

**Comments Template for
Discussion paper on a possible EU-single market for personal pension
products**

**Deadline
16 August 2013
18:00 CET**

Name of Company:	Investment Management Association	
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<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ <u>Do not change the numbering</u> in the column "question"; if you change numbering, your comments cannot be processed by our IT tool. ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <ul style="list-style-type: none"> ○ If your comment refers to multiple questions, please insert your comment at the first relevant question and mention in your comment to which other questions this also applies. ○ If your comment refers to parts of a question, please indicate this in the comment itself. <p style="text-align: center;">Please send the completed template, <u>in Word Format</u>, to personalpensions@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.</p>		

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Question	Comment
General Comment	<p>The IMA represents the asset management industry operating in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the in-house managers of occupational pension schemes. They are responsible for the management of around £4.5 trillion of assets in the UK on behalf of domestic and overseas investors.</p> <p>We welcome the opportunity to contribute to the debate over the development of a European personal pension product, and are supportive of initiatives aimed at exploring the possibilities in this area, such as the OCERP concept from EFAMA. It is important for Governments, regulators and industry collectively to consider how best to help individuals across the EU save adequately for retirement. Funded arrangements in various forms will be an important component of future pension provision in European states, and must be delivered in a way that inspires confidence both about levels of quality and value for money.</p> <p>We believe that there are three critical issues to consider in the current debate:</p> <p>1. How to achieve product demand and deliver desired benefits?</p> <p>The IMA does not have the evidence to judge the extent to which a European personal pension product would find a market across the EU. We would be interested to see clearer analysis on this point as part of the policy process, and believe it is important to answer the demand side question as a pre-requisite for moving forward.</p> <p>In this context, we would offer a general observation about the desire for “efficiency gains through scale economies, risk diversification and innovation” referenced both in the European Commission White Paper and the EIOPA discussion paper (p.4). We recognise the potential for scale gains and innovation in pension scheme administration. Equally, access to scale, innovation and risk diversification are very clear features of the underlying investment vehicles which sit at</p>

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the heart of the pension arrangement (defined in the accumulation phase as a combination of account administration and investment overlaid by a tax regime).

It should therefore not be assumed that a European pension product is the only way to fulfil efficiency goals. It is perfectly possible to pursue an alternative or additional approach which would see greater use of pan-European investment vehicles accessible within multiple national markets by national pension products or schemes.

2. What are the key obstacles to developing such a product?

To the extent that national governments widely use specific tax arrangements to influence individual pension saving behaviour, a significant challenge lies in devising a European personal pensions regime that would be acceptable to the fiscal authorities across the EU member states. In our view, the key issues are identified in the EIOPA Discussion paper, but the paper also underlines how difficult it may be to achieve agreement in this area.

3. In consumer disclosure and protection terms, what distinguishes a ‘personal pension’ from other funded pension arrangements offered either as part of compulsory or voluntary national regimes?

Clearly, DB and variants such as CDC, often have very specific characteristics. However, the distinction in reality between pure DC funded arrangements (eg. Pillar 1 bis, Pillar 2 occupational and Pillar 3 personal) lies often in governance and distribution arrangements. Fundamentally, the pension arrangements themselves may not look very different from one another.

From a disclosure perspective, therefore, individuals will have a number of fundamentally similar needs, notably access to consistent, meaningful and complete information about :

- (1) the nature of the product (including the investment approach);
- (2) the charges and costs;

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	<p>(3) the risks; (4) the performance; (5) the range of possible outcomes at the end of the accumulation phase (including the connection between investment outcomes and retirement income).</p> <p>In consequence, considering a KID for a personal pension separate from a KID for an IORP or a KID for other pension arrangements would risk a lack of coherence. Equally, given the current PRIPs debate, there also needs to be a read-across to this area of regulatory activity.</p> <p>That said, we fully recognize two points. First, a pension product is different in nature to an investment vehicle, and there is therefore no automatic read-across from the UCITS KIID. Second, the European pensions landscape is highly diverse and a single form of disclosure document could be extremely challenging to develop, and potentially constraining in its application to highly diverse national markets.</p>	
Q1	Agreed, but to the extent that multiple investment options are also an acknowledged feature (footnote 9), this should perhaps be mentioned directly in 3.1.3. This is also one element in the OECD Roadmap for the Good Design of DC Pension Plans, although we appreciate that the question here is more about the current state of the market.	
Q2	The nature of what EIOPA and the European Commission are trying to achieve partly determines the answer. It would be useful to clarify what is the market here: who is the target client base? If this is a product intended to be sold to those who are mobile, cross-border employees, or the self-employed, then a focus on DC may be more appropriate. DC is both the current direction of travel internationally and easier to port between employers and probably between jurisdictions (subject to a caveat about tax regimes – see answer to Q11).	
Q3	There needs to be consistency between existing requirements for pension arrangements and future requirements affecting a specifically European product.	

