

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 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>The current review exercise on the PRIIPs KID RTS has raised a lot of concerns from the financial industry. Most of the concerns according to our members are in relation to the increase of complexity of the methods and presentation of the information, misleading figures and an overload of information to consumers. These concerns are also applicable to the PEPP KIDs.</p> <p>We believe that the outcome of the work under the PRIIPs regulation needs to be monitored by</p>	

			<p>all stakeholders, to ensure that the PRIIPs KID and PEPP KID remain aligned on their guiding principles.</p> <p>The PEPP KID layouts will lead to a huge adaption exercise from the IT solutions currently providing KI(I)D services to the financial industry.</p> <p>Maintaining UCITS KIID, PRIIPs KID and PEPP KID will require substantial rework regarding databases, data flows and templates. Also, even though the digitalisation is promoted to enable managing the different PEPP product combinations, the current KI(I)D tools available on the market are currently most of the time not adapted.</p> <p>Members are usually concerned about costs to adapt their current "tool" for providing a solution to PEPP manufacturers. Not many actors will be willing to bear the costs associated therewith.</p> <p>As regards the templates we have made comments on a section by section basis:</p> <ul style="list-style-type: none"> - Section 1: no major comments. This is composed of narrative information. This will require the creation of additional fields in the storing Database but no major impact. Small side remark - some information in the section 1 is usually presented in other sections of the PRIIPs KID 	
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			<p>Ex: Early withdrawal information is usually presented in the section 'How long should I hold this investment'</p> <ul style="list-style-type: none"> - Section 2: template A is clearer to retail investor than template B for the following reasons: <ul style="list-style-type: none"> <u>Performance scenarios</u> <ul style="list-style-type: none"> ○ Graph in template B does not clearly seem to bring an added value. Also, it starts from 60 rather than 20-30 which seems surprising. Members found it difficult to understand. ○ Table in template A is much more instinctive. However, this table raise the following concerns/questions: <ul style="list-style-type: none"> ▪ For each of the age range, the scenarios may vary according to the initial criteria selected by the subscriber to the PEPP (ie. guarantee/No Guarantee/basic PEPP). This may mean multiplication of the calculations and documents ▪ Concerning the risk indicator column, we would reinforce the comment already done by IE on the CP – Q6. 	
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			<p>The performance scenarios are developed to give consumers an indication of returns. They do not provide exact outcomes. By attaching probabilities to the scenarios, a potentially misleading semblance of precision is created. Furthermore, consumers may not be familiar with the underlying models and therefore, they cannot assess the meaning of these probabilities.</p> <p><u>Past Performance</u> As a general comment, in line with comments done by IE on the CP – Q6, including 2 tables of scenarios (forward looking and past) might possibly overload the consumer with information obtained from different computation methods that may well confuse the savers.</p> <ul style="list-style-type: none"> ○ Graph in template B does not seem to bring an added value. ○ Table in template A is much more instinctive. However, this table raises the following concerns/questions: <ul style="list-style-type: none"> ▪ The scenarios may vary according to the initial criteria selected by the 	
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			<p>subscriber to the PEPP (ie. guarantee/No Guarantee/basic PEPP). This may mean multiplication of the calculations and documents</p> <ul style="list-style-type: none"> ▪ The table mentions a benchmark and this benchmark is not referred to in the first section, nor any information on this BM is provided anywhere <p>- Section 3: No comments</p> <p>- Section 4: Template B seems clearer for retail investors than template A from a layout point of view. However, both raise the following comments:</p> <ul style="list-style-type: none"> ○ Costs are calculated on an accumulated capital of €10K while this amount is not the referenced one for the performance scenario --> Reference amount should be synchronised across section Ex: if monthly contribution €100 is used for the perf scenario, the same should be used in the costs ○ The costs will be highly dependent on the criteria selected initially (underlying options) 	
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			<p>- Section 5: inconsistency in the minimum age. 18 years is mentioned while all the simulations in the KID are starting at 20. Also, there is a reference to the country of residence which will multiply the number of documents that should be produce by product, with the additional complexity of the local requirements (if any) in terms of minimum duration, minimum/maximum contribution and frequency</p>	
2.		Q2. Do you agree to approach the areas of risk/ rewards, performance and risk mitigation for the PEPP in a holistic manner?	We agree that risks and rewards should be treated in a comprehensive manner, but in our view the term holistic should not be interpreted as requiring stochastic calculations (see answer to question 4).	
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?	Whilst some form of measure of the variability of returns is clearly desirable, the choice of the measure of such variability should be left to the PEPP providers to reflect the structure of the particular PEPP and to prevent overly complex monitoring procedures (see answer to question 4).	
4.		Q4. To ensure consistency in the application and comparability of the information on past performance, performance scenarios, pension	The proposed implementing and monitoring rules in respect of past performance, performance scenarios and projections, risk indicators and risk-mitigation techniques place a heavy emphasis on stochastic modelling and the centralised regulation of assumptions and inputs by EIOPA.	

