BETTER FINANCE position & proposed amendments to the PROPOSED REGULATION ON A PAN EUROPEAN PERSONAL PENSION PRODUCT (PEPP)

[1]

Table of Contents

I. EXECUTIVE SUMMARY 2

2. Access to PEPP (amendment 1, page 11) 2

3. PEPP KID (amendment 4, page 14) 2

6. Safe and effective retirement phase in the Default Investment Option (amendment 17, page 24) 2

II. BETTER FINANCE'S DETAILED POSITION AND AMENDMENTS 3

1. A simple and performing Pan-European Personal Pension: an absolute must to help fill the mushroming pension gap 3

2. The PEPP must provide pension adequacy through decent long term returns to pension savers 3

3. The Default Investment Option: really safe, really simple and really default 4

4. Investor Protection Rules 7

5. Adequate returns (pensions adequacy) and investing in the real economy (CMU consistency) 8

6. Taxes 9

III. **BETTER FINANCE'S DETAILED POSITION AND AMENDMENTS** 10

[1] With the support of AGE Platform Europe: the European network of 120 non-profit organisations of and for people aged 50+ representing some 40 million citizens aged 50+ in the EU.

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

I. EXECUTIVE SUMMARY

1. Capital "protection" and the Default Investment Option (amendment 2 page 12 and amendment 9, page 17)
   - Article 2(21): "capital" must be calculated on the basis of amounts investible before deduction of all fees, charges and expenses directly or indirectly borne by investors and if possible in real terms (taking inflation into account)
   - a warning about the impact of inflation over time
   - Life-cycle risk-mitigation technique- must be clear, simple, standardised and supervised by EIOPA and information on the risk mitigation technique must be clearly disclosed to the PEPP saver. Overall fees must be capped at 1% per annum.

2. Access to PEPP (amendment 1, page 11)
   - Article 2(2): Independent associations of PEPP savers should be able to subscribe for their members

3. PEPP KID (amendment 4, page 14)
   - The timeframe of the past performance of the PEPP must cover a minimum of 20 years or since the inception of the PEPP
   - Past performance of the PEPP must be presented alongside with the past performance of the benchmark chosen by the provider
   - The PEPP provider must disclose the total costs and the structure of those costs

4. Investor protection (amendment 5, page 15)
   - When the PEPP provider proposes any other option than the default one, he/she must explain in writings why this other option is at least as suitable as the default one.
   - A Pan-European collective redress mechanism

5. Delegated act on the investment options (amendment 15, page 20)
   - The Commission should only be empowered to adopt a delegated act for the default option to allow full access to low cost and simple investment such as index ETFs and listed shares.

6. Safe and effective retirement phase in the Default Investment Option (amendment 17, p. 24)
   - Fixed term annuities or draw-downs up to 80/85 years old maximum
   - Deferred life annuity starting no later than 80/85 years old and subscribed at retirement

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

II. BETTER FINANCE'S DETAILED POSITION AND AMENDMENTS

1. A simple and performing Pan-European Personal Pension: an absolute must to help fill the mushrooming pension gap

The global pension's gap is currently estimated at $70 trillion and forecasted to mushroom to $400 trillion by 2050[2]: this is by far the biggest financial issue facing EU citizens, their children, and grandchildren. In the absence of additional measures, there is a high risk for future pensioners to see the replacement rates decreased – leading to an old-age poverty problem. This gap will not be filled by government-sponsored mandatory plans and by occupational plans alone. More and more EU citizens have to – and will have to - rely more and more on personal pension products.
Therefore, BETTER FINANCE welcomes the proposal for the European Regulation creating the Pan-European Pension Product (PEPP). We believe that the promotion of personal pensions will help to alleviate this situation and to decrease the pension gap.

2. The PEPP must provide pension adequacy through decent long term returns to pension savers

If well designed, this initiative will reduce the pension gap by providing a "value for money" option for all European pension savers and pensioners. Thus, we believe that the PEPP needs to provide decent real and net returns, which is a crucial feature for the success of the PEPP.

