

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

**EIOPA-19-628
29 November 2019**

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

Key

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

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

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

In the “Comment” column, respondents should insert their comments.

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

No	Name	Reference	Comment	Processing
1.		Q1. Do you have any comments on the presentation of the information	<p>PensionsEurope agrees with EIOPA that the presentation of the information documents should be PEPP-specific, as there is an important need to properly reflect the risk and performance of different investment strategies in the context of the long-term time horizon of the PEPP, which therefore requires tailor-made rules and cannot be derived from previous work on the PRIIPs and IDD IPID.</p> <p>We welcome that EIOPA is consulting based on mock-ups and that these templates are being subject to consumer testing. The savers’ insights are indeed very important, as they are the</p>	

		<p>documents? Do you find the preliminary, illustrative examples of the mock-up PEPP KID and PEPP Benefit Statements are translating well the outlined objectives?</p>	<p>end users of these documents, and it is key to pre-assess if the information provided is what is needed, and whether it is easily understandable and readable. As savers are using their smart devices more and more, consumer testing should also be digital.</p> <p>We praise EIOPA’s presumption that these documents will become digital and the use of layers for informing savers. The necessity of layering derives from the extensive volume of information to be included and from the need to not overload savers with unnecessary information. However, we experienced certain difficulties in assessing the use of layers in the paper-pdf version of these mock-ups. All in all, they look too long and detailed. We fear that they could deter prospective savers from even reading them. Moreover, certain parts of the information provided are not easy to understand and risk creating confusion, especially in those readers with no or limited financial education. We also wonder whether these templates will apply to all kinds of PEPP. In the framework of the consultation, it would have been opportune to have an illustrative Basic PEPP KID provided on the basis of a risk-mitigation technique (life-cycling).</p> <p>Considering that the PEPP Regulation already sets out a long list of information to be included in the PEPP KID and PEPP BS and that this information needs to be complemented by other disclosure requirements deriving from sectorial and national legislations, we would recommend that EIOPA does not add additional complexities in these documents and to improve the use of layers and visuals to highlight the key information.</p> <p>We think that the standard presentation of these documents should only include the information required by the PEPP Regulation at Level 1.</p> <p>Moreover, to draw savers’ attention, key information, as well as using visual icons, pop-ups, drop-down menus and tick-the-box approaches should be allowed. In the development of the templates, it is also important that EIOPA considers that, for young people in particular, mobile devices are now used to access this information and that, therefore, the PEPP KID and the PEPP BS should be suitable to be adapted to smart phones and/or tablets.</p>	
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			<p>We consider these templates a good basis for discussion and we believe there are several areas for improvement and simplification, e.g.:</p> <p><u>PEPP KID - Section “What is this product”:</u></p> <ul style="list-style-type: none"> - The narrative text could be shortened, and the wording could be improved. Describing PEPPs as an “individual non-occupational pension product” is misleading. The definition should be derived from the PEPP Regulation, article 2, par. 2. - The checklist on guarantees/risk-mitigation techniques should only include two choices: “Guarantees” or “Risk-mitigation technique” as is stated in the Regulation. The choice between “guarantee” and “No Guarantee” is misleading because the saver is not informed that there is a risk mitigation strategy in his/her Basic PEPP. Whether it is a Basic PEPP is already stated under “Product Type”. - The KID should provide a description of the investment strategy that will be used. - The exact nature of the guarantee should be clearly explained in the KID. - The term “biometric risk” might not be that straightforward for prospective savers. The PEPP KID should explain the exact nature of the risk covered by the additional guarantees. In line with the PEPP Regulation, the impact on cost should also be showed. - Section on “portability”: although we are aware that this is only a preliminary example, we note that the text stating “distributing PEPP within the majority of member states” does not reflect the text of the PEPP Regulation, which requires the PEPP to be distributed in at least two member states. - Section on “early withdrawal”. In our opinion the suggested text risks creating confusion between early withdrawal and switching rights. Savers don’t have the “chance to withdraw from the contract” by calling or writing the provider, as the terms and conditions depend on the national legislation. 	
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			<ul style="list-style-type: none"> - Section on “switching rights”: similarly, we note a lack of clarity over the rules applicable to early withdrawal and switching. We also note that there are certain points missing in this section: <ul style="list-style-type: none"> a. The 5-year minimum-holding period; b. The cap on switching costs is limited to actual costs and capped to 0.5% of the current PEPP balance; c. The wording of this section should be streamlined with the PEPP Regulation: “Upon receipt of a request from the receiving PEPP provider, the transferring PEPP provider shall close the PEPP account on the date specified by the PEPP saver”. - Section on ESG. Provision of ESG information is lacking, except for the short description included in this paragraph. <p><u>PEPP KID Section: what are the risks and what could I get in return</u></p> <ul style="list-style-type: none"> - In our view, the summary risk indicator should present the risk of deviating from providing long-term returns above inflation, considering the contribution level and the remaining time until retirement. As explained below, reference to the “retirement objective” is not clear or sufficiently described in the consultation paper. - It is important that the summary risk indicator is presented together with the performance scenarios/pension benefit projections. - Performance scenarios: <ul style="list-style-type: none"> o we would advise EIOPA to remove the reference to ranges of savers’ ages (e.g. 20-30 years old): instead of presenting the risks depending on the age, it would be better to use “years until retirement”, as EIOPA does in the consultation paper (see page 14), as contributions may be better calculated using the latter. 	
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			<ul style="list-style-type: none"> ○ Using ranges instead of fixed numbers poses problems in terms of calculation and accuracy of the information provided. Taking as an example the category “60 and older”, the results will differ consistently in the event of a saver contributing until he/she is 61 compared to another contributing until 71. Therefore, to avoid uncertainty and to reflect the different retirement ages among member states, we would suggest taking e.g. 4 specific dates of years to retirement: 40, 30, 20 and 10 years to retirement. ○ The cumulated payments should be added to allow the future retiree to compare its cumulated payments with the accumulated capital including the returns. ○ In the illustrative example A, it is not clear what the “retirement objective” mentioned in the last column refers to. The wording should be rephrased. In our view, the concept of “retirement objective” is not well delineated in the consultation paper. We agree to measuring the risk inherent in PEPP as the dispersion of pension outcomes, but we think this should be linked to the objective of reaching at least inflation (see also our answer to Q3). <p>- Past performance: see below our comments on the BS example.</p> <p><u>PEPP KID Section: what are the costs?</u></p> <ul style="list-style-type: none"> - Presentation of costs: <ul style="list-style-type: none"> ○ We note that the consultation document includes descriptions of what is to be understood by ‘administration costs’, ‘distribution costs’, ‘cost of safekeeping of assets’, ‘portfolio transaction costs’ and ‘costs of the guarantee’ (page 19). However, these descriptions do not feature in the text of the draft RTS and therefore their legal value is unclear. We highlight that the introduction of a harmonised taxonomy breaking down PEPP costs is a 	
