



22 July 2021

**PensionsEurope answers to EIOPA consultation
on the draft opinion on the supervisory reporting
of costs and charges of IORPs**

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

No. Cost transparency and reporting are important tools and objectives of the management board of the IORP and/or the negotiating social partners in the set-up of a scheme. The social partners, who often manage IORPs, have an intrinsic interest to reduce costs to improve pension outcomes for employees. Cost considerations are a key factor driving the modernisation of pension administration. We observe that administration and asset management costs are trending downward, although costs associated with regulation is slowing down this trend. Cost's considerations are already a significant driver of consolidation in some MSs.

We agree that costs and charges are a key issue when considering the value for money that IORPs deliver and that such an assessment should always consider costs in conjunction with risk and return. Some observations on the legal basis and the underlying objective of the draft Op.: as for the legal basis, the draft opinion refers to art. 29(1)a of the EIOPA Reg.1. However, in the field of pensions, the scope of action of EIOPA is limited by art. 1 to the powers conferred within the IORP II Directive and to the requirement of acting without prejudice to national SLL. The IORP Directive takes a minimum harmonisation approach to accommodate the differences in SLL, which shape occupational pensions, as the EU legislator considered that there is only limited need for supervisory convergence in the pension field. It is critical that EIOPA considers and respects the heterogeneity of this sector. The Op. should leave sufficient leeway for the CAs to tailor the principles to their national circumstances. In the introduction, the Op. should refer to the minimum harmonisation character of the IORP II Directive and commit itself to it.

These considerations lead us also to question whether the objective of comparability is the right driver for the Op. We see very different types of IORP across the EU and as a result diverging existing practices in cost reporting. An important difference between MSs is the degree to which IORPs are industry-wide or multi-sponsor IORPs, or single-sponsor IORPs, as well as whether the risk is carried by the participants or not. In a single-sponsor DB scheme where the sponsor carries a significant part of the costs the case for having comparable cost reporting is simply less pronounced.

In countries such as the Netherlands, Italy, and the UK (although UK is out from the scope), with industry-wide funds and where the participants carry the risk and costs, a detailed cost reporting framework for IORPs has been put in place.

In certain MSs, IORPs enjoy a flexible legal framework that allows them to be tailor-made to the sponsor company/social partners' needs in terms of structure, governance, investments, administrative and operational organisation. This renders the sector very diverse not only across MSs, but even within the same MS. The Op. should better consider the complexity of the operations of each specific IORP, not only comparing the quality of service, which assumes that the type of service is the same, but also the kind of service provided.

Furthermore, the Op. is delivered based on certain articles of the IORP II Directive (see par. 1.2). However, it is not clear how these articles justify the push towards the publication of cost data. While the protection of members and beneficiaries is key, it does not in itself justify disclosure. There are

¹ which states that EIOPA shall provide Op. and *play an active role in building a common Union supervisory culture and consistent supervisory practices, as well as in ensuring uniform procedures and consistent approaches throughout the Union.*

several ways to protect their long-term interest. The way proposed could fit DC pension plans that allow members to choose their investment option, when costs have an immediate impact on the member's benefit, and where members can opt for an IORP. We agree with cost transparency, but in an appropriate and fitting manner. Cost transparency and reporting as it is understood in this Op. should not lead EIOPA to make an in-depth cost analysis, benchmarking exercise, or a cost evaluation of IORPs. Considering the flawed cost-benefit analysis (see Q2), we do not see any evidence or analysis proving that this Op. would improve the long-term outcomes for members and beneficiaries.

Finally, IORPs' reporting has considerably increased in recent years, also due to the IORP II Directive and other applicable EU legislation (e.g. EIOPA and ECB reporting regulations, sustainable finance legislation). Additional cost reporting requirements to CA would not generate efficiencies. On the contrary, they will only generate additional fixed costs carving out the pension scheme's value. It is important that CAs always consider the need, reasons, and objectives for adding new transparency requirements, as otherwise, they would lead to additional cost for IORPs (which could ultimately be transferred to members and beneficiaries) without providing added value.

