

Impact assessment

Opinion on the supervisory reporting of costs
and charges of IORPs

Policy Department
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1. ANALYSIS OF COSTS AND BENEFITS

1.1. Procedure and consultation of stakeholders

According to Article 29 of Regulation (EU) No 1094/2010, EIOPA should, where appropriate, analyse the potential costs and benefits relating to opinions provided to CAs, proportionate to their scope, nature and impact.

In developing the opinion, EIOPA analysed current supervisory practices at national level through a survey completed by CAs and engaged with stakeholders including the Occupational Pensions Stakeholder Group, most notably through a workshop held on 15 January 2021.

A draft opinion and its draft costs and benefit analysis have been subject to a public consultation, in line with Article 29 of Regulation (EU) No 1094/2010.

The analysis of costs and benefits is undertaken according to EIOPA's Impact Assessment methodology.

1.2. Problem definition

When analysing the impact from proposed policies, the impact assessment methodology foresees that a baseline scenario is applied as the basis for comparing policy options. This helps to identify the incremental impact of each policy option considered. The aim of the baseline scenario is to explain how the current situation would evolve without additional supervisory intervention.

For the analysis of the potential related costs and benefits of the proposed Opinion, EIOPA has applied as a baseline scenario the current state of play, where most CAs collect cost data based on IORP expenses disclosed in annual accounts, and only in a few Member States, CAs collect in addition comprehensive IORP cost data based on a look-through approach.

Unlike the investment fund sector, where international market standards on the calculation of costs have been developed, IORPs have faced lower market incentives¹ to develop national and international standards on costs that follow a look-through approach.

The impact of costs can be very significant. Pension pots can end up much smaller than expected because investments carried higher costs than anticipated. The findings of the AFM report on 'Cost

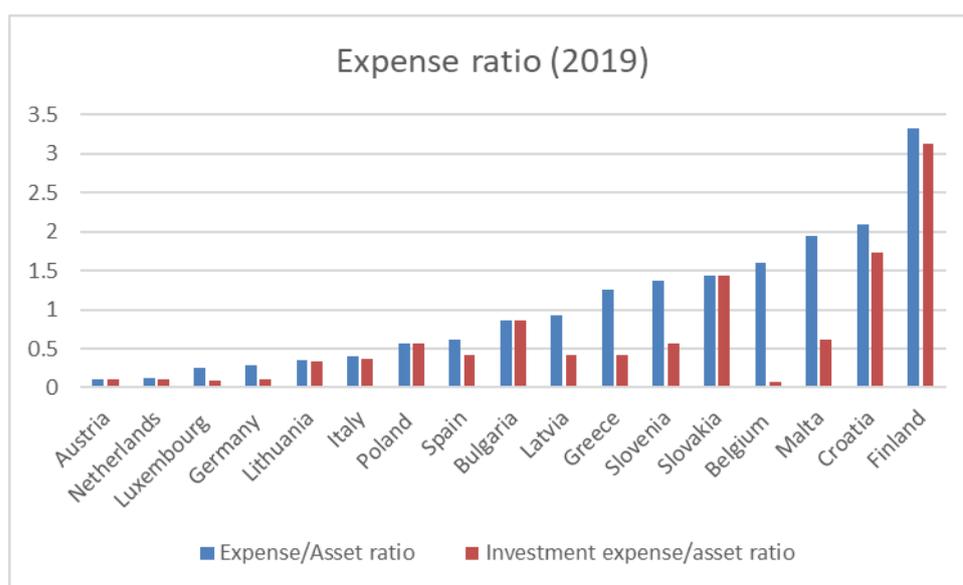
¹ Unlike pension schemes, mutual funds are targeted to both institutional and retail investors.

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of pension funds needs more attention’, published in April 2011, show that costs overly influence retirement pensions.

Based on EIOPA 2019 occupational pensions statistics², which differentiate expenses by categories of “investment” or “other”, the expense ratio of occupational pension sectors, which is calculated as the ratio of investment and other expenses over assets, shows that the total expense ratio is very diverse across Member States (see Chart 1 below).

