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| From: | Mr Gabriel BERNARDINO, Chairman of the European Insurance and Occupational Pensions Authority (EIOPA) |
| date of receipt: | 18 August 2020 |
| To: | Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union |
| Subject: | Pan-European Personal Pension Regulation: submission of draft regulatory and implementing technical standards, as well as technical advice on delegated acts |

# PAN-EUROPEAN PERSONAL PENSION PRODUCT (PEPP): REGULATORY AND IMPLEMENTING TECHNICAL STANDARDS AS WELL AS ADVICE ON DELEGATED ACTS – IMPACT ASSESSMENT

EIOPA-20-504
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European Insurance and Occupational Pensions Authority

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## PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

Regulation (EU) 2019/1238 on a Pan-European Personal Pension Product (PEPP) sets out several areas for EIOPA to develop draft Regulatory and Implementing technical standards and for the Commission to adopt delegated acts in order to supplement the provisions applicable to PEPPs.

The current impact assessment report refers to the policy proposals on the referred topics developed by EIOPA in its draft Regulatory Technical Standards, draft Implementing Technical Standards and its technical advice on Delegated Acts to be submitted to the European Commission.

According to Articles 10 and 15 of the EIOPA Regulation, EIOPA conducts analysis of costs and benefits in the policy development process. The analysis of costs and benefits is undertaken according to an Impact Assessment methodology.

The development of draft Level 2 measures implementing the PEPP Regulation's[1] requirements required research into best practices, developed at the national level and at other European institutions, consultations with the EBA, ESMA or the ECB, academic research, stakeholder engagement and, in particular for the information documents, consumer and industry testing.

EIOPA carried out two public consultations on its proposals:

- On the draft Regulatory Technical Standards and the draft technical advice on Delegated Acts from 2nd December 2019 to 2nd March 2020, which was accompanied by a public hearing on 24th February 2020.
- On the draft Implementing Technical Standards from 20th March to 20th June 2020 (the consultation period was extended by four weeks due to the implications of the COVID-19 pandemic).

Before the public consultation and for both consultation papers, EIOPA received joint opinions by its two stakeholder groups, Insurance and Reinsurance Stakeholder Group (IRSG) and Occupational Pension Stakeholder Group (OPSG).[2]

Further, EIOPA set up a consultative group of Expert Practitioners[3] for the PEPP to discuss practical aspects of the developed ideas as well as exchanged views with the OECD and outstanding pension academics.

## PROBLEM DEFINITION

When analysing the impact from proposed policies, the impact assessment methodology foresees that a baseline scenario is applied as the basis for comparing policy options. This helps to identify the incremental impact of each policy option considered. The aim of the baseline scenario is to explain how the current situation would evolve without additional regulatory intervention.

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[1] Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP); OJ L 198, 25.7.2019, p. 1–63.

[2] See: https://register.eiopa.europa.eu/Publications/OPSG-19-18_IRSG-19-40_Joint_Position_Paper_on_PEPP-Questionnaire.pdf ; https://www.eiopa.europa.eu/sites/default/files/sg/opsg-20-13-irsg-20-14-joint-advice-on-pepp-consultation.pdf; https://www.eiopa.europa.eu/sites/default/files/publications/administrative/cvs/opsg/opsg-20-24_irsg-20-23_joint_advice_pepp_its.pdf.

[3] See further information on the EIOPA Expert Practitioner Panel on PEPP: https://www.eiopa.europa.eu/content/eiopa-establishes-expert-practitioner-panel-pan-european-personal-pension-product-pepp_en.

For the analysis of the potential related costs and benefits of the proposed Technical Standards and advice on Delegated Acts, EIOPA has applied as a baseline scenario the effect from the application of the PEPP Regulation's requirements.

The PEPP Regulation sets out detailed requirements on key aspects of the PEPP, which enforce the objective of designing a highly standardised and regulated product. Particular attention has been paid to designing a default investment option, the Basic PEPP to offer consumer an investment option that is cost-efficient and appropriate to the majority of the PEPP savers. However, the PEPP Regulation requires further detailed methodologies, approaches and processes to be implemented for important areas, such as the presentation and content of the information documents, the cost cap introduced for the Basic PEPP, the applicable risk-mitigation techniques, supervisory reporting and the collaboration between competent authorities and EIOPA exchanging information on a regular basis as well as EIOPA's product intervention powers.

### OBJECTIVE PURSUED

To ensure a consistent implementation of the PEPP Regulation's requirements, as set out in Articles 28(5), 30(2), 33(3), 36(2), 37(2), 40(9), 45(3), 46(3) and 66(5) of the PEPP Regulation, the following specific objectives have been applied:

a. To enable a relevant framework for the PEPP, consistent with Regulations applicable for similar products, here in particular the PRIIPs Regulation, taking into account the various possible types of PEPPs, the long-term nature of PEPPs, the capabilities of PEPP savers, and the features of PEPPs, in particular the cost-relevant features.
b. To endorse the characteristics of a standardised, simple, transparent and cost-efficient personal pension product are fairly reflected to ensure good pension outcomes for PEPP savers.
c. To ensure a fair and equal treatment of the different PEPP providers and their products while taking into account the character of the Basic PEPP as a simple, cost-efficient and transparent product providing a sufficient long-term real investment return; particularly to ensure that PEPP providers offering a capital guarantee benefit from a level playing field with other providers.
d. To safeguard effective and consistent supervision of the PEPP, based on relevant qualitative and quantitative information and an efficient cooperation between home and host competent authorities and EIOPA.

## POLICY OPTIONS

With the intention to meet the objectives set out in the previous section, EIOPA has analysed different policy options throughout the policy development process.

The section below reflects the most relevant policy issues and policy options that have been considered, which are summarised in the following table. We have also listed relevant options which have been discarded in the policy development process. The preferred option for each policy issue is marked in bold.

| Policy issues | Options |
|---|---|
| 1. Information documents: reflection on pension specificities | 1.1 PRIIPs approach<br>**1.2 Tailored approach** |
| 2. Cost cap for the Basic PEPP | 2.1 All-inclusive approach<br>2.2 Exclusion of one-off costs<br>**2.3 Acknowledging the distinct feature of a guarantee** |
| 3. Risk- mitigation techniques | 3.1 Strict criteria on investment allocation<br>3.2 Principles and objectives<br>**3.3 Objectives coupled with quantifiable criteria** |
| 4. Supervisory reporting: Frequency | **4.1 Only annual reporting**<br>4.2 Annual and limited quarterly reporting<br>4.3 Full quarterly reporting |
| 5. Supervisory reporting: Granularity | 5.1. Reporting by product<br>5.2. Reporting by investment option<br>**5.3. Reporting split between Basic PEPP and alternative investment options** |
| 6. Supervisory reporting: Content | 6.1 Detailed reporting<br>**6.2 Reduced reporting** |

Some policy areas, in particular the procedural aspects of the cooperation and exchange of information between competent authorities and EIOPA as well as the criteria to be applied in the context of EIOPA's product intervention powers, have attracted less attention in terms of impacts on the different stakeholders. The notifications, procedures and extent of exchange of information, as well as the factors and criteria to be applied by EIOPA for its product intervention powers follow from criteria set out in the PEPP Regulation and developed for product supervision and specified to address characteristics to long-term retirement savings products; the more detailed provisions in EIOPA's advice are intended to facilitate the practical implementation for the sake of PEEP savers' protection, orderly functioning of the market or financial stability, without creating additional burden for PEPP providers.

## POLICY ISSUE 1: PROVIDING RELEVANT INFORMATION ON PEPP TO CONSUMERS - DEVIATING FROM REQUIREMENTS OF THE PRIIPS REGULATION

The PEPP framework provides for appropriate rules on pre-contractual product information documents. In this respect, it is generally expected to build as far as possible on the application of the PRIIPs Regulation while adapting the KID to the PEPP's retirement purpose to enable investors to select the most appropriate pension product. The standardised PEPP KID contributes to creating the specific "PEPP" label, set a level-playing field between PEPP providers, and maximise the distribution potential of the product.

