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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)

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Responding to this paper

EIOPA welcomes comments on the proposed approach and considerations for EIOPA's Technical Advice as well as Implementing and Regulatory Technical Standards for applying Regulation (EU) 2019/1238 on a Pan-European Personal Pension Product (PEPP)[1] ('the PEPP Regulation').

Comments are most helpful if they:
respond to the question stated, where applicable;
contain a clear rationale; and
describe any alternatives EIOPA should consider.

Please send your comments to EIOPA in the provided Template for Comments, by email CP-19-007@eiopa.europa.eu, by 2nd March 2020.

Contributions not provided in the template for comments, or sent to a different email address, or after the deadline will not be processed.

Publication of responses

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

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

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

Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. They will only be used to request clarifications if necessary on the information supplied.

EIOPA, as a European Authority, will process any personal data in line with Regulation (EC) No 45/2001 on the protection of the individuals with regards to the processing of personal data by the Community institutions and bodies and on the free movement of such data. More information on data protection can be found at https://eiopa.europa.eu/ under the heading 'Legal notice'.

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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: OJ L198, 25.7.2019, p.1.

[2] Public Access to Documents

Consultation Paper Overview & Next Steps

EIOPA carries out consultations in the case of drafting Technical Standards in accordance to Articles 10 and 15 of the EIOPA Regulation.

This Consultation Paper presents the objective and policy approach to the draft Technical Advice and Technical Standards, explanatory text and a technical annex where relevant.

The corresponding analysis of the expected impact from key options in the proposed policy is covered under Annex I (Impact Assessment).

Next steps

EIOPA will consider the feedback received and expects to publish a Final Report on the consultation and to submit the Consultation Paper for adoption by the Board of Supervisors.

1. Introduction

1.1 Objective

The Regulation of the PEPP is the European Union's answer to two key policy questions:

- Firstly, how to complement sensibly existing pension systems - in particular, in places where the occupational pension sector is underdeveloped - and how to provide a powerful tool for the retirement savings of a modern, mobile European citizen, working in a changing labour market?
- Secondly, how to reinforce the much needed, efficient and sustainable Capital Markets Union?

The need to save – more – privately to ensure an adequate retirement income comes at a time of a challenging economic environment. Persistently low interest rates, slow growth and the aftermath of the last financial crisis put a strain on long-term savings solutions and challenge the build-up of sufficient financial resources for European citizens' future retirement income. Though pension products benefit from a long planning and investment horizon, the effect of the persistent trends in the economic environment can be felt: the shift to Defined Contribution pension promises and the significant trend towards unit-linked products relocate the investment risks from the institutional investor to the individual saver.

The appropriate design of standardised reference points, i.e. 'quality features,' of the PEPP and initiatives to enhance the understanding of risks and rewards that are intrinsically linked and are necessary to make saving 'worthwhile', help individuals to manage their financial planning in this changing – and challenging – economic environment. However, how much more challenging is it for an individual to understand the effects of inflation and the risk of outliving one's savings – the 'longevity' risk- , which are the two main exposures a pension solution has to tackle?

To overcome consumer's behavioural tendencies, such as procrastination, loss aversion or simplistic 'rules of thumb', the PEPP offers a simple approach: transparent, standardised, enforceable, default, quality features that enable comparability, set an appropriate benchmark – and most importantly – consumer trust. In addition to that, such default, standardised features bring economies of scale and efficiency gains to the PEPP providers, expected to result in cost-efficient products and sustainable investments over a considerably long time horizon.

With the ambition to build a strong, default personal pension product comes the obligation to deliver on the inherent promise to consumers. The regulation of PEPP's high-quality features, such as standardised, relevant pre-contractual and regular information documents, the cost cap and the mandatory use of risk-mitigation techniques, requires smart and innovative approaches, to promote superior pension outcomes and to empower consumers taking good decisions. This challenging endeavour has to be undertaken with the consumers' needs in focus and the practicability for the provider to be always kept in mind.

Private pensions are often regarded as an inefficient market, where consumers' demand is not matched by adequate supply of suitable, cost-efficient solutions. Regulation has to address agency conflicts and information asymmetry as shortcomings of an inefficient market. Conflicts of interests need to be acknowledged and the right incentives need to be put in place to facilitate optimised results for consumers. The main tools for enforcing these considerations are a robust regulatory framework, including authorisation regimes, governance, distribution rules and corresponding supervisory powers. To promote safe products also means implementing relevant controls and limits on product design, including through product oversight and governance measures.

Finding innovative solutions for the PEPP, based on the learnings from the current, challenging economic environment, changing demographics and the modern forms of labour, and embracing the opportunities of digitalisation, will make this personal pension product future-proof for the benefits of the European citizens.

1.2 Process

The PEPP Regulation sets out a number of empowerments for EIOPA, in consultation with EBA and ESMA as well as the ECB, where relevant, to develop technical standards. Further, EIOPA will provide technical advice to the European Commission for two areas where delegated acts are required: supervisory reporting and EIOPA's product intervention powers.

Based on the legal provisions and the call for advice received from the European Commission, this work needs to be finalised within 12 months after the entry into force of the PEPP Regulation. The regulatory framework becomes applicable 12 months after the publication of the delegated acts referring to the RTSs.

In July 2019, EIOPA set up an expert practitioner panel on PEPP with the objective:

- To inform EIOPA's policy work,
- To test policy proposals and
- To act as sounding board supporting EIOPA delivering on its mandate.

To deliver on the forthcoming PEPP Regulation's policy perspective to design a PEPP that exhibits high quality product features around information provision, risk-mitigating techniques and a cost cap for the basic PEPP, the feedback and support from practitioners has been very valuable. With the insights of the Expert Practitioner Panel, EIOPA is aiming to develop better solutions and smart policy advice that incentivises financial innovation for the benefit of the European consumers.

2. Information Documents

The PEPP key information document (KID) is a crucial component of the PEPP framework to ensure that relevant information is provided to consumers, facilitating understanding and comparability of PEPPs and the applicable investment options.

Pursuant to Article 28(4) of the PEPP Regulation EIOPA has to develop a RTS specifying:

- The details of the presentation, including layout and length
- The methodology underpinning the presentation of risks and rewards, the summary risk indicators and applicable caps
- The methodology for calculating costs and specifically the summary cost indicator
- The first layer in case of layering information

Whilst EIOPA and the Joint Committee's work on the PRIIPs (PRIIPs Delegated Regulation on KID[3]), IDD[4] IPID, costs and net performance are a good starting point for the development of this RTS, the tailoring to PEPP and the additional considerations for a long-term pension product require some adaptations.

The PEPP KID and the PEPP Benefit Statement should provide relevant, simple and understandable information documents that engage consumers to actively plan their retirement savings. The proposals start from the presumption for the PEPP KID and PEPP Benefit Statement to become digital and to use layering of information. For an effective application, consumer and industry testing is particularly important.

Attention needs to be paid to the presentation of risks and performance, which requires tailoring and innovative thinking to address the long-term, pension objective of the PEPP.

The proposals on the PEPP KID should specify how the particular type of PEPP addresses the long-term nature of the pension objective and the effect of the eventual pension savings and future retirement benefits:

- Nature and effect of guarantees
- Level of contributions of the PEPP saver, net of costs and charges, needed to reach a desired retirement objective
- Incorporation of ESG factors

Further, pursuant to Article 30(2) of the PEPP Regulation, EIOPA is required to develop a RTS to specify the conditions for PEPP providers, on which to assess annually whether the PEPP KID requires review and revision.

PEPP providers or distributors have to provide the prospective PEPP savers with all the applicable PEPP KIDs when advising on, or offering for sale, a PEPP in good time before the prospective PEPP saver takes its decision. EIOPA has to develop a RTS to specify the conditions to fulfil that requirement.

[3] Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents, OJ L 100, 12.4.2017, p. 1.

[4] Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast), OJ L 26, 2.2.2016, p. 19.

Pursuant to Article 33(3) of the PEPP Regulation, the RTS will need to specify the applicable criteria on completeness and timeliness and to take into consideration potential conflicts of interests, as addressed in sectoral legislation, such as the IDD.

In the area of the regular PEPP Benefit Statement, EIOPA has to develop two RTSs:

- RTS specifying the rules to determine the assumptions on pension benefit projections (in consultation with the ECB), pursuant to Article 36(2) of the PEPP Regulation;
- RTS determining the details of the PEPP Benefit Statement's presentation), pursuant to Article 37(2) of the PEPP Regulation.

Regarding the specifications of the underlying assumptions for the projections, reference should be made, where relevant, to the consistent calculation of nominal investment returns, the annual rate of inflation and the trend of future wages, in collaboration with the ECB and Eurostat.

The presentation of the PEPP Benefit Statement should particularly focus on reconciling the information previously provided in the PEPP KID. The presentation of past performance and on providing clear guidance on the limitations of any projections – as well as on pension projections - are key for the understanding of the performance of the chosen PEPP.

Information from the regular PEPP Benefit Statement should enable the consumer to monitor the delivery and performance, compared to the information provided in the PEPP KID. It should highlight the effects of guarantees, the level of contributions and the costs on the projected benefits. The role of inflation should be made transparent.

Several items of the PEPP Benefit Statement are regulated in Article 36 of the PEPP Regulation and the basic content of supplementary information (e.g. incorporation of ESG factors in the investment policy) is set out in Article 37 of the PEPP Regulation.

2.1 Presentation of the information documents

The proposals for the design of the information documents were led by the idea of putting 'digital first' and so to facilitate the provision of those documents by digital means – and therewith to engage consumers and PEPP savers – as well as to provide for opportunities to develop cost efficient solutions.

Whilst the suggested designs and approaches take inspiration from the PRIIPs Delegated Regulation on KID, IDD IPID and the IORP II Directive[5], the information documents have been tailored to the specificities of PEPP and add considerations about the importance of the information to be presented in the 'first layer' of the information documents.

It is important that the approach on layering facilitates comprehensibility and usefulness of pre-contractual information. Although layering is not mentioned in a PEPP Benefit Statement context, it makes sense for the same principles to apply to this document as well.

The details of the information to be included in the PEPP KID and the presentation of this information should be further harmonised through the RTS, specifying the content

[5] Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs), OJ L 354, 23.12.2016, p. 37.

and the presentation, for which preliminary, illustrative mock-ups have been developed, of the elements of information in KID, as set out in Article 28(3) of the PEPP Regulation. The mock-ups will be further developed with the insights from the consumer testing.

EIOPA should detail the content of each of the elements of information taking into account the scope of the PEPP Regulation:

- at the beginning of the document: the name of the PEPP, the type of PEPP provider, whether it is a Basic PEPP or not – including whether it is a guaranteed or non-guaranteed Basic PEPP, and details about the registration;
- what is the detail of information that should be included in every section of the PEPP KID? ("inside" PEPP KID) (applicable to both online KID and paper KID);
- layering in the context of an electronic KID including breaking down of each (or some) sections of the document into layers (first layer - general/key information) and second/additional layer - description/additional info and links to external sources. This could either be detailed or more principle-based.

The necessity of layering arises from the fact that the volume of information to be contained in the PEPP KID is extensive, and so all tools that can be used to aid the consumer in navigating the document and extracting key information should be used.

Digital disclosure could incorporate more engaging forms of media and could even permit interactive elements. This could make the information more appealing and easier to understand for consumers. Additionally, this offers the advantage of having more timely, convenient and reliable information in a cost efficient fashion.

As the PEPP Regulation in the context of information disclosure specifically refers to the means of online channels, the focus is on how the respective content is being perceived by PEPP savers customers via e.g. their smartphone, tablet or via audio/video solutions. The question of how to encourage PEPP providers to explore new disclosure formats (e.g. audio, video or mobile applications) to meet savers' expectations and to facilitate consumers' understanding and engagement with the PEPP might additionally be taken into account.

More generally, it is crucial to leverage new technological possibilities – the regulatory objectives of disclosure could potentially enhanced by incorporating such digital features such as video, audio, interactive menu features, dynamic pop-up Q&As, animations and 'gamification'.

