing toward comparability in the finance and pensions industries.*



A meeting involving different EU nationalities might waste time untangling definitions. Direct translations from one language to another do not overcome the confusion because terms are so different.

Today's situation has parallels with the mythical Tower of Babel. Genesis, Chapter 11, holds as an ideal that "the whole earth was of one language, and of one speech". However, the ideal broke down. This was God's retribution for hubris, entailed in the construction of the tower "who's top may reach unto heaven". The result was "language being confounded... that [people] may not understand one another's speech." The comparison with pension terminology is apt.

Chris Verhaegen, secretary general of the European Federation for Retirement Provision (EFRP), suggests that the first step towards a solution should be agreeing a common EU criteria. These should be collated in a table for comparison purposes, in other words, 'a complete mapping' of the various systems. In its official response to the European Commission's green paper on pensions, the EFRP proposes "a matrix on European pension systems".

The matrix would allow member states "to fit their pension systems into a European template". Once the systems were mapped, discussion on categorising them as "social security arrangements" or "social protection schemes" could begin. The boundaries between the different layers, or tiers, of retirement income could be clarified at an EU-level based on commonly agreed indicators for each tier.

However, Verhaegen admits that creating the matrix would not be easy. "It would be optimistic to think it could be done in a year," she comments. She cites first and second pillars as one example of the confused definitions.

Another example is the term pension itself, which in some member states is only defined from a fiscal perspective. Verhaegen says that although the matter has caught the attention of the EU Council progress is slow.

An official at the European Commission confirms that pensions professionals have difficulty in agreeing measurement rules between jurisdictions. Even when so called equivalent standards are supposedly in use, he says few co-ordinate properly.

The route ahead, says the official, must lie with adopting and developing an eXtensible Business Reporting Language (XBRL). XBRL, he continues, "would force harmony across different concepts and definitions used by professional practices in different EU jurisdictions." He says it is essential that the supervisory organisations, such as the European Systemic Risk Board (ESRB) and the ECB, achieve "archive harmony".

XBRL is a computer language used to describe financial data. Dating back to 1999, it is managed by a non-profit consortium, XBRL International. XBRL's technicalities are complex. Its communications systems are defined by sets of metadata, which are established in taxonomies.

Taxonomies include the definition of individual reporting elements and the relationships between different elements. For pensions, the first challenge is to agree common 'tags' to match definitions. Tags are computer readable sets of data that go towards the processing of financial statements.

In Europe, the official says, the take-up of XBRL is, so far, most advanced in the banking sector, which has been using the taxonomies since 2005. At least 12 financial authorities are now demanding it, or allowing it. Gilles Maguet, secretary general of XBRL France, notes that banks in half of the EU are using XBRL to apply Basel III rules.

Although Maguet says that adoption by the pension world is "a bit late", progress in the insurance industry – driven partly by the Solvency II – has been of benefit to pensions accounting.

Upgrades would enable the insurance and pension investment firms to be able to communicate better with authorities such as the Insurance and Occupational Pensions Authority (EIOPA). The authority took over from Committee of European Insurance & Occupational Pensions Supervisors (CEIOPS) on 1 January.

Last year, CEIOPS stated that, for insurance, the taxonomy is still being worked out. A binding solution is scheduled for early 2013.

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