Q2: Do you agree that Annex 1 provides a balanced view of the costs and benefits of the draft Opinion? Please explain and provide any suggestions.

No, we recognise some of the considerations, yet believe that an in-depth research and analysis is needed before developing an opinion on costs. Before establishing regular reporting requirements, EIOPA, together with the national competent authorities, should take stock to analyse and determine whether there are any problems and if so, for which reasons. This stock taking exercise could e.g. take the form of a one-off reporting of (a number of) IORPs in relevant MS. Based on this sample, any further action could be determined.

Annex 1 does not include an analysis that allows us to understand whether there are issues related with the cost and transparency of IORPs and whether this opinion would contribute to solving these issues. The EIOPA 2015 IORP report on costs and charges concluded that considering common definitions and standardised breakdowns of costs and charges would not be possible. We understand that with this new opinion EIOPA wants to develop comparability but we do not believe this is the right objective. Assuming that in some MSs the situation might have changed in recent years, that the current situation and problem assessment will vary between different MS, and considering that EIOPA is now collecting cost data from IORPs and NCAs under the EIOPA Reporting Decision, we would invite EIOPA, before adopting this opinion, to conduct more in-depth analysis on:

- the stocktaking of actual problems for members, beneficiaries, IORPs or sponsoring employers.
- the definition of what exactly are the deficiencies of each of the instruments identified by the survey, i.e. instruments used by CAs to collect information on IORP's cost and, if they exist, of what type they are
- only then, it will be possible to find tailored solutions, for which leeway for NCAs is key

The same as just above should be done for the costs incurred by third parties (e.g., investment funds, but also trading costs, custodian costs, costs of external management units, etc.) that are directly or indirectly charged to the IORP: EIOPA could investigate what exactly does already exist as regulation, and in light of EIOPA's objectives and key principles, determine whether this is sufficient, what and why is not sufficient, and what should be changed.

Only based on such a thorough and precise analysis, which should be developed also in cooperation with stakeholders, potential further steps, including suggestions for change and improvement, should be considered and proposed.

The “Costs and benefits analysis” included in Annex 1 explores the advantages and disadvantages of the discussed options only very generally, without including any estimate or more detailed analysis on the associated costs for IORP. Comparing the three options, it is not clear to us why the third option is best. This is the option with the biggest price tag, so a clear justification (including evidence) is needed. For the cost-benefit-assessment the granularity of the reported data is a key factor. We would like to emphasise that higher granularity always leads to higher costs, which might not be justified by the additional benefits gained. We note that there are currently no concrete proposals of having lower requirements for smaller IORPs. We call on EIOPA and the CAs to take size into account and follow the understanding of proportionality used by the IORP II Directive.

More generally, we emphasise that in some MSs members and beneficiaries cannot choose between IORPs. Occupational pension membership is not sold to the consumer, but members and beneficiaries are enrolled by their employers. Cost efficiency for members and beneficiaries is ensured by an alignment between the interests of employers and employees: if the employer must step in in case the given pension promise cannot be met, it has a strong incentive to ensure a sound and efficient management of the IORP. We see little to no added value if cost data in those systems is reported to the national competent authority or even published (4.7).

Q3: Do you agree with the generic cost classification distinguishing investment, transaction and administration costs as well as costs borne by the sponsor? Please explain and provide any alternative classification that should be considered.

No. We believe a generic cost classification, principles for the compilation of costs and templates to ask asset managers the relevant cost information can be useful tools to help the management board of the IORP to make their cost analysis and to increase efficiencies where possible.

