



Press Release

Nice, April 28th, 2009

A new EDHEC report assesses the impact of regulation on the asset-liability management of European pension funds

A new study produced by the EDHEC Risk and Asset Management Research Centre, entitled “Impact of Regulations on the ALM of European Pension Funds,” analyses the impact of prudential and accounting constraints on the asset-liability management (ALM) of European pension funds in the Netherlands, the UK, Germany, and Switzerland.

Among the highlights of this report:

- ❖ **The retirement system would be more stable if regulators were more willing to tolerate short-term risk.** The challenge for the regulator is to take a long-term approach to regulation because specific attention should be paid to the long-term nature of pension funds. Traditional pension liabilities have low short-term replicability, and risk-free long-term strategies involve short-term risk. As a consequence, and because of their role in providing very long-term benefits, the increasing focus on the short term is worrying for pension funds.
- ❖ **Pension funds should build internal models for their risk management strategies.** The idea that risk management is best reflected in an internal model is especially relevant for pension funds; after all, no standard formula can capture the diversity of the pension landscape and the variety of protection mechanisms.

“In a context in which accounting standards and prudential regulations are tightening, requiring greater attention to the volatility of the surplus and less tolerance of underfunding, our report calls for an improvement in ALM strategies and the use of state-of-the-art models—such as dynamic liability-driven investments—for the design of these strategies,” declared Noël Amenc, Director of the EDHEC Risk and Asset Management Research Centre.

Erwan Boscher, Head of ALM Solutions, AXA Investment Managers concluded, “AXA IM’s experience with pension funds and corporate sponsors show that, at a time where credit markets are stressed, short term accounting volatility can create unnecessary strains on balance sheets that does not match the long term nature of pension liabilities. Therefore the conclusions of the study are in line with our field experience.”

This study was sponsored by AXA Investment Managers (AXA IM).

A copy of “Impact of Regulations on the ALM of European Pension Funds” can be downloaded here:

http://docs.edhec-risk.com/mrk/000000/Press/EDHEC_Impact_Regulations_ALM_Euro_Pension_Funds.pdf

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About EDHEC

EDHEC Business School, founded in 1906 and among the select few institutions to have garnered international recognition through the triple crown of EQUIS, AACSB and AMBA accreditations, offers management education designed to meet the needs of companies. Its large range of international graduate programmes draws students from the world over. With its three campuses in Lille, Nice, and Paris, its 5,000 students, more than 25% of whom are from abroad, and its 110 full-time faculty, EDHEC has been ranked among the top European business schools for several years.

For the last four years, as part of its strategy for international excellence, EDHEC Business School has espoused an innovative research policy that takes into account the needs of companies and the market. Research at EDHEC is organised into four centres built on the expertise of the faculty.

EDHEC Business School is recognised as a centre of excellence for asset management and alternative investment research and several of its professors are regarded as international experts in the fields of asset management, fixed income securities, alternative investments and risk management. The aim of the EDHEC Risk and Asset Management Research Centre is to produce research that meets the most stringent academic standards and to facilitate corporate use of this research.

In partnership with large financial institutions, the research centre brings together 45 researchers and implements six industry-sponsored programmes and ten research chairs focusing on asset allocation and risk management in the traditional and alternative investment universes. Adopted by managers and investors, the EDHEC Alternative Indexes are superior measures of performance of the various hedge fund styles.

The research centre maintains a website devoted to asset management research for the business community, www.edhec-risk.com, and has given rise to the offshoot EDHEC Asset Management Education. EDHEC Asset Management Education helps investment professionals to upgrade their skills with the PhD in Finance, asset management training and preparatory courses for the CAIA examinations.

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