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			<p>challenge, due to the different frameworks applicable to PEPP providers and the pan-European nature of the PEPP.</p> <ul style="list-style-type: none"> ○ In order to ensure a level playing field between PEPP providers, the definitions for the costs to be disclosed in the KID and BS should be comprehensive and prevent the understatement of actual cost incurred. The RTS should therefore include better definitions, as well as common principles for disclosure. These principles could include: <ul style="list-style-type: none"> ▪ A look-through approach for investments in investment funds. ▪ Matching principle: Revenues and costs are attributed to the accounting period to which they relate, and costs are stated in the accounts for the same period as the related revenues. ▪ No offsetting of costs against revenues. ▪ Non-recurrent costs should be incorporated. ○ We note inconsistency in the consultation document on the definition of costs to be disclosed in the KID and BS as ‘Investment costs’ and ‘Asset management costs’: they seem to be used interchangeably in the descriptive text on page 19 and the text of the actual draft RTS article xa on page 29. ○ The breakdown of costs should include information on the cost of the guarantee, as both examples are guaranteed products. We highlight that, if the cost of the guarantee will be excluded from the fee cap, it is key to include a definition and to disclose detailed information on its nature and related costs. ○ The methodology used to calculate the cost of the guarantee is not clearly defined yet but should be robust and clear and the same for all EU countries. Eiopa should appropriately consult the stakeholders before finalizing this methodology. Eiopa has taken into consideration opportunity costs (page 30) and the “market price” for guarantees (page 21). However, 	
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			<p>neither of the two measures are actual charges or fees that a saver pays for directly. Opportunity costs, in particular, are based on assumptions about future returns on different kind of investments and can therefore vary considerably depending on the scenarios on which these assumptions are based.</p> <ul style="list-style-type: none"> ○ We would suggest to separately indicate the cost of the advice (taking it out from distribution costs) and to exclude it from the fee cap of the Basic PEPP (see our answer to Q6). ○ The breakdown suggested in example B and at page 20 is not always accurate in relation to investment costs. There are cases where fees for the cost of safekeeping of assets are taken by third providers holding the saver's account. In these cases, they should be excluded from investment costs. ○ The category "other investment costs" should be replaced by "management fees and other investments costs". ○ There could be a clarification that all internal and external costs of the management of assets should be included. Internal costs include personnel costs and overhead related to asset management. External costs include base fees and performance for external asset managers, as well as fees for any other service providers, such as research costs. ○ The monetary disclosure of cost is difficult to standardize in the KID. The assumptions used in the mock-ups of €10.000 accumulated capital and 100 euros monthly contributions are not realistic in many member states, due to income levels, saving capacity and different currencies. <p>- The consultation paper suggests that EIOPA is proposing to follow a RiW approach, but the examples provided show costs both as a RiY and a RiW. We note that the methodology for the calculation of the RiW is not described. In our opinion, the</p>	
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			<p>RiW should present cumulated costs over the total accumulating period and this should be compared to the total accumulated capital including investment returns with a percentage. All in all, our fear is that the RiW approach will not be easily understandable for savers and it will lead to disclose much higher figures in comparison with the RiY, thus being likely to discourage providers from offering PEPPs and savers from buying. If PEPP providers will disclose RiW figures for PEPPs and RiY figures for national pension products, savers could have the perception that PEPPs are more costly, even when this is not the case.</p> <ul style="list-style-type: none"> - We also want to point out that the concept of RIY is strongly discussed by the fund industry in the PRIIPS context and that EIOPA should make sure that both regulations come up with the same rules on that matter. <p><u>Other comments on the PEPP KID:</u></p> <ul style="list-style-type: none"> - As for the PEPP BS, the PEPP KID should also refer to national (and hopefully in the future European) pension tracking service. These services are set up to provide an overview of the total pension entitlements at retirement including first, second and third pillar pensions in some cases. Savers need to look at their individual global retirement situation before taking the decision to subscribe to a long-term product. - Conditions on good time: at page 23, article xa, paragraph 2, we highlight that the provision “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” might lead to severe legal issues and would expose providers to litigation. Moreover, it is not clear how this would work in case of robo-advice. Paragraph 2 should be deleted. <p><u>Comments on the PEPP BS:</u></p>	
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			<ul style="list-style-type: none"> - As far as possible, the information provided should not be duplicated and it should not include a narrative summary of all the PEPP features (except for past performance) but only the key information and a reference to the PEPP KID. - Past performance: we disagree with EIOPA’s suggestion to show past performance as average returns over 10, 5, 3 and 1 year to retirement. In our opinion, only the long-term past performance (e.g. 10 and 5 years) should be shown, as it does not make sense to show short-term past performance in a long-term product with limited liquidity, aiming at capital preservation at retirement age and not every year. Therefore, we would suggest removing references to 3 and/or 1 year and to show average returns on the longest available period, e.g. since the start of the PEPP product. - In addition, we disagree on EIOPA’s suggestion to complement the records of past performance with a relevant benchmark. UFR is not a relevant proxy for long-term risk-free rates. The proposed benchmark based on UFR will be completely misleading for savers, and the PEPP Regulation does not require benchmarks. EIOPA should not add complexity and should limit its advice to the technical matters specified by the legal provisions included in the level-1 Regulation, without going beyond them. The tables included in the PEPP KID mock-ups under the section “what are the risks and what could I get in return” should therefore be amended. Finally, we highlight that it would be helpful to indicate that past performance is calculated as annual return. - In the PEPP BS, a single number/percentage on costs should be indicated in layer 1, allowing PEPP providers to detail the break-down of costs in additional layers. 	
2.		Q2. Do you agree to approach the	Yes, in principle we do agree with EIOPA’s holistic approach and we welcome the idea to provide the return assumptions to be used in the stochastic modelling.	