The PEPP Regulation states in Article 4(2) that any PEPP contract shall, among others, include 'the categories of costs and total aggregate costs expressed in percentage terms and in monetary terms, where applicable'. This is specified in more detail for the KID in Article 28(3) and for the PEPP Benefit Statement in Article 36(1). It is important to note that the PEPP Benefit Statement mandates a certain breakdown of costs and the compound impact of costs on the projected PEPP benefits.

Given experience of inconsistent application under the PRIIPs Regulation, it may be useful to further specify costs definitions and, given criticism of the PRIIPs KID, the extent to which different indicators should be used for PEPP. The specificities of PEPP products, in particular their long-term nature, means careful consideration is needed before directly importing PRIIPs approaches. This translates into relevant, tangible disclosures and aiming at comparability between different PEPPs and investment options.

Further, the summary risk indicator of the PRIIPs KID focusses on the variability and Value at Risk of the underlying investments, based on a recommended holding period of the product. Whereas a PEPP should be designed to work throughout an individual's career and retirement product and has to take into consideration accumulation periods of 40 years. The riskiness of the PEPP for the PEPP saver lays in the risk of the savings to not outperform inflation, so that the PEPP benefits may be less valuable than the contributions in real terms – whilst the rewards are superior and stable PEPP benefits in the decumulation phase.

To adapt information requirements to the nature of this retirement product, building on the PRIIPs Regulation is a requirement which has already been mentioned in the European Commission's impact assessment and corresponding public survey, which showed that respondents were mostly negative with regard to the question whether the PRIIPs KID or some elements of it should be used for the purposes of personal pension disclosures.

### Reduction in Yield (RiY) approach under the PRIIPs Regulation

Under the PRIIPs Regulation, information on costs is currently presented in the form of two separate tables. The first Table 1 ('costs over time') shows the total or aggregated costs that are expected to be paid depending on the investment being held for different time periods and how these total costs impact on the investor's return. The second Table 2 ('composition of costs') shows a breakdown of different types of costs, including one-off costs and ongoing costs, and how each of these different costs impacts on the return per year assuming that the investment is held until the recommended holding period.

These cost tables use a monetary disclosure and a Reduction in Yield (RiY) measure as the summary cost indicator as a way of showing how the costs taken or incurred at different times during the investment period affect the return achieved by the retail investor. The RiY shows what impact the total costs a retail investor pays will have on the investment return one might get. The total costs take into account one-off, ongoing and incidental costs. The RiY is calculated by comparing a notional gross yield for a product (i.e. the return that would have been achieved if there had been no costs) with the return achieved taking into account those costs. This cost measure is applied to all types of investment products within the scope of PRIIPs and therefore aims to effectively facilitate comparison.

### Criticism over RiY approach under the PRIIPs Regulation

The Reduction in Yield (RiY) approach emerged in a number of different national markets in the past (before the introduction of the PRIIPs Regulation) as a way of combining different costs taken in different ways at different points in a way that is mathematically neutral.

However, since its inception the RiY approach has also been exposed to strong criticism mainly from some consumer associations across Europe. Key concerns that are raised by these associations are that the RiY approach technically requires assumptions – over holding periods and over returns – though any methodology for combining different costs charged on different bases and at different times would require assumptions. In this regard, it is argued that consumers seem to find it difficult to grasp the idea of reducing the yield (compared to actual monetary terms that are more easily understood) and there has been criticism about the ability of consumers to understand RiY figures.

Notably, there may be specific challenges when looking at longer term products: a RiY of 2% over the life of a personal pension may seem low or relatively insignificant to a consumer, whereas 2%

lost yield over 40 years represents a significant impact of costs. Absolute numbers focused on the reduction in benefits or absolute difference between gross and net returns are much larger and for consumers there is reported to be a dissonance between these numbers, reflecting also consumer comprehension issues related to compounding over time.

Most prominently BETTER FINANCE and the German Association of the Insured (BdV) argue that under PRIIPs the RiY has to be seen in a very critical way as under this approach costs are calculated in relation to yields or returns, which are only probable, but the costs are always fixed.4 Additionally, the two associations are complaining that the RiY strongly depends on the duration of the accumulation phase: The shorter this phase is, the more expensive the contract seems to be according to them. Therefore they draw the conclusion that various offers that differ in the duration of the accumulation phase cannot be compared at all by simply looking at the respective RiY.[5]

In general, the frequently used approaches to disclose costs (among others the RiY approach) have the disadvantage that they do not make any statement about the quality of the underlying product, i.e. its value for money. Furthermore, a low level of costs might be somehow misleading for savers as this does not automatically imply that the absolute value of the retirement pot under a certain contract at the end of the accumulation phase will be higher than under another contract of the same product type which shows a higher level of costs. In fact, the rate of return and the asset allocation play a significant role in this context as well.

While some of these arguments can be challenged technically, it is relevant to bear in mind the stakeholder criticisms.

### Assessing the riskiness of a PEPP

The classification of the risk-rewards profiles and the 'summary risk indicator' of the PEPP should follow the identified pension-specific risks and the objective to reach appropriate and stable retirement income. The design of the summary risk indicator should enable the discrimination of 'superior' investment strategies and risk mitigation techniques from 'inferior' ones; so that higher riskiness increases the probability of higher returns, (inferior ones would not raise the probability of higher rewards at higher risks).

Therefore, the summary risk indicator should build on a combination of the risks of not recouping the inflation-adjusted contributions and the corresponding expected shortfall and compares the risks to the rewards expressed as the median outcome as a multiple of the expected contributions

[4] This argument should be treated with caution, as costs are a mix of fixed and variable elements. Variable costs are often expressed as a certain percentage of generated returns (an example would be asset management costs).

[5] Criticism of RIY approach by BETTER FINANCE: https://eiopa.europa.eu/Publications/Comments/PRIIPS_KID/Better%20Finance.pdf; criticism of RIY approach by the German Association of the Insured (BdV): https://www.bundderversicherten.de/files/stellungnahme/pdf/de/esa-tdo-priips-bdv-replyform.pdf.

paid. Hereby, it must consider the different length of accumulation periods and allocate the outcomes in four buckets: 1, 2, 3 and 4, so that one investment option receives one summary risk indicator and ensures the internal consistency of the design of the risk-mitigation technique.

Policy Option 1.1: Replicate the approach used under PRIIPs for cost disclosure (follow RiY approach) and for the summary risk indicator

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers** | RiY figures show the impact of total costs on any consumer's investment return and are therefore usually just small percentage values. This could be considered as an additional selling argument.<br><br>In case a PEPP provider also issues PRIIPs products, savings can be expected from the calculation. | The RiY approach technically requires assumptions – over holding periods and over returns. Setting these assumptions is not trivial, but has a significant impact on consumers' financial situation.<br><br>PEPP providers struggle to apply the PRIIPs KID summary risk indicator to a PEPP that is designed for very different holding periods and exhibits very different risk and rewards characteristics. |
| **PEPP savers** | It is reasonable to assume that the RiY approach would not discourage consumers from buying a PEPP product, as this approach does not make the product look overly expensive.<br><br>PEPP savers could compare the PEPP's risk profile with PRIIPs products. | There is evidence in the market that consumers seem to struggle with the idea of reducing the yield and to grasp the idea behind RiY in general, but there is also an issue that the long-term nature of PEPP products cannot be captured adequately under a RiY concept.<br><br>The RiY approach used under PRIIPs also does not make any statement about the quality of the underlying product, i.e. its value for money.<br><br>Comparing the riskiness of a designated pension product to a PRIIPs product may be misleading. |
| **National competent authorities** | Competent authorities already have experience with the RiY and summary risk indicator approach. | One can expect divergent approaches on the application of the PRIIPs KID summary risk indicator to PEPP, which would require intensified supervisory actions. |

**Policy Option 1.2: Tailor the approach for cost disclosure and to assess the riskiness to the characteristics of the PEPP (deviate from PRIIPs)**

Given the characteristics of the PEPP, in particular the long-term nature of this product, and the clear differences to PRIIPs, it might be meaningful to deviate from the RiY approach and instead to follow concepts such as 'total costs per annum' for the PEPP KID or the Reduction in Wealth (RiW) for the PEPP Benefit Statement concept. This could help consumers to understand in a more tangible way the costs of the product and as these approaches underpin the severe impact of costs on PEPP savers' retirement income and likewise allow PEPP savers to easily compare products from different providers. Moreover, the RiW rationale could allow for a concrete statement about the impact of costs on savers' income after retirement which is proven to be the key concern for savers.