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Q4	As we point out in our general comments, there is clearly scope for economies of scale in certain areas, while recognising that economies of scale in investment can also be achieved at the level of the underlying investment vehicle(s) via national product regimes. For a cross-border labour force, there are obvious advantages relating to improved portability.	
Q5	Referencing mandatory as well as voluntary pension plans, and employer as well as individual contributions, the OECD definition reflects a frequent similarity between funded arrangements in the first, second and third pillars. This reinforces the need to avoid 'silo thinking' about the regulation of different areas of the pensions market, particularly in consumer disclosure. For its part, the EIOPA definition also includes arrangements in all three pillars, which underlines the same point. We do not have a strong preference between a minimalist and maximalist definition.	
Q6	Yes, based on UK experience. However, the governance and distribution arrangements are different and this does have implications: for example, where there is an investment adviser working with an individual who has been advised both to buy a pension product and make a specific investment choice, what requirement for a default option (if any) should there be?	
Q7	It is not clear how this would work.	
Q8	Transferability raises different issues if it is happening <u>within</u> a national jurisdiction or <u>between</u> national jurisdictions. Assuming the point of an EU single market for personal pensions is to facilitate transferability between jurisdictions, the most significant questions to consider are the tax implications.	
Q9	Depending on the nature of national pension requirements, and the product on offer, prudential requirements will vary; an obvious example being that a UCITS does not require capital backing in the same way as an annuity product.	

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Q10	To the extent that it is possible to develop a prudential regime for cross-border products, there is no fundamental reason why this could not extend to guarantees.	
Q11	We do not have specific expertise in the area of tax and cross-border pension provision, but it is clear that there are a range of major potential obstacles and inconsistencies. The EIOPA paper well outlines the key issues in this area, including unanimity requirements for harmonisation.	
Q12	See answer to Q11.	
Q13	See answer to Q11.	
Q14	See answer to Q11.	
Q15	See answer to Q11.	
Q16	In our view, this question does not just apply to Pillar 1 bis. It has to be considered in the context of the broader issue of what form of EU single market for pension products there should be. As we note above, in some jurisdictions there may be little fundamental difference in underlying product between Pillar 1 bis and those available in Pillars 2 and 3. In others, there may be specific requirements, such as guarantees. It is likely to be easier to operate a European personal pension regime for products that are not subject to national requirements.	
Q17	As per our answer to Q7, it is not clear how this could work.	
Q18	See answer to Q16.	
Q19	We do not have expertise in this area.	
Q20	There is no obvious answer to this question. Both approaches have pros and cons, which are well	

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	set out in the discussion paper. Both also have to face the fundamental challenge of tax obstacles, which in our view constitute the most critical issue to overcome.	
Q21	We do not believe that a 2 nd regime should set standards that exceed those that currently exist in the pensions market. Instead, the design of a 2 nd regime should be developed in parallel with thinking to ensure the highest standards of delivery to consumers via relevant legislation (eg. IORP, IMD, MiFID, PRIPs, UCITS).	
Q22	It is not clear how a 2 nd regime would easily be able to resolve the tax issues.	
Q23	EFAMA has produced a paper on the OCERP concept, outlining a number of key features in this area. We believe that this is a very helpful contribution to the debate.	
Q24	It may be more straightforward to focus on pure DC arrangements.	
Q25	Capital required should be connected to the risks being backed by the provider. As we point out in our answer to Q9, these vary widely.	
Q26	<p>From a disclosure perspective, individuals will have a number of fundamentally similar needs in DC arrangements, whether via an IORP or PPP. These are access to consistent, meaningful and complete information about:</p> <ul style="list-style-type: none"> (1) the nature and identity of the product (including the investment approach); (2) the charges and costs; (3) the risks; (4) the performance; (5) the range of possible outcomes at the end of the accumulation phase (including the connection between investment outcomes and retirement income). 	

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The issue over outcomes reminds us that pensions are fundamentally different to a conventional long-term savings or investment product in that they are designed to be used to generate an income in retirement. UK annual statements currently include projections (Statutory Money Purchase Illustration - SMPI) that provide a real-terms indication of likely income. Such projections can be problematic given the reality that different variables (eg. investment returns, annuity rates) create considerable uncertainty about the precise outcome.

The IMA believes that more work is needed in this area to consider how to communicate better about the range of possible outcomes, possibly moving away from deterministic investment return projections towards some use of stochastic models. However, this in turn raises a range of methodological and communication challenges.