A simple example will show why saving "more and for longer periods" – as the National Authorities are recommending - is not sufficient, and even too often detrimental: assuming no inflation, saving 10% of the activity income for 40 years (as often recommended by the Public Authorities), with 30 years life expectancy after retirement and the impact of fees (taxes excluded)

Annual net return of pension savings	Replacement income (as % of activity income)
Negative 1%	10%
Zero	12%
2%	17%
8%	49%

© BETTER FINANCE 2017

As it can be inferred from the numbers, that unless long-term net returns are significantly positive (in the upper single digits), saving early and significantly – as often advertised - will not provide a decent replacement income through retirement ("pension adequacy"). A highly "packaged" and fee-laden PEPP invested mostly in government bonds will certainly not meet this return requisite. In order for the PEPP to provide decent long term returns and to at least protect the purchasing power of the EU citizens lifetime savings, it must combine:

[2] World Economic Forum white paper: We'll Live to 100 – How Can We Afford It? – May 2017

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

- a default investment option that is really safe, really simple and really default (see below para.3)
- and alternative investment options that allow direct low-cost investments into simple long term financial instruments such as equities (SME ones in particular) listed on regulated markets and low-cost Pan-European ("UCITS")[3] indexed exchange-traded funds (ETFs) (see below para. 5).

3. The Default Investment Option: really safe, really simple and really default

3.1. Really safe

A "safe" option is one that will protect as much as possible the real value of pension savings at the time of retirement and beyond.

The current "capital protection" in the PEPP proposal is anything but safe and is highly misleading as:

- "capital" is net of accumulated fees charged to pension savers;
- "capital" is purely nominal, not real, i.e. not taking into account the erosion of the real value due to cumulated inflation.

The following quantified example will show how toxic such a so-called "protection" is.

The "capital protection" scam – Illustrative simplified case

Assumptions:

- 25-year-old saving for retirement at 65: 40 years of contributions.
- All-in fees of 1% of accumulated capital per year (very optimistic as all studies on the costs and fees of long term retail savings products show[4])
- Inflation of consumer prices of only 2% per year (very optimistic as well: inflation was never so low on average over 40 years in the past)
- To simplify: value of investment is the same from year 1 to 39

Impact of the so-called "capital protection" on the year one pension savings:

- **Year one pension savings = 100**
- Cumulative impact of fees on capital = (40)
- Pension savings net of accumulated fees = 60
- Cumulative impact of inflation = (33)
- **Real amount of capital "protected" = 27**

[3] Undertakings for Collective Investments in Transferable Securities (UCITS) provides a single European regulatory framework which allows UCITS funds to operate throughout the EU without worrying which country it is domiciled in.
[4] See for example BETTER FINANCE Pension Report 2017 http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Pension_Report_2017_-_Full_Report_-_Online_Version.pdf

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

BETTER FINANCE supports two different approaches for the default investment option, capital guarantee and life-cycle approaches.

a) Capital protection approach

To ensure a real "capital protection", 2 conditions must be applied:

i. A "capital protection" before accumulated fees and after inflation

Any "capital protection" should apply to pension savings before accumulated fees charged by financial institutions to pension savers, and in real terms, i.e. after inflation. The current design of the EC proposal is in addition extremely misleading as people are subject to monetary illusion and do not realise the impact of accumulated inflation on the purchasing power of their lifetime savings. The term "protection" actually means that the PEPP holder will lose almost three quarters of the value of his contribution!

On the other hand, it is unfortunately unlikely that many providers will agree to provide a capital protection before fees and after inflation. This is why BETTER FINANCE proposes that the capital protection be at least before fees are deducted, and that if the provider does not provide a protection against inflation, that:

- he commits to have the objective (not the obligation) of compensating for it, and discloses a prominent warning that the "protection" is purely nominal and that inflation can severely reduce the real value of this "protection" over time.

ii. The solvency II[5] requirements (Minimum Capital Requirements (MCR) and on Solvency Capital Requirement) should be recalibrated as to eliminate the penalisation of equity holdings by insurers

Such capital protection also pushes providers to invest mainly in fixed income products (such as government bonds) that are unlikely to provide any decent real returns over the long term. The Solvency II rules also push insurers away from more effective long-term investments such as listed equities. The PEPP Regulation should be accompanied by a revision of the Solvency II rules to allow insurers to invest more adequately against their pension liabilities.

