

Consultation paper on draft Opinion on the supervisory reporting of costs and charges of IORPs

Fields marked with * are mandatory.

Responding to the paper

EIOPA welcomes comments on the draft Opinion on the supervisory reporting of costs and charges of IORPs.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA using the EU Survey tool **by Thursday, 22 July 2021, 23:59 CET** by responding to the questions below.

Contributions not provided using the EU Survey tool or submitted after the deadline will not be processed.

Publication of responses

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

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents [1] and EIOPA's rules on public access to documents[2].

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

Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. They will only be used to request clarifications if necessary on the information supplied. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725[3] on the protection of the individuals with regards to the processing of personal data by the Union institutions and bodies and on the free movement of such data. More information on data protection can be found at <https://eiopa.europa.eu/> under the heading '[Legal notice](#)'.

[1] Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43).

[2] [Public Access to Documents](#)

[3] Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45 /2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39).

About the respondent

* Please indicate the desired disclosure level of the responses you are submitting.

- Public
 Confidential

* Stakeholder name

Actuarial Association of Europe

* Contact person (name and surname)

Monique Schuilenburg

* Contact person email

moniques@actuary.eu

Contact person phone number

0032 2 2016021

Questions to Stakeholders

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

- Yes
 No

Please explain.

There are many hidden costs both from the IORP itself, its outsourcing partners and from the asset managers of the funds they sell or distribute. In the first place the management of the IORP need to be aware of all costs and in the second place transparent and understandable communication on costs to members and beneficiaries of an IORP should be in place.

Implementation of transparent cost reporting will provide different stakeholders with the information regarding value for money assessment and also for efficiency of the cost structure.

Another approach to assess this topic could be a pilot study based on the data that NCAs already receive from the IORPs with additionally requirements formulated by the NCAs and based on their supervisory experience. At this stage we would suggest that in addition to quantitative also qualitative information is collected and analysed.

Q2: Do you agree that Annex 1 provides a balanced view of the costs and benefits of the draft Opinion?

- Yes
 No

Please explain and provide any suggestions.

High-level, scheme specific investment and administrative cost information would be feasible for most schemes to produce, but sponsor related internal costs and transaction costs would sometimes be more difficult to produce, may lead to increased costs to schemes, and be of questionable value as these internal costs are most likely less material.

There could be a distinction between DB and DC schemes and whether the costs are deducted directly from members (thereby reducing member investment outcomes) or payable by another party, such as the employer .

Applying proportionality makes sense and disclosing the AMC/TER for unitised funds is probably as deep a 'look through' as is practical.

We expect that the costs information is available for the providers of Pension Plans since the costs is an essential part of the financial reports of the managing entity. The AAE believes that with a further disclosure of cost structure a process of cost reduction will be initiated. Such cost reduction should balance the costs of collecting/reporting the information. We think that information about costs will likely be more than balanced by potential cost reductions for members of the plan and also will serve the needs of management of the IORP. We would apply proportionality if it is obvious from the start that the additional costs would outweigh the potential cost reductions.

Q3: Do you agree with the generic cost classification distinguishing investment, transaction and administration costs as well as costs borne by the sponsor?

- Yes
 No

Please explain and provide any alternative classification that should be considered.

The section 3.2 in the paper provides very detailed and logical classification of costs. The AAE believes that the suggested costs-classification and the presented reporting templates for the industry would be a good starting point.

We agree that there should be also a distinction between direct investment charges and “bundled” investment/ administration charges, i.e. insured schemes.

What is important is to be able to have a clear view of all the costs paid by the sponsor and paid by the IORP, as long as this information does not generate disproportionate additional costs.

It will sometimes be difficult to identify and collate fees discharged by or incurred by sponsors in operating schemes, and expressing these as a percentage of assets under management . There is also the question of what purpose this will serve in case the fee levels do not impact members’ benefits and one can assume that the employer will always look for the most cost-efficient solutions. So, we would suggest only to do this if it could be argued that lower costs will lead to increased contributions in a DC context or increased benefits in a DB context.

Transparency on the fees could be a lever in order to be able to put pressure to reduce them, and therefore lower costs could possibly lead to an increase in accumulation of contributions in a CD context or increased benefits in a DB context.

As it clearly stated in the paper annual charges of 1% of assets during 40 years of service will reduce pension benefits with 20%. Therefore, the cost transparency is vital for well-being of society in long term perspective. Considering the latest Ageing and Poverty reports the AAE believes that all mechanisms should be used to ensure reasonable pension benefits after retirement.

Q4: In your view, do the definitions in Annex 2 cover the most important items of investment, transaction and administrative costs?

- Yes
- No

Please explain and provide any suggestions for the inclusion of other cost elements not explicitly mentioned in the definition.

The items in Annex 2 provide a rather complete list of cost components, we would like to mention that the relative importance of these components should be analysed further.

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?

- Yes
- No

Please explain.

Costs are to cover expenses so it is good the administrative costs to be reported as nominal amounts per member / beneficiary. That will make possible a comparison with the nominal costs. For investment related cost more important is the reporting as a percentage of Assets under management. Therefore, we consider Table 2 from Annex 2 as a good starting point for reporting. It could be the case that for some of the costs only one of the values is reasonable (nominal amount or relative as a percentage). There will be issues with non-unitised funds (such as legacy with-profit funds or segregated funds) as fees are not expressed as a percentage of assets under management.