The PEPP KID is nonetheless a standardised information document and the RTS shall specify the details of the presentation, including the form and length of the document (standardised presentation).[6] The extent and nature of the standardisation needs specific consideration in the context of an online environment: it would be difficult to set highly standardised template requirements for online PEPP KIDs given the range of different devices and screen sizes (desktop, mobile phone, etc.). Additionally, all requirements shall ideally be future-proof. Hence, all requirements should aim to find an adequate compromise between standardisation of key elements and permitting flexibility to address innovation and diversity of delivery channels.

It is nonetheless important that the same information is provided in online and offline environments, and key design principles are in place.

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[6] The level of standardisation can vary. Compare e.g. PRIIPs KID and IPID.

This means that innovative PEPP KIDs should also meet all the requirement and contain a similar level of detail and volume of content. The PEPP Regulation states that if layering approach is used, it shall be possible to print the PEPP KID as one single document. When a PEPP provider is using an alternative approach for online disclosure (e.g. smartphone app), the KID or some part of the KID, might not be directly capable of being printed; in such cases providers could provide an option to print PEPP KIDs in e.g. pdf or Word document formats, while using the app as a primary medium for those wishing to consume the information that way.

Information about other investment options and subaccounts

The PEPP Regulation sets out that the Basic PEPP needs to be presented in an individual KID. However, if the PEPP provider offers a range of alternative investment options (up to five in addition to the Basic PEPP), the provider can either produce a generic KID or KIDs for every investment option available. Similarly to PRIIPs Delegated Regulation on KID it is suggested to regulate the information on the investment options that need to be provided when choosing the generic KID option.

Similarly, all the information provided in the PEPP Benefit Statement has to be broken down by subaccounts.

Article xa

Presentation and order of content in an online environment

Where the PEPP KID's content is presented using a durable medium other than paper, including website, mobile application, audio or video, then:

1. the information shall be presented in a way that it is adapted to the PEPP saver's device used for accessing the PEPP KID;
2. the size of the components in the layout may be changed, provided that the layout, headings and sequence of the standardised presentation format, as well as the relative prominence and size of the different elements, are retained;
3. font and font size shall be such that the information is noticeable, understandable, including clearly legible and audible, and distinguishable from other information, which is not part of the PEPP KID information;
4. if audio or video is used, such speed of speaking and volume of sound shall be used which, given ordinary attention, makes the information noticeable, understandable, including clearly audible, and distinguishable from other information, which is not part of the PEPP KID information.

Article xb

Layering of information in the PEPP KID

The layering of the information shall be permitted where the PEPP KID is provided in an electronic format, whereby detailed parts of the information can be presented in accompanying layers, provided that the PEPP KID contains all the information referred to in Article 28(3) of Regulation (EU) 2019/1238 and that the use of accompanying layers does not distract the customer's attention from the content of the document and does not obscure key information. It shall be possible to print the PEPP KID as one single document.

Article xc

'What is this product?' section

1. Information stating the long-term retirement objectives of the PEPP and the means for achieving those objectives in the section entitled 'What is this product?' of the PEPP KID shall be summarised in a brief, clear and easily understandable manner. That information shall identify the main factors upon which investment return and pension outcomes depend, the underlying investment assets or reference values, and how the return is determined, as well as the impact of contribution levels and the expected savings period until retirement. It shall also make reference to the type of the PEPP provider and the resulting specific features of the PEPP contract.

2. The description of the type of PEPP saver to whom the PEPP is intended to be marketed in the section entitled 'What is this product?' of the PEPP KID shall include information on the target PEPP savers identified by the PEPP provider. This determination shall be based upon the ability of PEPP savers to bear investment loss and their investment horizon preferences, their theoretical knowledge of, and past experience with PEPPs, the financial markets as well as the needs, characteristics and objectives of potential PEPP savers.

3. The details of PEPP retirement benefits in the section entitled 'What is this product?' of the PEPP KID shall include in a general summary, namely, the key features of the PEPP contract, including possible forms of out-payments such as a lump-sum payment and the right to modify the form of out-payments as referred to in Article 59(1) of Regulation (EU) 2019/1238, a definition of each PEPP retirement benefit included, with an explanatory statement indicating that the value of those benefits is shown in the section entitled 'What are the risks and what I could get in return'.

4. Where the PEPP contract covers biometric risk, information shall be included in the section entitled 'What is this product?' of the PEPP KID on details of that coverage, including a list of risks covered and the circumstances that would trigger the cover and the insurance benefits, and showing the overall premium, the biometric risk premium that forms part of that overall premium and either the impact of the biometric risk premium on the investment return at the end of the recommended holding period or the impact of the cost part of the biometric risk premium taken into account. Where the premium is paid in the form of a single lump sum, the details shall include the amount invested. Where the premium is paid periodically, the number of periodic payments, an estimation of the average biometric risk premium as a percentage of the annual premium, and an estimation of the average amount invested shall be included in the information.

5. The section entitled 'What is this product?' of the PEPP KID shall indicate the following:

a) whether the Basic PEPP provides a guarantee on the capital or takes the form of a risk-mitigation technique consistent with the objective to allow the PEPP saver to recoup the capital; or

b) whether and to what extent any alternative investment option, if applicable, provides a guarantee or a risk- mitigation technique.

6. The information of the portability service in the section entitled 'What is this product?' of the PEPP KID shall include:

a) information that PEPP savers have upon the request the right to use a portability service which gives them the right to continue contributing into their existing PEPP account, when changing their residence to another Member State;

b) information on which sub-accounts are immediately available;

c) a reference to the EIOPA central public register referred to in Article 13 of the Regulation (EU) 2019/1238 where information for the conditions for the accumulation phase and the decumulation phase of the national sub-accounts determined by Member States are contained;

d) information that where the PEPP provider is not able to ensure the opening of a new sub-account corresponding to the PEPP saver's new Member State of residence, the PEPP saver shall according to his or her choice be able to switch PEPP provider without delay and free of charge notwithstanding the requirements of Article 52(3) Regulation (EU) 2019/1238 on the frequency of switching, or continue contributing to the last sub-account opened.

7. The section entitled 'What is this product?' of the PEPP KID shall include a statement on the consequences for the PEPP saver:

a) of early withdrawal from the PEPP, including all applicable fees, penalties, and possible loss of capital protection and of other possible advantages and incentives; and

b) if the PEPP saver stops contributing to the PEPP, including all applicable fees, penalties, and possible loss of capital protection and of other possible advantages and incentives.

8. The information on the provision of the switching service in the section entitled 'What is this product?' of PEPP KID shall include information that PEPP saver may switch PEPP providers after a minimum of five years from the conclusion of the PEPP contract, and, in case of subsequent switching, after five years from the most recent switching, without prejudice to paragraph 6(d) of this article. If the PEPP provider allows the PEPP saver to switch PEPP provider more frequently, the frequency shall be communicated to the PEPP saver.

The information on the provision of the switching service shall also include information about the right to receive additional information about the switching service as referred to in Article 56 of the Regulation (EU) 2019/1238 and the fact that it is available on PEPP provider's website and upon request shall also be provided to PEPP savers in accordance with the requirements of Article 24 of the Regulation (EU) 2019/1238.

9. The information on the conditions for modification of the chosen investment option in the section entitled 'What is this product?' of the PEPP KID shall include information that if the PEPP provider provides alternative investment options, the PEPP saver, while accumulating in the PEPP, shall be able to choose free of charge a different investment option after a minimum of five years from the conclusion of the PEPP contract and, in the case of subsequent changes, after five years from the most recent change of investment option, if the PEPP provider does not allow the PEPP saver to modify the chosen investment option more frequently.

10. The information related to the performance of the PEPP provider's investments in terms of ESG factors in the section entitled 'What is this product?' of the PEPP KID shall include information, where available, related to the performance of the PEPP provider's investments in terms of ESG factors.

11. The section entitled 'What is this product?' of the PEPP KID shall include information about the law applicable to the PEPP contract where the parties do not have a free choice of law or, where the parties are free to choose the applicable law, the law that the PEPP provider proposes to choose.

12. The section entitled 'What is this product?' of the PEPP KID shall include where applicable, whether there is a cooling-off period or cancellation period for the PEPP saver, and what are the consequences, including all applicable fees and penalties of using the cooling-off period or cancelling the contract.

13. Where information is presented in an electronic format with layering of information, the first layer shall contain at least the information indicated in paragraphs 1 to 3, information whether the PEPP contract covers biometric risk, and whether the Basic PEPP provides a guarantee on the capital or takes the form of a risk-mitigation technique consistent with the objective to allow the PEPP saver to recoup the capital, or whether and to what extent any alternative investment option, if applicable, provides a guarantee or a risk- mitigation technique. Other information may be provided in the additional layers of detail.

2.2 Past performance – Summary Risk Indicator - Performance scenarios/ Pension Benefit Projections

Acknowledging the specificities of PEPP, its long-term nature and explicit retirement income perspective, the measures of risks/ rewards and performance need to be in line with the PEPP's objective. The main risk of a pension product is the risk of not reaching the individual's retirement objective, which is very much linked to the personal circumstances, such as the person's level of risk aversion, remaining time until retirement, the proportion of disposable income that can be contributed - and how much the PEPP saver depends on the future PEPP benefits and the relative significance of other sources of retirement income than from PEPP. Further, the riskiness of a personal pension product is its potential inability to outperform inflation, and so to lose savings in real terms, or not being sufficiently 'aggressive' to reach high returns to compensate for lower contribution levels or lower risk aversion – as well as the PEPP saver's potential loss of financial resources to continue contributing to the PEPP over one's career.

Following from that, EIOPA's proposals are developed with the objective of presenting and quantifying the distribution of desired pension outcomes at decumulation, relative to the adequateness of the PEPP investment option in terms of effectively delivering on the retirement objective.

This objective feeds into all areas relating to risk and rewards, performance, projections and risk-mitigation, so that the three areas of 'past performance', 'summary risk indicator' and 'performance scenarios'/'pension benefit projections' have been approached in a consistent manner, providing insights into:

- Past performance – where would the PEPP saver stand if one would have started saving 10 years ago? How is the performance compared to the benchmark?
- Summary risk indicator – what is the probability and extent of deviation from the desired pension outcome?
- Performance scenario/ pension benefit projections – what can the PEPP saver expect to receive in retirement?

Identifying the building blocks

The methodology to quantify the risks, rewards and performance of PEPP follow from the retirement income objective: is the objective to recoup the capital invested (after costs and charges) at decumulation? Is the objective to protect against inflation? Or is the objective to reach a high probability of recouping the inflation-protected capital and to have a good chance to earning additional investment returns and stable future retirement income?

EIOPA suggests using a risk management and investment objective for the PEPP that incorporates the following elements, which will feed into the quantification of the PEPP investment option's relative riskiness and performance:

- Inflation-protected accumulated savings,
- Reaching at least the long-term risk-free rate,
- Limiting the dispersion of the future PEPP benefits.

Following from that, one of the key building blocks is to identify a relevant benchmark to measure the protection against inflation and to the long-term risk-free rate. For that, EIOPA considers the use of the ultimate forward rate (UFR), which is calculated annually taking into account the expected inflation and the long-term risk-free returns.

The dispersion of future PEPP benefits would need to be assessed based on stochastic modelling, based on a set of standardised inputs, taking into account the remaining time until retirement, the risk aversion of the group of PEPP savers, as well as standardised return assumptions of asset classes, standard deviations and correlations – in order to achieve comparability between different PEPPs and different PEPP investment options.

The PEPP Regulation requires for the PEPP Benefit Statement the use of a best estimate and an unfavourable scenario. In order to implement a simplified approach to the quantification of the risk, it is suggested to add a favourable scenario and so to set a reasonable range of outcomes. The best estimate scenario should be highlighted to the consumer as the expected, probability-weighted, but not necessarily most probable, result. For the quantification of the risk measure the standard deviation from the mean (best estimate) expected outcome per decumulation option available (PEPP KID) or decumulation option chosen (PEPP Benefit Statement) together with the probability of reaching returns in line with the ultimate forward rate is suggested to be used.