		areas of risk/rewards, performance and risk mitigation for the PEPP in a holistic manner?	However, we highlight that some of the elements of the methodology to quantify the risks, rewards and performance of PEPP are not detailed in the consultation paper and would therefore require further assessment. Moreover, we do not agree on some of the elements identified as building blocks of the methodology (i.e. reaching at least the long-term risk-free rate – use of the UFR, see our answers to Q1 and Q4), and we feel this would change the objective set by the PEPP Regulation (recoup the capital).	
3.		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?	<p>PensionsEurope agrees to measure the risk inherent in PEPP as the dispersion of pension outcomes but disagrees with linking it to objective of reaching at least the long-term risk-free rate. In our view, savers may expect that a PEPP product, as a long-term investment, at least gives a return in excess of inflation. Only in this case does saving for retirement makes sense. The PEPP providers should be able to show that the outcome of the investment has a high degree of probability providing long-term returns above inflation.</p> <p>All in all, we believe that the investment objectives proposed by EIOPA are either not feasible or suitable in a PEPP context and go beyond the requirements of the level 1 Regulation.</p> <p>Finally, we note that EIOPA writes in the summary risk indicator section of its consultation, page 15 “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”. We do not think either that this is desirable, for the same reasons mentioned above.</p>	
4.		Q4. To ensure consistency in	Yes, we agree that EIOPA sets the key assumptions and inputs used for the stochastic modelling.	

