

Consultation paper on draft Opinion on the supervisory reporting of costs and charges of IORPs

Fields marked with * are mandatory.

Responding to the paper

EIOPA welcomes comments on the draft Opinion on the supervisory reporting of costs and charges of IORPs.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA using the EU Survey tool **by Thursday, 22 July 2021, 23:59 CET** by responding to the questions below.

Contributions not provided using the EU Survey tool or submitted after the deadline will not be processed.

Publication of responses

Contributions received will be published on EIOPA's public website unless you request otherwise in the respective field in the survey below. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents [1] and EIOPA's rules on public access to documents[2].

Contributions will be made available at the end of the public consultation period.

Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. They will only be used to request clarifications if necessary on the information supplied. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725[3] on the protection of the individuals with regards to the processing of personal data by the Union institutions and bodies and on the free movement of such data. More information on data protection can be found at <https://eiopa.europa.eu/> under the heading '[Legal notice](#)'.

[1] Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43).

[2] [Public Access to Documents](#)

[3] Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45 /2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39).

About the respondent

* Please indicate the desired disclosure level of the responses you are submitting.

- Public
 Confidential

* Stakeholder name

European Association of Paritarian Institutions (AEIP)

* Contact person (name and surname)

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Questions to Stakeholders

Q1: Do you agree with the objective of implementing a transparent and comprehensive cost reporting for supervisory purposes?

- Yes
 No

Please explain.

We agree with cost transparency and comprehensive cost reporting as an objective of the management board of the IORP and/or the negotiating social partners in the setup of a pension scheme but only to the extent of necessity and without causing more transparency costs than transparency value. Extensive cost communication to the members and beneficiaries should be limited to pure DC schemes with investment options where costs are borne by the members. Clear definitions of cost, a general classification, principles for compilation and templates might be useful to facilitate this communication and reporting purposes. We do not agree with cost transparency and comprehensive cost reporting as an objective of EIOPA nor of the NCA to make an in-depth cost analysis, a benchmarking exercise and/or a cost evaluation with feedback to the IORP. For EIOPA and NCAs, a high-level cost overview should be sufficient.

We would like to take the opportunity for sharing some initial considerations as follows:

Paritarian pension funds are set up by collective agreements of their social partners. They do not present any conflicts of interest. Their affiliated beneficiaries are not customers in this relationship. They are affiliated automatically when concluding their employment contracts. This entitles them to the right on an occupational pension. They do not – and cannot- intervene in any investment decision. There are no options for choice. The investment decisions are taken by the pension scheme's board or asset management department. This system is possible for very lean costs. It is nevertheless not commercial, and there is no competition between paritarian IORPs. Competition is not an objective of paritarian IORPs, as they are not-for-profit institutions. Their strong advantages have another nature: financial stability, security and predictability for the beneficiaries, at low cost levels. There is very little cost involved for marketing or advertisement, and managers receive no bonuses whatsoever. Cost efficiency is excellent. We invite EIOPA to assess cost transparency in the light of the described setup of paritarian pension schemes. This should be done in a field study to define the problem that should be solved via "cost transparency and comprehensive cost reporting". Increased transparency efforts require higher costs. In return, there must be an added value. In our view, supervision does not extend to a purely economic dimension.

Furthermore, Cost transparency and comprehensive cost reporting is connected with national social & labour law:

- Does the sponsor provide the plan as agreed amongst social partners
- For those cost and charges which are individual and directly born by members, it is essential to include them on the annual pension benefit statement
- Indirect or collectively allocated costs should be reported at entity (or pension scheme level). In Belgium e.g., the social and labour regulation includes these type of costs in a so called "transparency report" which is on request available to members and beneficiaries. In German paritarian IORPs e.g., the conditions of the pension plan are established based on actuarial principles and needs to be endorsed by the supervising authority.
- With respect to supervisory convergence, the costs caused depend on the organisation of the scheme. When it comes to comparison between schemes, the basic rule should apply: to compare equal objects (and to treat them equally), while treating different objects unequally. This is true at both EU level and national levels.

Q2: Do you agree that Annex 1 provides a balanced view of the costs and benefits of the draft Opinion?

- Yes
 No

Please explain and provide any suggestions.