For the presentation of the results, it is important to set out the values in real, inflation-adjusted terms and to take into account the contribution rate and how much the saver needs to save (in addition) to reach the retirement objective. This information could be provided in a table presentation:

Years until retirement	**Your monthly contribution**	**What can you expect to receive at retirement? (in current terms)** [inflation-adjusted]		**What is the risk?** [favourable to unfavourable scenario; translation into risk measure]
		Lump sum [best estimate]	Monthly payments [best estimate]	
40	100€	Xxxx	xxxx	Results range from x to y and translate in risk measure z
30	100€	Xxxx	xxxx	Results range from x to y and translate in risk measure z
20	100€	Xxxxx	xxxx	Results range from x to y and translate in risk measure z
10	100€	Xxxxx	xxxx	Results range from x to y and translate in risk measure z
5	100€	xxxxx	xxxx	Results range from x to y and translate in risk measure z

Past performance

Past performance is important information for consumers to understand the relative performance and the relative appropriateness of the assumptions on future performance. This is why the information on past performance is relevant both for the PEPP KID, so that the consumer sees – in a generic manner – how the PEPP had performed in the past; and for the PEPP Benefit Statement to get a record of the chosen PEPP investment option.

To represent the long-term nature of the PEPP and to avoid presenting only short-term volatility, it is suggested to present average returns over ten, five, three and one years.

It is suggested to complement the records of past performance with a relevant benchmark. Benchmarks could be the Basic PEPP investment option or the average performance of all PEPPs offered or the performance of a particular index. However, to stay consistent with the overall approach to quantifying risks/rewards and performance it is proposed to link the presentation of past performance to the expected outcomes following the pension projections and performance scenarios, it is suggested to add the long-term risk-free rate (ultimate forward rate) as the benchmark.

Summary Risk Indicator

The summary risk indicator should present the risk of deviating from the retirement goal for the available decumulation option, considering the contribution level and the remaining time until retirement. Therefore, the risk for cohorts further away from retirement may be lower than those closer to retirement and may indicate that either higher risks would need to be taken or higher contributions are necessary to mitigate the risks of not reaching the retirement income objective.

The summary risk indicator should link the riskiness of the investment option to the relative deviation of the projected pension projection from the best estimate result.

Regarding the presentation of the summary risk indicator, it is obvious this will need to diverge substantially from the PRIIPs summary risk indicator to avoid unhelpful comparisons being drawn. For example: less risk classes or a scale of high, medium and low risk could be envisaged. Consumer testing will be important in drawing out which forms of presenting the summary risk indicator work best.

The quantitative method used for the PRIIPs Regulation[7] to generate the risk class (1 to 7) is based on an assessment of market and credit risk. The market risk is determined using a value-at-risk (VaR) measure based on recent historical data. Credit risk is assessed by applying a method based on external credit assessments.

Taking into account the preferred approach to the PEPP performance scenarios, EIOPA also sees benefit in developing a simplified and more standardised approach for the market risk assessment within the summary risk indicator. This is linked to the option to define standardised risk premia per broad asset class to be used as a basis for the performance scenarios. This analysis could also be used to define standardised volatilities per broad asset class. This measure could then be used to determine both the range of the other performance scenarios to be shown (i.e. besides the best estimate), as well as the level of the risk indicator.

The assessment of risk should take into account the specific nature of PEPP, in particular:

- While the PRIIPs summary risk indicator currently uses external credit assessment, it is stated in recital 7 of the PRIIPs Delegated Regulation on KID

[7] Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), OJ L 352, 9.12.2014, p. 1.

that the reliance on credit ratings should be reduced whenever possible and that this aspect of PRIIPs should be reviewed.

- The credit risk assessment, specifically the look-through assessment is not straightforward and raises some practical challenges. Taking this into account, given the narrower scope of the products and expected investment options for PEPP (e.g. generally pooled investment vehicles), a more standardised or narrative focused approach to credit risk could be seen as more proportionate in the context of PEPP.

An alternative approach could be to use a short and bold narrative to indicate, in simple terms, the nature of the credit risk taking into account that information is already provided on "What happens if the PEPP provider is unable to pay out".

A key part of the approach will be the use of narrative explanations. These will be crucial in order to make the link between the investment risk and the risk of the retirement objectives not being met. The narrative explanation would need to indicate the link between the rate of contributions, the time horizon and the degree of investment risk taken.

EIOPA is also of the view that the following key messages or aims should also be reflected:

- To clearly distinguish between guaranteed and non-guaranteed (Basic) PEPP.
- To indicate that products which take on lower market risk may require a higher level of contributions in order to meet the intended retirement income.
- To indicate to the PEPP saver that they consider taking a reasonable amount of investment risk, where they are prepared to save for the longer term and accept that there are likely to be losses in some years.

Regarding liquidity risk the qualitative criteria and narrative warnings that are used for PRIIPs are not directly applicable to PEPP. However, taking into account the possibility to switch between investment options at least after five years (Article 44 of the PEPP Regulation) and potentially more frequently, a warning in relation to less liquid options will still be relevant in certain cases[8].

In view of this, EIOPA has identified the following main options:

Option	Features	Consideration
Use of risk classes and/or simple textual presentation	This would entail using a qualitative presentation (number, low/high, colours or names 'balanced'/'aggressive') and communicating an overall risk score	Preferably, the risk scale contains not more than four or five risk buckets; otherwise it becomes more difficult to identify relevant textual terms (adjectives). It ensures that the PEPP summary risk indicator is not confused with the PRIIPs summary risk indicator
Matrix approach	This would include an additional element or	Some consumers may find this type of display

[8] For example if the underlying asset is an infrastructure fund and investment over a longer time horizon than 5 years is recommended.

	dimension in order to show how, for a given investment option, the remaining time until retirement affects the risk assessment	hard to understand. Consumer testing will provide further insights.

Standardised inputs and assumptions for performance scenarios/ pension benefit projections

In order to ensure comparable and over time consistent information to the consumers and PEPP savers about what they can expect to get at (and during) retirement, the PEPP Regulation requires EIOPA to set approaches for standard assumptions and valuation inputs.

For the applicable basic return assumptions, referred to as 'annual rate of nominal investment returns' it is suggested to use the long-term risk-free rate (ultimate forward rate) plus average long-term risk premia per different asset classes. The ultimate forward rate (UFR) is annually reviewed by EIOPA and could be complemented by annually reviewed standardised excess returns – per key asset class – averaged over the last decades, as available. Excess returns are returns over the risk-free rate, which can be set at appropriate levels for assets classes, such as equities, bonds, real estate and alternative investments. Alternatively, one could consider the proposed simplified approach for performance scenarios under the PRIIPs Delegated Regulation on KID Review of setting prescribed maximum growth rates solely by asset class – this would come at the cost of regular reviews of the provisions in relation to the appropriateness of the maximum growth rates set. The outcome of the review of the PRIIPs Delegated Regulation on KID will further inform the work on the PEPP information documents.

To set the annual rate of inflation for PEPP is a question of finding the right balance between precision of the derivation - and its effects on the projections - against the potential complexity introduced for the provider. There is a clear dispersion of inflation rates within the Member States of the European Union. The divergence of inflation rates occurs not only across countries with different currencies and independent monetary policies, but also within the monetary union.[9] Given the complexity and the impracticability of addressing all macroeconomic factors behind these divergences, the determination of the applicable annual rate of inflation for the PEPP is not straightforward.

As the purchasing power of consumers varies according to the currencies, the employment of one single annual inflation rate ignoring these discrepancies will result in divergent real gains across countries. While that hypothetical inflation rate might be optimal or even beneficial for some countries, it might be unfavourable for others.

The concepts of nominal and real values are not always broadly understood by consumers. Therefore, regulating the parameters ensure more comparable results and relevance of the information provided.

9 Key reasons behind the dispersion of inflation rates across the EU countries are business cycle differences, the asymmetric effects of cost factors (for example, difference reactions to oil price increases), different levels of flexibility in labour markets, differences in consumption patterns and policy-induced price adjustments (for example, adjustments of indirect taxes) among others.

Considering that the PEPP is portable and savings can be made in different currencies and different Member States, it is essential that the rules behind the determination of the annual inflation rate in the European level accommodate the different currencies in the European Union and, where possible and relevant, the differences within the Eurozone. The macroeconomic heterogeneity across the Member States and the relative level of complexity of core economic and financial concepts that impact the design of the products can be described as follows: All the relevant macroeconomic aspects that influence the outcome of the product - such as the currency, the purchasing power and inflation - are determined at national level, more precisely by the location of the saver. However, savers can continue saving in the same product when they change residence across borders within the EU. Therefore, pensions can be paid out in a different location from where the product was purchased. This is a relevant aspect to be considered given the potential differences that might arise between the expected amounts settled when the product was purchased and the actual amount received in real terms.

For the applicable 'annual rate of inflation' the following approach has been considered: PEPP providers shall employ the headline inflation projections provided by the European Commission or by the MS Central Bank for the short run (i.e. over the next 2 years or less depending on the forecast horizon availability) for the countries for the correspondent currencies of the relevant financial amounts and then assume the corresponding inflation target for the remaining periods. More simplistically and less preferable, PEPP providers could employ in all periods the inflation target of the countries for the corresponding currencies for the relevant financial amounts.

The measure of the annual inflation rate and the respective forecasts employed by PEPP providers should correspond to the inflation rate measure defined for the inflation target in the corresponding Member State.[10] The considered approach can account for more realistic estimations in the short run. As forecasts are not available for the longer horizons, the most realistic assumption should be that the inflation rates will converge to their targets in the medium to long run.

The trend in future wages is an important assumptions if the contributions to PEPP are adjusted for salary increases throughout the career of the PEPP saver. Such automatic increases can help to build adequate savings. Eurostat provides for detailed biannual statistics on the evolution of labour costs, in nominal terms, broken down in its components. It is proposed to extrapolate the trends in the component 'wages and salary costs' for the corresponding Member State, taking into consideration the historical and most recent developments. For example, in the Euro area, the cost of wages and salaries per hour worked grew by 2.5% in the first quarter of 2019 compared with the same quarter of the previous year. In the EU28, the costs of hourly wages & salaries rose by 2.7% and the non-wage component rose by 2.1% in the first quarter of 2019. In the fourth quarter of 2018, annual changes were +3.0% and +2.3% respectively. However, the dispersion of labour costs' growth rates - of which wages and salaries are a significant component - between Member States is significant:[11]

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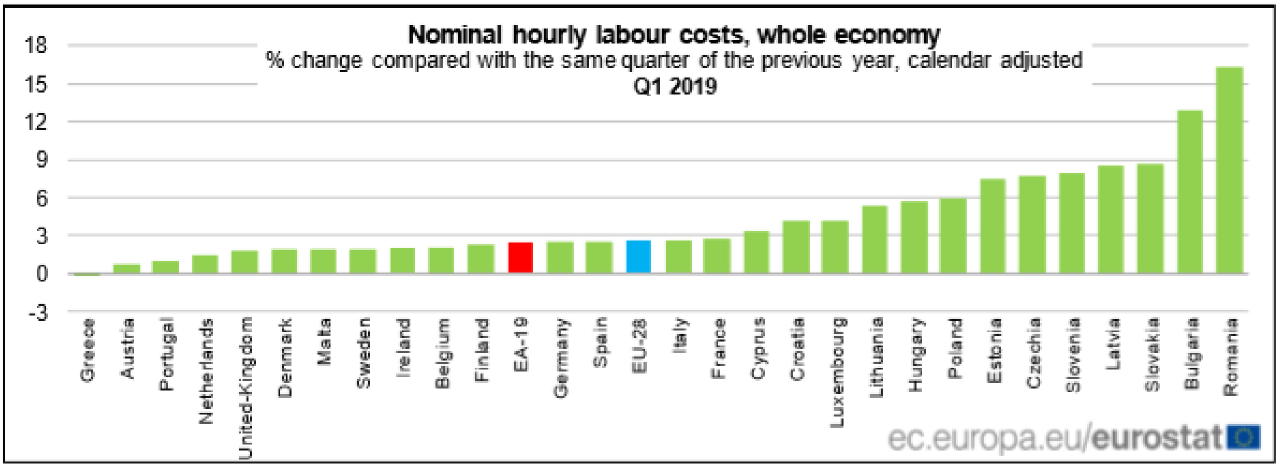
[10] Headline inflation rates can be calculated by each European Union Member State using their own methodology or by using a harmonised methodology across countries as defined in Regulation (EU) 2016/792. The Harmonised Index of Consumer Prices, abbreviated as 'HICP' is a consumer price index that are directly comparable between countries and can be aggregated. Although there can be significant differences in the short run between the rates of increase in the HICP and their own measure of headline inflation, the two measures are relatively close to each other. Therefore, to maintain the alignment of the measurement in all periods, the measure used should be the same used in the inflation target.

