Towards a stillborn PEPP?
Investment management industry reacts to Commission's Delegated Act

Brussels, 23 December 2020 - The European Fund and Asset Management Association (EFAMA) regrets that the European Commission has decided to endorse EIOPA's proposal to include the initial cost of advice under the 1% fee cap for the Basic PEPP (pan-European Personal Pension Product).

The PEPP has the potential to play an important role in delivering retirement savings to millions of European savers, while at the same time contributing to the success of the CMU through the creation of new pools of long-term capital that can help finance the European economy.

The investment management industry is keen to manufacture PEPPs that will deliver these benefits. However, there is a real risk that the decision to include the initial advice cost under the fee cap will prevent potential providers from developing an economically viable business model for the PEPP, thereby jeopardising its take-up.

Delivering the type of advice required under the PEPP Regulation – a personalised recommendation, taking into account in particular an individual's accrued retirement entitlements – entails costs that will not be recouped if they are covered in a 1% fee cap that also includes the cost of manufacturing, managing, administrating and distributing the product. If the current policy intention is left unchanged, it is highly unlikely that a competitive pan-European market delivering high quality, good value pension products will emerge.

Given that there is no scope for advice to be anything less than a personal recommendation, with all the fact-finding – and associated costs – that this entails, the most efficient approach to avoid the failure of the PEPP would be to exclude the initial cost of advice at least until the first review of the fee cap.

EFAMA strongly believes that the PEPP Regulation allows the exclusion of the one-off initial advice from the fee cap. A PEPP saver will choose between a Basic PEPP or an alternative investment option, with the understanding that 'the costs and fees for the Basic PEPP shall not exceed 1% of the accumulated capital per annum'. Before making this choice, the saver will receive all the relevant information and advice. This means that the advice process can be separated from the cost of the Basic PEPP, and its cost can be excluded from the fee cap.

Following this approach would have several distinct benefits:

- It would ensure PEPP availability for savers across Europe on a fully advised basis.
- It provides full cost transparency for all aspects of the PEPP, manufacturing, distribution and advice.
- It addresses concerns about the cost-efficiency of the Basic PEPP by limiting the exemption from the cap to the initial cost of advice and confirming that the product manufacturing and distribution costs are included in the cap.
- Postponing the potential inclusion of advice in the fee cap will also allow time for the nascent technology-enabled advice market to develop low-cost, high-quality, personalised advice offerings suitable for the PEPP.

Tanguy van de Werve, EFAMA Director General, commented: "*While we welcome the regulatory technical standards specifying the requirements on the information documents and the risk-mitigation*

techniques, we are concerned that the all-inclusive fee cap will make it uneconomical for potential providers to offer the PEPP."

"If the PEPP remains a fine idea without a future, the real losers will be the citizens of Europe, in particular those with inadequate future retirement incomes, who will not be able to reap the initially intended benefits of the PEPP in terms of product choice, quality of advice and value for money. It is now for the Council and the European Parliament to decide whether such a policy outcome is desirable and in line with the objective of the Regulation", he added.

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Notes to editors:

European Commission Delegated Act on PEPP: Delegated act details - Register of delegated acts (europa.eu)

About the European Fund and Asset Management Association (EFAMA):

EFAMA, the voice of the European investment management industry, represents 28 Member Associations, 60 Corporate Members and 24 Associate Members. At end Q3 2020, total net assets of European investment funds reached EUR 17.6 trillion. These assets were managed by more than 34,200 UCITS (Undertakings for Collective Investments in Transferable Securities) and almost 29,400 AIFs (Alternative Investment Funds). At the end of Q2 2020, assets managed by European asset managers as investment funds and discretionary mandates amounted to an estimated EUR 24.9 trillion. More information is available at www.efama.org.
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