Press Release **London, Nice, Singapore, June 21, 2011**

New EDHEC-Risk Institute research highlights the dangers of accounting and sponsor risk for corporate pension plans

A new study entitled "**The Elephant in the Room: Accounting and Sponsor Risks in Corporate Pension Plans**," drawn from the AXA Investment Managers "Regulation and Institutional Investment" research chair at EDHEC-Risk Institute, surveys how pension funds and sponsors manage the main risks they face and how institutional constraints—accounting and prudential regulations, the organisation of the relationship between the pension fund and its sponsor, and social laws—influence the investment strategy of sponsors and pension funds.

The survey elicited 100 responses. The assets under management (AUM) of the pension funds with which the respondents are associated amount to more than €730 billion. Sponsoring companies have a total balance sheet size of more than €5.5 trillion.

Among the main results of the survey:

- **Sponsors of pension funds are concerned primarily about the economic risk of facing higher than expected pension costs—95% mention this risk.** 93% of respondents mention accounting risk, the reported cost of pensions in the sponsors' books as opposed to the true cost of providing pensions, and the balance sheet volatility it causes. Reputation risk comes third.
- For pension funds (especially for traditional defined-benefit ones), the main risk is sponsor default and reduced pensions or curtailment. **Respondents rank sponsor risk as the greatest risk in pension funds (77% mention this risk, usually with the greatest intensity).**
- However, **84% of pension funds do not manage sponsor risk**. The primary reason in Europe for not managing sponsor risk is the presence of pension fund insurance (46% of respondents). In "other reasons", 15% of respondents argue that the pension fund's sponsor is a government or quasi-government entity, and 4% of respondents have purchased protection from sponsor insolvency.
- The survey finds that **the institutional setup has a great influence on the risk management practices of sponsors and pension funds and that it contributes to inefficiencies in the management of risks**.
- Last, **respondents fear regulatory changes because such changes cannot be hedged**. In the debate on IAS 19 changes, respondents favour transparency: 49% (54% in the UK) think that reporting the market value of the pension liability in the balance sheet, even if it leads to increased volatility in the balance sheet, leads to improvements, as it provides "better incentives to manage risk" or "adds necessary transparency." But **the main worry of sponsors is those changes that lead to an increase in the cost of providing pensions**. The possible use of a risk-free discount rate to discount liabilities would imply an automatic increase in the pension liability and in reported shortfalls.

A copy of the study can be downloaded via the following link:

EDHEC-Risk Publication: The Elephant in the Room: Accounting and Sponsor Risks in Corporate Pension Plans

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About EDHEC-Risk Institute

EDHEC-Risk Institute is part of EDHEC Business School, one of Europe's leading business schools and a member of the select group of academic institutions worldwide to have earned the triple crown of international accreditations (AACSB, EQUIS, Association of MBAs). Established in 2001, EDHEC-Risk Institute has become the premier European centre for financial research and its applications to the industry. In partnership with large financial institutions, its team of 90 professors, research engineers, research associates and support staff implements six research programmes and eleven research chairs focusing on asset allocation and risk management in the traditional and alternative investment universes. The results of the research programmes and chairs are disseminated through the three EDHEC-Risk Institute locations in London, Nice and Singapore.

EDHEC-Risk Institute validates the academic quality of its output through publications in leading scholarly journals, implements a multifaceted communications policy to inform investors and asset managers on state-of-the-art concepts and techniques, and forms business partnerships to launch innovative products. Its executive education arm helps professionals to upgrade their skills with advanced risk and investment management seminars and degree courses, including the EDHEC-Risk Institute PhD in Finance.

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About AXA IM

AXA Investment Managers is an active asset manager fully owned and backed by the AXA Group, a world leader in financial protection. With 516* billion euros under management, AXA IM is ranked 14th amongst the top 100 asset managers worldwide,** and employs more than 2,400 employees operating in 23 countries worldwide. It is acknowledged as a thought leader and key player in the asset management industry owing to its innovative and entrepreneurial mindset, the recognised excellence of its research, and the quality of its investment solutions and services. AXA IM services the specific, evolving needs and expectations of a wide variety of clients, ranging from the AXA Group and its insurance companies, to distributors—wholesale and retail—, and institutional investors—pension funds, insurance companies, corporates, non-profits, family offices and sovereign wealth funds.

AXA IM's multi-expert business model, composed of seven single asset-class-driven teams of investment experts and one Investment Solutions team, enables it to benefit from the strength and stability that characterise a large, global organisation while maintaining the agility and flexibility of smaller businesses. This multi-expertise also enables it to offer the most relevant products across all major asset classes and alpha strategies whatever the market cycle. The model includes the following empowered and specialised teams of experts:

• AXA Fixed Income
• AXA Framlington
• AXA Rosenberg
• AXA Funds of Hedge Funds
• AXA Private Equity, AXA Real Estate
• AXA Structured Finance

These teams of experts are backed by the strength and scalability of shared support functions such as Research & Investment Strategy, Responsible Investment, Risk Management or Trading. And their product offerings form the bricks with which the Investment Solutions team builds the most adapted, fit-for-purpose solutions which meet the highest industry standards.

*As of Dec. 2010 - **As of Sept. 2010