[11] Eurostat: newsrelease euroindicators; 95/2019, 17 June 2019, p. 1-3.



2.3 Cost disclosure

Standardised information about costs, fees and charges is of paramount importance for PEPP savers to make informed decisions about the value of a PEPP pre-contractually and to follow up on the actual costs charged during the life of the PEPP.

As the PEPP Regulation – for the PEPP Benefit Statement - sets out a pre-defined set of cost categories, to which the total costs have to be broken down, it is proposed to use the same break down for the PEPP KID and so to facilitate the comparison between the pre-contractual and regular information.

The envisaged breakdown would follow these cost categories:

a. Administration costs,

b. Distribution costs,

c. Investment costs, thereof:

    i. costs of safekeeping of assets,

    ii. portfolio transaction costs

    iii. other investment costs

d. Costs of the guarantees, if any.

Administration costs could be defined as: costs that arise from the PEPP provider's activities when administering accounts, collecting contributions, providing information to members and executing payments. Examples are legal, accounting, actuarial, consultants, advisors, oversight & governance, regulatory and staff or management costs.

Distribution costs could be defined as: costs and fees charged to cover the costs of marketing and selling the PEPP product, including the costs and fees related to providing advice.

Investment costs are covered by:

- Costs of safekeeping of assets: fees paid to the custodian for keeping assets save and collecting dividends and interest income.
- Portfolio transaction costs: actual payments by the PEPP provider to third parties to meet costs incurred in connection with the acquisition or disposal of any asset in the PEPP account. Examples are brokerage and currency exchange fees. These

costs are passed on to PEPP savers as a reduction of return or assets value or in a fee.

- Other costs relating to the management of the investments.

Costs of the guarantee: premium charged for guarantees, which reflect the market price of the cover against the risk of financial loss, or limiting the financial loss or the cover of biometric and any other risks.

Presentation of costs

The PEPP cost presentation requires total aggregate costs expressed in both monetary terms (Euro) and as a percentage value in Article 4(2)(h) of the PEPP Regulation. Consumer testing research in the context of the legislative process of the PRIIPs Regulation, has shown that retail investors can understand monetary figures (Euro amounts) more readily than percentages. Small differences in costs expressed in percentages may correlate with large differences in the costs borne by the saver when expressed in monetary terms.

Whilst monetary figures have the advantage that they can simply be added up in order to obtain an overall picture, this is not necessarily the case with percentage values. An example would be that entry costs are expressed as a percentage of the contribution and other costs as a percentage of assets. Only percentages of the same basis can be added up. On the other hand, percentage values are easy to compare, because they are the same for all PEPP savers. This is not the case for monetary figures as they vary with the amount of contribution.

The PEPP KID further requires for costs, fees and charges to be broken down by one-off and recurring costs, so that a matrix presentation seems most useful. As it is reasonable to assume that the most important aspect consumers want to know about the costs of different PEPP products is how much is lost in total from their pension pot, it is recommended to follow a simple, generic approach for cost disclosure under the KID. This means that the impact of costs under the KID would be disclosed by assuming a certain level of monthly contributions and expressing costs as a Euro and percentage value thereof.

Cost category	Cost item	Impact of costs on accumulated capital assuming accumulated capital of 10,000 € expressed in € / % figures
Annual costs	Administrative costs	10 Euros / 0.1% of the accumulated capital
	Investment costs: - Costs of safekeeping of assets - Portfolio transaction costs - Other investment costs	80 Euros / 0.8% of the accumulated capital
	Distribution costs	5 Euros / 0.05% of the accumulated capital
	Costs of the guarantee	n/a
Total annual costs		**95 Euros / 0.95% of the accumulated capital**
One-off costs	Administrative costs in the first year	xxx Euros
	Distribution costs in the first year	xxx Euros
	Costs of early withdrawal or when switching before five years	xxx Euros

It is important to highlight that information about costs under the PEPP Benefit Statement have to reflect the individual characteristics of any PEPP saver's investment (annual statement), whilst information about costs under the KID must be of a more general kind of nature (pre-contractual information). Nevertheless, the two information documents should be comparable and should under no circumstances confuse the consumer by using different cost categories.

For the PEPP Benefit Statement it is necessary to present the impact of the costs on the final PEPP benefits. This requires setting assumptions and following the valuation methodology of the pension projections. It is suggested to use the so called 'Reduction in Wealth' approach.

The German Association of the Insured (BdV) proposes an alternative to the Reduction in Yield used in the PRIIPs KID in the form of a Reduction in Wealth (RiW) approach. This measure was presented by the ZEW-Zentrum für Europäische Wirtschaftsforschung Mannheim (Centre of European Economic Research) in 2010 for the German Federal Ministry of Finance in its final report on transparency of state-subsidized retirement products (Abschlussbericht Nr. 7/09: Transparenz von privaten Riester- und Basisrentenprodukten). This measure compares the expected maturity value reduced by the sum of all types of costs occurring during the life-cycle of a product and the hypothetical maturity value of a retirement product without any reduction of investments and of pay-outs by costs. The difference between the two maturity values is given by a percentage value.

Therefore, the difference between gross and net outcomes is presented in a different way, e.g. by presenting the relative size of the gross and net expected value at maturity, rather than the compounded reduction in yield – hence a bigger percentage value. The approach brings the focus at the end of the accumulation period, making it more understandable by consumers.

Cost item	Best estimate scenario: Annual impact on pension (in €/%)	Best estimate scenario: Annual impact on lump sum (in €/%)
Total aggregate costs:		
Administrative costs		
Distribution costs		
<u>Investment costs:</u> • Costs of safekeeping of assets • Portfolio transaction costs • Other		
Costs of the guarantee, if any		

2.4 Revision of the PEPP KID

To ensure the consistent application of Article 30 of the PEPP Regulation referring to the revision of the PEPP KID, EIOPA has to develop a RTS specifying the conditions for the review and revision of the PEPP KID. For the provisions on the revision of PEPP KIDs, it is suggested to slightly adapt the provisions of the PRIIPs Delegated Regulation on KID to take into account the characteristics of a long-term retirement savings product.

Article xa

Review of the PEPP KID

1. PEPP providers shall review the information contained in the PEPP KID every time there is a change that significantly affects or is likely to significantly affect the information contained in the key information document and, at least, every 12 months following the date of the initial publication of the key information document.
2. The review referred to in paragraph 1 shall verify whether the information contained in the PEPP KID remains accurate, fair, clear, and non-misleading. In particular, it shall verify the following:
    a. whether the information contained in the PEPP KID is compliant with the general form and content requirements under Regulation (EU) No 2019/1238, or with the specific form and content requirements laid down in this Delegated Regulation;
    b. whether the PEPP's risk measures have changed, where such a change has the combined effect that necessitates the PEPP's move to a different class of the summary risk indicator from that attributed in the PEPP KID subject to review;
3. For the purposes of paragraph 1, PEPP providers shall establish and maintain adequate processes throughout the life of the PEPP where it remains available to PEPP savers to identify without undue delay any circumstances which might result in a change that affects or is likely to affect the accuracy, fairness or clarity of the information contained in PEPP KID.

Article xb

Revision of the PEPP KID

1. PEPP providers shall without undue delay revise the PEPP KID where a review pursuant to Article xa concludes that changes to the PEPP KID need to be made.
2. PEPP providers shall ensure that all sections of the PEPP KID affected by such changes are updated.
3. The PEPP provider shall publish the revised PEPP KID on its website.

2.5 Provision of the PEPP KID in good time

The PEPP Regulation states in Article 33(1) that a PEPP provider or PEPP distributor shall provide prospective PEPP savers with all the PEPP KIDs drawn up in accordance with Article 26 when advising on, or offering for sale, a PEPP, in good time before those PEPP savers are bound by any PEPP contract or offer relating to that PEPP contract.

What might be considered as good time for a PEPP customer to understand and take into account the information may vary, given that different customers have different needs, experience and knowledge.

Current EU regulatory framework (e.g. IDD, PRIIPs Regulation) allows providers some discretion in terms of how disclosure documents such as the KID can be provided (e.g. when in the purchase process they are provided and how prominent they are). In other words, KIDs could be located in places where they can be easily overlooked and/or in part of the purchase flow where they are not useful to serve the purpose (e.g. through small-print link just before clicking "accept and pay" button or "next" button, or at the bottom of the web page or hidden in the app´s menu). There could be also situations where the KID is not easy to find from the provider´s website or in the mobile application (e.g. several pages have to be navigated through, or a site/mobile application 'searched', to view the KID, or if the KID is otherwise difficult to find). Against this background and in order to facilitate online disclosures and enhance consumer protection, it might be necessary to go a step further.

Article xa

Conditions on good time

1. The person advising on or selling a PEPP shall provide the PEPP KID sufficiently early so as to allow prospective or current PEPP saver enough time to consider the document before being bound by any contract or offer relating to that PEPP, regardless of whether or not the prospective or current PEPP saver is provided with a cooling off period.
2. For the purposes of paragraph 1, the person advising on or selling a PEPP shall assess the time needed by each prospective or current PEPP saver to consider the PEPP KID, taking into account the following:
    a. the knowledge and experience of the prospective or current PEPP saver with the PEPP or with PEPPs of a similar nature or with risks similar to those arising from the PEPP;
    b. the complexity, long-term nature and limited redeemability of the PEPP;
    c. where the advice or sale is at the initiative of the prospective or current PEPP saver, the urgency explicitly expressed by the prospective or current PEPP saver of concluding the proposed contract or offer.
3. For the purpose of paragraph 1, if the PEPP KID is provided online, it shall be located in an area of the website or a mobile application where it can be easily found and accessed and it shall be provided in the step of the purchase process where the prospective or current PEPP saver is allowed enough time to consider the document before being bound by any contract or offer relating to that PEPP.

3. Supervisory Reporting - Cooperation and regular Exchange of Information between National Competent Authorities and EIOPA

The PEPP Regulation sets out that national competent authorities (NCAs) should receive appropriate information from PEPP providers to regularly supervise the PEPP business and its effects on the provider. EIOPA has to provide technical advice to the European Commission to adopt delegated acts pursuant to first subparagraph of Article 40(9), specifying the information to be provided by PEPP providers - in addition to the supervisory reporting based on sectoral rules - consistently to all NCAs. EIOPA has to develop an ITS regarding the format of the supervisory reporting.

This work requires the analysis of supervisory needs and the corresponding information needs for the supervisory review process regarding PEPP for all NCAs supervising eligible PEPP providers. This requires an assessment and comparison with Solvency II reporting requirements, pensions data requests (IORP reporting to EIOPA) and close involvement of EBA and ESMA regarding current reporting requirements.

The work is guided by the objective that every NSA should receive one harmonised set of information on PEPP business, which is capable of building relevant indicators that support effective and efficient supervisory review processes.

Further, XBRL taxonomy will need to be developed in parallel.