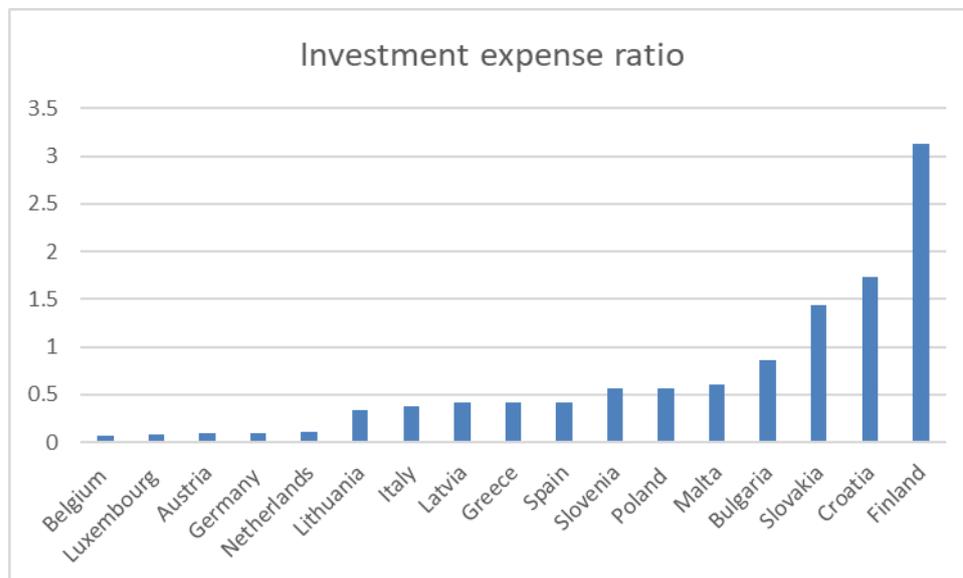
Chart 1: Expense and investment expense ratios, % assets



In particular when looking at the investment expenses ratio (see Chart 2 below), significantly more investment expenses are incurred to manage assets in FI, HR, SK, BG, MT, PL and SI. In contrast, the occupational pension sector in DE, BE, LU, AT and NL seem more efficient. The differences across countries might reflect different asset allocations and types of schemes, but it might also reflect different levels of efficiency of IORPs. However, it is not clear whether the reported data include both direct and indirect expenses, and therefore the assessment of cost levels based on the statistical data is limited.

² Data available at: https://www.eiopa.europa.eu/tools-and-data/occupational-pensions-statistics_en#AboutOccupationalPensionsStatistics

Chart 2: Investment expense ratio, % assets



Without transparent cost data, it is not possible to assess how well different IORPs are performing in practice. In order to ensure comparability of IORPs, cost information should be consistent, and include all costs in the value chain that are reducing a gross return or the asset value, as any fees or charges deducted from investment portfolios ultimately come out of members’ contracts.

However, currently most CAs do not collect granular cost data. In 2020, EIOPA carried out a survey to map the instruments used by CAs to collect information related to IORPs costs. The results (see Annex) show that cost disclosure is not effective and comparable across the EEA. Most CAs receive IORP costs information as part of the annual accounts, which follow national accounting rules. It is assumed that only IORPs’ direct expenses need to be identified as expenses in the annual accounts. Costs charged directly to an investment fund by asset managers (thus not charged to the pension fund) and transaction costs fall under indirect investment revenues. Such costs are not paid directly by the IORP but have always been charged to an invested fund, and effectively reduce the returns achieved by that fund. As a result a look-through approach is commonly not possible. In addition, according to the CA survey, in most Member States expenses can be set off against revenues. This means that the expenses listed in the annual accounts are not explicitly disclosing all of the costs, most notably those related to the investments.

The IORP II Directive introduced structural cost disclosure requirements for IORPs, both towards prospective and actual scheme members. However, the IORP II Directive does not specify which costs should be covered, according to which criteria and how detailed the breakdown should be or how the costs should be presented.