Still, such a capital protection is rather simple to understand and may be needed for the weakest EU citizens as pension savers: low income earners, those who have little or no rights from the Public pay-as-you-go pension schemes, those who are very financially illiterate, who do not want to spend time to understand more complex investment options, etc. In that case, such a default investment option with capital protection should be coupled with a simple and safe decumulation option such as life annuities that also have at least an objective of compensating for inflation. Such an option should then be coupled as well with more transparent, simpler and more competitive annuities markets for the "decumulation" phase, another long-time request from BETTER FINANCE.

b) Life-cycle approach

[5] Solvency II Directive (Directive 2009/138/EC [recast])

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

BETTER FINANCE supports the life-cycle approach as another way to manage the investments from the default option.
Based on its research on the divergence of asset allocation paths in existing life cycle funds, BETTER FINANCE believe that the life cycle approach should be allowed for the default option but under the following conditions:

- The life-cycle "de-risking" design of the investment option must be simple, cost effective, standardised and must be supervised by EIOPA
- Information disclosure must be improved with the publication of the asset allocation glidepath and corresponding target allocation table
- Diversification is strongly needed since the majority of life-cycle funds invest in other-underlying-funds which have been proven to underperform capital market over the long term.
- Overall fees must be capped at 1%

➔ **Proposed amendments 9, 10 and 11**

3.2. Really simple

In order to be cost effective, the default option can be subscribed without advice and sold online by Fintech as well as by traditional financial intermediaries. BETTER FINANCE agrees with this proposal if the default option is simple enough to be intelligible by the vast majority of EU savers. But the average financial literacy level is very low. OECD surveys for instance show that the majority of EU citizens cannot handle simple compound interest or return computations, and they don't know what is a bond and a share.
Under current solvency rules, it is very unlikely that a capital protected investment option will deliver an adequate return and therefore an adequate pension to PEPP holders. Another default option should be offered, but must be clear, simple and cost effective.
It is crucial that the default investment option is cost effective, as a lot of independent research shows that costs and fees are the primary driver for long term net investment returns.
As mentioned by EIOPA, other strategies like de-risking strategies (life cycle for instance) can also be appropriate as a default option. They are built to generate high returns in the initial stage of the product (i.e. by investing mostly in equities), and increasingly de-risking (e.g. by switching into bonds) when getting older. But these are not as simple to explain and to understand as the guarantee of capital in real terms at retirement and beyond. BETTER FINANCE's researches on life-cycle funds revealed that investors information disclosure needs to be improved. As a comparison, in the U.S., retirement products are often easier to understand and to compare.
Therefore, providers of life cycle type of options should make them as simple and standardized as possible and with a maximum yearly fee of 1%, like for the UK Stakeholder personal pensions.

➔ **Proposed amendments 10 and 11**

3.3. Really default

It is important that those who need a really safe and really simple default option (see paras. Above) – i.e. the weakest EU citizens as pension savers – actually take it instead of alternative options. This is why BETTER FINANCE proposes that any adviser/ intermediary who proposes any other option than the default one to the client must explain to the client in writing why the other option he/she is recommending is at least as suitable as the default one. This is similar to the RU64 protection rule in the UK for personal pensions.

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

➔ **Proposed amendment 7**

4. Investor Protection Rules

a) Key Information Document (KID)

Our organization is also happy to see reinforced investor protection rules. In particular, the reintroduction of some historical performance disclosures in the Key Information Document (KID)[6], which will thankfully allow pension savers to know whether a PEPP has ever made any money for savers, in the past.

Pension savers should also learn if the PEPPs have or have not met their stated investment objectives, and compare their achievements with other similar products. This is why - as currently required for the KIID of UCITS investment funds[7] - the past performance of the benchmark chosen by the provider should be shown alongside the PEPP's past performance.

Moreover, since pension products are long-term ones, we believe that the information on the past performance of investments related to the PEPP scheme should match their time horizon and cover at least twenty years. We believe that five years, as it is proposed now in the EC's draft document, would be by far too short: EU Law currently requires a minimum of ten years disclosure for money market funds although they have a much shorter time horizon). If the fund has existed for less than twenty years, the information disclosed should be since the inception date of the PEPP.

Also, disclosing the structure of the PEPP's costs in the KID is not enough: the total costs and fees. And ongoing and one-time costs must also be disclosed and the disclosure format must ensure they are intelligible and comparable from one PEPP to the other: so not as a "reduction in yield" on a future hypothetical scenario (PRIIPS approach) but as total ongoing charges as a percentage of accumulated savings / rights (UCITS funds approach).