The work on the information needs and supervisory reporting is intrinsically linked to the requirements on cooperation between NCAs and EIOPA and the regular exchange of information. An ITS shall specify the details of the mechanism for cooperation and of the information that shall be exchanged on a regular and ad hoc basis. Developing one data set, applicable by all PEPP providers, and so avoiding any double-reporting linked to sectoral, prudential reporting requirements has been the priority. The requested information needs are to be justified by required supervisory duties and by home/host obligations, and so to link to the ITS on collaboration/exchange of information between NCAs and EIOPA.

As PEPP is a product that promotes the internal market and cross-border activities, close cooperation and exchange of information amongst NCAs and between NCAs (home/host) and EIOPA is of utmost importance for the different authorities to carry out their duties. It should be highlighted that the supervisory information will also form the basis for EIOPA's market monitoring duties, which may eventually trigger product intervention measures.

The areas covered in EIOPA's technical advice regarding regular supervisory information are suggested to be:

- PEPP information documents: KID (new or revised) and a neutralised Benefit Statement;
- Information on assets and liabilities relating to the PEPP provider's PEPP business: underlying investments should be reported separately; transactions (buying/selling) should be indicated;
- Information on contracts/PEPP savers per investment option: number, contributions;
- Information on costs and charges and on distribution channels.

The delegated acts should refer to the information that needs to be submitted on a regular basis to the NCAs. This regular information should contain all quantitative information necessary on a regular basis for the purposes of supervision. Furthermore, in order to assess compliance and support the supervisory tasks that cannot be performed with quantitative data alone, NCAs should receive a PEPP Supervisory Report (with both additional quantitative data if necessary and qualitative data).

Furthermore, the delegated acts should also refer to 'ad-hoc' supervisory reporting following predefined events or supervisory enquiries. The delegated acts should define the principles when a predefined event or supervisory enquiry might arise and the principles how PEPP providers should fulfil their reporting obligations in that respect, including which additional information can be required from external experts, such as auditors or actuaries.

PEPP providers should report to NCAs any material changes to the supervisory reporting information submitted after the occurrence of an event that could affect the protection of PEPP savers. These are events that can lead to, for example, material changes in PEPP products' business and performance, system of governance, risk profile, and financial position as long as this is not already reported as part of other information processes. This information should be reported as soon as possible after the event and depending on the nature of the event NCAs may ask for PEPP provider to report information on a regular basis over a period of months or years to monitor the situation. In case of doubt, PEPP providers should consult the NCAs whether a given event would classify as a pre-defined event.

Supervisory enquiries

Besides regular supervisory reporting and reporting after pre-defined events, NCAs shall have the power to request ad hoc information during enquiries regarding the situation of the PEPP provider or product. EIOPA interprets 'enquiries' as meaning any assessment of the PEPP provider made by the supervisor either during off-site analysis or on-site inspections. Enquiries do not have to be part of a formal assessment. These enquiries could be designed for one specific PEPP provider or product, to a specific segment of the market or to all PEPP providers or products and they may address specific information to be received by supervisory authorities regarding particular topics. Information from the PEPP provider should be reported to the NCA in a clear and understandable manner.

Information on contracts and from third parties

The information to be obtained from PEPP providers on contracts held by PEPP providers or regarding contracts entered into with third parties should be requested where it is considered necessary and important for the purposes of supervision. The PEPP provider should have, keep copies of or have immediate access to, contracts held by third parties.

Information from external experts

NCAs expect that the PEPP provider either has or has immediate access to the information from external experts, such as auditors and actuaries as part of its records management procedures. Information requested by the NCA from the PEPP provider, either during on-site inspections or off-site analysis, shall be received on a timely basis following the request and include full details of the scope and findings of the work performed.

Proportionality

The development of the technical advice will take into consideration the principle of proportionality in the sense that the content and structure of reporting will consider the nature and complexity of the PEPP as a product. In addition, the frequency of the reporting will follow a proportionate approach.

Materiality

The development of the technical advice should take into consideration the principle of materiality in the sense that some of the information (in the PEPP Supervisory Report) should not be reported if it has not changed materially. The information submitted to NCAs is material where its omission or misstatement could influence the decision-making or judgement of the NCAs.

Reporting standardisation

The information to be provided by PEPP providers and distributors should be as much as possible harmonised with the existing requirements partially or fully covered by sectoral legislation applied to different kinds of providers, in particular:

- reusing existing definitions of business concepts (dictionaries) and structures (templates). Facilitating the data preparation and data comparability;
- reusing existing reporting methodologies and standards, for example DPM and XBRL used under Solvency II Directive, IORP II Directive and Capital requirements Directive IV;
- promoting the single reporting. Providing the means for single submission of information (like EIOPA+ECB add-on for insurance) and reusing information already reported in other obligations (like look-through).

Cooperation and supervisory convergence

To avoid duplications in reporting and promote cooperation between NCAs, EIOPA believes that the reported information should feed into the regular exchange of information between NCAS and EIOPA, promoting the idea of sharing standardised information centrally to facilitate the effective exercise of the NCAs' and EIOPA's duties.

This would contribute to a more efficient and effective supervision not only across Member States but also across sectors. This principle follows from lessons learned with regard to current difficulties to exchange information between NCAs.

Frequency of the regular supervisory reporting

Considering the proportionality principle, EIOPA proposes that the PEPP quantitative regular reporting templates are submitted on an annual basis. For a limited number of provisions as well as in the case that certain thresholds are met, quarterly reporting would be required. This information would allow NCAs and EIOPA to take intermediary actions or request further information from the PEPP providers or NCAs when deemed necessary. EIOPA will specify in the draft Implementing Technical Standard regarding the format of supervisory reporting (ITS) the threshold and the templates that could be required for quarterly submission.

The PEPP Supervisory Report should be finalised in the reporting year in which the PEPP provider is registered. In subsequent years, only material changes should be reported for some sections of the report. NCAs have the possibility to request more frequent submissions of the PEPP Supervisory Report.

Deadlines of the regular reporting

EIOPA proposes to set up the following timelines in the delegated act:

- reporting the annual information no later than 16 weeks after the PEPP provider's financial year in question ends;

- reporting the quarterly information no later than 5 weeks related to any financial year quarter ending;
- NCAs to report to EIOPA no later than 4 weeks after the deadlines described above.

Format of the regular reporting

The delegated acts should include a provision requiring the information to be submitted in electronic means referring to further definition by EIOPA. EIOPA proposes that the reporting of the QRT is done with the EIOPA XBRL-DPM taxonomy means between the NCA and EIOPA. EIOPA encourages adopting this means also for reporting between PEPP providers and the NCAs. At least some parts of the KID should be structured in order to be machine readable, in combination - on top - with the more visual and content representation of it (pdf or similar). The PEPP Supervisory Report will be requested to be submitted via digital format (pdf or similar) and may be requested to have text searchable capabilities (not scanned images but with text codified).

Content of the regular reporting

Quantitative reporting

The regular reporting package will contain all the regularly reported information necessary for the purposes of supervision both from a home and host perspective and therewith promoting the collaboration between NCAs and PEPP providers as well as NCAs and EIOPA. The regular reporting package needs to be sent by the PEPP provider to the home NCA. In the draft ITS regarding the format of supervisory reporting, EIOPA will specify of annual and quarterly reporting templates. In line with the factors and criteria outlined, this information should support EIOPA to determine when there is a significant PEPP saver protection concern, for the purpose of EIOPA's intervention powers as laid down in the empowerment of Article 65(2) of the PEPP Regulation.

PEPP Supervisory Report

The PEPP Regulation includes supervisory tasks that cannot be assessed by quantitative information alone. EIOPA understands that many of these tasks can and will be verified by spot-checks, peer comparisons and on- and off-site visits. The PEPP Supervisory Report should therefore refer to the information needed for supervisory tasks that require a more regular monitoring. The regular supervisory report shall include all of the qualitative information that is needed for NCAs to assess compliance of the PEPP product with the regulatory requirements. EIOPA's aim is to keep the qualitative reporting principle-based and not to set out detailed requirements thereby providing a degree of flexibility in how to meet these requirements.

The PEPP Supervisory Report should be completed fully in the reporting year in which the PEPP provider is registered. In subsequent years, only material changes should be reported for some sections of the Report.

The suggested contents of the PEPP supervisory report can be found in Annex 3.

4. Cost Cap for the Basic PEPP

The Basic PEPP offering a default instrument, designed as suitable for the majority of the consumers, offers additional, standardised quality features. One of those features is the 1% cost cap on the accumulated capital per annum. EIOPA has to develop RTS to specify the types of fees and costs to be accounted for in that cost cap.

The technical work requires assessing cost structures of current personal pension products and current providers – across sectors. AAE is currently carrying out some relevant research in this area, which will be considered in finalising this work.

Taking into consideration that there are two sub-categories of Basic PEPP: with and without a guarantee, the cost cap should provide for a level playing field and allow for full transparency of the costs of a guarantee. That means the costs of guarantees are assumed to be outside the cost cap and are separately disclosed.

Every two years after the application date of the Regulation, COM will review whether the value of the 1% is adequate, based on actual level of costs and fees, with a view to assess the effect on the availability of PEPP.

Following the explicit mandate to allow for a cost-efficient Basic PEPP, in which the PEPP saver can trust not to encounter any unexpected charges and fees, and considering that the Basic PEPP option's features should be particularly simple, standardised and transparent to the consumers, it is suggested to follow an 'all inclusive' approach, so that all direct and indirect, one-off (distribution, including advice) or recurring, costs and fees are included in the cost cap.

However, due to the obligation to assess the particularities of the two possible Basic PEPPs – one with an ambition to recoup and one with a guarantee on the capital invested less costs at the point of decumulation - it is necessary to make those different features, including values and costs transparent to the consumer, so that they can make an informed choice. Consequently, it is suggested to separate the costs of the different feature 'guarantee' and quality of the promise, so that consumers can understand what the additional risk cover costs. In order to ensure a fair treatment of both types of Basic PEPPs and a level playing field in line with the principle of 'treat relevantly similar cases similarly and relevantly dissimilar cases dissimilarly', it is suggested not to include the cost of the capital guarantee in the cost cap, but to separately disclose the costs of the guarantee in the information documents. This is also to acknowledge the fact that the guarantee adds to the product and provides an additional value for the PEPP saver.

Further, the costs for offering additional financial guarantees or biometric risk cover (i.e. payment in case of death) or switching, should not be included in the cost cap, as they are not required features of PEPP or are separately regulated (for switching, please see Article 54 of the PEPP Regulation). Therefore, in order to avoid an unlevel playing field, such specificities shall be captured and listed having in mind that such costs have to be clearly identified to provide transparency of the PEPP costs.

In particular distribution costs and the expenses for providing advice drive the costs when starting to save in the PEPP. The PEPP Regulation requires the PEPP provider or PEPP distributor to provide advice to the prospective PEPP saver prior to the conclusion of the PEPP contract. However, the PEPP Regulation explicitly allows either fully automated or semi-automated advice (retirement-related demands and needs assessment; suitability assessment; personalised pension benefit projections). The PEPP Regulation thereby explicitly permits a fully digital disclosure and distribution regime, including automated advice without any human intervention, which can support significant gains in cost-efficiency.

Article xa

Types of costs and fees referred to in the Basic PEPP's cap

1. The costs according to Article 45(2) of Regulation (EU) 2019/1238 shall comprise all direct and indirect costs and fees associated with saving in the Basic PEPP and related to the distribution of the PEPP, including but not limited to the following:
    a. costs of administration;
    b. asset management costs, including:
        i. costs of safekeeping of assets,
        ii. costs related to portfolio transactions,
        iii. other costs.
    c. distribution costs.
2. Any costs and fees linked to additional elements or features for the Basic PEPP that are not required by Regulation (EU) 2019/1238 and any costs and fees linked to the switching services, as set out in Article 54 of Regulation (EU) 2019/1238 shall not be included in the costs according to Article 45(2) of Regulation (EU) 2019/1238.
3. If the Basic PEPP provides for a guarantee on the capital, the costs directly linked to that capital guarantee on top of the risk-mitigation technique applied to reach a high probability to recoup the capital and charged by the PEPP provider shall not be included in the costs of paragraph 1.
4. The PEPP provider shall explicitly and separately disclose the costs charged for the capital guarantee under 'What are the costs?' in the PEPP KID and in the breakdown of costs in the PEPP Benefit Statements.
5. The PEPP provider shall be able to provide evidence that these costs are directly linked to the capital guarantee upon request by the national competent authority or EIOPA.