On the other hand, MiFID II requires investment firms 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 Q&As³ provide more specific details on how to report specific costs. As institutional clients, IORPs are able to request from asset managers and other investment firms the itemised cost disclosure under MiFID II to collect detailed data on investment and transaction costs and report them accordingly to the CA.

In addition, in the 2015 report on costs and charges of IORPs⁴, EIOPA found that there is a lack of detailed information and practical experience to obtain details on costs and charges in a number of Member States. The urgency of the uniform reporting of cost data has increased since the European Commission has already in 2017 requested EIOPA to include occupational DC schemes in its costs and past performance reports.⁵

1.3. Objective

A transparent and comprehensive view of all costs and charges is essential for IORPs, social partners and supervisors to assess the efficiency the value for money and affordability of occupational pension schemes. Jointly with comparable risk and return information, comparable cost information across IORPs can contribute to putting national IORPs sector on sound foundations.

The main objective of the Opinion is to foster an effective cost supervision across the EU in order to enhance the value for money offered to members and beneficiaries, the cost efficiency of IORPs and the affordability for sponsors.

Without a comprehensive overview of costs, it is not possible to assess whether IORPs are delivering “value for money” and whether there are conflicts of interest or other inefficiency problems in the IORP sector.

In addition, the experience of CAs shows that requiring cost transparency (reporting or disclosure) based on a look-through approach has a positive impact on the cost levels of IORPs as it drives costs down. For instance, in the Netherlands costs have decreased up to 10 times compared to the costs levels before a transparent cost reporting was introduced.

³ ESMA, Questions and Answers on MiFID II and MiFIR investor protection and intermediaries topics ESMA35-43-349, 22 December 2020.

⁴ EIOPA Report on Costs and charges of IORPs, EIOPA-BoS-14/266, 7 January 2015: <https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-14-266-Final-report-on-costs-and-charges-of-IORPs.pdf>

⁵ <https://eiopa.europa.eu/Pages/News/EIOPA-receives-request-on-costs-and-past-performance-of-IBIPs,-personal-pension-products-and-Defined-Contribution-pension-s.aspx>

1.4. Policy issue and options

EIOPA has identified as policy issue the incomplete and inconsistent cost information reported to CAs. As a result, CAs may not be able to assess the cost efficiency of IORPs, the affordability of occupational pension schemes and whether IORPs offer value for money, jeopardising the protection of members and beneficiaries. To address this risk, EIOPA considered different options with regards the level of standardisation and granularity of the cost reporting to CAs.

The following options have been considered, with the preferred option for the cost reporting marked in bold:

1. High-level principles for reporting
2. **Common minimum standards on reporting, according to principles, with definitions and templates to assist the data reporting**
3. Fully standardised reporting

The options reflect the most relevant policy issue which concerns the level of standardisation of supervisory cost reporting. Under all options, CAs perform comparative analysis of the cost efficiency of IORPs, the affordability for sponsors and the value for money offered to members and beneficiaries and consider the outcomes within the supervisory review process, including in the dialogues with the IORP’s management board.

POLICY OPTION 1: HIGH-LEVEL PRINCIPLES FOR REPORTING

The first policy option consist of limiting the guidance for CAs to defining high-level principles for reporting of costs. Such a principles-based approach would give flexibility to CAs to collect the cost data, while also giving flexibility to IORPs to report costs on the basis of a specific classification.