We believe the need for cost reporting and related supervisory actions is highly depending on the structure of the market. A DB market or even a DC market where investment portfolios are set collectively highly differ from a pure DC market based on an individual's free choice of the investment fund/provider.

Taking a one size fits all approach generates unnecessary costs for many small and medium sized IORPs, which is detrimental for the members' benefit and which destroys the affordability for many sponsors to organise an adequate pension scheme.

We therefore advocate for an approach which is as close as possible to the relevant market.

As hardly any IORP is "selling" or "commercialising" a product across Europe, we believe supervisory convergence is subordinate to efficiency, value for money and affordability.

Increasing regulatory requirements, reporting requirements leads to administrative burden and increases costs. As in many cases this does not bring value for money for the member, these initiatives are seen as detrimental for the efficiency of the IORP and makes many pension schemes no longer affordable for sponsors. In extreme it makes them running away from the triangular approach to organise pension benefits via not for profit solutions and forces them to opt for commercial products at higher cost, less control (especially for smaller parties) and less tailor-made solutions with in the end lower benefits for the members. As the cost attached to this burden are fixed costs we notice that mainly the small and medium sized sponsors and IORPs are heavily impacted.

We believe paritarian pension schemes to be not commercial at all. Therefore, there is less risk of hiding business profits carried by the beneficiaries via high (investment) costs.

Q3: Do you agree with the generic cost classification distinguishing investment, transaction and administration costs as well as costs borne by the sponsor?

- Yes
- No

Please explain and provide any alternative classification that should be considered.

We do not agree with cost transparency and comprehensive cost reporting as an objective of EIOPA nor of the NCA to make an in-depth cost analysis, a benchmarking exercise and/or a cost evaluation with feedback to the IORP. For EIOPA and NCAs, a high-level cost overview should be sufficient.

We do not agree to include sponsor costs. The IORP is not in a position to ask the sponsor detailed information on costs except if this information is publicly available. The IORP, nor the CA, nor EIOPA, have the competencies to control sponsor information on costs.

There would not be any advantage for the beneficiaries if the sponsor costs were reported, because this might provoke a cost cutting initiative by sponsors.

Q4: In your view, do the definitions in Annex 2 cover the most important items of investment, transaction and administrative costs?

- Yes
- No

Please explain and provide any suggestions for the inclusion of other cost elements not explicitly mentioned in the definition.

The definitions are only a basis for a purpose of common understanding and communication between authorities, but they should not be taken as a mandatory basis for reporting purposes.

Q5: Do you agree that all costs should be reported as nominal amounts in the reporting currency and as a percentage of average assets under management?

- Yes
 No

Please explain.

We agree with cost transparency and comprehensive cost reporting as an objective of the management board of the IORP and/or the negotiating social partners in the setup of a pension scheme as well as its importance for members and beneficiaries as part of their pension benefit communication but only to the extent of necessity and without causing more transparency costs than transparency value. Extensive cost communication to the members and beneficiaries should be limited to pure DC schemes with investment options where costs are borne by the members. Clear definitions of cost, a general classification, principles for compilation and templates might be very useful to facilitate this communication and reporting purposes. We do not agree with cost transparency and comprehensive cost reporting as an objective of EIOPA nor of the NCA to make an in-depth cost analysis, a benchmarking exercise and/or a cost evaluation with feedback to the IORP. For EIOPA and NCAs, a high-level cost overview should be sufficient.

As administration, investment, and transactions costs are hardly and expensively to distinguish paritarian IORPs should refrain from reporting them at that level of detail. Additionally, the document does not define "average assets under management".

Q6: Do you agree that the cost reporting should also be at the level of the schemes/investment options where IORPs provide multiple schemes/investment options with different investment policies?

- Yes
 No

Please explain and provide any benefits of or obstacles to report costs at the level of pension schemes or investment options.

Social partners define in common the conditions for a paritarian IORP. This is far more cost efficient. Where there are no investment options to the insured persons, there is no reason for granular reporting, as it would not have any objective or benefit – while, on the other hand, be demanding resources.

Many of the members of AEIP do not provide investment options to their beneficiaries. Therefore, we don't see any needs for cost reporting in this case.