Similarly, a pension-specific approach to assess the riskiness of a product with potentially very long, yet adaptable, holding periods with the objective to produce adequate and stable future retirement income would provide the potential PEPP saver with meaningful and decision-useful information.

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers** | Providers would get the chance to also tailor the cost disclosure part to the characteristics of the product (in particular its long-term nature).<br>The summary risk indicator is consistent with the provider's modelling and projection for the PEPP. | Deviating from the RiY approach and instead applying an approach, which discloses costs as a potentially higher figure in order to reflect the long-term nature of the PEPP, may discourage providers from offering PEPP products. |
| **PEPP savers** | Tailoring the approach to the characteristics of the PEPP could help consumers in getting a better indication of the actual impact of costs and its riskiness especially with regard to the long-term nature of the PEPP. Applying an alternative approach which is simpler than the RiY and straight forward would provide added value to the saver as well.<br>Deviating from the approach used under PRIIPs would also help overcoming the fact that the RiY strongly depends on the | Disclosing a higher cost figure compared to a relatively low amount to reduce the yield might discourage savers from buying this product as it seems overly expensive compared to other private pension products.<br>A different approach to the summary risk indicator used for the PRIIPs KID may be confusing. |

| | | |
|---|---|---|
| | recommended holding period for PRIIPs products: the shorter is the recommended holding period is, the more expensive the contract seems to be. | |
| **National competent authorities** | By tailoring the approach used under the PEPP, competent authorities would address the criticism of consumer associations about the RiY approach. | Competent authorities would lack experience with any alternative approaches and it would need to be seen how consumers get along with it. |

CONCLUSION REGARDING POLICY ISSUE 1

The option that has more advantages and represents a proportionate approach is 1.2, namely to deviate where necessary from the approach taken under PRIIPs for cost disclosure and the summary risk indicator and instead to tailor the approach taken under PEPP to the characteristics of this product. Although building on the PRIIPs Regulation is a requirement, which has already been mentioned in the European Commission's impact assessment, the results of the corresponding public survey in relation with the criticism by various consumer associations about the RiY approach clearly point out the need to deviate from the RiY approach in the PEPP. Further, the RiY could be added as complimentary information, yet full comparability with PRIIPs products would nevertheless be limited or may even be misleading due to the deviating approaches to recommended holding periods. Most importantly, there is a risk of information overload and contradicts the objective of simple disclosures, tailored to the specificities of a personal pension product. Similarly, due to the pension-specific approach to the summary risk indicator, it is necessary to highlight to the consumer that this information cannot be compared to the PRIPPS summary risk indicator.

POLICY ISSUE 2: COST CAP FOR THE BASIC PEPP

Whereas the European Commission's impact assessment for its initial proposal of a PEPP Regulation set out the preferred policy option to be transparent about all applicable costs and charges and therewith to facilitate competitive cost structures for the PEPP over time, the final PEPP Regulation sets out a cost cap for the Basic PEPP.

The European Commission identified in its Impact Assessment that "there are limited incentives for providers to offer products cross-border mainly due to high costs. On the other hand, a standardised EU personal pension product is expected to cut providers' costs by creating larger asset pools. For example, a study[6] shows that spreading fixed costs over larger pool of members could save 25% administration costs. The creation of an EU legislative framework for personal pensions would diminish providers' costs by creating economies of scale, particularly in the areas of investment and administration [...]."

This impact assessment identified the main driver of costs in personal pension products as distribution costs and the costs of providing advice:

### Costs of financial advice (including pensions advice)[7]

In 2017, the European Commission identified that typically the service of providing financial advice involves an initial consultation, which is charged fixed or hourly) or fees on AUM or a combination of both.

- Hourly rate - £75/€87 to £350/€406. UK average £150/€174 *(www.unbiased.co.uk, March 2016)*
- Full pension advice (at retirement) - £2500/€2900 on a pension pot of £200,000/€232,000 (1.25%)
- Some advisors charge 1%-2% per annum through the life of the investment, but there are no clear statistics of how much the advice costs as a percentage of total expenses incurred by the consumer.

The evidence provided shows that financial adviser's fees vary depending on what they are charging for and how consumers pay. These include:

- A set fee for a piece of work - this could be several hundred or several thousand pounds.
- A monthly fee - this could be a flat fee or a percentage of the money a consumer intends to invest.
- An ongoing fee - an adviser can only charge an ongoing fee in return for providing an ongoing service, unless the consumer is paying off an initial charge over time through a regular payment product.

To further assess the current level of costs and charges, EIOPA has sought to gather different sources of data for personal pension products in Europe, including leveraging from its work on analysing costs and past performance for retail investment products and personal pension products.

By way of an example, a study carried out by Deloitte Luxembourg for the European Commission on the distribution systems of retail investment products shows average values across the EU for 'entry fees', 'exit fees' and 'ongoing charges' for both pension products with and without guaranteed capital:[8]

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[6] Is there an optimal pension fund size? A scale economy analysis of administrative and investment costs, DNB Working paper No. 376. https://www.dnb.nl/binaries/Working%20Paper%20376_tcm46-289626.pdf

[7] See European Commission: Commission Staff Working Document Impact Assessment Accompanying the document Proposal for a Regulation on a pan-European Personal Pension Product (PEPP); SWD(2017) 243 final; June 2017.

[8] Study on the distribution systems of retail investment products' (24 April 2018) carried out by Deloitte Luxembourg for the European Commission (https://ec.europa.eu/info/publications/180425-retail-investment-products-distribution-systems_en).

| | Entry fees | Exit fees | Ongoing charges | Total |
|---|---|---|---|---|
| Average for pension products with guaranteed capital | 3.40% | 2.62% | 0.87% | 6.89% |
| Average for pension products without guaranteed capital | 2.19% | 0.97% | 1.45% | 4.61% |

EIOPA's 'Second report on costs and past performance' (April 2020)[9] shows the average weighted costs of personal pension products most bought by consumers on an EU level:

| | Personal Pension Product (Unit-linked) | Personal Pension Product (Profit Participation) |
|---|---|---|
| Reduction in Yield at Recommended Holding Period | 2.0% | 1.8% |
| Entry Costs | 0.3% | 0.5% |
| Exit Costs | 0.0% | 0.0% |
| Transaction Cost | 0.1% | 0.0% |
| Other Ongoing Costs | 1.5% | 1.3% |

The Better Finance Pension Savings: The Real Return - 2019 Edition[10] shows very diverse levels of net performance after costs and charges for PPPs in a series of Member States, referring to the fact some fees have increased, despite negative yields and performance.

[9] https://www.eiopa.europa.eu/content/cost-and-past-performance-2020-report_en

[10] https://betterfinance.eu/publication/pension-savings-the-real-return-2019-edition/

| Aggregate summary return table | Pillar III | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1 year | | 3 years | | 7 years | | 10 years | | whole reporting period* |
| | 2018 | 2017 | 2016-2018 | 2015-2017 | 2012-2018 | 2011-2017 | 2009-2018 | 2008-2017 | |
| Austria | 0.01% | 0.91% | 1.31% | 2.04% | 1.75% | 1.63% | 1.74% | 1.66% | 2.16% |
| Belgium | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Bulgaria | -7.66% | 5.24% | 1.03% | 4.60% | 3.34% | 3.87% | 2.46% | -1.40% | -0.33% |
| Denmark | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Estonia | -9.83% | 6.54% | -1.91% | 2.57% | 2.27% | 1.90% | 3.32% | 4.40% | 0.64% |
| France* | -2.60% | 1.22% | -0.12% | 1.49% | 1.42% | 1.57% | 1.42% | 1.42% | 1.30% |
| Germany | n.a. | 1%/1.1% | n.a. | 1.7%/1.8% | n.a. | 2%/2.1% | n.a. | 2.3%/2.3% | 2.2%/2.2% |
| Italy | -3.50% | 1.10% | -0.08% | 2.04% | 2.35% | 2.20% | 2.10% | 1.23% | 0.78% |
| Latvia | -5.19% | 1.46% | -1.78% | 1.52% | 1.73% | 1.91% | n.a. | n.a. | 0.65% |
| Lithuania | -6.10% | 1.59% | -0.55% | 2.61% | 2.83% | 1.84% | 3.56% | 0.31% | 0.32% |
| Netherlands | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Poland | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Romania | -3.68% | 1.38% | 0.19% | 2.35% | 3.61% | 3.93% | 3.73% | 3.63% | 2.27% |
| Slovakia | -5.54% | 2.55% | 0% | 1.44% | 0.86% | 0.65% | 0.14% | n.a. | 0.14% |
| Spain | -5.71% | 1.34% | -1.41% | 0.99% | 2.16% | 2.49% | 1.46% | 1.22% | 0.39% |
| Sweden | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| UK | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |

_Source_: BETTER FINANCE own composition; *whole reporting period differs between countries; *after tax

An OXERA study[11] on the Position of savers in private pension products refers to mandatory defined contribution personal schemes in Poland and shows total operating costs borne by fund managers. The total level of costs of 0.56% of the total net asset value are consistent with the level observed in other Eastern European countries, but higher than supposed costs in more established markets. Results show that administration costs and in particular acquisition costs make up large portion of total costs.[12]

A report carried out on the basis of costs of the German Riester-Rente product[13] draws the conclusion that total charges of, on average, 10% to 12% of the yearly savings premium can be assumed. There is a large cost span from 2.5% to 20% for some types of contracts visible as well. In Slovakia, supplementary pension management companies, which are eligible to manage personal pension products, are eligible to charge its customers a maximum of 1.30% of the average annual net value of assets invested in the pension fund in 2019. It is planned to further decrease this fee limit to 1.20% and 0.60% in the course of 2020. In Italy, the Italian supervisor of pension funds (COVIP) publishes every year an aggregate cost index of personal pensions sold in Italy14. Even though total costs on accumulated capital of most personal pension products are above 1%, this

[11] Source: OXERA study on Position of savers in private pension products (2013), https://www.oxera.com/wp-content/uploads/2018/07/Position-of-savers-in-private-pension-products.pdf.pdf.

[12] Administration costs make up 57% of total costs with acquisition costs alone being at 38%.

[13] 'Die Kosten der Riester-Rente im Vergleich' (April 2013), http://mea.mpisoc.mpg.de/uploads/user_mea_discussionpapers/1366_04-2013.pdf.

[14] https://www.covip.it/?cat=199

seems to be mainly driven by profit margins applied and by the remuneration of distribution channels. Return guarantees do not seem to drive costs significantly. For 2016, the average yearly costs (calculated over a 10 year period and assuming investments of annual EUR 2500 and annual return of 4%) are indeed high: from 1.1% to 2.7% depending on the type of investment strategy.

Without further specification of the costs and fees, it would be up to the discretion of market participants and competent authorities to develop a proper understanding of which costs and fees are captured under, and which costs and fees are exempted from, the cost cap. Some coordination amongst PEPP providers, for instance through trade bodies, to develop possible 'soft law' approaches might be expected, but cross-sectoral and to a degree cross-market consistency, would not be likely. It would most likely lead to the risk of diverging approaches at national level and go against the objective of developing a consistent understanding for all markets of the EU. It would also impact on the achievement of the core objective of the Basic PEPP which is a simple, cost-efficient and transparent product providing a sufficient long-term real investment return.

Taking into consideration that costs and fees also are an important aspect for PEPP providers and PEPP distributors from an economic perspective, PEPP providers and PEPP distributors may be encouraged to pursue a narrow understanding for the sake of enhancing competitiveness, whereas a too narrow understanding could undermine the legislative intention to introduce a safe, cost-efficient and attractive Basic PEPP.

### Costs of the initial advice prior to the conclusion of the contract

In the course of its work on analysing the types of costs and fees that could be included under the cost cap for the Basic PEPP, EIOPA looked into the types of services that could be provided by the PEPP provider and PEPP distributor for the provision of initial advice prior to the sale of the Basic PEPP and the amount of costs that could typically be imposed for these services. This was with a view to assessing whether a different regulatory treatment of this one-off initial advice under the cost cap could facilitate the sale of the Basic PEPP by prospective PEPP providers/distributors, whilst not exceeding the cap of 1% on accumulated capital per annum. EIOPA consulted national authorities and its Expert Practitioner Panel in carrying out this exercise.

In terms of one-off initial advice, EIOPA excluded from its thinking the following services: manufacturing and marketing of the Basic PEPP; Administrative tasks related to the conclusion of the PEPP contact; Distribution efforts i.e. overheads to bring the product onto the market and on-going advice/annual reviews throughout the contractual relationship or in relation to decumulation.

The starting point for this work was Article 34 of the PEPP Regulation, which, in particular, specifies two main components as part of this initial advice process:

- A "demands and needs test" - the PEPP provider/distributor must specify, on the basis of information required and obtained from the prospective PEPP saver, the retirement-related demands and needs of that prospective PEPP saver, including the possible need to acquire a product offering annuities. In addition, any PEPP contract proposed has to be consistent with the PEPP saver's retirement-related demands and needs, taking into account his or her accrued retirement entitlements;
- A "suitability assessment" – the PEPP provider or distributor has to ask the prospective PEPP saver to provide information regarding his/her knowledge and experience in the investment field relevant to the PEPP offered or demanded and his/her financial situation including his/her

ability to bear losses, and his/her investment objectives including his or her risk tolerance so as to enable the PEPP provider or PEPP distributor to recommend to the prospective PEPP saver one or more PEPPs that are suitable for that person and, in particular, are in accordance with his or her risk tolerance and ability to bear losses.

EIOPA looked into these two main components in more detail to ascertain the types of services/activities, which typically had to be provided by PEPP providers or PEPP distributors in this initial advice process,

This initial advice process requires a substantial amount of information to be gathered, for example, on the PEPP saver's existing retirement entitlements under Pillar 1, 2 and 3 products, which, in the absence of that information being readily available via sophisticated pension dashboards or tracking services which exist in some Member States, or depending on the type of distribution channel, leads to costs incurred by the PEPP provider/distributor which are then passed onto the PEPP saver.

More automated or semi-automated processes such as robo-advice are allowed under the PEPP Regulation and could lead to significant cost savings, but there are limitations to the processes which can be automated or semi-automated (in particular, the provision of a personalised recommendation). There is no scope for reducing/streamlining the regulatory requirements under the "demands and needs" test or the suitability assessment as this would be a regulatory circumvention and lead to a lower level of protection for the PEPP saver.

Three main stages in this initial advice process were identified:

- Information gathering on the PEPP saver's personal circumstances;
- Assessment/analysis of that information; and
- Delivery/explanation of a personalised recommendation to the customer

In terms of the levels of costs for this initial advice, EIOPA received a variety of estimates from external stakeholders, ranging from two-digit Euro amounts per client for a heavily-automated process with personal support only offered remotely (phone/video calls etc.), to three-digit Euro amounts for an average client based on a detailed information gathering process and suitability assessment. In the latter example, there was a clear risk of a high contribution in the first year of the contract, leading to the 1% cost cap being breached and the PEPP provider/distributor being unable to offer the Basic PEPP to prospective savers.