Policy option 1: High-level principles for reporting		
Stakeholder groups	Benefits	Costs
Competent authorities	Easier to implement across a range of different IORPs.	No comparability across IORPs if the reporting is not standardised in a granular way. Not possible to assess the consistency or completeness of the reported data, unless the CA

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		<p>introduces a granular classification of costs.</p> <p>Without a mandatory granular break-down of costs, it is more difficult to identify conflicts of interest or other inefficiency problems in the IORP sector.</p> <p>More resource intensive to implement.</p> <p>Less supervisory convergence across the EU.</p>
IORPs	<p>More flexibility possible, for example to tailor the requirements to specific types of IORPs.</p>	<p>If the reporting is not standardised, less certainty on reporting content and form and higher compliance risk.</p> <p>Higher costs of collecting and analysing the data.</p>
Members and beneficiaries	<p>Improved transparency of costs, in particular with regards hidden costs, can lead to improved cost efficiency of IORPs and hence better value for money.</p>	<p>Limited trust and confidence in the industry, due to possibly different interpretation of the principles-based costs reporting requirements by IORPs, and as a result inconsistent or inaccurate data.</p>
Sponsoring undertakings	<p>Improved ability to assess the affordability of the IORP.</p>	

POLICY OPTION 2: COMMON MINIMUM STANDARDS ON REPORTING

The second policy option is to define principles for reporting as well as minimum standards to be reported, composed of a mandatory template which includes a generic cost classification, without requiring to report to the CA costs broken down in a very granular way.

This option foresees a standardised reporting of costs which includes mandatory reporting templates from IORPs to CAs exhibiting a cost classification with clear definitions of each category of costs, to be reported to CAs according to principles. For investments managed by asset managers, the approach foresees the possibility to report on costs for investment funds based on MiFID disclosures, however does not impose it. It includes voluntary templates for the collection of costs from asset managers to IORPs.

With regards to the cost breakdown, EIOPA has considered different options. The proposed tailored approach consists of collecting data, following a look-through approach, on all IORP costs related to the investments, including expenses incurred by the IORP as well as expenses incurred by third parties related to the IORP investments, such as transaction costs and investment costs. The cost break-down proposed is the following:

- ▶ Investment costs
- ▶ Transaction costs
- ▶ Administrative costs, including distribution costs
- ▶ Costs paid directly by the sponsor

The breakdown aims at ensuring a high comparability of data in particular due to inclusion of sponsor costs and for multi-employer IORPs the inclusion of distribution costs. Costs paid by the sponsor may not be currently collected by IORPs.

The proposal deviates from the PEPP supervisory reporting breakdown⁶ with regards to the separation of transaction costs from investment costs, which under the PEPP approach are presented jointly, and with regard to the presentation of distribution costs, which in the PEPP approach are presented separately from administrative costs, and the split of costs related to the provision of a guarantee from other costs. The reasons for deviating are the following:

- ▶ Collecting transaction costs jointly with investment costs without a further split would make it difficult to supervise whether transaction costs of IORPs are being reported. In particular given that in some Member States, IORPs commonly collect Total Expense Ratio as investment costs (without transaction costs). In addition, transaction costs levels depend on investment management styles (active or passive).
- ▶ Distribution costs are more relevant for savers of personal pension products while they might not be present in an IORP context.

⁶ See Commission Implementing Regulation (EU) 2021/897 of 4 March 2021 laying down implementing technical standards for the application of Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to the format of supervisory reporting to the competent authorities and the cooperation and exchange of information between competent authorities and with the European Insurance and Occupational Pensions Authority.

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The look-through approach presented in this Opinion is overall consistent with the PEPP approach, as set out in Commission Delegated Regulation (EU) 2021/473⁷, allowing for an important degree of comparability of IORPs with PEPPs. According to the Commission Delegated Regulation, costs disclosed refers to actual incurred costs, incurred directly at the level of the provider or at the level of an outsourced activity or investment fund, including all related overhead costs.

The cost break-down deviates from the current reporting to EIOPA to ensure that CAs are able to supervise all costs following a look-through approach. Since 2020, EIOPA receives detailed data on IORPs⁸ which includes data on IORPs’ investment expenses, administrative expenses, other expenses and taxation expenses (template 'expenses' PF.05.03.24), but costs paid directly by sponsors are not reported.