	<p>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?</p>	<p>We regret that the consultation paper does not include detailed information on the stochastic methodology and on the standardised parameters. While understanding the tight timeframe for developing the methodology, we call EIOPA to consult the stakeholders before submitting its technical advice to the COM.</p> <p>As for the 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. We note that EIOPA’s UFR is set at 3.75% for 2020. We consider this far higher than current and, most probably, future financial markets conditions for risk-free rate. Risk premia per asset classes would have to be added to the UFR to communicate a benchmark for the expected performance. This benchmark would not only be very difficult to be achieved, but it could also be confusing / discouraging for savers. In addition, proposing a benchmark goes beyond the level 1 regulation. We believe that there is no need for a “benchmark”, as PEPP is not a mutual fund but a retirement product with a very long-term investment horizon. It would be more appropriate to communicate on the long-term (over a minimum of 20 years) expected returns of each PEPP based on stochastic models.</p>	
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5.		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?	Yes, we agree in principle. However, as highlighted in the consultation paper, the "ad hoc" standardized supervisory reporting needs to be as much as possible harmonised with the existing requirements covered by sectorial legislation. Developing a set of relevant information taking into account differences in applicable national legislation of the different home and host countries might in fact turn out to be burdensome and costly. A relevant set of information for EIOPA to carry out its duties could be used to complement the information needed by the home and host supervisors.	
6.		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	<p>While we reiterate our full support to total transparency in the disclosure of all direct and indirect costs, we are concerned that the all-inclusive cost cap for the Basic PEPP will act as a barrier to the development and market uptake of PEPP across the EU. PensionsEurope has been against the inclusion of cost caps during the legislative procedure and would like to reiterate the reasons:</p> <ul style="list-style-type: none"> • the fee cap only looks at costs and charges, while leaving behind considerations on performance; • we believe and advocate for the transparency of costs and fees, which should be fully disclosed. Cost transparency is essential and play a key role in terms of costs reduction; 	