Based on the above-mentioned considerations, the following policy options are set out:

Policy Option 2.1: All-inclusive approach, which encompasses all costs and fees for the Basic PEPP

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers/PEPP distributors** | Offers legal certainty and guidance with regard to the types of costs and fees which fall under | Limits the feasibility and profitability of products if all types of costs and fees fall under the |

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| | the cost cap of the Basic PEPP, thus reducing liability risks | cost cap as the 1% cost cap may be more easily exceeded. Could lead to companies not entering or withdrawing from, the market as the Basic PEPP has to be offered as a default investment option or every PEPP. However, mitigating factors need to be considered, for example regarding the cost of advice, where the PEPP Regulation does not prevent PEPP providers and PEPP distributors from reducing costs by providing advice in whole or in part through an automated or semi-automated system and there is empirical evidence that such costs can thereby be substantially reduced. |
| **PEPP savers** | Supports the legislative objective of offering a safe, simple, cost-efficient and transparent product to PEPP savers, providing a sufficient long-term real investment return.<br><br>Ensures the value of PEPP savers' retirement savings is not significantly eroded by high and unfair costs and fees, although each PEPP saver will have different savings characteristics and will be impacted by the cost cap in differing ways.<br><br>Entails a lower risk of regulatory circumvention by market | May lead to reduced product availability for consumers due to challenges for PEPP provider to offer profitable products and risk of too easily exceeding the 1% cost cap.<br><br>Including the guarantee in the cost cap will probably have the effect to decrease the number of products in the European market and the possible choices to be made by the savers. This effect will be against the aim of the PEPP Regulation<br><br>Risk of increase in charges and fees outside the Basic PEPP as a |

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| | participants, thus reducing the risk of concomitant consumer detriment. | compensatory mechanism, compared to an approach which provides an exhaustive list of costs and fees. |
| **National competent authorities** | Offers legal certainty and guidance with regard to the costs and fees which fall under the cost cap of the Basic PEPP, deters regulatory circumvention and facilitates supervision of PEPP providers and PEPP distributors | Causes difficulties to assess whether costs are spread over other investment options and how they are correctly computed (e.g. costs for guarantees), thus requiring more resources for more intensive supervisory scrutiny of PEPP providers. |
| **EIOPA** | Offers more legal certainty and guidance with regard to the costs and fees which fall under the cost cap of the Basic PEPP.<br><br>Ensures a consistent application across the different Member States and supports the single market objective. | Entails reputational risk in view of the impact on the product availability and feasibility |

### Policy Option 2.2: Exclusion of one-off costs

The main drivers of current cost levels are related to the distribution of personal pension products including providing advice to the consumer. The current cost structures of personal pension products show that distribution costs are not necessarily transparent to the individual consumer and may be subsidised by other business lines, investment options or cohorts.

Considering the information gathered, on-going costs and charges of personal pension products – on average – currently may be kept at levels below 1% of the accumulated capital (assets under management). However, one-off and transaction costs are not considered in these figures.

The option here could be to limit the costs included in the cost cap to the regular, on-going, annual costs and charges and to allow for one-off costs to be outside of the cost cap. This should ensure the feasibility of offering the Basic PEPP. However, it may not incentivise limiting the currently high levels of distribution costs and would probably not deliver on the promise of designing a cost-efficient Basic PEPP.

Further, it could be considered to allow for amortisation of one-off costs that cannot be covered in the year of occurrence over a certain timeframe. In particular, the costs of initial advice are potentially higher than 1% of the accumulated capital in the first year, so that, whilst preserving the limit to charge costs up to 1% of the accumulated capital per year, amortising the costs over a disclosed timeframe and pattern would mitigate the risks of unprofitable business in the take-up phase of the PEPP.

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers/PEPP distributors** | Allows for feasibility and profitability of all types of PEPPs. | Limited take up by consumers and legal uncertainty about the determination of one-off costs compared to on-going costs. |
| **PEPP savers** | Higher probability of PEPPs being offered. | Risk of increase in charges and fees outside regular, on-going costs. Potentially contradicts the legislative objective of offering a safe, simple, cost-efficient and transparent product to PEPP savers, providing a sufficient long-term real investment return. |
| **National competent authorities** | Certain level of legal certainty. | Causes difficulties to assess whether costs are accurately allocated, thus requiring more resources for more intensive supervisory scrutiny of PEPP providers. |
| **EIOPA** | Offers more legal certainty and guidance with regard to the costs and fees which fall under the cost cap of the Basic PEPP. | Entails reputational risk in view of the impact on the product availability and feasibility. Considerable risk of inconsistent |

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| | | application across the different Member States. |

Policy Option 2.3: Acknowledging the distinctly different features of a guaranteed Basic PEPP to address level playing field considerations

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers/PEPP distributors** | This approach establishes a level playing field between different PEPP providers, offering different products with different features (e.g. a capital guarantee).<br><br>Offers some degree of legal certainty. | Depending on the level of costs and fees exempted or not exempted from the cost cap, this option may pose some challenges to develop profitable products, see reasoning above.<br><br>Poses some difficulties to calculate individual cost elements, e.g. the costs to calculate a capital guarantee. |
| **PEPP savers** | Ensures cost efficiency, a low impact on their returns and full transparency. Costs directly linked to the capital guarantee and charged by the PEPP provider would still need to be disclosed to the PEPP saver separately through the KID and the regular Benefit Statement, thus enhancing transparency for consumers. | Entails some risk of limited availability of PEPP products |
| **National competent authorities** | Offers some degree of legal certainty. | Competent authorities may face challenges to assess costs and fees excluded from the cost cap (e.g. the fair pricing of costs related to |

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| | | a capital guarantee) in their supervision of PEPP providers and PEPP distributors. |
| **EIOPA** | Offers some degree of legal certainty.<br>Promotes some degree of consistent application across the Member States. | Need to provide further guidance on the costs and fees exempted. |

## CONCLUSION OF POLICY ISSUE 2

Article 45(3) of the PEPP Regulation requires EIOPA to draft regulatory technical standards "specifying the types and costs" which should not exceed 1% of the accumulated capital. EIOPA proposes to introduce an all-inclusive approach (policy option 1.3) encompassing all costs and fees for the Basic PEPP and to set up an exhaustive list comprising those costs and fees exempted for the sake of a level playing field of different PEPP products, which meant to exclude the costs of a capital guarantee. EIOPA is of the view that only an 'all inclusive' approach minimises the risk of regulatory circumvention, in particular the re-labelling and allocation of costs to avoid supervisory scrutiny. EIOPA would like to clarify that any other costs for additional features complementing the Basic PEPP, e.g. biometric risks, do not fall within the scope of Article 45(2) of the PEPP Regulation and therefore can be charged separately, if properly disclosed to the PEPP saver.

Any possible exemption from the 'all inclusive' approach needs to be kept as narrow as possible. At the same time, EIOPA considers it important to establish a level playing field between the different PEPP providers and to promote healthy competition in the market. Against this background, EIOPA proposes to limit the exemptions to costs and fees, which would disadvantage specific types of PEPP products in view of their specific features and characteristics. Nevertheless, in view of the risk of circumvention and regulatory loopholes, the exemptions should be limited to cost items open to scrutiny and supervisory monitoring.

It is also important to take into account possible alleviating factors. The PEPP Regulation explicitly permits a fully digital disclosure and distribution regime, including automated advice without any human intervention. Online distribution, including automated or semi-automated advice, can help to reduce barriers to entry, create new cross-border opportunities, and ultimately reduce the costs of distributing the PEPP. This reduces the challenges of PEPP providers to develop and design profitable products. Similarly, it could also reduce the reputational risk for EIOPA in view of impact on the product availability and feasibility.

Further, EIOPA considers appropriate to allow for amortisation of one-off costs for providing the initial advice - that cannot be covered in the year of occurrence – over, at maximum, the initial term of the contract of five years. In that way, the limit to charge costs up to 1% of the accumulated capital per year can be maintained. Certainly, it requires appropriate disclosure of the timeframe and pattern of such amortisation, so that the consumer well understands the approach taken.

## POLICY ISSUE 3: RISK-MITIGATION TECHNIQUES

In order to provide additional consumer protection and encouraging further investments through PEPPs in the CMU context, the PEPP Regulation sets out the requirement for all PEPP investment options to include a risk-mitigation technique. The choice of a robust capital protection, such as a guarantee or life-cycling, to recoup at least the capital invested allows creating the Basic PEPP, in a simple and transparent fashion. PEPP savers looking for more yields can opt for alternative investment options, which still benefit from a risk-mitigation technique.

This approach brings together the need for investment protection with choice for PEPP savers. Therewith, the effectiveness in achieving the objective to enhance the take-up of the PEPP by allowing great flexibility of choice for the savers is ensured and allowing for cost efficiencies, since the greater costs associated with a robust capital protection can be balanced with innovative, alternative investment options.

The PEPP Regulation does not specify which explicit approaches or methodologies have to be used or detailed investment rules by, for example, indicating targets for investments in e.g. infrastructure or absolute limits for riskier investments to mitigate the financial risks for PEPP savers or to address the need for long-term illiquid investments and some minimum liquidity requirements. Quite to the opposite, the PEPP Regulation sets out the objective to leave sufficient freedom to choose appropriate investments and risk management practices by introducing the 'prudent personal principle' of Article 41 of the PEPP Regulation, needed to be respected in the development of the criteria to be applied for the risk-mitigation techniques.