Policy option 2: Common minimum standards on reporting with templates to assist the data reporting		
Stakeholder groups	Benefits	Costs
Competent authorities	<p>Allows for comparability between IORPs</p> <p>Proposed level of granularity would facilitate conducting comparative assessments to enhance value for money for members and beneficiaries and affordability for sponsors and would ensure a higher quality of the supervision.</p> <p>High possible level of comparability and consistency of reported data.</p>	<p>Limited flexibility to make adjustments to the cost classification.</p> <p>More resource intensive to implement.</p> <p>Could risk some principles not to be implemented or considered due to minimum approach.</p>

⁷ Commission Delegated Regulation (EU) 2021/473 of 18 December 2020 supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to regulatory technical standards specifying the requirements on information documents, on the costs and fees included in the cost cap and on risk-mitigation techniques for the pan-European Personal Pension Product.

⁸ EIOPA’s Decision of the Board of Supervisors on EIOPA’s regular information requests towards NCAs regarding provision of occupational pensions information (EIOPA BoS/18 114 of April 10, 2018).

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	<p>Enables higher supervisory convergence than policy option 1.</p> <p>Less costly to supervise the quality of the costs reported.</p>	
IORPs	<p>Potentially improved quality of data provided to IORPs.</p> <p>Full transparency could lead to lower level of IORP costs due to competition among asset managers.</p> <p>Reduction of costs of collecting and analysing these data by IORPs, in particular since for investment funds the reporting of investment and transaction costs can be collected from service providers based on MiFID II disclosures.</p> <p>More certainty on reporting content and form.</p> <p>Clearer and more detailed understanding of the charges of their investments.</p>	<p>Less certainty on reporting content and form compared to fully standardised reporting.</p> <p>Some compliance risk.</p> <p>Costs of collecting and analysing the data, particularly for smaller entities.</p> <p>Some specific costs such as sponsor related internal costs and transaction costs might be difficult to calculate, leading to increased costs to schemes.</p>
Members and beneficiaries	<p>Full transparency of costs, in particular with regards hidden costs, can lead to improved cost efficiency of IORPs and hence better value for money.</p>	<p>Costs related to the cost reporting exercise may lead to an increase of charges to members, which may nonetheless not lead to lower returns as the cost efficiency of the IORP may improve.</p>
Sponsoring undertakings	<p>Improved ability to assess the affordability of the IORP.</p>	

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POLICY OPTION 3: FULLY STANDARDISED REPORTING

This option foresees a fully standardised reporting of costs, which includes mandatory reporting templates from IORPs to CAs with a detailed breakdown of costs per type of cost, based on a cost classification with clear definitions of each category of costs. For investments managed by asset managers, the approach requires to report on costs based on MiFID II disclosures.

Policy option 3: Fully standardised reporting		
Stakeholder groups	Benefits	Costs
Competent authorities	<p>The level of granularity would facilitate conducting comparative assessments to enhance value for money for members and beneficiaries and affordability for sponsors and would ensure a higher quality of the supervision.</p> <p>Highest possible level of comparability and consistency of reported data.</p> <p>Stronger supervisory convergence than policy option 1 or 2.</p>	<p>Lack of flexibility to adjust the templates for specific features of types of IORPs.</p>
IORPs	<p>Improved quality of the data provided to IORPs.</p> <p>Full transparency could lead to lower level of IORP costs due to competition.</p> <p>Reduction of costs of collecting and analysing these data by IORPs, in particular since for investment funds the reporting of investment and transaction costs should be collected from service providers based on MiFID II disclosures.</p>	<p>The most resource intensive and expensive for IORPs, particularly for smaller entities.</p> <p>Some specific costs such as sponsor related internal costs and transaction costs might be difficult to calculate, lead to increased costs to schemes,</p>