The issue of likely outcome links to the question of information about the connection between contribution levels and final outcomes. Under-saving is one of the greatest threats to retirement income adequacy and there is clear evidence from the UK that the contribution rates in DC schemes are substantially lower than those seen in DB. This in part helps to bolster the perception that DC is 'second-best' to DB given far lower expected payouts from DC than DB.

Policymakers will need to consider to what extent information to help individuals make the right decisions about contributions is embedded into standard disclosure documents or sits alongside as part of schemes' wider communication tools.

Q27

We answer Q27-Q28 together. At a conceptual level, we strongly support the suggestion that a KID should be available for all long-term investment products. In the pensions environment that coverage should extend across both the IORP and potential European PPP regimes.

The precise content of a pre-contractual document is, however, something that needs very careful consideration. Some elements should be considered fundamental ('must know'). We would argue that these would include :

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- (1) the nature and identity of the product (including investment approach);
- (2) the charges and costs;
- (3) the risks;
- (4) past performance information

However, it is important to recognize the distinction between a personal pension and an investment or life fund. A personal pension is essentially an administrative and tax ‘wrapper’ designed to hold underlying investments. An individual could therefore purchase a pension product which provides the option to invest in a number of underlying investment funds, each with their own KIID. The ‘top-level’ KID would need to reflect the investment choice(s) made by the individual. There are also national variants to consider, such as the UK automatic enrolment programme which is not a conventional sales process and disclosure requirements would need to be appropriately adapted.

Beyond the ‘must know’ in the pre-contractual phase lie several ‘should know’ elements related to potential outcomes, including the connection between a given level of contribution and an expected outcome, both in terms of the final size of investment pot and the likely retirement income. This connects to the issue in Q29 of adequacy (“will my pension be sufficient for my needs?”).

These elements could be difficult to capture in a single KID document that has mandatory application in terms of format across Europe. Not only do different jurisdictions have different requirements during the accumulation phase (eg. guarantees), but the payout phase is also governed by different rules (eg. whether annuitisation is mandatory or not). Such information may better be contained in annual statements.

This complicates the discussion about a European PPP in two ways. Firstly, even at national level, it could be difficult to capture different information sets. Second, if this is a cross-border product where retirement income could be taken in a different country to the accumulation phase, then the challenges multiply significantly.

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Q28	See answer to Q27.	
Q29	To the extent that we are talking about similar kinds of scheme (eg. pure DC), the questions will be very similar and certainly include the one posed by EIOPA in its text here. Clearly, for DB schemes, the questions are different since the way in which investment choice, investment risk and charges arise tends to be different.	
Q30	<p>Yes, in principle. The behavioural purpose is important since it links to the broader – thus far unanswered - question about how a European PPP would be distributed and purchased.</p> <p>Our view about purpose is as follows :</p> <ol style="list-style-type: none"> 1. Where consumers are members of a scheme in which they bear investment risk and pay charges, there is a part of the information set that should be required irrespective of the governance or distribution structure. These are the ‘must know’ categories we identify in our answer to Q27 (nature of product, charges and costs, risks, past performance) 2. A central purpose of this (‘must know’) information is to ensure that consumers have consistency and ease of understanding, combined with a means for comparability if needed. Inter alia, this should help to avoid a challenge that the investment and long-term savings industry has experienced in the UK whereby inconsistency both of charge calculation and presentation has led to accusations that consumers are being only partially informed, or worse, misled. The behavioural impact may then be more indirect than direct in the sense that such consistency helps to build confidence in the industry and hence boosts long-term savings levels to the benefit of savers, the broader economy and the industry itself. 3. For the purposes of influencing specific aspects of behaviour, particularly around levels of contribution and investment choice (where consumers wish to choose), there will be limitations 	