### Policy Option 3.1: Strict criteria on investment allocation

This option would ensure transparency and regulation of the investment allocation for PEPPs. Here, strict limits and thresholds could enforce the long-term financing through PEPP savings.

The disadvantage of the approach would be that setting strict rules referring to a specific split of equity and debt instruments or a certain set of risk criteria to be fulfilled would require perfect knowledge of the ideal investment allocation and would need to take into account the effectiveness of the financial and capital markets in the EEA member states.

Further, this approach would leave little room for innovation and healthy competition to reach better pension outcomes for consumers – and would render the prudent person principle of the PEPP Regulation unnecessary.

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers/PEPP distributors** | Offers legal certainty and guidance with regard to the allowed investments, thus reducing liability risks | Limits the innovation and competition for better pension outcomes. |
| **PEPP savers** | Supports the legislative objective to have highly standardised PEPPs.<br><br>Entails a low risk of regulatory circumvention by market participants. | May lead to lower performing PEPPs, as there is not sufficient room for innovative approaches. |
| **National competent authorities** | Offers legal certainty and guidance with regard to the eligible investments and investment strategies. | Causes difficulties to assess whether PEPPs are outperforming compared to other products. |
| **EIOPA** | Offers legal certainty and guidance with regard to the eligible investments and investment strategies.<br><br>Ensures a consistent application across the different Member States | Entails reputational risk in view of the impact on the product performance. |

Policy Option 3.2: Principles and general objectives

The option to refer to general principles on how risk-mitigation techniques are expected to work and which general objective they should follow would leave room for innovation and applying many types and approaches for risk-mitigation techniques.

However, the effectiveness of a risk-mitigation techniques that follow such principles is hard to supervise or to challenge by the competent authorities. Further, it may allow for suboptimal solutions offered by the PEPP provider, which may be difficult to be recognised by consumers.

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers/PEPP distributors** | Offers freedom to develop investment strategies. | Reputational risk if PEPPs are not perceived as performing, resulting in potential legal risk. |
| **PEPP savers** | May lead to superior outcomes due to the use of innovative solutions. | Entails a high risk of regulatory arbitrage by market participants, resulting in potentially low performing PEPP. |
| **National competent authorities** | Offers possibility of flexible approaches to the supervision of PEPPs. | Causes significant difficulties to evaluate and monitor whether PEPPs are compliant with the PEPP Regulation. |
| **EIOPA** | Offers freedom to the market to establish its own benchmarks and develop innovative solution. | Entails reputational risk in view of the enforcement of PEPP's quality features. |

Policy Option 3.3: Objectives coupled with quantifiable criteria

This option tries to combine the benefits of the previous two options, i.e. to set out high-level principles on the objective of the different risk-mitigation techniques and adding some general criteria for the main types of risk-mitigation techniques, which can also be combined with each other.

Adding enforceable and quantifiable criteria and thresholds allows for monitoring the effectiveness and the delivery of the expected outcomes. Those criteria need to be consistent with the overall measurement of risks in PEPP, i.e. the risks of losses, and performance-related objectives, i.e. to outperform the benchmark of the annual inflation rate.

Risk-mitigation techniques should limit the extent of the potential losses and to ensure a high probability of recouping the savings invested, whilst providing for adequate pension outcomes. Therewith, they should also be in the focus of product supervision and of the provider's product governance system.

To specify the thresholds and criteria, it is important to set out clear, quantitative measures, which need a strong stochastic basis and backtesting.

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers/PEPP distributors** | Offers freedom to establish suitable investment strategies and investment allocation with legal certainty, thus reducing liability risks | Incurs costs to provide for the governance systems and reporting to the supervisor about the applied techniques and the results of the stochastic modelling. |
| **PEPP savers** | Supports the legislative objective to have highly standardised and well performing PEPPs.<br>Entails a low risk of regulatory circumvention by market participants. | May lead to higher costs due to the higher efforts on the PEPP provider for governance structures and supervisory reporting. |
| **National competent authorities** | Offers legal certainty and guidance with regard to the eligible investment strategies. | Causes supervisory costs to assess the methodologies applied and the appropriateness of the governance structures and modelling. |
| **EIOPA** | Offers legal certainty and guidance with regard to the eligible investment strategies. | Causes higher costs for monitoring and reviewing the inputs and assumptions to be used in the modelling. |

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| | Ensures consistent outcomes across the different Member States | |

## CONCLUSION OF POLICY ISSUE 3

EIOPA regards its suggested approach to follow policy option 3.3 and to specify the objective of the risk-mitigation techniques and to add key quantitative and objective criteria for monitoring the effectiveness as the most favourable. This option is expected to bring together the benefits of transparency and enforceability with leaving sufficient room for innovation and smart risk-mitigation techniques. The quantifiable criteria and thresholds were reviewed after the public consultation and EIOPA has further developed them in line with the observations from EIOPA's own stochastic modelling to ensure that the objective is sufficiently ambitious, yet allows for a wide range of investment strategies, including investments in equity and alternative assets. Further, the objectives have been adapted to make use of a holistic assessment of the riskiness and potential rewards from PEPPs. Consequently, the threshold for capital protection resulted from the analysis of the observations from stochastic modelling and has been calibrated to allow for a certain diversification of investment strategies for the Basic PEPP. The easing of this threshold was necessary to facilitate the minimum performance criterion and rewards measure assigned to PEPPs, i.e. outperforming inflation and led to the setting a lower threshold for recouping the capital, which represents a trade-off between risk and minimal return expectation.

## POLICY ISSUE 4: FREQUENCY OF THE SUPERVISORY REPORTING

The regular supervisory reporting has an impact on PEPP providers and competent authorities. This is not merely a function of the quantity and complexity of the data to be provided and collected, but also of the frequency of the data submission. Frequent submissions may overload supervisors as well as PEPP providers that have to produce and validate the data. Similarly, the volume of data and the extent to which any data need to be verified will have an impact on the costs for PEPP providers.

Therefore, the frequency of reporting cannot be looked at in isolation. It has to be considered together with the ability of the PEPP providers to provide the data in line with the quality standards, and the supervisory authorities' ability to review the information in a timely manner. That implies that competent authorities should be able to review one submission before the following submission is received.

All options already provide an improvement compared to the baseline scenario, as it ensures competent authorities and EIOPA receive enough regular information on an annual basis.

Policy Option 4.1: Only annual reporting

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers** | Lower costs than when more frequent reporting is considered.<br>More proportionate considering that this is a new product and volumes might not be substantial at first.<br>Less complexity compared to a more frequent reporting with thresholds. | There is the risk that annual reporting will remove the pressure on PEPP providers' management to assess more frequently the risks inherent to the PEPPs. |
| **PEPP savers** | The costs allocated to the administration of the PEPP, relating to the supervisory reporting would be less than the ones allocated in case a more frequent reporting is required and contributing to a higher profitability for PEPP savers. | There is a slight risk that emerging trends and risks related to PEPPs are not identified as quickly, to the potential detriment of PEPP savers |
| **National competent authorities** | Information on an annual basis would be enough to comply with the regulation. In addition:<br>• There is always the possibility to request ad-hoc information if competent authority | • There is also a risk that this option will not provide an accurate view on PEPP providers' investments, as it will not capture investment transactions that were conducted and closed |

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|---|---|---|
| | needs more information or expects risks<br>• Material changes compared to the annual reporting should be flagged automatically by the PEPP providers in the Supervisory Report<br>No danger of information overload, meaning that if the volume of information goes up, so too does the risk that issues are overlooked in the mass of data because of the pressure to complete the previous period's reviews before moving on to the following period.<br>The resources allocated to assess the information received will be less than when more frequent reporting is required. | during the reporting period. |

Policy Option 4.2: Annual and limited quarterly reporting

Option 4.2 suggests annually reporting as the default option, with a subset of additional quantitative data required quarterly. Such quarterly data requirements are not defined yet but relate to either 'core' information needed on a quarterly basis for all providers or subject to a threshold.