5. Risk-mitigation Techniques

Securing long-term stable income and adequate future retirement income is the key objective of PEPP. Therewith, risk-mitigation techniques to be applied in the asset and investment management is an integral part of the PEPP framework. The PEPP Regulation sets out different possible approaches for designing those techniques. EIOPA has to develop a RTS that sets out the minimum criteria the risk-mitigation techniques have to fulfil.

The regulation of risk-mitigation techniques must be strong enough to ensure that the quality features of PEPPs are effective and sufficiently flexible to allow for financial innovation.

> The objective should be to incentivise innovation and good outcomes in life cycling and other techniques, as well as, to enforce important transparency of allocation mechanisms and on the role of guarantees.

One of the key quality features of PEPP is the regulation of risk-mitigation techniques that facilitate stable and adequate future retirement income from the PEPP. The design of those investment strategies and methodologies need to address conflicts of interests between providers and consumers, promote inter-generational fairness and disincentivise opportunistic behaviour by both savers and providers. To promote PEPP as a quality label, the risk-mitigation techniques have to be guided by strong, enforceable rules to provide the basis for the much-needed trust in and reliability of PEPP. When developing the policy proposals for the criteria on risk-mitigation techniques, EIOPA first assessed the challenges, potential areas of regulation and best practices in the different sectors.

Life-cycling

This technique stands for gradually adapting the investment allocation along the lifetime of a saver's accumulation phase. The key challenges to mitigate the volatility and the potential financial loss of savers' contributions in these techniques are:

- Fixed retirement date/investment strategy ends with the start of decumulation: the saver is 'unlucky' at the point of decumulation and/or in the last period of the accumulation. The low interest rate environment and the choice of the 'safest' investment allocation may lead to minimal or negative returns. If annuitisation is mandatory, the value of an annuity is fixed at the point of retirement and may be particularly low.
- Choice of investments: transaction costs can be significant when actively managing investments. Passive asset management approaches may be less costly, yet may not be designed to reap illiquidity premiums through long-term investments. The way asset managers are paid (performance-linked charges) may incentivise certain investment behaviours, potentially to the detriment of the saver.

Provisions to address these challenges entail:

- Effectively linking accumulation to the decumulation phase and, depending on the decumulation option chosen, to extending the life cycling beyond the limits of accumulation. This may mitigate short-term losses and provide for flexible solutions if the saver has some flexibility on the access of the entire amount of the savings.

- Regulating the investment allocation, this can be done in a principle-based manner by supplementing the 'prudent person principle', for example by setting an ambition on average exposures or rules-based by potentially defining limits, minimum percentages and references to specific asset classes throughout the life of the PEPP.

Establishing buffers/reserves from contributions and/or investment returns

This is a technique common in participating life insurance contracts, mutual life insurers and some pension funds. The idea is that some amounts of the contributions and returns are allocated to a buffer, which is allocated over time to allow for 'smoothing' of the values allocated to the individual saver. The saver can benefit from limiting the losses in a downturn, yet has to give up some of the returns in an upturn.

The key challenges of this technique are to provide for a fair and transparent allocation of the returns to the individual accounts:

- Identifying the assets: often the assets linked to 'participating contracts' are not earmarked or segregated from the provider's investments. This may incentivise opportunistic behaviours of the provider, i.e. allocation of investments in line with the profitability of the provider.
- Intergenerational fairness: this links in particular to the time the saver joins this fund or product and will generally set early joiners at a disadvantage, as the buffers will not be set-up yet.
- Intransparent allocation of returns: in participating contracts, but also in mutual life insurers, where the policyholders are equally the owners of the insurer, or in pension funds, the provider has significant discretion over the allocation of values and returns to cohorts or single accounts. That may lead to certain conflicts of interest and potential unfair treatment of savers.

Provisions to address these challenges entail:

- Requirement to clearly identify and earmark the assets of the PEPP business from the rest of the provider's investments. This includes that PEPP providers ensure that PEPP savers benefit, directly or indirectly, from any revenues obtained from the rebate of commissions or other revenues received from PEPP providers in virtue of agreements with third parties.
- Regulating the establishment of the 'first' buffer, potentially similarly to an equity investment of the provider.
- Full transparency of the allocation rules and enforceability through reporting to the NCA.

Guarantees

Guarantees are an applicable risk-mitigation technique. Individuals show a natural bias towards 'safe' and predictable outcomes and value those benefits higher than the disadvantages of potentially lower returns.

The long-term low yield environment made offering guarantees relatively expensive, so that guaranteed rates have been significantly lowered or are not being offered any more. Relevant, explicit and comprehensible disclosures for the (prospective) PEPP saver are of paramount importance to understand better the value and the (opportunity) costs of guarantees. In particular, the impact of inflation, and the value of guarantees in monetary terms after inflation, needs to be made clear to consumers.

Criteria for all risk-mitigation techniques

In order to ensure the risk-mitigation techniques deliver on the objectives set out by the PEPP Regulation to secure long-term stable and adequate future retirement income and to be in line with the holistic approach to measuring the risks, rewards and performance of the PEPP, it is suggested to:

- Set out robust and enforceable criteria, so that the risk-mitigation techniques can deliver on the objective and to ensure the effectiveness of the technique.
- Therewith to set clear rules to the design of the technique clarifying the acceptable deviation of the projected benefits from the best estimate projection.
- Setting an adequate objective to achieve sufficient returns on the PEPP savers' contributions, which correspond to the long-term risk-free rate (ultimate forward rate).
- Requesting appropriate provisions in the product governance framework of the PEPP provider to monitor, review and where necessary revise the applied risk-mitigation techniques.
- The necessary stochastic modelling has to be supported by standardised inputs and assumptions and should be subject to a supervisory review, followed by regular reporting to monitor the on-going re-calculations over the years.

Considering the currently available risk-mitigation techniques and in order to facilitate the application of innovative techniques in the future, whilst ensuring a fair treatment of all PEPP savers, the proposals set out the following principles:

- Ensuring transparent and over time consistently applicable allocation of investment returns of dedicated – earmarked and clearly identified – assets and reserves to the group – and groups – of PEPP savers.
- Establishing principle-based de-risking investment allocations for different cohorts.
- Requiring full transparency on the type and features of guarantees – and their corresponding conditions and limits.
- Facilitating sufficient room for necessary adjustments to the risk-mitigation techniques, where the economic environment calls for transitional measures.

Article xa

Objective of the risk-mitigation techniques

1. When using risk-mitigation techniques for the investment strategy of the PEPP, PEPP providers shall set up an objective in line with the specific retirement objective of the PEPP saver or a group of PEPP savers, in accordance with the conditions, if any, set out in Article 47(2) of Regulation (EU) 2019/1238.
2. The PEPP provider shall ensure that the chosen risk-mitigation technique provides for stable and adequate individual future retirement income from the PEPP, taking into consideration the expected remaining duration of the PEPP saver's or group of PEPP savers' individual accumulation phase and the PEPP saver's chosen decumulation option. To implement this objective, the risk-mitigation technique shall be designed, taking into consideration the results of stochastic modelling, to:
    a. Provide for the eventual pension outcome to arrive within the range of the favourable and unfavourable performance scenarios with a probability of 95%; and
    b. Aim at outperforming the long-term risk-free interest rate.
3. For the Basic PEPP, when the PEPP provider does not offer a capital guarantee, the PEPP provider shall employ an investment strategy that ensures, taking into consideration the results

of stochastic modelling, recouping the capital at the start of the decumulation phase and during the accumulation phase with a probability of 99%, unless the remaining accumulation phase is less than ten years when taking up the PEPP and where a probability of 95% may be used.

4. When designing a risk-mitigation technique for a group of PEPP savers, the PEPP provider shall design the risk-mitigation technique in such a way as to ensure a fair and equal protection of each individual PEPP saver within the group and shall disincentivise opportunistic behaviour of individual PEPP savers within the group.
5. PEPP providers shall ensure that any performance-linked remuneration of individuals acting on behalf of the PEPP provider and implementing the risk-mitigation techniques is conducive to the objective of the risk-mitigation techniques.
6. PEPP providers shall safeguard the appropriateness, efficiency and effectiveness of the risk-mitigation technique through a dedicated process and provisions within the product oversight and governance framework, as required by Article 25 of Regulation (EU) 2019/1238, which shall be subject to a supervisory review and to supervisory reporting.
7. In case a PEPP saver chooses a different investment option according to Article 44 of Regulation (EU) 2019/1238 or switches the PEPP provider according to Article 20(5) or Article 52 of Regulation (EU) 2019/1238, the PEPP provider shall fairly contribute the allocated reserves, if any, and the investment returns to the leaving PEPP saver. The PEPP provider shall ensure that the allocation is fair towards the leaving PEPP saver and equally towards the remaining PEPP savers.
8. In case of adverse economic developments within three years before the expected end of the remaining duration of the PEPP saver’s accumulation phase, the PEPP provider shall extend the last phase of the life-cycle or the applied risk-mitigation technique by an appropriate, additional time of up to five years after the initially expected end of the accumulation phase, subject to the PEPP saver’s explicit consent and in accordance with conditions, if any, set out in Article 47(2) of Regulation (EU) 2019/1238.

Article xb

Life-cycling

1. When using a risk-mitigation technique that adapts the investment allocation to mitigate the financial risks of investments corresponding to the remaining duration, the PEPP provider shall set out average exposures to equity and debt instruments whilst ensuring compliance with Article 41 of Regulation (EU) 2019/1238 for all potential sub-portfolios corresponding to the phases of the life-cycling.
2. The PEPP provider shall design the life-cycling in such a way to ensure that the PEPP savers furthest away from the expected end of the accumulation phase invest - to a contractually specified extent in long-term investments, which benefit from higher investment returns due to their specific higher risks and rewards characteristics, including illiquid or equity-type characteristics.
3. For the PEPP savers closest to the expected end of the accumulation phase, the PEPP provider shall ensure that the investments are predominantly liquid, of high quality and exhibit fixed investment returns.

Article xc

Establishing reserves

1. When using a risk-mitigation technique that establishes reserves from PEPP savers’ contributions or investment returns, the PEPP providers shall set out in the PEPP contract, in a transparent and comprehensible manner, the allocation rules of the accumulated capital and the investment returns to the individual PEPP saver, to the reserves, and, if applicable, to the corresponding group of PEPP savers.

2. The PEPP provider shall allocate contributions and investment returns of the earmarked assets to the reserves in a transparent and comprehensible manner, with the objective of building adequate reserves in times of positive investment returns. Equally, the PEPP provider shall allocate the reserves to individual PEPP saver and, if applicable, to the corresponding group of PEPP savers, in a fair and transparent manner in times of negative investment returns.
3. The PEPP provider shall set out the allocation rules in the contractual terms of the PEPP contract. The PEPP provider shall ensure that the allocation rules are presented in a transparent and comprehensible manner.
4. The PEPP provider shall clearly identify and earmark the assets invested for the PEPP savers. The PEPP provider shall not be able to trade assets on the PEPP provider's account with the assets earmarked for the PEPP savers.
5. In the first ten years of the establishment of a new PEPP, the PEPP provider may contribute to the establishment of the reserves by providing a loan or an equity investment to the PEPP savers' assets. In that case, the PEPP provider shall specify in the contractual terms of the PEPP contract the terms and conditions of its contribution and profit sharing as well as the pattern of the gradual dis-investment over the maximum period of ten years. The PEPP provider shall ensure that the terms and conditions, as well as the pattern of dis-investment are presented in a transparent and comprehensible manner.

