

Cologne, 21.07.2021

## **Comments of the German Association of Actuaries (DAV) on EIOPA's Consultation Paper on Draft Opinion on the supervisory reporting of costs and charges of IORPs**

### *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.*

We do agree that especially in the current low yield environment costs are an important topic for the efficiency of the pension market overall. Still, we do have some doubts whether the implementation of a cost reporting for supervisory purposes as outlined in this draft opinion is the best suited tool to reach the goals mentioned (cost efficiency, value for money) considering complexity and required resources.

Before giving arguments for our opinion, we would like to suggest that EIOPA considers a different approach: This approach would start with a pilot study that could be based on the data that CAs already receive from the IORPs with additionally requirements formulated by the CAs and based on their supervisory experience. At this stage we would explicitly suggest that not only quantitative but also qualitative information is collected and analyzed.

We base our approach on practical as well as general arguments with obvious considerations about the German IORP market:

1. In general German IORPs will not have the cost information according to the MiFID II logic: German IORPs invest in general either directly (assets directly held on the balance sheet of the IORP, usually larger IORPs, to a large extent fixed Income instruments) or use Kapitalverwaltungsgesellschaften (KVG) offering Spezialfonds (a specific German form of an AIF for institutional investors), which are in general not subject to regulation stemming from MiFID II. As pointed out in Q1 we doubt that the data for Spezialfonds according to MiFID II requirements are in general available or retrievable right now. Reporting according to the MiFID II is therefore to a large extent just not possible in the moment. The first supervisory reporting according to the

suggested methodology would only be possible after an implementation period (at the KVG and IORP) and then a data observation period – we would guess that not considering any cost issues this would need quite some time of preparations.

2. While transparency and comparability with regards to costs definitely can help to find inefficiencies and improve value for money, it is only helpful for the supervisor / CA and an IORP if the peer group of comparable IORPs is large enough – otherwise it is comparing apples with oranges. We doubt that similar size of IORPs (e.g. measured by AuM) is a sufficient criterion for comparability (compare Q5) and think that the kind of scheme (DB, collectiveDC, DC, ...) already within countries and different formats between countries lead to a larger number of smaller peer groups. Likewise, we think that different pension products (in different countries) can probably lead to inefficiencies in different steps of the value chain. Therefore we strongly advocate to review the efficiency of the suggested methodology, which at least in Germany cannot be implemented without costs and preparation time.

Final remark: In our view in the present draft opinion the high level objective to get better information on costs is already strongly associated with a preference of EIOPA for a methodology. As pointed out before we would like to ask EIOPA to consider a different approach. Likewise, the answers to some questions have to be read in this context: We understand the objective, but see the need for a discussion on the methodology. This will repeatedly be mentioned.

*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.*

Obviously the overview of the three options provided in Annex 1 is formally correct. Concerning the question whether it is a balanced view we refer to our answer to Q1 and think this decision should be taken on the results of a pilot study.

*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.*

We can agree with the generic cost classification, however existing classifications used by IORPs for internal, external and regulatory reporting as well as internal processes (e.g. risk management) should be considered.

Just one exception: IORPs in general do not have any information of costs borne by the sponsor.

*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, again we would like to mention that according to our opinion the relative importance of these components should be analyzed.

*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.*

We do not believe that these highly aggregated numbers are interpretable as they only refer to the benchmark value AuM, which should in our view not be the only criterion for comparability of IORPs.

*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.*

We agree with the understanding that this refers to the situation where the beneficiaries can choose between schemes, something that is in practice not relevant for German IORPs.

*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 type="checkbox"/>
matching	<input type="checkbox"/>	<input type="checkbox"/>
taxation	<input type="checkbox"/>	<input type="checkbox"/>
reporting currency	<input checked="" type="checkbox"/>	<input type="checkbox"/>
estimations	<input type="checkbox"/>	<input type="checkbox"/>
proportionality	<input checked="" type="checkbox"/>	<input type="checkbox"/>

*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.*

As pointed out German IORPs invest in general either directly (assets directly held on the balance sheet of the IORP, usually larger IORPS, to a large extend fixed Income instruments) or use Kapitalverwaltungsgesellschaften (KVG) offering Spezialfonds (a specific German form of an AIF for institutional investors), which are in general not subject to regulation stemming from MiFID II. As pointed out in Q1 we doubt that the data for Spezialfonds according to

MiFID II requirements are in general available or retrievable right now. Reporting according to the MiFID II logic would require new processes at the KVG, new reporting to the IORP and an additional layer of reporting for the IORP or the change of existing internal processes. The cost of implementation should be part of a pilot study.

*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.*

While we are not aware of any general accepted cost classification scheme, obviously IORPs do manage their costs and will have their schemes in place. Again, a pilot study could help to identify best practice solutions.

*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.*

We do expect that IORPs already have processes concerning cost management in place that suit their needs. While improvements are always possible we do not think that the topics of templates provided are new to IORPs.

*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:*

<input checked="" type="checkbox"/>	reduced scope of costs reporting (e.g. only investment, transaction, administrative costs)
<input checked="" type="checkbox"/>	lower frequency of reporting
<input checked="" type="checkbox"/>	full exemption for certain DB IORPs
<input checked="" type="checkbox"/>	other

*Please explain.*

Given the low interest rate environment and very often quite ambitious return targets to meet the DB obligations, we would expect that the cost sensitivity in DB schemes is quite high, giving room for reduced reporting requirements.

*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.*

*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.*

Supervisors / IORPs should directly communicate with each other to discuss inefficiencies based on the (cost) data available to the supervisor. Corporates / Sponsors looking for an IORP usually use RfPs and consultants to choose a partner. Usually costs are an integral part the analyses of the offerings in a very tight market.

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

Yes

No

*If yes, please provide these other comments.*