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?

- Yes
- No

Please explain and provide any benefits of or obstacles to report costs at the level of pension schemes or investment options.

Reporting the costs at the level of schemes / investment options will give a chance for comparison of charges for servicing between different portfolios. That will give information of the members / beneficiaries that in equal other parameters their benefits differ one by another only due to the investment performance or other specific features of the schemes.

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

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

Please explain.

We agree with the principles of reporting currency and proportionality, leaving the others open to the requested methodological discussion.

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?

- Yes
- No

Please explain and describe any limitations observed with MiFID II disclosure requirements in practice.

In some countries the investment of IORPs is mainly in assets which are not generally subject to MiFID II regulation. In such cases data according to MIFID II requirements are not or not easily available right now. Reporting according to the MIFID II logic would require new processes in such countries.

Q9: Are you aware of other cost classifications used by IORPs to collect information on costs and charges from portfolio managers and transaction counterparts?

- Yes
- No

If yes, please describe and explain these other cost classifications.

Sometimes IORPs manage their own costs (but not necessarily all costs) and have their own schemes already in place.

Q10: Does in your view the investment cost template in Annex 3 facilitate the collection of costs by IORPs from portfolio managers?

- Yes
- No

Do you agree that the more detailed breakdown of costs enhances the understanding of IORPs in the underlying investment cost structure?

- Yes
- No

Please explain and provide any suggestions to enhance the practicality and insightfulness of the template.

In a first phase it would be useful to see what level of details of costs can be collected and afterwards assess those that must be collected and those that do not need to be collected or can only be collected in an aggregate way.

The level of detail required under “Transaction costs” would be very difficult for Trustees to obtain, whether this refers to implicit or explicit transaction costs.

For “implicit” transaction costs, the vast majority of Irish pension schemes would invest in a collective investment vehicle, rather than a segregated mandate. In a collective investment vehicle, implicit transaction costs are extremely difficult to obtain at a scheme level and investment managers typically do not provide this information. An estimate of transaction costs in the total fund over the course of the year might be the best Trustees can expect to obtain from an investment manager.

For “explicit” transaction costs, this would also be very difficult to obtain. Collective investment funds are typically priced in a variety of ways – single daily swinging price, single price with irregular pricing changes, explicit bid / offer spreads etc. Obtaining this information over the course of a year would be a very onerous task for investment managers, in particular for a DC scheme with potentially hundreds of transactions over a year.

We consider also that a transparency implies lower costs due to competition.

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?

- Yes
- No

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.

Proportionality should also be considered in the frequency of returns as well as the nature of the data to be submitted.

It will be necessary to provide members / beneficiaries with clear and simple explanations on the details of the costs so that the information to be useful but not to be confusing.

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?

- Yes
- No

Please explain and provide any suggestions for such analysis.

Of course, a comparative analysis should be made by supervisors. Take in mind that it is important not only to look at the level of costs, but also at the risks taken, the expected rate of return and the level of service that has been or will be given. One cannot only compare the percentages, basis points or the amount of costs in Euros without taking into account these observations.

In the context of non-insured schemes, comparability will be an issue as every scheme is different in terms of complexity and servicing needs, i.e. multi-category, multi-payroll, frequency and duration of trustee meetings, supplementary services, etc.

Q13: Do you agree that supervisors should be encouraged to publish aggregated cost levels and the results of the comparative cost analyses?

- Yes
- No

Do you agree that supervisors should encourage IORPs to publicly disclose their cost levels?

- Yes
- No

Please explain.

The question we have to ask ourselves upfront is: how does public disclosure of these numbers add to the benefit of members? If publication adds value to the members than this is okay. In some cases publication of the absolute amount of charges and fees could confused the members. Information provided on relative base could be more beneficial – charges on the base of contributions or AuM. In some countries the maximum allowed fees and charges are stipulated by the law

* Q14: Do you have any other comments on the draft Opinion?

- Yes
- No

If yes, please provide these other comments.

Cost disclosure is not only a matter of getting these numbers from pension providers. Pension providers often have investment managers that they work with. Introducing cost disclosure means that these investment managers have to be able and willing to provide these numbers. It should be noted that in some cases the investment managers are not always based in the EU and therefore have no direct link to EU-regulation. It would also depend on the scale of business. For example in the NL they first had such experience with one of the most powerful in the world - the Black Rock's, that most IORPs found it difficult to get required information. Finally, due to the power of very large IORPs this has changed and will hopefully not be a problem in the future.

Investment managers should also be required to provide this information in a standardized (machine readable) format, so that the pension provider can more easily collate and compare returns from different investment managers.

A significant amount of the investment and transaction reporting would fall on asset managers to produce. Given this additional reporting burden for them, if this charge is passed on it could lead to increased costs for pension schemes, which is the opposite intention of the consultation. It may also act to deter overseas asset manager from entering the European market and making funds available to local institutional investors, and thus reducing competition in this sector and again being counter-productive to the aim of the consultation.

The European Actuarial Association considers as important initiative to gather cost information because "only what is measured can be managed". In some cases, if a full and detailed costs report is not feasible, it is worth at least to do an audit on costs. This will generate useful management information on the basis of which the management of the IORP will get either comfort or a trigger to start discussions with their providers. Of course we need to apply proportionality in situation where it is obvious that the costs will be (much) higher than the potential gain.

Contact

[Contact Form](#)