Q7: Do you agree with the principles for the compilation of information on costs and charges:

	Yes	No
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- look-through and no netting	<input type="radio"/>	<input checked="" type="radio"/>
- costs paid directly by the sponsor	<input type="radio"/>	<input checked="" type="radio"/>
- matching	<input type="radio"/>	<input checked="" type="radio"/>
- taxation	<input type="radio"/>	<input checked="" type="radio"/>
- reporting currency	<input type="radio"/>	<input checked="" type="radio"/>
- estimations	<input type="radio"/>	<input checked="" type="radio"/>
- proportionality	<input type="radio"/>	<input checked="" type="radio"/>

Please explain.

The look-through approach clearly has its limits. There should be a balance between effort and cost. Some funds reported as a separate line item on the list of assets, do not even represent 1% of the total section's value. Guidance on how to report is very abstract. There are limits in matching the look-through, list of assets and balance sheet due to the multi-currency environment, the used exchange rate and rounding. Matching them on the euro often is not possible.

No-netting is often a useful principle. However, it is difficult for a non-professional to judge on different investment options with different outcomes on cost, risk and long-term return. Pay a higher cost to obtain a higher gross long-term return but with a high level of risk might be on the longer term (we are talking about saving for pensions!) much more interesting than paying for an investment option at low cost, low risk but a very moderate return over the long term. Therefore, we believe it is better to mention a combination of net return (ideally over a longer period) and volatility over time.

Proportionality is an excellent principle in theory but in reality, we notice that it does not work. CA do require full reporting taking into account a one fits all approach. Peer reviews create a kind of EU competition amongst CAs, everyone wants to be the best in class. How to prove that although good practices might be relatively costly?

Any fixed cost on top within an IORP is relatively costly, especially for small and medium sized IORPs. As IORPs are not for profit organisations either the sponsor or the members & beneficiaries directly bear these costs. On top, today, we work in a lower for longer environment with a high focus on cost reduction where any additional cost, from an efficiency point of view, seems to be unacceptable.

Notional percentages are too granular. We feel appropriate to work on best estimation, this is definitely sufficient.

Q8: Do you agree that the possibility under MiFID II to request investment and transaction cost data from portfolio managers and transaction counterparts will facilitate the supervisory cost reporting by IORPs?

- Yes
 No

Please explain and describe any limitations observed with MiFID II disclosure requirements in practice.

There should be a difference regarding cost reporting when DC and DB schemes are compared, due to their different risk factors to the beneficiaries' pensions. It could be an advantage, when IORPs were able to ask their service providers for cost reportings.

As far as the German construction sector is concerned, only a very small share of assets under management falls under MiFID reporting: real estate, fixed income, sovereign bonds, that are the main share, do not.

Q9: Are you aware of other cost classifications used by IORPs to collect information on costs and charges from portfolio managers and transaction counterparts?

- Yes
- No

If yes, please describe and explain these other cost classifications.

Q10: Does in your view the investment cost template in Annex 3 facilitate the collection of costs by IORPs from portfolio managers?

- Yes
- No

Do you agree that the more detailed breakdown of costs enhances the understanding of IORPs in the underlying investment cost structure?

- Yes
- No

Please explain and provide any suggestions to enhance the practicality and insightfulness of the template.

The template in Annex 3 is too granular. We need a cost reporting which reflects decision options. Paritarian pension funds' beneficiaries do not – and cannot- intervene in any investment decision. There are no options for choice. The investment decisions are taken by the pension scheme's board or asset management department. This system is possible at very lean costs. It is nevertheless not commercial, and there is no competition between paritarian IORPs. Competition is not an objective of paritarian IORPs, as they are not-for-profit institutions. Their strong advantages have another nature: financial stability, security and predictability for the beneficiaries, at low cost levels. There is very little cost involved for marketing or advertisement, and managers receive no bonuses whatsoever. Cost efficiency is excellent. We suggest EIOPA to assess cost transparency in the light of the described setup of paritarian pension schemes. The objective of the template is not to introduce new requirements, but rather to support the mission of the supervisory authorities.

The template in Annex 3 will facilitate the collection of costs by IORPs from portfolio managers especially when investments are limited to investment funds. For investments in private debt, private equity, infrastructure, and other alternative asset classes it will be much harder to obtain this information. We should avoid that investment parties will charge high additional fees to obtain this cost information.