		<p>feature, which costs should not be included?</p>	<ul style="list-style-type: none"> • the competition among providers increases the efficiency of the market in terms of costs reductions; • as in several member states PEPPs will not be the only personal pension products (and where they are, non-PEPP personal pension products may emerge), we fear that capping only PEPPs, but not national pension products, will limit the PEPP market-uptake. National products may provide similar value and better returns. <p>While the impact of costs must certainly be recognized, we believe that a better approach would have been to focus on value for money for savers, which means ensuring a high-quality product available at competitive costs. Focusing only on costs runs the risk of driving providers to save on important aspects such as investment design, dynamic allocation and quality of the services/advice. We are afraid that this policy option could lead to practical discrepancies in its application and might even be counterproductive, creating a barrier for financial innovation and for more sophisticated investment strategies that could potentially be able to deliver higher returns, compensating the higher costs. It is true that PEPP providers will be able to offer up to 5 alternative investment options with higher fees and returns, but it is also true that behavioural economics shows that a large majority of savers choose the default investment option and are risk averse. If, on the one hand, it is important to provide savers with easy to understand and detailed cost disclosures and that they get real value for the money they pay for the fees, on the other, it is also important that the PEPP will be economically viable for providers. Otherwise, there is a concrete risk of either having few or no PEPP products on the market or leaving this market only to few large providers. In both cases, the final outcome will be in contradiction with the objectives set by the EU Institutions.</p> <p>This being said, the PEPP Regulation delegates to EIOPA the difficult task of specifying which costs and fees should be included and EIOPA is proposing to adopt an all-inclusive approach. We note that the all-inclusive approach proposed by EIOPA excludes the costs of guarantees</p>	
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			<p>and that article xa, page 29 also exempts any costs and fees linked to additional elements or features for the Basic PEPP that are not required by the PEPP Regulation. This shows that EIOPA’s approach is already not completely all-inclusive.</p> <p>The exemption of the costs of the guarantees can certainly be debated from the point of view of the level-playing field, as certain providers that usually do not include this feature in their product could feel to be disadvantaged, as the precise definition and disclosure of the costs related to the guarantees will be complicated, with risk of loopholes / distortion of comparisons between providers. On the other hand, it could be extremely difficult for providers, to include the cost of the guarantee within the 1% cap. This could <i>de facto</i> lead to the impossibility of including guarantees in the basic PEPP. If EIOPA decides to keep this exception, it will then be up to the COM to assess whether the proposed exclusion ensures a level-playing field among providers. If EIOPA confirms its position to exclude the costs of guarantee, all costs of mitigation techniques related to capital preservation at retirement should also be excluded.</p> <p>In our opinion, EIOPA could and should consider that there is another category of costs, common to all providers which, if included in the fee cap, risks rendering the PEPP to be not economically viable: the costs related to the advice.</p> <p>We note that, across Europe, there is wide variety of distribution strategies (direct selling, through banks, digital platforms, etc.) and advice models, and costs are currently levied in different ways. The PEPP Regulation requires providers to give mandatory individualized advice prior to the selling of the PEPP, when the switching service is requested and before the pay-out phase.</p> <p>Firstly, we believe that the inclusion of the cost of the advice in the 1% fee cap for the Basic PEPP will render PEPPs not viable from an economic perspective for providers. In this regard, we regret that a full impact analysis of the cost of providing investment advice on the PEPP was not conducted during the legislative process. In particular, we note that an assessment of</p>	
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		<p>the costs of different advice channels was not included. The PEPP will be a new product that will stand alongside national personal pension products and will have to compete with them. The PEPP Regulation requires a full assessment of an individual saver’s personal circumstances including additional pension and long-term savings and tax position, their objectives and risk tolerance. We note that many EU member states do not yet have a fully functional pensions dashboard to facilitate this assessment. Moreover, pension products are less simple and more costly than traditional investment products. All in all, we believe that individual advice is costly and not compatible with a 1% fee cap. One of our members made a simulation to calculate the total fee that a PEPP provider would collect from a worker saving 5% of a gross salary of €25,000, assuming a fee cap of 1%. This illustration is representative of how the PEPP will develop, at least initially, because small amounts will be saved in the PEPP as the tax incentives are likely to be modest. The results are shown in the <u>table below</u>. In a nutshell, the fee collected in the first year would be €12.3 and the total fee that would be collected after five years could be €200. This is the total amount that the PEPP provider, distributor and adviser would have to share for their services, without knowing if the saver would keep saving in the same PEPP, as the saver may decide to switch to another provider after 5 years. Clearly, these are very small amounts. According to their internal calculations, the cost of advice in France can be estimated to be at least €135/€150 (+ VAT) , which means that the PEPP provider would be left with maximum €50-€65 to cover all other costs (manufacturing, administration, distribution and portability costs) over 5 years, i.e. less than €1 per month. Offering the PEPP under these circumstances would not be economically viable.</p>	
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	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
Average Salary in European Union 2018 (net of tax/month)						
Germany	2 270					
France	2 225					
Netherlands	2 155					
United Kingdom	1 990					
Belgium	1 920					
Italy	1 758					
Moyenne	2 053					
Annual salary		24 636	25 129	25 631	26 144	26 667
Inflation (ECB max target)	2%					
Annual contributions	5%	1 232	1 256	1 282	1 307	1 333
Expected average yield	4%					
Savings		1 232	2 538	3 921	5 385	6 933
Fees	1%	12,32	25,38	39,21	53,85	69,33
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						200