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	to what a KID can achieve. As we point out above, consideration needs to be given to the spread of information between the KID, the annual statement and other approaches such as online tools. Beyond that, the question of advice (or workplace scheme governance in Pillar 2 arrangements) is also highly relevant for individuals who may be poorly equipped to make such important decisions for their future welfare.	
Q31	<p>This is an extremely challenging area, where we are aware of the issues but at this stage do not have clear answers to contribute to the debate.</p> <p>The SRRI within the existing KIID already has significant shortcomings in our view (see http://www.cass.city.ac.uk/_data/assets/pdf_file/0017/32525/risk-rating-comp.pdf), which could be compounded if this measure is then used unaltered for savings horizons of several decades.</p> <p>An additional issue is the fact that asset allocation in a DC scheme is highly unlikely to remain unaltered over the accumulation phase. Best practice at the moment dictates a de-risking glide path to retirement, notably where annuitisation is the goal. Therefore, the question arises as to how to capture the behaviour of a dynamic strategy in a pre-contractual disclosure document.</p>	
Q32	The investment horizon clearly has to play a part. See answer to Q31.	
Q33	We believe the charges and costs information available in the UCITS KIID is the right information to be made available on a pre-contractual basis and would provide a robust basis on which to build the relevant section of the KIID-/KID-like document for pension schemes. Providing information to citizens on an 'as consistent as possible' basis across the spectrum of savings and retirement products will serve to aid understanding and enhance trust. The UCITS KIID makes use of an 'ongoing charges' figure which is required to be calculated on a factual ex-post basis but must be adjusted to ensure it remains a reliable ex-ante indicator. We strongly believe this is the right approach to take.	

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In addition, we believe product providers should be accountable to clients for the historical charges and costs incurred. The IMA has recently issued proposals that seek to enhance reporting granularity via the fund annual report and accounts. In this area, we have responsibility for the UK fund Statement of Recommended Practice (SORP) under the supervision of the Financial Reporting Council. For more information, see:

<http://www.investmentuk.org/policy-and-publications/sorp-2013/>

At a conceptual level, we make a distinction between charges (as defined in European regulation and disclosed in the UCITS KIID) and transaction costs. Charges are essentially levied for managing and operating the fund. They are reasonably predictable and consumers will have a clear idea of what they can expect to pay for the service. Transaction costs are not a payment to fund managers and are incurred in the context of executing a given investment strategy. They may vary widely on a temporal basis, as well as across asset classes and geographies.

While we believe that transparency of both charges and transaction costs is essential, we do not accept that adding the two together to give an indication of what a consumer could expect to pay in a fund is helpful. From a behavioural perspective, comparison is arguably hindered since transaction costs need to be judged in the context of performance. In addition, funds investing in different asset classes encounter different kinds of transaction cost, further complicating comparisons at this level.

Our proposals on ex-post reporting would allow consumers to see in the context of performance per unit both fund charges paid by unitholders and transaction costs incurred by funds. Theoretically, the two could be added together to get a sense of total charges and costs experienced to attain that performance via a fund. However, this is very different to an ex ante single percentage, which we opposed for reasons given above.

It is important that the total cost of investment is also complemented by consistent metrics to capture the overall cost of the product (ie. administration and, where applicable, advice). We

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	therefore encourage EIOPA and the European Commission to prioritise consistency in the methodologies and disclosure of charges and costs in long-term savings and investment products.	
Q34	<p>As we comment in our answer to Q26, UK annual pension statements already carry projections of both final investment value and likely annual income in real terms (SMPI). However, further work is needed as to how these can be improved. Anecdotal evidence also suggests that consumers are not responsive to detailed documentation, and there needs to be a focus on simple, accessible information.</p> <p>However, the answer on understanding risks and performance only partly lies in regulated documentation. There will be a role for providers themselves as well as independent agencies such as The Pensions Advisory Service (TPAS). Rather than seeking to develop a single approach at a given time for what is a very difficult area, it may be more appropriate to establish mechanisms for the exchange of best practice.</p> <p>For its part, the pensions industry is already starting to develop a more sophisticated way of communicating with scheme members who carry investment risk in DC schemes. By sophisticated, we do not mean 'complicated', but a form of communication that allows scheme members better to plan for retirement in the context of understanding the risks to desired outcomes and how they may be mitigated. Some of this is happening in the context of workplace schemes, but it could equally apply to the personal pensions market.</p>	
Q35	<p>There is no single answer here and elements have already been discussed in Q27-Q34. However, we would encourage national governments and European authorities to think about this issue holistically and ambitiously for the longer term. Both workplace and individual pensions are a complement to Pillar 1 state provision. It is difficult to target a replacement rate or income within a voluntary pension without taking account of the likely core state pension entitlement. Mechanisms for individuals to see all their entitlements in one place would be of great benefit, despite the logistical challenges involved.</p>	