Article xd

Minimum-return guarantees

When the PEPP provider offers minimum-return guarantees, the PEPP provider shall clearly describe the features, including limits and thresholds, of the guarantee and specify whether the guarantee applies to inflation-adjusted returns or to nominal returns. The PEPP provider shall explicitly disclose in the PEPP KID and subsequently in the PEPP Benefit Statement if the guarantee is not adjusted for expected inflation in line with the two-years' expected inflation rate as set by the European Central Bank.

6. EIOPA’s Product Intervention Powers

For endorsing the PEPP quality label, the marketed and distributed PEPPs need to be monitored. In line with the idea of a pan-European product, EIOPA has a great role in ensuring a consistent application of the Regulation and the high-quality PEPP features. Naturally, EIOPA is expected to scrutinise the PEPP market for any PEPPs that do not fulfil the requirements of the PEPP framework – and potentially raise significant concerns regarding consumer protection or pose a threat to the orderly functioning of the market. In line with EIOPA ’s founding Regulation, Regulation (EU) No 1094/2010[12], EIOPA can (temporarily) restrict or prohibit the marketing, distribution or sale of specified PEPPs.

EIOPA has to provide technical advice to the Commission with regard to the adoption of delegated acts pursuant to Article 65(2) of the PEPP Regulation, specifying the criteria and factors to be applied by EIOPA when determining whether there is a significant PEPP saver protection concern or a threat to the orderly functioning and integrity of financial markets or to the stability of the whole or part of the financial system of the Union. The development of those factors and criteria will also feed back to EIOPA’s obligation to issue an opinion when NCAs take measures to prohibit or restrict certain PEPPs.

It is proposed to base the technical advice for specifying the criteria and factors for the product intervention powers under the PEPP Regulation on the criteria and factors for EIOPA’s product intervention powers in the Commission Delegated Regulation (EU) 2016/1904[13]. The criteria and factors listed therein are applicable also to PEPPs, with necessary adaptations. This approach is aligned with the approach suggested by the Commission in the Request for technical advice.

Furthermore, it should be noted that the Request for technical advice indicates that the criteria and factors may differentiate between: i) situations where EIOPA takes action because a competent authority has failed to act; and ii) situations where EIOPA takes action because the actions that have been taken by the competent authorit(ies) do not adequately address the significant PEPP saver protection concern. From a practical perspective, differentiating these two situations is not essential and the criteria to assess whether there are grounds for intervention should be the same. For developing the relevant criteria, we believe it is crucial to benefit from national expertise as well as from cross-sectoral experience relating to the application of product intervention powers.

Effective market monitoring will be a pre-requisite for enforcing EIOPA’s product intervention powers.

The PEPP Regulation provides a framework for EIOPA’s product intervention powers and lays down the factors and criteria to be applied by EIOPA, in determining when there is a significant PEPP saver protection concern, or a threat to the orderly functioning and integrity of financial markets or to the stability of the whole or part of the financial system of the Union.

As set out in Article 65(9) of the PEPP Regulation, factors and criteria include:

- the degree of complexity of the PEPP and the relation to the type of PEPP saver to whom it is marketed and sold;

[12] Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC; OJ L 331, 15.12.2010, p. 48.

[13] Commission Delegated Regulation (EU) 2016/1904 of 14 July 2016 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council with regard to product intervention; OJ L 295, 29.10.2016, p. 11.

- the degree of innovation of a PEPP; an activity or practice;
- the leverage of a PEPP or practice;
- in relation to the orderly functioning and integrity of financial markets, the size or the total amount of accumulated capital of the PEPP.

A possible structure in the delegated acts could be to aggregate factors and criteria in major groups, following a logical sequence:

- PEPP product: factors and criteria (a) to (g);
- PEPP saver: factors and criteria (h);
- PEPP provider and PEPP distributor: factors and criteria (i) and (j);
- The size of potential detriment and wider impact on markets: factors and criteria (k) to (r).

EIOPA may determine the existence of a significant PEPP saver protection concern based on one or more factors and criteria, i.e., not all factors and criteria must be met for EIOPA to (temporarily) restrict or prohibit the marketing, distribution or sale of specified PEPPs. This principle is aligned with the provision set out in the second paragraph of Article 1(1) of the Commission Delegated Regulation (EU) 2016/1904.

The factors and criteria to be assessed by EIOPA to determine when there is a significant PEPP saver protection concern including with respect to the long-term retirement nature of the product or a threat to the orderly functioning and integrity of financial markets or to the stability of whole or part of the financial system of the Union shall be the following:

Factors and criteria related to the product

(a) The degree of complexity of the PEPP, taking into account, in particular:

- the long-term retirement nature of the PEPP,
- the type of underlying assets,
- the complexity of the performance calculation, taking into account in particular whether the return is dependent on the performance of one or more underlying assets which are in turn affected by other factors,
- the nature and scale of risks,
- whether the PEPP is bundled with other products or services, or
- the complexity of any terms and conditions;

(b) The degree of transparency of the PEPP, taking into account, in particular:

- the type and degree of transparency of the underlying assets,
- the use of techniques drawing PEPP savers' attention but not necessarily reflecting the suitability or overall quality of the PEPP,
- the nature of risks and transparency of risks,
- the use of product names or terminology or other information that imply a greater level of security or return than those which are actually possible or likely, or which imply product features that do not exist, or
- whether there was insufficient, or insufficiently reliable, information about the PEPP to enable market participants to which it was targeted to form their judgment, taking into account the nature and type of the PEPP;

(c) The degree of innovation of the PEPP, , an activity or a practice, taking into account, in particular:

- the degree of innovation related to the structure of the PEPP and its features, in particular the degree of innovation of the risk mitigation techniques or of the type of decumulation options or of the design of other PEPP benefits,
- the extent of innovation diffusion, including whether the PEPP is innovative for particular categories of PEPP savers,
- innovation involving leverage, or

- the past experience of the market with similar PEPPs or selling practices for PEPPs;

(d) The particular characteristics or underlying assets of the PEPP, taking into account, in particular:

- the leverage inherent in the PEPP,
- the leverage due to financing, or
- the features of securities financing transactions;

(e) The existence and degree of disparity between the expected return of the PEPP and the risk of loss, taking into account, in particular:

- the cost structure and other costs,
- the disparity in relation to the provider's risk retained by the provider, or
- the risk/return profile;

(f) The pricing and associated costs of PEPP, taking into account, in particular:

- the use of hidden or secondary charges, or
- charges that do not reflect the level of service provided , or
- the costs of guarantees or costs that do not reflect the actual cost of guarantees, in particular for the Basic PEPP;

(g) the ease and cost with which the PEPP savers are able to make use of the switching portability services, taking into account, in particular:

- use of switching or portability services, in relation to the phase in which the service is used, the fees and charges applied, or the loss of advantages and incentives
- the fact that the use of switching or portability service is not permitted or is made factually impossible, or
- any other barriers;

Factors and criteria related to the PEPP saver

(h) The type of PEPP savers to whom the PEPP is marketed or sold, taking into account, in particular:

- that the PEPP saver is a retail client, and not a professional client or eligible counterparty as defined in Directive 2014/65/EU,
- features characterising PEPP savers' skills and abilities, including the level of education, experience with other pension products, long term investment products or selling practices and the savers’ vulnerability,
- features characterising PEPP savers' economic situation, including their income, wealth and its degree of dependence on the PEPP for an adequate retirement income,
- PEPP savers' core financial objectives, including pension savings, need for risk coverage, including biometric risks,
- whether the PEPP is being sold to PEPP savers outside the intended target market, or whether the target market has not been adequately identified, or
- the eligibility for coverage by a national guarantee scheme, where such schemes exist;

Factors and criteria related to the PEPP provider and PEPP distributor

(i) The financial, solvency and business situation of the PEPP provider or PEPP distributor, taking into account, in particular:

- its financial situation and solvency,
- its financial activities or financial practices,
- its business model, including its sustainability and transparency,
- the suitability of reinsurance and guarantee arrangements regarding the PEPP, or
- the PEPP provider's reliance on third parties for important features of the PEPP, such as coverage of biometric risks, guarantees and the portability of the PEPP;

(j) The selling practices associated with the PEPP, taking into account, in particular:

- the communication and distribution channels used,
- the information, marketing or other promotional material, or
- the degree of innovation related to the distribution model, the length of the intermediation chain or the reliance on innovative techniques for the distribution model;

Factors and criteria related to the size of potential detriment and wider impact on markets

(j) The size of potential detrimental consequences, considering in particular:

- the notional value of the PEPP,
- the number of current and potential clients, PEPP savers or market participants involved,
- the relative share the product in PEPP savers' portfolios,
- the probability, scale and nature of any detriment, including the amount of loss potentially suffered,
- the anticipated duration of the detrimental consequences,
- the volume of the contributions,
- the number of intermediaries involved,
- the growth of the market or sales,
- the average amount invested by each PEPP saver in the PEPP,
- the coverage level defined in national insurance guarantee schemes law, where such scheme exist, or
- the value of the technical provisions with respect to the PEPPs;

(k) Whether the underlying assets of the PEPP pose a high risk to the performance of transactions entered into by participants or PEPP savers in the relevant market;

(l) Whether the characteristics of the PEPP make it particularly susceptible to being used for the purposes of financial crime, in particular whether those characteristics could potentially encourage the use of the PEPP for:

- any fraud or dishonesty,
- misconduct in, or misuse of information in relation to a financial market,
- handling the proceeds of crime,
- the financing of terrorism, or
- facilitating money laundering;

(m) Whether financial activities or financial practices of the PEPP provider or PEPP distributor in relation to the PEPP pose a particularly high risk to the resilience or smooth operation of markets;

(n) Whether the PEPP or the financial activities or financial practices of the PEPP provider or PEPP distributor in relation to the PEPP could lead to a significant and artificial disparity between prices of a derivative and those in the underlying market;

(o) Whether the PEPP or the financial activities or financial practices of the PEPP provider or PEPP distributor in relation to the PEPP pose a high risk to the market or payment systems infrastructure, including trading, clearing and settlement systems;

(p) Whether the PEPP or the financial activities or financial practices of the PEPP provider or PEPP distributor in relation to the PEPP may threaten PEPP savers' confidence in the financial system; or

(q) Whether the PEPP or the financial activities or financial practices of the PEPP provider or PEPP distributor in relation to the PEPP pose a high risk of disruption to financial institutions deemed to be important to the financial system of the Union.

Annex I: Draft Impact Assessment

Procedural issues and consultation of interested parties

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.

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.

For the analysis of the potential related costs and benefits of the proposed Technical Standards, 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 NCAs and EIOPA exchanging information on a regular basis as well as EIOPA's product intervention powers.

The development of these necessary details to ensure consistent application of the PEPP Regulation's requirements require research into best practices, developed at the national level and at other European institutions, such as the EBA, ESMA or the ECB, academic research, stakeholder engagement and in particular for the information documents: consumer and industry testing.

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.

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. We have also listed relevant options which have been discarded in the policy development process.

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 specific 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 BS in Article 36(1). It is important to note here that the PEPP BS mandates a certain breakdown of costs.

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.

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.[14] 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.[15]

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.

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[14] Please treat this argument 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).

[15] 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-tdp-priips-bdv-replyform.pdf.

In this context, it should be mentioned that the current proposal for the review of the PRIIPs KID might be sufficient to overcome the shortcomings of the RiY approach described above. These proposals still follow the same underlying calculation method, but present information on costs in a different manner (e.g. avoiding the term RiY). This will be subject to the stakeholder feedback from the PRIIPs public consultation[16] (due in January 2020).

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

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.	• 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.
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.	• 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. • 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.