While we do agree with the classification of investment, and administration costs, we do not agree to include sponsor costs (see par. 2.7 and 4.1b) for several reasons:

- The sponsoring employers are not under the supervision of the NCAs. An assessment of sponsor affordability is therefore not adequate.
- IORPs are not in a position to ask the sponsor for detailed information on costs except if such information is publicly available. Neither the IORP, nor the CA, nor the EIOPA, have the competencies to control sponsor information on costs.
- We do not see any benefit for the long-term interest of members and beneficiaries in reporting cost incurred by sponsors that do not affect the level of benefits.
 - this approach runs against the legal basis and objective of this opinion.
 - this information is not of any help regarding the assessment of the value for money for the beneficiaries of an IORP
 - the approach could lead employers to reduce their commitments towards their employees and/or their support to IORPs.
- Publishing these costs could lead beneficiaries and the public to draw wrong conclusions or to compare pension schemes that are not comparable at all.
- It is in the employers’ self-interest to manage their occupational pension schemes cost-efficiently. Therefore, the interests of the sponsoring employer and the members/beneficiaries are aligned.

- In many MSs, the legislative framework requires the involvement of employer(s) and employees' representatives in the governance of the scheme, making it likely they will keep an eye on cost from both perspectives.
- IORPs, where (part of) the costs are borne by the sponsors, cannot be compared to those where all costs are borne by the beneficiaries, from a beneficiary's point of view. Comparability is further hindered especially in cases where an IORP has one very large sponsor carrying certain costs and some smaller sponsors who do not carry these costs. It has to be taken additionally into account that big sponsors in such cases may influence themselves the level of costs e.g. by defining the set of information which they want to receive from the IORP.
- Additionally, including the cost borne by the sponsor runs counter the objective of determining "value for money", because this takes the members' perspective, and costs borne by the sponsor are not money that the member contributed.
- Finally, it should be noted that, in some countries, the national framework for cost reporting recommends including sponsor costs under the other cost categories, e.g. administration cost and not as a separate category.

Concerning transaction costs, in particular implicit ones, it should be noted that their recording can be difficult and costly, especially for those related to the acquisition and disposal of fixed income securities. Not all IORPs are able to provide all transaction costs. German IORPs, for instance, can provide data for funds (although at an increased cost). However, for other assets it is more difficult or even impossible. EIOPA could carefully evaluate the difficulties and the partial results experienced by some NCAs in recording this information.

Q4: In your view, do the definitions in Annex 2 cover the most important items of investment, transaction and administrative costs? Please explain and provide any suggestions for the inclusion of other cost elements not explicitly mentioned in the definition.

Yes, we agree. We do not have any additional suggestions.

However, we have a number of general comments on the definitions laid out in the Draft Opinion:

- On a general note, we would like to stress that it is not only important what is covered, but also how it is covered. While higher granularity (see No. 3.4) might bring more insight, it usually also comes at a higher cost. It is extremely important to consider both aspects.
- It is correct that IORPs as important institutional investors can ask for additional information from their service providers (see No. 3.12). However, they are likely to have to pay for it. Further internal costs for analysing the information are also to be considered.
- Regarding the proposal to include the costs of guarantees in investment costs: while it is possible to calculate the opportunity costs of providing a guarantee, we wonder what the benefit it. Ultimately, the assessment of the opportunity costs (which price is someone to pay in turn for security?) is a very subjective one, which varies for different cultures and within that for different individuals. Is the objective to show here that everything beyond pure defined contribution schemes is expensive? Is this really what countries with DB systems want and what helps members and beneficiaries?
- The inclusion of the cost of the guarantee runs against the objective of this opinion, which is comparability. As the methodology used to calculate the cost of the guarantee is not clearly defined, different approaches would lead to very different results. In case of PEPP, EIOPA has

taken into consideration opportunity costs and the “market price” for guarantees. However, 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.