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers** | If the quarterly data was relevant for supervisors, it is likely this is also important for the management of PEPP providers. | Considerably less expensive for PEPP providers than full quarterly reporting but more expensive than the annual reporting solely. |

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| | | The complexity of the reporting would also increase substantially. |
| **PEPP savers** | Better protection as supervisors will have the information to step in much quicker if the quarterly reporting show increased risks.<br><br>The costs allocated to the administration of the PEPP, relating to the supervisory reporting will be less than the ones allocated in case a full quarterly reporting is required and contributing to a higher profitability for PEPP savers. | The costs allocated to the administration of the PEPP, relating to the supervisory reporting will be higher compared to only reporting annually and therefore contributing to a lower profitability for PEPP savers.<br><br>The fact of reporting more frequently would not likely provide any greater confidence in the PEPP provider by PEPP savers. |
| **National competent authorities** | Helps to identify trends and emerging risks quicker than if only annual information is considered.<br><br>More manageable than full quarterly reporting. | Lower costs than full quarterly reporting but higher than full annual reporting. |

Policy Option 4.3: Full quarterly reporting

Option 4.3 suggests that all templates should be reported on a quarterly basis.

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers** | It would increase the pressure on PEPP providers' management to assess more frequently the risks inherent to the PEPPs. | It would be more costly than option 4.1 and option 4.2 as it requires four full submissions a year.<br><br>Even if PEPP providers automate the provision of quantitative data |

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|---|---|---|
| | | as much as possible and even more if data are requested frequently, the internal validation processes always assume some costs. |
| **PEPP savers** | Better protection as supervisors can to intervene much quicker if the quarterly reporting show increased risks Better protection due to increase the pressure on PEPP providers to assess more frequently the risks inherent to the PEPPs. | The costs allocated to the administration of the PEPP, relating to the supervisory reporting will be much higher compared to annual reporting only or annual reporting with limited quarterly reporting contributing to a lower profitability for PEPP savers. |
| **National competent authorities** | Best option to identify emerging trends and risks in a quick manner.<br><br>Allows to better understand the investment transactions taking place within the year. | Would be more costly than option 4.1 and option 4.2 as it requires four full submissions a year which will require much more resources to assess and internal validation processes which always assume some costs.<br><br>There is a slight danger of information overload, meaning that although the volume of information goes up, so too does the risk that issues are overlooked in the mass of data because of the pressure to complete the previous period's reviews before moving on to the following period. |

### CONCLUSION OF POLICY ISSUE 4

The generally lower impact on PEPP providers and competent authorities associated to report the information on an annual basis solely, does not impact the data needs of competent authorities' and EIOPA's capabilities to fulfil its duties. Therefore options 4.2. and 4.3. have been disregarded.

The preferred option for this policy issue is option 4.1 (only annual reporting), therefore to collect the annual data without a need for regular quarterly reporting. If competent authorities assume certain risks in the annual information, this might be complemented by ad-hoc quarterly reporting for specific PEPP providers. This option avoids an excessive burden on PEPP providers that intend to commercialise PEPPs and might otherwise reduce their appetite to commercialise PEPPs.

The need to introduce quarterly reporting could be considered at a later stage once the volumes have increased and should there be a justified reason for it based on the data already collected.

### POLICY ISSUE 5: GRANULARITY OF THE SUPERVISORY REPORTING WITH REGARD TO THE DIFFERENT INVESTMENT OPTIONS

The granularity of the reporting relates to the level of details that needs to be provided for each PEPP with regard to the different investment options. Article 42 of the PEPP Regulation specifies that each PEPP provider might provide up to six investment options, one of which needs to be the Basic PEPP.

Competent authorities and EIOPA will receive the characteristics of each investment option through the information included in the KID. However, there is no specification if the annual quantitative reporting should be performed by investment option or aggregated. This decision will have an impact on the costs for the PEPP providers and the need for resources for the supervisors.

All options discussed below are an improvement compared to the baseline scenario, as it ensures competent authorities and EIOPA to receive information, which it would not receive under the baseline scenario.

Policy Option 5.1: Reporting by product

| Stakeholder groups | Benefits | Costs |
| --- | --- | --- |
| **PEPP providers** | This option would involve the least cost to PEPP providers and therefore the best solution from a cost perspective. | The large degree of flexibility to design alternative investment options would not be reflected. |

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|---|---|---|
| **PEPP savers** | Benefits for PEPP savers are only related to lower costs.<br>Lowest assigned costs relating to the supervisory reporting as compared to the reporting by investment option or splitting between Basic PEPP and alternative investment options. | A greater risk that inherent issues for a particular PEPP investment option may be missed, with a more damaging effect on savers and beneficiaries protection. |
| **National competent authorities** | Lowest costs as resources needed for analysing the data will be lower compared to the other options. | Information at product level will not provide a good assessment of the actual situation of the PEPP market and the risks related to particular product alternatives.<br>It does not fully reflect a proportionate approach regarding the objective to develop a single framework serving the needs of both competent authorities (home and host) and EIOPA. |

Policy Option 5.2: Reporting by investment option

| Stakeholder groups | Benefits | Costs and risks |
|---|---|---|
| **PEPP providers** | Information also useful for the management of the PEPP providers. | More costly than option 5.1.<br>Very high reporting costs compared to the benefits in cases where the volume of the alternative investment options are marginal compared to the total volume. Due to the higher protection provided by the Basic PEPP, it would be reasonable to expect at least when the |

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| | | Regulation enters into force, most of the PEPP savers tend to invest in the Basic PEPP. |
| **PEPP savers** | The greater alignment with the risk profile of each individual investment option should enable a meaningful assessment of the risk associated with each investment option thereby reducing damaging effect on savers' and beneficiaries 'protection and possibly increasing consumer confidence. | Largest impact on the premiums or benefits as much more detail needs to be reported.<br><br>Very high reporting costs compared to the benefits that will be assigned in cases where the volume of the alternative investment options are marginal compared to the total volume. Due to the higher protection provided by the Basic PEPP, it would be reasonable to expect at least when the Regulation enters into force, most of the PEPP savers tend to invest in the Basic PEPP. |
| **National competent authorities** | There is a large degree of flexibility to design alternative investment options. Therefore, reporting information by investment option will provide the best assessment of the actual situation of the PEPP market and the risks related to each investment option.<br><br>While the information at product level is sufficient from a statistical perspective, information by investment option or at least split between the Basic PEPP and alternative investment options are needed to satisfy competent authorities' and EIOPA's needs in | Will require much more resources to assess as the increase in granularity can result in much more entries depending on the number of investment options used by PEPP providers. |

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| | terms of delivering on its duties included in the Regulation. | |

Policy Option 5.3: Split between Basic PEPP and alternative investment options

This option aims to find the right balance between detail and costs by reporting separately for the Basic PEPP and all alternative investment options aggregated.

| Stakeholder groups | Benefits | Costs |
|---|---|---|
| **PEPP providers** | Information useful for the management of the PEPP providers to understand the attractiveness of the Basic PEPP compared to the alternative investment options.<br><br>Much less cost than in case reporting would be required by investment option specially to report detail on investment options, which have not been sold frequently. | More costs than reporting at product level. |
| **PEPP savers** | Medium impact on the premiums or benefits as less detail needs to be reported compared to reporting every investment option. | More impact on premiums and benefits than reporting at product level.<br><br>Less risk that inherent issues for the Basic PEPP may be missed, thereby damaging effect on savers' and beneficiaries' protection. |
| **National competent authorities** | While the information at product level is sufficient from a statistical perspective, information by investment option or at least split | Medium impact on the resources needed to assess the information as less detail will be received compared to reporting every |

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| | between the Basic PEPP and alternative investment options are needed to satisfy competent authorities and EIOPA's needs in terms of delivering on its duties included in the Regulation.<br><br>The split between Basic PEPP and alternative investment options allows monitoring the amounts and evolution of the PEPP amounts being sold for the Basic PEPP compared to the alternative investment options.<br><br>Competent authorities can request additional information from the PEPP providers concerning the alternative investment options should it expect risks associated with these investment options based on the information provided rather than requiring the whole market to provide this information, even if immaterial.<br><br>It clearly complies with the principle of proportionality, providing important insights in the Basic PEPP and enabling a meaningful assessment of risks; and at the same time reducing costs in setting up reporting systems, in a risk based manner. | investment option but more than reporting at product level. |

### CONCLUSION OF POLICY ISSUE 5

The lower costs of reporting by product do not outweigh the negative impacts of lacking important information. This could lead to sub-optimal outcomes for competent authorities and EIOPA's capabilities to fulfil their duties. Option 5.1. was therefore disregarded.

