EIOPA
EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

Comment template for EIOPA's Consultation Paper on the proposed approaches and considerations for EIOPA's Technical Advice, Implementing and Regulatory Technical Standards under Regulation (EU) 2019/1238 on a Pan-European Personal Pension Product (PEPP)	EIOPA-19-628 29 November 2019

Please indicate very clearly if you do not consent to the publication of your response.

Key

The "No" column refers to the ordering of comments received by EIOPA

In the "Name" column, respondents should indicate their affiliation and Member State, where appropriate.

In the "Reference" column, the topic, section and page number should be inserted.

In the "Comment" column, respondents should insert their comments.

The "Processing" column i.e. the response to the feedback will be filled out by EIOPA.

No	Name	Reference	Comment	Processing
1.	AEIP	Q1. Do you have any comments on the presentation of the information documents? Do you find the preliminary, illustrative examples of the mock-up PEPP KID and PEPP Benefit Statements are translating well the outlined objectives?	The Benefit Statement of the PEPP only describes a single element in the consumers pension entitlements. National pension tracking systems and the European tracking system are being set up to allow consumers to have an overview of their total pension entitlements at retirement including first, second and third pillar pensions. These systems should be used to allow individuals to evaluate their total pension benefits, adopting a holistic multi-tier pension approach. As a starting point the PBS of the PEPP should be integrated in	

			these systems. As an example, the PBS should not propose to use separate pension calculators but refer to these existing systems. Consumers can only make decisions when looking at their global pension benefit including occupational pensions funded through IORPS, insured schemes, book reserves, first pillar and third pillar pensions. In regard to consumer communication, we advocate for the use a layered approach. In that respect, the information on the PBS is too detailed and confusing; in particular, the information on costs on the benefit statement is too detailed. A single number/percentage on costs should be provided on the benefit statement. A consumer who wants to learn more about the individual components of that cost should be referred to another document. We also doubt whether it is possible and feasible to have a standardised layout for all PEPP products. The same goes for PEPP KID; for example, when compared with respective documents at the national level, PEPP KID includes less required information. We also feel that information should not be duplicated. The PBS should not include a summary of PEPP features (except for past performance) but only a reference to PEPP KID. On past performance, it would be helpful to mention that these are annual returns and that they do not refer to a longer period.	

			Finally, the monthly payments mentioned on the statement are too vague, not comparable between different statements and could lead to confusion. Importantly, they can be calculated very differently between different PEPPs.	
2.	AEIP	Q2. Do you agree to approach the areas of risk/ rewards, performance and risk mitigation for the PEPP in a holistic manner?	We welcome the idea of EIOPA to provide the return assumptions to be used in the stochastic modelling.	
3.	AEIP	Q3. Do you agree to measure the risk inherent in PEPP as the dispersion of pension outcomes and to link it to objective of reaching at least the long-term risk-free interest rate?	Consumers may expect that a PEPP product, being a long-term investment, at least gives a return which exceeds inflation, since only in this case saving for retirement makes scence. In that respect, PEPP providers should be able to show that the outcome of the investment has a high degree of probability providing long-term returns above inflation.	
4.	AEIP	Q4. To ensure consistency in the application and comparability of the information on past performance, performance scenarios, pension projections, summary risk indicator and to assess the effectiveness of the applied risk-mitigation techniques -	We welcome the idea of EIOPA to provide the return assumptions to be used in the stochastic modelling.	

		do you agree for EIOPA to set the key assumptions and inputs used for the necessary stochastic modelling?		
5.	AEIP	Q5. Do you agree that PEPP's product supervision requires one set of relevant information to carry out the duties of home and host supervisors as well as of EIOPA?	Developing one set of relevant information taking into account differences in applicable national legislation of the different home and host countries might turn out to be more burdensome. A relevant set of information for EIOPA to carry out its duties could be used to complement the information needed by home and host supervisors. All in all, regulatory and supervisory burden should not be too heavy and complex. When IORPs are concerned, any supervisory practices should at least take into consideration the (minimum) supervisory rules included in the IOPR II Directive, bearing in mind that 'Supervisory methods and practices vary among Member States' (recital 47 in IORP II).	
6.	AEIP	Q6. Do you agree with the 'all inclusive' approach to the Basic PEPP's cost cap? Do you agree that the capital guarantee is a distinct feature, which costs should not be included?	The concept of the PEPP requires an 'all inclusive' cost cap. Experience will show if the current cost cap allows the development of PEPP products and attract enough providers to have a competitive market. However, if the PEPP providers do not succeed in offering a basic PEPP within the current cost cap, one should question whether these individual pension products with marketing costs, advisory costs and distribution costs are well suited to pension saving compared to collective systems that do not have these costs. Hence, occupational	