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Q36	The direction of travel is clear, as with other forms of communication: the future is likely to be digital. However, in the interim, many consumers may still prefer paper copies of material and should have the right to receive information in this form.	
Q37	Given the diversity of pension products in the European market, there is an argument for a modular approach whereby a core set of comparable 'must know' information is included in a standard format, but with discretion allowed for providers to determine the wider shape of the document. Set against that is the need to ensure that consumers have accessible, concise information, which drove the direction of travel for the KIID whose format is wholly prescribed.	
Q38	-	
Q39	The key sources, notably the UCITS KIID (subject to key differences in the nature of products) are already referenced by EIOPA.	
Q40	Ongoing information should include fund value, charges and costs and projections.	
Q41	'Must know' is as Q40 (fund value, charges and costs and projections). With respect to projections, providers may develop ways to help individuals plan for appropriate contribution levels etc., which is something to be encouraged.	
Q42	See answer to Q34.	
Q43	Switching of product (or funds) should be considered separate to termination in that the end of the accumulation period will entail a choice set for retirement income that is very distinct.	
Q44	See answer to Q37. In an ideal world, information across all pillars could be brought together to help people understand their overall retirement provision / entitlement. Construction is possible	

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	without the need for significant data warehousing or composite databases. For example, information could be pulled through in real time from different providers into a single 'virtual statement' at a given moment, with ultimate control of data always remaining decentralised. However, the technical and practical challenges currently existing at a national level may be overlaid by additional complexity if such a data service was operating at a cross-border level.	
Q45	-	
Q46	See answer to Q37.	
Q47	See answer to Q36.	
Q48	This depends on what is mandatory as opposed to consumer-driven. Many UK providers allow continuous access to account information, with a regulatory requirement to produce an annual statement, including an SMPI.	
Q49	-	
Q50	-	
Q51	-	
Q52	<p>See also answer to Q43. This is an extremely important area. Retirement income decisions are challenging and potentially irreversible. Additional information is essential.</p> <p>In the UK, there are mechanisms in the contract-based market operating under guidance from the Association of British Insurers (eg. https://www.abi.org.uk/News/News-releases/2009/12/ABI-guide-sets-new-standards-for-preretirement-wakeup-packs).</p> <p>However, much will depend upon the rules governing the payout phase (eg. is there flexibility on whether and when to annuitise?).</p>	
Q53	-	

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Q54	The answer depends on what form the payout phase takes. Arguably, where an annuity is a level annuity paid for life, the level of information required during the payout phase is relatively low. Where an investment-linked annuity or a form of income drawdown product is used, then information requirements are far greater.	
Q55	-	
Q56	PPP investors should benefit from investor protection measures equivalent to those set out in existing directives (MiFID (2004/39/EC) and the IMD (2009/92/EC)), including suitability assessments where the client receives advice relating to the purchase of a PPP.	
Q57	It is preferable to have consistency in the application of consumer protection and conflicts of interest requirements across different investment products, including PPPs. In this context, alignment of these requirements across MiFID II and IMD II and the inclusion of PPPs is desirable.	
Q58	The existing requirements in MiFID and the IMD should be harmonised as far as possible so that those involved in selling PPPs are subject to equivalent standards.	
Q59	Given that choosing a PPP will often be the most significant investment decision a consumer will make, a requirement to assess suitability before providing advice to a client is sensible.	
Q60	See answer to Q57.	
Q61	The requirements that apply to MiFID business should apply in respect of PPPs, for example: details of the firm; its regulator; fair, clear and not misleading requirements relating to any promotional material or other client communications. In addition, the cost of any advice (or other charges levied as part of the distribution process, eg. platform charges) should be clearly disclosed.	
Q62	MiFID requirements relating to firms having effective and transparent procedures for the handling	

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	of complaints should apply.	
Q63	MiFID provides a useful source of inspiration for these requirements.	
Q64	Harmonised standards for professional requirements could be developed for individuals engaged in the activity of advising clients on the purchase of a PPP, in which case alignment with provisions in IMD II would seem sensible. However, from this flows the question of whether to ensure consistency in professional requirements across a wider range of different product sets. This is a debate with significant ramifications that needs to be undertaken in a holistic way and cannot be resolved solely in the context of the PPP.	
Q65	See answer to Q64.	
Q66	See answer to Q64.	
Q67	See answer to Q64.	
Q68	Product regulation at some level would appear to be necessary to create a passporting regime that would be acceptable to Host States. But a minimum harmonisation regime covering all existing PPP products might be a step too far, so a product regime with passporting rights attached as an alternative to existing national regimes would seem to be a more realistic objective.	
Q69	The criteria necessary to meet the requirements of any new EU PPP regime would have to be made clear before the industry would be in a position to consider launching new products or adapting existing ones. The key impediment to creating critical mass around a new EU PPP market will be, as stated before, tax treatment of cross-border products. Without movement on tax issues, it is difficult to see how a cross-border business in PPPs could develop.	

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Q70	See answer to Q68.	
Q71	EU PPPs would have to be authorised as products by Home State competent authorities and these authorities should have powers to supervise the product providers, including withdrawing authorisation/banning if good consumer outcomes are threatened.	