- Please note that subscription and redemption fees of investment funds serve the purpose of covering for the underlying transaction costs borne by the investment fund for covering the buying or selling financial instruments at the time of subscription or redemption by the investor in the fund. In the Dutch practice a full look through on transaction costs is mandatory, with a (partial) correction on the subscription and redemption fees. If the IORP cannot obtain reliable data because of administrative complexity or lack of available data, the pension fund may resort to mentioning the subscription and redemption fees. In that case the ‘comply or explain’ principle applies. This could be an approach looking at costs for investment funds (creating additional costs)., however, it does not work for other forms of investment.

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

We prefer to not indicate a “yes” or ‘no’ answer to this question. The proposed cost reporting is pretty much in line with the current reporting in some jurisdictions, but not in others.

For instance, the costs ratios as required by Dutch Law are both in nominal amounts and as a percentage of the average total asset under management of the IORP for the asset management costs and transaction costs. The cost ratio for the administration costs are nominal amounts total and a nominal amount per active or retired participant (not as a percentage of average asset under management). The presentation of the administration costs as a percentage of average total asset under management can be added for good measure.

However, in Belgium, administration costs should be in the reporting currency as a cost per member, while investment and transaction costs as a percentage of (average) assets under management.

Finally, we note that because of their investment structure, not all IORPs are able to calculate transaction costs for all asset classes.

Q6: Do you agree that the cost reporting should also be at the level of the schemes/investment options where IORPs provide multiple schemes/investment options with different investment policies? Please explain and provide any benefits of or obstacles to report costs at the level of pension schemes or investment options.

No, we do not agree with this approach. The draft opinion should better explain the reasons why extending reporting information would help the supervisory authority and what added value would it bring. These questions should be carefully assessed because the (additional) cost reporting generates (additional) costs, which are likely to be borne by members and beneficiaries in the form of lower pensions or by the respective employer making the offering of occupational pensions even more unattractive for the employer. They should therefore provide a significant added value.

Although there might be situations where it could be useful to have cost information per pension scheme/investment option, this is not always the case. A more proportionate approach would consist of limiting the separate information requirement to certain circumstances, for example:

- If investment options for the members and beneficiaries → per option
- If multi-employer where employers do not belong to the same group → per group of employers
- If ringfenced, per ringfenced

For all other situations, we do not see a need to report per pension scheme/investment option.

Cost information should go to the party who bears the cost: either the sponsor (increase of contributions) or the member and beneficiary (decrease of benefits).

Finally, we highlight that the IORP II Directive requires IORPs to publish an annual report to make it available to all their members and beneficiaries. The annual report must give a true and fair view of the IORP's assets, liabilities, and financial position and include disclosure of significant investment holdings.

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

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

Please explain and provide any suggestions to improve the principles.

First, we would like to repeat that we do not believe a sensible comparison is always possible and beneficial.

There are different arguments to be made about the inclusion and exclusion of the look-through and no-netting principles. There should be a balance between effort and cost. Some funds reported as a separate line item on the list of assets, do not even represent 1% of the total section's value. Guidance on how to report is very abstract. There are limits in matching the look-through, list of assets and balance sheet due to the multi-currency environment, the used exchange rate and rounding. Matching them on the euro often is not possible. Finally, we stress that, if the look-through is also applied on transaction costs, a mechanism is needed for not double counting subscription/redemptions fees and underlying transaction costs.

In some contexts, no-netting can be a useful principle. However, it is difficult for a non-professional to judge on different investment options with different outcomes on cost, risk and long-term return. Pay a higher cost to obtain a higher gross long-term return but with a high level of risk might be on the longer term (we are talking about saving for pensions) much more interesting than paying for an investment option at low cost, low risk but a very moderate return over the long term. Therefore, we

believe it is better to mention a combination of net return (ideally over a longer period) and volatility over time.

As for the costs paid by the sponsor(s) see Q3.

Proportionality is an excellent principle in theory, but it does not always work efficiently in practice. Often, NCAs require full reporting adopting a one fits all approach. Any fixed cost on top within an IORP is relatively costly, especially for small and medium-sized IORPs. As IORPs are not for-profit organisations either the sponsor or the members and beneficiaries directly bear these costs. On top, today, IORPs work in a “lower for longer environment” in terms of interest rates with a high focus on cost reduction where any additional cost, from an efficiency point of view, seems to be unacceptable.