		<p>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>This approach looks like a first step to the introduction of Solvency II – style calculation requirements for each new PEPP.</p> <p>Whilst we agree that potential investors should be informed in an appropriate manner about risks and expected returns, the requirement to use best estimate scenarios (p. 14 §2 of the consultation document) should not be interpreted as requiring detailed statistical calculations for each PEPP, because the cost of preparing such simulations and the compliance processes necessary may well be prohibitive for product providers and prevent access to the market for a large number of potential players.</p> <p>The same approach of over-engineering applies to modelling in respect of the expected outcome of risk mitigation techniques.</p> <p>EIOPA does recognize the cost impact of this approach (p. 54 of the consultation paper), but dismisses its impact (p. 55)</p> <p>We would therefore recommend policy option 3.2., which is limited to setting out principles and general objectives and avoids the costs involved in implementing and monitoring this fledgling product.</p>	
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5.		<p>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?</p>	<p>No. While we agree that the competent home country NCA needs to receive adequate and meaningful reporting, we do not agree that the same set of detailed information should be provided to host supervisors and EIOPA.</p> <p>As it results clearly from the EU legislative process, a decision was taken to allocate the authorisation and direct supervisory power for PEPPs to the home country NCA. As was broadly discussed during the legislative process, there were good reasons for such allocation of powers - including (but not limited to) a perceived risk of double supervision, which disincentivised potential PEPP providers. Resulting confusion, uncertainty and inconsistencies in case that both NCAs and EIOPA have supervisory powers and the resulting accountable of the PEPP provider to both their home country NCA and EIOPA (and potentially host NCAs). In our view the Level I decision on the competent authority must be respected.</p> <p>We see a risk that an extensive interpretation of EIOPA's competences under Level II may not be aligned with the intentions outlined under Level I of the PEPP Regulation. As a consequence we invite EIOPA to review carefully the list of criteria triggering EIOPA intervention powers.</p>	

			<p>Indeed, some of the criteria listed in section 6 (of which “one or more” are sufficient to allow EIOPA to intervene) should clearly fall within the product supervision powers of the home country NCA (such as, for instance, the use of derivatives, risk profile and risk management, underlying assets, use of terminology, whether the provided information is sufficient to allow savers an informed decision, and many more).</p> <p>Many other of the proposed criteria that would allow EIOPA to intervene are by nature <i>always</i> fulfilled by a PEPP. For instance, <i>every</i> PEPP has, by definition, always a “long-term retirement nature” – meaning that this criterion should not trigger EIOPA to intervene.</p> <p>The same rationale applies to criteria related to PEPP savers: the PEPP is by nature designed for retail clients. The criteria such as skills and abilities, economic situation, financial objectives etc. are covered by the mandatory investment advice which was precisely added to the legislative proposal to ensure retail investors are adequately protected. Hence, these high level criteria should not be relevant to trigger EIOPA intervention powers.</p> <p>If the proposed product intervention powers will result in a second layer of supervision, PEPP providers will not be inclined to offer such a product. This has also been the rationale by EU lawmakers when entrusting NCA’s with the direct</p>	
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			<p>supervision when voting for the PEPP Regulation to be adopted.</p> <p>We want to stress that EIOPA intervention powers are restricted to events or circumstances with a very significant level of gravity. From article 65 (9) PEPP Regulation we understand that such gravity must be equivalent to a “significant PEPP saver protection concern” or a “threat to the orderly functioning of the financial markets or the stability of whole or part of the financial system of the Union”.</p> <p>Clearly EIOPA’s intervention powers are not intended to duplicate the micro-supervision - which is attributed to the home country NCAs - but to ensure consistency in case home country NCAs fail to take action or as a security net in the event that there is a truly serious threat to saver protection or the functioning of financial markets or parts of the Union.</p> <p>Accordingly, we take the view that EIOPA and host country NCAs should not receive the same detailed reporting as the home country NCA does. Instead, a short form / summary reporting to EIOPA which targets the specific aspects which EIOPA needs to monitor should be sufficient.</p>	
<p>6.</p>		<p>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>	<p>ALFI agrees with the comments made by EFAMA.</p>	

		feature, which costs should not be included?		
7.		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?	ALFI agrees with the comments made by EFAMA on these points.	
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?		
9.		Q9. Do you have any other general comments to 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?	We believe that creating a digital environment is crucial to ensure that PEPP becomes and remains an attractive product for future generations.	

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