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	<p>More certainty on reporting content and form.</p> <p>Clearer and more detailed understanding of the charges of their investments.</p>	
<p>Members and beneficiaries</p>	<p>Improved transparency of costs, in particular with regards hidden costs, can lead to improved cost efficiency of IORPs and hence better value for money</p> <p>Publication of consistent and accurate cost data reported to the CA allows to accurately compare costs charged by IORPs and determine whether IORPs are providing good outcomes to members.</p> <p>From a consumer protection perspective, indirect benefits of a fully standardised reporting would result from supervision, where it should be easier for supervisors to supervise that IORPs provide value for money to members and do not use up savers’ pension pots, and identify potential market failures and outliers</p>	<p>Costs related to the cost reporting exercise might lead to higher charges to members.</p>
<p>Sponsoring undertakings</p>	<p>Improved ability to assess the affordability of the IORP.</p>	<p>Costs related to the cost reporting exercise might lead to higher costs for sponsoring undertakings.</p>

1.5. Conclusion

EIOPA has considered three policy options to address the policy issue of this Opinion.

Setting only high level principles (Policy Option 1) was discarded as it would be difficult for CAs to assess whether the data provided is complete and consistent. Similarly, for a fully standardised reporting (Policy Option 3) the costs are expected to outweigh the benefits.

The most advantageous in terms of costs and benefits is Policy Option 2, i.e. common minimum standards on reporting with templates to assist the data reporting. The proportionate and risk-based approach envisaged by the opinion will contribute to ensuring that the benefits surpass the costs at the level of individual IORPs. In particular for DB IORPs, CAs have the discretion to adjust the intensity of the cost reporting in line with the expected costs and benefits.

This policy option is expected to ensure comparability and higher quality and comprehensiveness of data, which result in informed supervisory actions, and provide clear guidance to IORPs on the data to be reported. The benefits of cost reporting could significantly exceed the costs where IORPs do not have a transparent view of their cost levels, given that seemingly small reductions in costs and charges may have a substantial impact on final retirement income or on the affordability for sponsors. The cost and benefits of cost reporting will be relatively modest where IORPs already receive transparent information on costs and charges relating to investment management.

ANNEX: SUMMARY OUTCOMES OF SURVEY OF NATIONAL PRACTICES AND GAPS

RESPONSE

In 2020, EIOPA conducted a questionnaire among CAs with the aim of mapping the existing national practices regarding the collection by CAs of cost information related to IORPs and to identify any possible ‘gaps’ within the costs collected.

The questionnaire covered the following national practices of IORP data collection in order to identify what is the data available for cost supervision by CAs:

- ▶ IORP reporting of costs to the supervisor, of which
 - costs disclosed in the IORPs’ annual accounts;
 - costs disclosed to members and prospective members;
 - costs, other than costs disclosed in annual accounts, PBSs and pre-enrolment documents.

EIOPA received responses from 25 CAs, whereas five CAs did not complete the cost section of the survey because IORPs are largely absent (BG, CZ, EE, IS, LT).

TYPES OF SUPERVISORY COST REPORTING

Among the questions on national practices regarding IORP reporting of costs to the CA, nearly all reported that IORPs are required to report data on costs to the CA. Most CAs receive IORP costs information based on the annual accounts, which follow national accounting rules and others with respect to costs disclosed to members and prospective members envisaged by IORP II. Some CAs collected more granular broken down costs for supervisory reporting of costs and charges other than annual account or disclosure documents to members and prospective members.

Table 1: Current reporting of cost data to CA		
Type of cost source data/document	Number of CAs	Member States
Costs included in the IORPs' annual accounts	23	AT, BE, DE, DK, ES, FI, FR, GR, HR, HU, IT, LI, LU, LV, MT, NL, NO, PL, PT, RO, SE, SI, SK
Breakdown of costs included in the IORPs' Pension Benefit Statements (PBSs)	7	DK, ES, GR, LI, LU, RO, IT
Costs in pre-enrolment documents for prospective members	6	DK, ES, IT, LI, RO, SI
Granular broken down costs for supervisory reporting of costs and charges, other than covered in the three rows above	8	AT, DE, FR, GR, HU, IT, NL, PT
None	2	CY, IE

CAs mentioned a number of reasons for collecting the data, among others for reporting and accounting purposes, statistics, comparative studies, benchmarking and taking supervisory measures.