Q8: Do you agree that the possibility under MiFID II to request investment and transaction cost data from portfolio managers and transaction counterparts will facilitate the supervisory cost reporting by IORPs? Please explain and describe any limitations observed with MiFID II disclosure requirements in practice.

From a theoretical perspective yes, but no in practice. As IORPs diversify their investments on a European and worldwide basis, it could be convenient for IORPs if uniform reporting requirements by investment funds (UCITS, but also AIFs) or their managers towards their investing IORPs would be set throughout Europe.

Such uniform European reporting formats or templates could help some IORPs, as they could potentially:

- improve the quality of the data provided to IORPs
- reduce the costs of collecting and analysing these data by IORPs
- lead to better comparable information for IORPs and, as far as necessary, for their plan sponsors and members.

However, it should be highlighted that not all IORPs invest through asset managers who fall under MiFID II. IORPs are considered professional investors under MiFID II (Annex II), which means that they pay lower fees and charges but are subject to lower protection than non-professional investors. Therefore, they do not automatically receive the information required by MiFID II.

This does not imply that costs are generally not transparent for the IORP. We would be concerned if the idea was for IORPs to report the data according to the MiFID II template to their supervisor. This would make it necessary to ask for the data from service providers, potentially leading to an increase in costs – which in the end would have to be born either by the members or by the sponsor companies. In the first case, this would mean lower pensions, and, in the second case, this would mean that voluntarily granting an occupational pension becomes less attractive for employers. In addition, this would at least partly revoke the status of IORPs as professional investors, which would run counter to MiFID II that is currently in force. Requiring reporting according to a MiFID II template from IORPs is problematic if the service providers they work with are not subject to MiFID II.

Finally, we highlight the importance that new requirements should not be set in such an extended and demanding form that they could lead to significantly reduced reasonable investment opportunities for IORPs, compared to other institutional investors including endowments etc. A situation where such a template leads to additional costs without benefits for IORPs must be avoided.

Q9: Are you aware of other cost classifications used by IORPs to collect information on costs and charges from portfolio managers and transaction counterparts? If yes, please describe and explain these other cost classifications.

Yes, but we are not aware of a cost classification that works well for all IORPs.

In the Netherlands, IORPs refer to the cost classifications as laid out in the appendices of the Recommendations on Administrative Costs. These are the common cost classifications for reporting in the Netherlands and used for collecting cost information as well, next to the Mifid II template (EMT) and industry standards (eg. ILPA, INREV).

More in general, as we have argued before, it is important that IORPs have a good overview of the cost they incur.

Aba, our German member, reports that in Germany, IORPs tend to use Kapitalverwaltungsgesellschaften (KVG) offering Spezialfonds (a specific German form of an AIF for institutional investors). IORPs are considered professional investors under MiFID II, which means that they pay lower fees and charges but are subject to lower protection than non-professional investors. The cost structure between IORP and KVG is to be negotiated by the two parties, costs can e.g. be fixed and/or performance-related. Regarding Spezialfonds, administration costs are negotiated with the KVG, the costs for the asset manager are negotiated between the IORP and the asset manager. That means, that very reasonable, case-specific and individual fee and incentive structures can result, which are not comparable at all. Aba cannot see how the MiFID II requirements would capture these differences and complexities. The costs for Spezialfonds are much lower than those of Publikumsfonds (UCITS). The latter might have specific tranches which are only open to institutional investors (often with a minimum investment amount) which are cheaper than the retail tranches.