[16] Consultation concerning amendments to the PRIIPs KID, see here: https://eiopa.europa.eu/Publications/JC-2019-63_Consultation_Paper_amendments_PRIIPs%20KID.pdf and further information on ESMA's website: https://www.esma.europa.eu/press-news/consultations/joint-consultation-concerning-amendments-priips-kid.

National competent authorities	• NCAs already have experience with the RiY approach.	• No relevant costs are identified.

Policy Option 1.2: Tailor the approach for cost disclosure 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 the Reduction in Wealth (RiW) / charge ratio concept. This could help consumers 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 / charge ratio 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.

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).	• Deviating from the RiY approach and instead applying an approach, which discloses costs as a much higher figure in order to reflect the long-term nature of the PEPP, is likely to 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 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. • Deviating from the approach used under PRIIPs would also help overcoming the fact that the RiY	• Disclosing a much higher cost figure (to reflect the long-term nature of the PEPP) might discourage savers from buying this kind of product as it seems overly expensive compared to other private pension products.

	strongly depends on the duration of the accumulation phase: the shorter this phase is, the more expensive the contract seems to be.	
National competent authorities	• By tailoring the approach used under the PEPP, NCAs would address the criticism of consumer associations about the RiY approach.	• NCAs would lack experience with any alternative approaches and it would need to be seen how consumers get along with it.

Preliminary conclusion

The option that has more advantages and represents a proportionate approach is Nr. 2, namely to deviate where necessary from the approach taken under PRIIPs for cost disclosure 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.

Policy issue 2: Implementing the Cost Cap for the Basic PEPP: appreciating fundamentally different features within 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[17] 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….."

[17] 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

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)[18]

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:[19]

	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%

[18] 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.

[19] 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).

EIOPA's 'First report on costs and past performance' (December 2018)[20] shows the average weighted costs of personal pension products most bought by consumers on an EU level:

Cost category	Average weighted costs[21]
Entry costs	0.18%
Exit costs	NA
Transaction costs	0.03%
Total other on-going costs	1.24%
Administrative costs	1.20%
Biometric costs	0.01%
Distribution costs	0.45%
Asset management costs	NA

The Better Finance Pension Savings: The Real Return - 2019 Edition[22] 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.

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

Pension Savings: The Real Retur

[20] https://eiopa.europa.eu/Publications/Reports/Costs%20and%20past%20performance_2018.pdf

[21] The basis for data is input from 10 undertakings (Germany, Austria and Netherland only). Please note that costs entry costs are affected by holding periods (depending on the time to retirement), which differ from Member State to Member State for the same or similar products or for different consumers.

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

An OXERA study[23] 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.[24]

A report carried out on the basis of costs of the German Riester-Rente product[25] 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 Italy26. Even though total costs on accumulated capital of most personal pension products are above 1%, this 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 NCAs 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.

[23] 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).

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

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

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

Policy Option 2.1: To introduce an 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 the cost cap of the Basic PEPP, thus reducing liability risks	Limits the feasibility and profitability of products if all types of costs and fees fall under the cost cap. Could lead to companies withdrawing from the market. 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.
PEPP savers	Supports the legislative objective to offer a simple, cost-efficient and transparent product to PEPP savers, providing a sufficient long-term real investment return. 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. Entails a lower risk of regulatory circumvention by market participants, thus reducing the risk of concomitant consumer detriment.	May lead to reduced product availability for consumers due to challenges for PEPP provider to offer profitable products. 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 Risk of increase in charges and fees outside the Basic PEPP as a 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, facilitating supervision of PEPP	Causes difficulties to assess whether costs are spread over other investment options and how they are correctly computed (e.g. costs for guarantees), thus

Stakeholder groups	Benefits	Costs
	providers and PEPP distributors	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. Ensures a consistent application across the different Member States	Entails reputational risk in view of the impact on the product availability and feasibility

Policy Option 2.2: To include only such costs that are currently – on average – manageable within the cost cap

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.

Policy Option 2.3: To acknowledge the distinctly different features of a guaranteed and non-guaranteed Basic PEPP and to not include the costs of a guarantee

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) 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. Poses some difficulties to calculate individual cost

Stakeholder groups	Benefits	Costs
		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. Including the guarantee	Entails some risk of limited availability of PEPP products
National competent authorities	Offers some degree of legal certainty	NCAs may face challenges to assess costs and fees excluded from the cost cap (e.g. the fair pricing of costs related to a capital guarantee) in their supervision of PEPP providers and PEPP distributors.
EIOPA	Offers some degree of legal certainty Promotes some degree of consistent application across the Member States	Need to provide further guidance on the costs and fees exempted.

Preliminary conclusion

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. 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.

Policy issue 3: Enabling appropriate risks and rewards: Risk-Mitigation Techniques

In order to provide additional consumer protection and encouraging further investments through PEPPs in the CMU context, the PEPP Regulation set 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: Setting out 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. 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. 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: Setting out 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 NSAs. 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.

Stakeholder groups	Benefits	Costs
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: Specifying the objective of the risk-mitigation techniques alongside robust, enforceable 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 strong, enforceable and quantifiable criteria 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 dispersion of the pension results, and performance-related objectives, i.e. to outperform the benchmark long-term risk-free rate.

Risk-mitigation techniques should limit the extent of the dispersion 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.

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. 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.

Stakeholder groups	Benefits	Costs
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. Ensures consistent outcomes across the different Member States	Causes higher costs for monitoring and reviewing the inputs and assumptions to be used in the modelling.

Preliminary conclusion

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.

Annex II: Overview of Questions for Consultation

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?

Q2. Do you agree to approach the areas of risk/ rewards, performance and risk mitigation for the PEPP in a holistic manner?

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?

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 - do you agree for EIOPA to set the key assumptions and inputs used for the necessary stochastic modelling?

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?

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?

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?

Q8. Do you have any comments on the draft Impact Assessment? Do you have any evidence which could further enrich the draft Impact Assessment?

Q9. Do you have any other general comments to the proposed approaches?

Q10. Do you have any views on the opportunities for PEPP in a digital environment, for example regarding digital information provision and online distribution?

Annex III: Proposed content of the PEPP Supervisory Report

Governance

PEPP product

A description should be provided setting out the nature of the PEPP provider's product, investment options and external environment, any significant business or external events that have occurred over the year and general information regarding the PEPP product, which should include:

a) The PEPP registration number;

b) The name and address of the external auditors for the PEPP product;

c) A description of the PEPP products investment option and of the guarantees which the provider writes and the countries in which it writes those options in (specifically highlighting any changes over the year);

d) A description of the targeted savers as well as a description of the actual savers. This should at least include an assessment on the investment profile and age of the PEPP savers.

e) Any significant business or external events that have occurred over the year (if not reported more specifically elsewhere) that have had a material effect on the PEPP provider or on its business models and strategies;

f) The main trends and factors that have contributed positively or negatively to the development, performance and position of the PEPP product over the last three years;

g) A description of the distribution channels used to sell the PEPP;

h) A description of the switching procedures in place and implemented over the reporting period;

i) A description of the processes to tackle complaints and its implementation over the reporting period. the latter should include information on the nature of the claims as well as on the status of the claims (accepted/declined/in dispute/withdrawn by complainer) as well as the time that claims are in dispute.

Governance structure

The PEPP provider shall provide an overview of the governance structure including, at least:

a) The administrative and accounting procedures in place that enable the PEPP provider to deliver in a timely manner reports which reflect a true and fair view of the PEPPs investments and liabilities and which comply with all applicable accounting standards;

b) Explanation of how the administrative or management body have considered remuneration policies - including the relationship between remuneration and risk - and the relevant controls to ensure that remuneration policies are in line with risk management;

c) Information on how the compliance function for the PEPP is implemented;

d) A description where relevant, of how the actuarial function is implemented for the PEPP;

e) A description on how conflicts of interest can be avoided. As a minimum, this should include:

   - Whether all relevant duties and all relevant interests have been identified and are being addressed;
   - the level of compliance with the conflicts management policy; and
   - any non-compliance with the conflicts management policy, including steps taken to return to, and improve, ongoing compliance.

Investments

The PEPP provider should provide a description of its investment strategy for each possible investment option. This description should include at least:

a) A description of the systems in place to ensure compliance with Article 41 of the PEPP regulation;

b) An identification of the risk factors and sources of return of the investment strategy;

c) A description how the asset strategy was determined in a manner consistent with the interests of the savers having in mind their specific profile;

d) A description of the systems in place to monitor the investment strategy as well as the policy to change the strategy when required;

e) Where relevant, a description of the liquidity management plan as well as the actions the PEPP provider can undertake if such event occurs.

Performance

Business performance

A description should be provided detailing the business performance reported by material geographical area that should include:

a) Administrative or management body's analysis of the PEPP products business performance (contributions and payments) along with an analysis by material geographical area;

b) Information on the performance and the expected future performance by material geographical area;

c) Information on expenses by material geographical area over the year compared to prior years;

d) A high-level explanation of the partnerships for the PEPP and how these partnerships have affected the PEPP products performance.

Investment performance

A description should be provided detailing the financial performance from PEPP related investments that should include:

a) Administrative or management body's analysis of the PEPP related investments overall performance;
b) Information on income or losses from investments and, where relevant, components of such income from appropriate subsets of the investments (e.g. equity, bonds,…);
c) The impact of derivatives on investment performance;
d) Information on investment expenses incurred over the year compared to prior years, and reasons for movements.

Risk management

Risk management system

A PEPP provider should provide an overview of its risk management system with regard to the provision of PEPP including its risk strategy and policies in place to ensure compliance with its strategy. It should also detail how the risk management system is able to identify, measure, monitor, manage and report, on a continuous basis, the risks on an individual and aggregated level, to which they are or could be exposed, and their interdependencies.

Information should also include:

a) The risk management framework, having regard to the nature, volume and complexity of the PEPP product;
b) The systems that are in place to ensure compliance with the requirements of the PEPP regulation;
c) The scope and nature of risk management systems, including a description of management tools used to identify, measure, monitor, manage and report the risks related to the provision of the PEPP;
d) The effectiveness of the risk management and internal control systems in place are operating having regard to the risks they are designed to control;
e) A high-level review of the scope, frequency and requirements of the management information presented to the PEPP's administrative or management body;
f) Details of how the PEPP provider monitors the risks arising from any off derivative positions.

Specific risks

A PEPP provider should provide a description, separately for each category of risk, of the risk exposure, concentration, mitigation and sensitivity that can be related to the provision of PEPP products. This should also include information on the method used to assess this risk as well as on its sensitivity. For risks that are not so readily quantifiable, information should be provided on the qualitative measures in the context of internal systems and controls and governance. This information should be provided by material individual risk category and could include for example: financial risk, liquidity risk, market risk, credit risk, reputational risk, ESG risk, outsourcing/partnership risk, risk concentration.

If the data and or risk at the end of the reporting period is not representative of the exposure to risk during the period, the PEPP provider should provide further information sufficient to give a true picture of its exposure.

In addition, the PEPP provider should provide a description of the products and investments that the PEPP provider manages that give rise to the most material risks, paying particular regard to derivative instruments and structured products.

Risk mitigation

A PEPP provider should provide details on its risk mitigation practices, not only in terms of the instrument or methodologies used but also any risk mitigating tools purchased or used (e.g. reinsurance, financial instruments) which should include at least:

a) Details of strategies and methodologies for mitigating risk, and the processes for monitoring the continuing effectiveness of these risk mitigation strategies;
b) Details on whether and how it uses reinsurance or other methods of risk transfer to help to control its exposure;
c) The carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities;

Technical provisions/liabilities

The PEPP provider should, were relevant provide information on:

a) the determination of the technical provisions with key assumptions and methodologies (i.e. valuation techniques) used in measuring liabilities and other financial included in the quantitative reporting.
b) any material changes in the level of technical provisions since the last reporting period including, for example, an explanation of any changes in the key assumptions. This should include the details of the impact of these changes along with a justification that could be supported by recent experience; the impact of reinsurance in the assessment of technical provisions, together with any additional provisions to reflect the credit exposure to reinsurance undertakings.