			pensions seem always to be more cost-efficient than third pillar products, as the distribution and marketing channel creates high additional costs. As many occupational pension funds report their costs in a comprehensive manner, there should be a level playing field and fair competition with the PEPPs. In that sense, we should have comprehensive definitions of costs in disclosures. If the PEPP costs are calculated in a different, less comprehensive way, it may seem that PEPPs are more cost efficient than they really are comparatively to occupational pension funds. We therefore have some remarks about the draft RTS and cost definitions for the purpose of disclosure, as set out in the document. There is significant incongruity between the text of the consultation document on the definition of costs to be disclosed in the KID and BS. • 'Investment costs' and 'asset management costs' seem to be used interchangeably in the descriptive text and the text of the actual draft RTS article xa on page 29. • The consultation document gives descriptions what is to be understood by 'administration costs', 'distribution costs', 'cost of safekeeping of assets', 'portfolio transaction costs' and 'costs of the guarantee'. However, these descriptions do not feature in the text of the draft RTS and therefore has no legal value. There	

			would be merit to include the descriptions as non-exhaustive examples in the recitals. The Level 2 framework should also include common principles for measuring costs disclosure, again to avoid costs from being hidden, resulting in an unlevel playing field between PEPP providers or in comparison with other types of pension providers. These principles should include: • A look-through approach for investments in investment funds. • Matching principle: Revenues and costs are attributed to the accounting period to which they relate, and costs are stated in the accounts for the same period as the related revenues. • No offsetting of costs against revenues • Non-recurrent costs should be incorporated We also have comments on the specific cost items: <u>Asset management costs</u> • There could be a clarification that all internal and external costs to the management of assets should be included. Internal costs include personnel costs and overhead related to asset management.	

			External costs include base fees and performance for external asset managers, as well as fees for any other service providers, such as research costs. This could be part of the recitals. <u>Portfolio transaction costs</u> • The focus on costs related to transaction 'fees' seems to exclude the costs of bid-offer spread. In reality this does reduce the value of the assets, so we recommend include mid-spread as costs. • In some jurisdictions there are transaction taxes, which also incur a cost. These should be included. Finally, and in regards to a potential successful implementation of the PEPP, we would like to stress that the cost cap is not comparable with certain national synthetic indicators on costs, such as in Italy.	
7.	AEIP	Q7. Which criteria should be added to foster the application and development of superior risk-mitigation techniques? Which research and learnings should EIOPA consider in its further work?	We appreciate that EIOPA lists a wide variety of risk mitigation techniques and guarantees suggesting a flexible framework. The very distinct nature of these techniques and guarantees makes it more complex and difficult to compare the products they are linked to.	

			To apply the risk mitigation techniques and guarantees it is important to ringfence the assets of the PEPP from the other assets of the provider.	
8.	AEIP	Q8. Do you have any comments on the draft Impact Assessment? Do you have any evidence which could further enrich the draft Impact Assessment?	No comments	
9.	AEIP	Q9. Do you have any other general comments to the proposed approaches?	Any existing regulatory framework and implementing technical standards should not create a privileged treatment for PEPP. Thus, from the perspective of occupational pension funds we want a level playing field, which creates fair terms and prevents unlawful competition, while taking into consideration the position and important role of IORPs in several national contexts. The fact that PEPPs can be provided in different national regulatory frameworks can lead to an opaque, unclear and unfair competition due to differentiated rules and varied implementation imposed by the different NCA. A PEPP contract drafted in a country with a weaker regulatory framework could take advantage of this asymmetry. To this end, we would suggest the use of an approach similar to the insurance sector, where foreign providers are allowed to sell their products, but following all the additional regulations of the host state.	

10.	AEIP	Q10. Do you have any views on the opportunities for PEPP in a digital environment, for example regarding digital information provision and online distribution?	National pension tracking systems and the European tracking system are being set up to allow consumers an overview of their total pension entitlements at retirement including first, second and third pillar pensions. These systems should be used to allow individuals to evaluate their total pension benefits. As a starting point the PEPP should be integrated in these systems and not being developed a stand along framework.	
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