As another general point, Aba would like to stress that IORPs in Germany are in a strong negotiating position (mainly because of their size and their collective approach to asset allocation) and are therefore likely to get good value for money from service providers they work with. Additionally, there are costs statistics for (more standardized) investment products (publicly available from different sources, e.g. the BVI) and also there is a variety of informal networks between German IORPs where certain experiences regarding costs and cost management (for standardized products) are shared on an informal basis. This gives IORPs a good overview of the landscape of costs for certain standardized investment products they may be using.

Aba believes that institutional asset management in Germany, delivered via Spezialfonds, is highly competitive and price-sensitive amongst international asset managers, offering the lowest margins in the EU.

Therefore, as explained in more detail in Q2, we propose to investigate in which Member States IORPs have cost problems and why.

Q10: Does in your view the investment cost template in Annex 3 facilitate the collection of costs by IORPs from portfolio managers? Do you agree that the more detailed breakdown of costs enhances the understanding of IORPs in the underlying investment cost structure? Please explain and provide any suggestions to enhance the practicality and insightfulness of the template.

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

A more detailed breakdown of costs might enhance the understanding of IORPs in the underlying investment cost structure, but this must be weighed against the additional cost implied. EIOPA should avoid that the cost transparency objective becomes a cost generator at the expense of pension savings.

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

If yes, in what way:

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

Please explain.

Yes, we do agree that national supervisors should have discretion to determine the level of cost reporting requirements for IORPs. Appropriate regulation for IORPs, including on costs, should always take into account national social and labour law and the prevailing structures and problems. Only those costs which actually negatively impact the members' benefits should be reported to the members and beneficiaries either via the pension benefit statement or an annual report. The benefit statement should be used for all costs borne by the member charged on either the contribution or the pension saving pot. Other costs should be reported via periodic reports. National supervisors should have the discretion to exempt certain DB schemes as well as reducing the scope of cost reporting. We welcome that EIOPA in this draft Opinion considers the differences between DB and DC. We agree that costs play a different role for members of a (pure) DC system than they do for those covered by a DB system. On these grounds, we welcome the full exemption for certain DB schemes proposed in the Draft Opinion. In some MSs, employers are liable to ensure that the promise made under a DB scheme is met. That means that the sponsoring employer has an interest in ensuring that the IORP works cost-efficiently because this lowers the risk of having to pay additional contributions to make up potential shortfalls in the future. From our perspective, this is a strong incentive to ensure cost-efficiency and no further measures such as reporting or disclosure of costs are needed for those IORPs. This characteristic should therefore be used to assess which DB schemes are exempted from the reporting requirements laid down in this Draft Opinion. At the very least, it should be possible to adjust the requirements appropriately.

Taking this argument further, it is the employer who can and should decide the degree of granularity on cost information the IORP provides to the sponsor. Higher granularity often comes at a higher cost, but more insight might lead to preventing problems. The employer, therefore, chooses between a low but certain cost now and a probably higher and uncertain cost later. At which degree of granularity the cost-benefits-analysis tilts depends on the circumstances and not least on the risk appetite of the sponsor.

- Recognise other mechanisms for cost containment: schemes using other mechanisms to keep costs down should be exempted from the scope of this Opinion. This is for example the case for German DB schemes where the employer is liable to ensure that a given pension promise is met.
- Take into account the diversity of the labour law and of IORPs in the EU when defining prudential requirements: more generally, we urge EIOPA to provide the leeway for national competent authorities to decide which data on cost should be collected and how. Once this has been determined by the national competent authorities, proportionality, as laid down in IORP II, should be applied to the actual data collection, taking into account the size, nature, scale and complexity of the activities of the IORP.

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

No. As we have stressed above, when taking into account the diversity of occupational pensions across the EU and also within single jurisdictions, we do not think that a sensible comparison is always possible at a reasonable cost and level of complexity.

We note that an exclusive focus on the cost side of schemes in the pension sector can lead to incorrect results, since schemes might be compared with others with completely different characteristics and features.