Secondly, we highlight that including the cost of the advice in the fee cap is questionable from the point of view of the savers: having a high-level quality advisory service is essential for savers and is not necessarily in their interest to include this type of costs in the cap.

Thirdly, we do not agree with EIOPA on the considerations included in the consultation paper that online distribution and automated advice will contribute to drive down the related costs, at least in the short-term. We highlight that digital distribution is still very limited and is likely to remain limited in the coming years. While there are a number of providers relying on digital distribution and automated advice, the total AuM remains low and opportunities for growth are increasingly seen as lying within hybrid models, where traditional distribution channels use a number of the techniques used by digital advice models. Many savers still prefer arranging face-to-face meetings to be advised on such an important matter as individual pensions and we note that there is still saver resistance to the adoption of digital

			<p>advice, particularly by many of the cohorts most likely to benefit from the PEPP. See for example a recent FCA Insights paper from November 2019. This report also highlights other hurdles, such as basic trust in financial corporations, socio-economic status and the complex question of savers’ trust in their own judgement or that of their friends and relatives. Moreover, we note that a growing number of robo-advisers have been discontinued recently in Europe, thus confirming that digital distribution is not the (yet) the standard solution. For instance¹:</p> <ul style="list-style-type: none"> - At the end of October 2019, Allianz has decided to pull out of Switzerland’s digital investment management market, because the market still lacks “the expected momentum”, becoming the latest major player in Europe to shut a robo-advice service. - Dutch lender ABN Amro earlier this year closed Prosperity, its German online wealth manager, just over a year after its launch because the service failed to attract enough investors. - Santander, Spain’s largest bank, recently folded Sina, its German online investment manager, less than two years after its inception, while US mutual fund giant BlackRock ended a partnership with German robo-adviser Youvestor less than 18 months after its launch. - Amundi, two years ago, launched a robo-advisor for employee savings and retirement plans. The results are promising, as it helps current savers to optimize their asset allocation, but also show that recruiting new savers requires human interactions. 	
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¹ Source: Sandra Heistrubers, article published on 29 October, 2019 in Ignites Europe ([link](#)).