A further detail of the cost breakdown might enhance the understanding of IORPs in the underlying investment cost structure but again at the expense of what? Another additional cost while the lower for longer investment environment forces every IORP to further reduce costs and the focus on pension adequacy is keeping us away of putting additional charges at the individual's retirement benefit. We should avoid that the cost transparency objective becomes a cost generator destroying pension savings!

Q11: Do you agree that supervisors should have discretion to determine the level of cost reporting requirements for DB IORPs under paragraph 3.14 to ensure an approach that is proportionate to the objectives?

- Yes
 No

If yes, in what way:

- reduced scope of costs reporting (e.g. only investment, transaction, administrative costs)
 lower frequency of reporting
 full exemption for certain DB IORPs
 other

Please explain.

Only those costs which negatively impact the members' benefits should be reported to the IORP's management board and the members & beneficiaries either via the pension benefit statement or a periodic report. The benefit statement should be used for all direct and individual costs borne by the member charged on either the contribution or the pension saving pot. Other costs should be reported via periodic reports. For all types of DB scheme the mandatory cost reporting should be out of scope.

Proportionality makes a lot of sense in the IORP sector. Parameters should not be an institution's size only, but its risk profile. This is even more meaningful. For instance: small institutions may present significant risks while larger ones might present rather low risk profiles. The risk level of an institution e.g., where the affiliated persons do not intervene in the investment decision, is rather limited. This should be reflected in the reporting requirements.

Q12: Do you agree that supervisors should conduct comparative analysis of IORPs' cost levels to assess efficiency, affordability and value for money offered to members and beneficiaries?

- Yes
 No

Please explain and provide any suggestions for such analysis.

We do not agree with cost transparency and comprehensive cost reporting as an objective of EIOPA nor of the NCA to make an in-depth cost analysis, a benchmarking exercise and/or a cost evaluation with feedback to the IORP. For EIOPA and NCAs, a high-level cost overview should be sufficient.

Checking the efficiency and making a comparative analysis of IORPs is not the role of the supervisor, this is more the role of the IORPs management board to check if the pension scheme is managed in an efficient way. Affordability should be controlled by the one who is paying the contribution to the pension scheme, either the sponsor, or the member or a combination thereof and which are represented on the IORPs board. The member can check in the benefit communication if he or she gets the benefit he or she was promised (value for money). The pension benefit statement mentions all direct and individual costs borne by the member and charged on individual contributions/pension reserves, periodic reports (e.g. a transparency report) mentions all collective or indirect costs (e.g. by mentioning gross/net returns).

Q13: Do you agree that supervisors should be encouraged to publish aggregated cost levels and the results of the comparative cost analyses?

- Yes
 No

Do you agree that supervisors should encourage IORPs to publicly disclose their cost levels?

- Yes
 No

Please explain.

IORPs manage pension schemes which were agreed by social partners in the context of the compensation and benefit packages a sponsor offers to its employees. The organisation of an IORP's activity is fully tailor-made depending on the sponsor's appetite to keep part of the operational activities in house or not. Given the tailor-made character, by definition, there is no comparability of costs.

Therefore, we disagree to publish aggregated cost levels and the results of comparative cost analyses by the supervisor as well as the publication of cost levels by the IORPs

* Q14: Do you have any other comments on the draft Opinion?

- Yes
- No

If yes, please provide these other comments.

The suggested approach should more appreciate the social dimension of many pension schemes. In many member states, a pension scheme is not a "product" that is sold by a financial institution. Often the pension scheme is the result of negotiations with social partners. Once the pension scheme is defined these social partners either opt for an insurance solution or they set up a proper fully tailor made IORP. Given the tailor-made character, by definition, costs are incomparable. The IORP only executes the pension scheme. The pensions fund's only and main goal is to manage the pension scheme in the best interest of the members and beneficiaries. Social and labour regulation is in place to protect members and beneficiaries. That is in clear contradiction to commercial insurance products like those of insurance companies for example. The members of AEIP are not profit-oriented and not supposed to paying any bonuses to their managers. Their primary goal is providing good and safe pensions for our beneficiaries.

Contact

[Contact Form](#)