In addition, assessing the efficiency and making a comparative analysis of IORPs is not the role of the supervisor, this is more the role of the IORPs management board to check if the pension scheme is managed in an efficient way. Affordability should be controlled by the one who is paying the contribution to the pension scheme, either the sponsor or the member or a combination thereof, and which are represented on the IORPs supervisory board. The members can check in the benefit communication if they get the benefit they were promised (value for money). The pension benefit statement mentions the costs directly borne by the member and charged on individual contributions/pension reserves, periodic reports (e.g. a transparency report) mention all the other costs (e.g. by reporting the gross/net returns).

Q13: Do you agree that supervisors should be encouraged to publish aggregated cost levels and the results of the comparative cost analyses and that they should encourage IORPs to publicly disclose their cost levels? Please explain.

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

The publication of cost data by individual IORPs would lead to comparisons and, given the complexity of the topic, probably lead to discussions where the cheapest schemes are considered the best. This runs against the concept of value for money, where cost is put in relation to what is delivered in return. It is not clear to us how data from schemes that offer different services and benefits can be aggregated. Incentivising schemes to be the cheapest is neither in the interest of the sponsoring employers nor in the interest of members and beneficiaries. Finally, the information that a scheme is cheap might even be misleading if cheap is taken to mean beneficial.

Therefore, the decision to publish aggregated cost levels and comparative cost analyses should be left at the pure discretion of each supervisor and EIOPA should not encourage them.

Examples of how national supervisors have tackled the issue for their specific systems are:

- In the Netherlands, DNB publishes the ratios for administration costs, administration costs and transaction costs with the name of the pension fund. In an explanation near the figures they explain which factors determine the level of the different type of costs.
- In Italy, to increase the transparency and to facilitate the comparison of costs applied by different kinds of pension funds, the national competent authority COVIP in 2006 introduced the so called synthetic cost indicator (SCI), which pension funds have to calculate. This indicator allows to easily display all costs paid by a member (in the accumulation phase) as a percentage of the assets of their individual account. The SCI has to be computed according to a methodology defined by COVIP, common for different types of pension funds. The calculation, which has to be done for different schemes/investment options offered by a pension fund and for 4 different time horizons (2, 5, 10 and 35 years), is made referring to a

“representative” member who accumulates assets on their account according to certain assumptions.

These examples show there are Member States that require the publication of this kind of data because they felt that this was needed in the specific set-up of their pension systems.

However, we do not see how a European approach could benefit all Member States. From a legal and political perspective, we reject an EIOPA Opinion that is based on an EU minimum harmonisation Directive but aims at EU-wide harmonisation.

Q14: Do you have any other comments on the draft Opinion? If yes, please provide these other comments.

First, we would like to stress again the importance of determining the problem before working on the solution: before establishing regular reporting requirements, EIOPA, together with the national competent authorities, should take stock to analyse and determine whether there are any problems and, if so, for which reasons. This stock taking exercise could e.g. take the form of a one-off reporting of (a number of) IORPs in relevant MS. Based on this sample, any further action could be determined. Second, the approach suggested in this draft opinion ignores the social dimension of many pension schemes. In many Member States a pension scheme is not a “product” that is sold by a financial institution. Often the pension scheme is the result of negotiations between the social partners. Once the pension scheme is defined, these social partners either opt for an insurance solution or they set up a proper fully tailor-made IORP. Given the tailormade character, by definition, costs are incomparable. The IORP only executes the pension scheme. Its only and main goal is to manage the pension scheme in the best interest of the members and beneficiaries. Social and labour regulation is in place to protect members and beneficiaries.

If EU initiatives take a one-size-fits all approach, there are often many IORPs for which they do not fit, making it hard for them to provide cost-efficient occupational pensions. The heterogeneity of IORPs should be adequately taken into account when defining requirements as well as when considering what is addressed at EU and what at national level. This includes adequate leeway for NCAs and an appropriate consideration of the principle of proportionality. In particular, uniform EU requirements often generate disproportionately high fixed costs for IORPs, which hits medium and small IORPs hardest.