GRANULARITY OF COSTS IN ANNUAL ACCOUNTS AND OTHER DISCLOSURES REPORTING

IORPs' annual accounts are most often subject to national accounting rules, sometimes also established by the CA, which may prescribe detailed uniform rules or a set of minimum requirements.

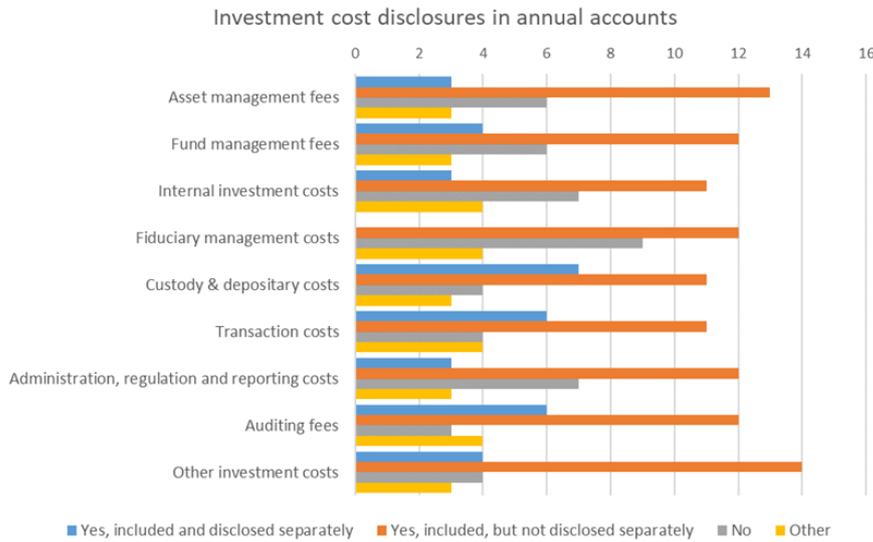
The level of granularity of the cost data disclosed in the annual accounts differs between (and sometimes within) countries. Some CAs reported that it is aggregated at the level of administrative and investment expenses (BE, DK, ES, FI, LV, MT, NO, SI). Other CAs reported that it is broken down in more detail (AT, DE, FR, GR, HR, HU, IT, LI, NL, PL, PT, SE, SK), while the remaining CAs indicated that another answer is applicable.

The survey put forward a number of sub-categories of investment costs. CAs were asked whether these are included in the IORPs' annual accounts and whether the sub-categories are disclosed

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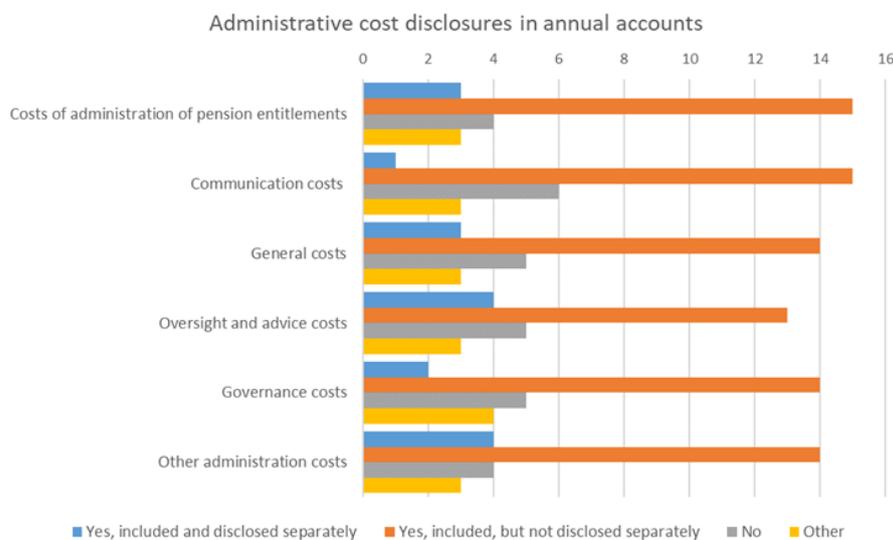
separately. A majority of CAs indicated that these investment cost sub-categories are included, but often these items are not disclosed separately. Many CAs mentioned that investment costs are reported using different definitions and granularity in their annual accounts.