On the other hand, a full reporting of each investment option might lead to higher costs for both PEPP providers and competent authorities, especially in case investment options are immaterial. Indeed, due to the higher protection provided by the Basic PEPP, it would be reasonable to expect at least when the Regulation enters into force, most of the PEPP savers tend to invest in the Basic PEPP. Option 5.2. was therefore disregarded too.

Reporting all investment options of all PEPPs in Europe would be the ideal situation from the point of view of enabling the most thorough analysis and risk assessment. However, due to the administrative burden, a more balanced approach between the data needs and the costs could be found in splitting the information request by Basic PEPPs and alternative investment options. Therefore EIOPA's preferred option is option 5.3 (Reporting split between Basic PEPP and alternative investment options) as a risk-based approach. If competent authorities assumed certain risks in the alternative investment options, this might be complemented by more granular ad-hoc reporting for these specific PEPPs. The level of granularity can be adapted in the future, in case the alternative investment options become, individually or on aggregate, significant in relation to the savings in the Basic PEPP, the information shall be reported at a more granular level or at the level of each investment option.

### POLICY ISSUE 6: CONTENT OF THE REPORTING TEMPLATES

For competent authorities it is necessary to receive adequate information on the PEPP to monitor if PEPP providers comply with the provisions laid down in the PEPP Regulation, including regular quantitative information. In general, should cover, at least, the following items: product information, information on the costs, assets, investments in collective investment funds, derivatives and investment income.

#### Policy Option 6.1: Detailed reporting

The detailed reporting would include information on the following items:

a. Costs,

b. Cash flows (contributions, benefits paid),

c. PEPP savers (number of PEPP savers and further detail on the PEPP savers),

d. Aggregate information on main asset classes

e. Overview of the obligations including the impact of changes in the assumptions, where relevant

f. Asset-by-asset reporting

g. Look-through reporting

h. Derivative-by-derivative reporting

i. Investment income by asset category

| Stakeholder groups | Benefits | Costs and risks |
|---|---|---|
| **PEPP providers** | Information also useful for the management of the PEPP providers. | More costly than option 6.2.<br>The level of detail related to these items might not always be proportionate to the underlying risks.<br>Although these detailed reporting requirements provide a good basis for the management of PEPP providers, the need of investments in IT solutions, databases and reporting processes from PEPP providers to NCAs might be substantial for affected parties not familiar with this reporting. |
| **PEPP savers** | More detailed information should enable a meaningful assessment of the risk associated with the product thereby reducing damaging effect on savers' protection and possibly increasing consumer confidence. | Largest impact on the premiums or benefits, as much more details need to be reported.<br>Possible asymmetry between reporting costs compared to the benefits especially at an earlier stage of the product lifecycle. |

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| **National competent authorities** | Information is needed to fulfil the tasks required by the regulation.<br><br>The item-by-item reporting of direct or indirect holdings in assets and derivatives is highly desirable. It is crucial to identify threats to the orderly functioning and integrity of the PEPP market and to identify the underlying risks related to the products and the investment options.<br><br>Considering the potential substantial indirect holdings of assets in investment funds, it is prudent to gain further insights in the underlying instruments and to identify the actual exposure. The look-through approach allows to analyse the holdings reliably. | Requires significant resources to assess all data.<br><br>The level of detail related to these items might not always be critical to comply with the PEPP Regulation or proportionate to the underlying risk and be more relevant for market monitoring as well as statistical purposes. For example, detailed information on the PEPP savers or the overview of the main asset classes.<br><br>Furthermore, not all data can be considered relevant at the start of the product lifecycle, taking account of the high set-up costs related to the supervisory reporting. For example, the number of PEPP retired savers for a PEPPs might not be material compared to the total number of PEPP savers in the first decade after the product launch.<br><br>Although these detailed reporting requirements provide a good basis for PEPP's supervision, the need of investments in IT solutions, databases and reporting processes both from NCAs to EIOPA and from PEPP providers to NCAs might be substantial for affected parties not familiar with this reporting.<br><br>There is a slight risk of information overload, meaning that although the volume of information goes |

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| | | up, so too does the risk that issues are overlooked in the mass of data because of the pressure to complete the previous period's reviews before moving on to the following period. |

Policy Option 6.2: Reduced reporting

Assessing the situation reflected by policy option 6.1, an alternative option is an approach where only the absolute minimum of information would be collected. This would result in the following information:

a. Costs,

b. Cash flows (reduced detail),

c. PEPP savers (only number of PEPP savers),

d. Asset-by-asset reporting

e. Look-through reporting

f. Aggregated information on derivatives

g. Aggregated information on investment income

| Stakeholder groups | Benefits | Costs and risks |
|---|---|---|
| **PEPP providers** | Information also useful for the management of the PEPP providers and more proportionate than the underlying risks.<br><br>Lower set-up costs compared to item 6.1 | The PEPP provider might need to collect additional information to assess certain risks or provide more ad-hoc information when requested from competent authorities.<br><br>Although there is less reporting, there is a need for investments in IT solutions, databases and reporting processes from PEPP providers to NCAs, especially for |

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| | | affected parties not familiar with this reporting. |
| **PEPP savers** | Less reporting detail should have a positive impact on the costs charged. | A greater risk that inherent issues for a particular PEPP investment option may be missed, with a more damaging effect on savers and beneficiaries protection. |
| **National competent authorities** | Data is sufficient for supervisory needs and more proportionate to the underlying risk, taking into account that also other information is collected (e.g. PEPP KID, supervisory report), which is complementary to the quantitative data. Competent authorities have the ability to require additional information when the risks based on the input received or if additional quantitative data are needed.<br><br>Important for the compliance with the Regulation and Article 41 in particular is the assessment of the actual holdings of assets and the details about direct and indirect investments. The information with regard to the derivatives is important yet the use of derivatives may be less material, EIOPA suggests focusing on a few derivative categories solely and to limit the requested information to the notional amount and the prudential value. | Requires less resources to assess all data compared to policy option 6.1. |

## CONCLUSION OF POLICY ISSUE 6

The conclusion of policy issue 6 required the consideration of a trade-off between the potential of achieving an exhaustive overview on the exposures and characteristics of PEPPs, so that EIOPA and competent authorities can fulfil their duties against the additional reporting burden for PEPP providers and the impact on the costs charged to PEPP savers. While costs, some cash flows, asset-by-asset information and information on indirect holdings are indispensable, reporting on all aspects of PEPP savers, cash-flows and derivative-by-derivative information are considered too burdensome at this stage. EIOPA needs to collect further evidence on the supervisory needs and materiality of this information before considering requiring them for the regular, annual reporting. Therefore, policy option 6.1. was disregarded.

The preferred policy option is option 6.2 (reduced reporting), which requires a minimum of information, including costs, asset-by-asset reporting and look through of investment funds, but with a reduced scope and detail of the information on PEPP savers and cash flows, as well as on derivatives reporting and investment income. This option ensures EIOPA's and competent authorities can fulfil their duties against lower set-up costs. However, it is important to review and potentially revise these limitations over time and to assess the need to require a broader scope and perhaps detail of the reporting in the future.

The preferred option complies with the principle of proportionality, as it designs the data requests in a way to focus only on the most important items, in a risk-based fashion, acknowledging the benefits of the combined reporting of asset-by-asset and the look-through approach, while exempting a full reporting scope including derivative-by-derivative reporting.

The different types of eligible PEPP providers are currently subject to different supervisory reporting regimes, which usually focus on the prudential supervision needs regarding the different business models. For the development of the supervisory reporting requirements on PEPP, it was necessary to ensure that competent authorities will receive the same set of information on every PEPP – independent on the type of PEPP provider. At the same time, the requirements have been designed to ensure ease of implementation in the current supervisory reporting systems of the different types of eligible PEPP providers.

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