Additional specific comments on the text:

- Does par. 2.1 define “value for money” as “considering costs in conjunction with risks and returns”? This seems to be quite a narrow definition, as it does not seem to include differences e.g. in terms of the decumulation phase (lump sum vs. life-long annuities) or coverage of death or disability, or is that captured under “return”? Generally, it seems that the definition only applies to the investment process (see 4.1 c).
- Annex I, first par.: “Unlike the investment fund sector, where international market standards on the calculation of costs have been developed, the pension market has faced lower market incentives to develop national and international standards on costs that follow a look-through approach.”
 - We highlight that there is no “pension market” for occupational pensions. There are other mechanisms to keep the costs of occupational pension low, such as the role of the employer and social partners, and economies of scale due to a collective approach.
 - The investment fund sector has international standards because it is internationally oriented. This is not the case for the pension sector.

- The report of the Dutch Authority for the Financial Markets from 2011 is old and its relevance in other countries is questionable. At the very least, annex 1 should explain why this report is suitable for an EU-wide analysis of the problem and why it provides the basis for appropriate regulation in other countries.

Annex 1, p. 17, par. 5: “At the European level the IORP II Directive introduced structural cost disclosure requirements for IORPs, both towards prospective and actual scheme members. Nonetheless, the directive does not further specify which costs should be covered, according to which criteria and how detailed the breakdown should be or how the costs should be presented.”

- This paragraph refers to information for (prospective) members – how is this related to supervisory reporting?

Annex 1, p. 17, last par.: “However, for investment firms MiFID II requires to disclose to clients all costs and charges in connection with the investment service and costs and charges associated with the financial instruments. Third party payments received by investment firms in connection with the investment service provided to a client should be itemised separately. ESMA guidelines and Q&A provide more specific details on how to report specific costs. As institutional clients, IORPs should be able to request to service providers the itemised cost disclosure under MiFID II to collect detailed data on investment and transaction costs and report it accordingly to the CA.”

- This suggests that IORPs only need to ask for the information and assumes an investment structure, which does not exist in many MS (for more information on Germany, see the response to Question 8).

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace and other funded pensions. Some members operate purely individual pension schemes. PensionsEurope has **24 member associations** in 17 EU Member States and 4 other European countries².

PensionsEurope member organisations cover different types of workplace pensions for over **110 million people**. Through its Member Associations PensionsEurope represents more than **€ 4 trillion of assets** managed for future pension payments. In addition, many members of PensionsEurope also cover personal pensions, which are connected with an employment relation.

PensionsEurope also has **22 Corporate and Supporter Members** which are various service providers and stakeholders that work with IORPs.

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope has established a **Multinational Advisory Group (MAG)** which delivers advice on pension issues to PensionsEurope. It provides a collective voice and information sharing for the expertise and opinions of multinationals.

What PensionsEurope stands for

- A regulatory environment encouraging workplace pension membership;
- Ensure that more and more Europeans can benefit from an adequate income in retirement;
- Policies which will enable sufficient contributions and good returns.

Our members offer

- Economies of scale in governance, administration and asset management;
- Risk pooling and often intergenerational risk-sharing;
- Often “not-for-profit” and some/all of the costs are borne by the employer;
- Members of workplace pension schemes often benefit from a contribution paid by the employer;
- Wide-scale coverage due to mandatory participation, sector-wide participation based on collective agreements and soft-compulsion elements such as auto-enrolment;
- Good governance and alignment of interest due to participation of the main stakeholders.

Contact:

PensionsEurope

Montoyerstraat 23 rue Montoyer – 1000 Brussels

Belgium

Tel: +32 (0)2 289 14 14

info@pensionseurope.eu

² EU Member States: Austria, Belgium, Bulgaria, Croatia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden. Non-EU Member States: Iceland, Norway, Switzerland, UK.