			<p>All in all, while we recognize the opportunity for digital advice to provide savings solutions, we believe it is still too early to rely on digital advice as the default approach to provide advice on PEPP.</p> <p>Fourthly, there we see a number of operational issues. The PEPP Regulation doesn't describe clearly and precisely the legal standards to which advice has to be provided. This implies that the current complex European regulatory frameworks such as MIFID will apply. Moreover, the assumption made is that the PEPP will be offered as part of an integrated offering, but it is equally possible that there will be a pan-regional or pan-European administration and record keeping platform using the management skills of different managers. If advice is provided by the investors' own adviser how will platform and adviser communicate regarding the cost of advice to ensure that advice remains below the cap? It is possible that the advisor may well be advising their client on a number of different issues – how then will they be able to separate out the cost of advising on the PEPP from advising on other aspects of an individual's portfolio?</p> <p>Against these considerations, at this state in the development of the PEPP, we recommend that advice costs are separately disclosed in the breakdown of costs and not included in the cap.</p> <p>We believe that Eiopa, in its technical advice to the European Commission, should at least raise the issue that the inclusion of the cost of the advice risks hindering the PEPP market uptake, preferably suggesting the Commission tackles the issue at the level 1-Regulation.</p> <p>In this regard, art 45 of the PEPP regulation allows the Commission, after having consulted Eiopa and, where applicable, the other ESAs, to make a first review of the fee cap percentage value, taking into account, in particular, the impact on the availability of PEPPs. This review can be done two years after the date of application of the Regulation, scheduled at end of the 2021. So, this review could take place in 2024 with possible needed adjustments in 2025, meaning in 5 years. This would be an unacceptable delay for PEPPs.</p>	
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			<p>Finally, on top of these considerations, we would also like to make some comments on potential issues coming from the inclusion of transaction costs in the fee cap: the inclusion of these costs risks to disincentive active investment strategies, leading potentially to lower returns. This would not benefit savers and will certainly not incentivise investments in SME's and infrastructures, as desired in the CMU initiative. In addition, there is no indication as to how transaction costs will be calculated – either using half-spread or slippage and we are aware there have been several issues on using slippage in PRIIPs. Should the slippage method be imposed for equity instruments, it could result in implicit transactions up to 1%, i.e. the entire fee cap.</p>	
7.		<p>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?</p>	<p>PensionsEurope support the aim to develop innovation and good outcomes in risk-mitigation, and we appreciate that EIOPA lists a wide variety of risk-mitigation techniques and guarantees suggesting a flexible framework. We note that the very distinct nature of these techniques and guarantees makes it complex and difficult to compare the products they are linked to.</p> <p>We support EIOPA's position to adopt a "principle-based" approach for the risk mitigation techniques and underline that PEPP will require providers to offer personalization and innovation for this new product and flexibility to design the most appropriate individual glide path for life-cycle strategies. We wonder whether imposing minimum/maximum thresholds per asset classes at different points in time will not hinder these objectives. Perhaps, a better approach to reach a high degree of protection could consist of showing the probability of a given investment strategy to recoup the capital invested at the end of the accumulation period. This would be calculated using a stochastic model to simulate a distribution of investment returns.</p> <p>We note that EIOPA proposes setting the minimum probability of capital preservation at 99%. Many potential PEPP providers are facing a huge challenge with the long-standing zero, if not slightly negative interest rates environment. Based on current and most probably future financial markets conditions and on EIOPA's expectations in relation to the objectives, we</p>	