Chart 1: Investment cost disclosures in annual accounts, number of CAs



Most CAs also indicated that the administrative cost sub-categories they were presented with in the questionnaire are included in the annual account, but usually not reported separately or using the same definitions and granularity.

Chart 2: Administrative cost disclosures in annual accounts, number of CAs



Whereas expenses in the annual accounts often distinguish between administrative and investment costs, and often provide more detail, the costs communicated through the pension benefit statement (PBS) often do not make that distinction. In contrast, the reporting to CAs of costs, other than those relating to the annual accounts and information provision to (prospective) members, often distinguishes investment costs (GR, HU, IT, NL, PT) and administrative costs (DE, GR, HU, IT, NL, PT). In NL, investment costs are also reported by asset class.

LOOK-THROUGH AND NO-NETTING APPROACH

Where IORPs invest through collective investment funds or have other indirect exposures, a look-through approach ensures that all costs at the level of these collective investment funds and other indirect exposures are included. The no-netting approach ensures that such costs (e.g. management fees) recognised within cost items and not deducted from income items.

In most Member States, costs reported in the annual accounts and communicated through the PBS are not subject to the look-through and no-netting approach is not applied in the annual accounts. CAs in only five Member States receive cost information from IORPs using a look-through and no-netting approach: ES (PBS data), LV (annual accounts) and HU, IT and NL (other supervisory cost reporting). In FR and LV, cost disclosures in the PBS also follow the look-through and no netting approach, but this cost information is not reported to the CA.

COSTS PAID DIRECTLY BY SPONSORS

In many Member States sponsoring undertakings may directly bear some of the costs of administering the IORP. In a minority of Member States, these costs are recognised in the IORPs' annual accounts, information to plan members or other cost reporting. In eight Member States costs paid directly by the sponsor are included in the reported cost data: NL, NO and MT (annual accounts), LI (annual accounts & PBS data), GR (annual accounts & other supervisory cost reporting), DK and ES (PBS data) and IT (other supervisory cost reporting).

LEVEL OF COST REPORTING: IORP VERSUS SCHEMES

Most CAs answered that the annual accounts disclose cost information at the level of the IORP or, where IORPs provide multiple pension schemes, at the level of the scheme. CAs in DK, GR, HR and SK explained that IORPs do not provide multiple schemes. In AT costs have to be reported at the level of investment- and risk-sharing groups, in IT at the level of investment lines. In BE, FR and LU, expenses have to be disclosed separately for ring-fenced compartments.

Table 2: Level of cost reporting in annual accounts		
Level of cost reporting	Number of CAs	Member States
Always at the level of the IORP, even where IORPs provide multiple schemes	13	BE, CY, DE, DK, ES, HR, LI, LU, NL, NO, PL, PT, SE
At the level of the scheme, where IORPs provide multiple schemes	6	FI, HU, LV, MT, RO, SK
Other	6	AT, FR, GR, IE, IT, SI

Where the annual accounts in the majority of Member States do not disclose expenses at scheme level, cost information in the PBS is most often personalised, where relevant taking into account the member’s specific pension scheme.

CONCLUSIONS

Most CAs receive IORP costs information as part of the annual accounts, which follow national accounting rules.

While annual accounts usually include administrative and investment expenses, these details are limited to the direct expenses of the IORP and do not cover indirect costs such as investment and transaction costs that are reflected in the Net Asset Value and therefore hidden. Costs charged directly to an investment fund by asset managers (thus not charged to the IORP) will often lower investment revenues. The same holds true for transaction costs relating to the buying and selling of investment assets. Only five CAs have a transparent view of IORPs’ cost level by requiring the supervisory reporting of cost information based on a look-through and no-netting approach.

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