			<p>consider this percentage too high. In addition, this level is too close to the 100% probability of the “Guaranteed Capital PEPP”. In our view, with the Basic PEPPs, savers should have the opportunity to choose between a formal guarantee with lower return and an alternative option with a high probability of capital preservation targeting higher expected returns. This would also be in line with the EU objective to promote the Capital Market Union with more investment in equities over the long term. Therefore, we consider the two proposed levels of probability of capital preservation at 99% and 95% too tight and we think they should be softened.</p> <p>As EIOPA has not included the financial market assumptions on which these figures are based, it is unfortunately not possible to be make more comments. We call on EIOPA to further consult the stakeholders on this.</p> <p>We support the ability with the saver’s consent to extend the last phase of the life cycle. In article xb, par. 3, page 33 we note the requirement to invest predominately in liquid, fixed income investments. While this may be appropriate for a retirement pathway into an annuity or capital withdrawal, this appears less appropriate for an income draw product where current life cycling design continues to recommend an allocation of 30-40% during the decumulation phase in order to be able to deliver the stable income required in retirement. The use of the work “predominantly” assumes at least a majority allocation – a more flexible approach to income draw down pathways would mean we recommend the use of different terminology such as an “appropriate balance”.</p> <p>At page 30, we note the comment that transaction costs may be higher in actively managed portfolios. We underline that pension providers assess transaction costs carefully as part of best execution requirements. Unlike fixed management and administration costs which reduce overall net returns, transaction costs usually do not accrue to the PEPP manager but are incurred on the basis that an investment decision will contribute to delivering the best outcome so a higher cost may be incurred. If an active decision results in a higher cost this is usually because of a decision has been made following expected long-term performance. It</p>	
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			would be a mistake to rely solely on transaction costs in determining the effectiveness of an investment strategy without looking at expected returns.	
8.		Q8. Do you have any comments on the draft Impact Assessment? Do you have any evidence which could further enrich the draft Impact Assessment?	<p>As for the cap on costs and fees, we believe the analysis included in the consultation paper explaining EIOPA’s approach, article xa included at page 29/60 and the succinct analysis included in Annex I, is not complete and that EIOPA should work and enrich the IA further. The data and analysis reported in the annex is of difficult comparability and relevance:</p> <ul style="list-style-type: none"> - EIOPA’s First report on costs and past performance” explicitly recognises that “meaningful comparison has not been possible” for PPPs. - The other data reported show the difficulties of including certain costs within the 1% fee cap (see for instance data on costs of financial advice). We highlight that these data refer to financial advice – including pensions advice. As mentioned, we believe that mandatory personal pension advice is far more complex and costly. - The OXERA study refers to mandatory DC pensions in Poland. We highlight that there are important differences in terms of costs between mandatory and voluntary products, as mandatory pensions do not have (or have lower) distribution and advice costs. - Annex I report data from the SRI calculated by COVIP, the Italian NCA, for 2016. Looking at 2018, the average yearly costs of Italian PIPs are from 1,88 to 2,71% depending on the type of investment strategy. If, instead of the 10-year period, a 5-year time horizon is taken (horizon in line with the right of a PEPP saver to switch provider) costs would raise considerably. This shows how difficult it would be to stay within the cap imposed by the PEPP Regulation. 	
9.		Q9. Do you have any other general comments to	No other general comments.	

		the proposed approaches?		
10.		Q10. Do you have any views on the opportunities for PEPP in a digital environment, for example regarding digital information provision and online distribution?	Yes, please see our considerations on robo-advice in Q6. In addition, we highlight that national pension tracking services and the ETS are being developed to provide savers with an overview of their total pension entitlements at retirement, including first, second and third pillar pensions. However, tracking services are not operational yet in many Member States. These systems should be used to allow individuals to evaluate their total pension income and their need to increase contributions or purchasing an additional product. Is important that PEPPs will be integrated in these systems and not developed as a stand-alone framework.	