Lastly, pension savers need a minimum of choice. They should not be prevented from mixing the default option with one or several alternative options, for example 50% in the safe and simple default option and 50% in a more risky but also potentially more rewarding alternative investment option. Also, BETTER FINANCE believes that to limit the number of options is over-regulating and restrict the attractiveness of the PEEP for both pension savers and providers.

And all investment options should be cost effective, not only one of the alternative ones.

The advantages of independent Savers Associations

b) Independent pension saver associations as subscribers

It is necessary to allow PEPPs to be subscribed not only by individual PEPP savers, but also by independent PEPP saver associations on behalf of their members. In France, existing Personal Pension Products (PPPs) are indeed subscribed by such independent saver associations, not by individuals. This has proven very effective to better balance the relationship between providers and pension savers. Such associations are independent form the provider and can better negotiate the PEPP terms in the interest of the PEPP savers. They can also more easily summon independent expertise if need be.

➔ **Proposed amendments 1, 2, 3, 4,5 and 6**

---

[6] Today all such critical performance disclosures will be hidden from "PRIIPs" investors due the appalling new KID for packaged retail investment products COMMISSION DELEGATED REGULATION (EU) 2017/653 of 8 March 2017.

[7] UCITS KIID Regulation No 583/2010

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

c) Collective redress

The current legislative framework lacks a collective redress scheme for financial services (among other fields), leaving many consumers unable to exercise their rights. There have been numerous mis-selling cases in the financial industry that have harmed investors The right to redress and the right to access to justice is especially important in the area of financial services where technical and complex financial products have a serious impact on the quality of life of active and retired citizens. The PEPP regulation should therefore provides for a cross-border collective redress mechanism.

➔ **Proposed amendment 16**

5. Adequate returns (pensions adequacy) and investing in the real economy (CMU consistency)

PEPP is also the single best solution among all "CMU" initiatives and elsewhere to revive the equity culture. <u>PEPP is indeed the best tool to foster retail investments</u> into equity markets and, in particular into SME listed equities and low-cost equity index funds: it is very long term, hopefully as tax incentivised as existing national personal pension products, and allows for diversification, and also protection via the safe and simple default investment option (as specified above).
Independent research[8] clearly identifies the key pre-requisites to get these crucially needed long-term returns: <u>overall fees must be kept low, and allocation to diversified equities – SME ones in particular - must be strongly favoured</u>. The future PEPP must fill these two over-arching conditions.
The alternative investment options seem complex with the constraints of risk mitigation techniques that are already applicable to the default one. These risk mitigation techniques should be, in addition, further specified in a delegated act from the EC. The recent example of the EC delegated regulation on the KID for PRIIPs makes us very concerned, as this more than 50 page and extremely complex rules are proving a painful challenge for both savers and providers. The PEPP must be a simple product and BETTER FINANCE proposes to avoid having such a delegated act to further constrain and complicate the alternative investment options.
In effect the alternative investment options as proposed by the EC seem to <u>exclude any possibility for EU pension savers to invest directly into low cost long term instruments such as equities, bonds and low-cost equity index funds</u>.

This is not only detrimental to getting decent returns and adequate pension income (see para. 2 above). It is also quite inconsistent with the Capital Markets Union (CMU) initiative, which aims at fostering retail investment into capital markets and at strengthening the link between savings and the real economy. This exclusion will again confine EU long term savers to fee-laden "packaged" products only. This is all the more unfortunate since the very long-term nature of the PEPP makes it the ideal candidate for retail equity investments.

Also, the PEPP will be one of the few Pan-European investment products. Therefore, the investment products eligible for direct investments in a PEPP should be also Pan-European: equities and bonds listed on regulated markets, UCITS funds, in particular low cost UCITS equity index funds (exchange-traded –ETFs – or not). These products are deemed "simple" for the MiFID II Directive. Qualified investors should also be able to invest in ELTIFs, EuVeca and EuSEF funds in their PEPP if they so wish.

➔ **Proposed amendments 8, 13, 14 and 15**

---

[8] BETTER FINANCE's "*Pension Savings: The Real Return*". 2017 edition

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

6. Taxes

Last but not least, EU Member States should thoroughly follow the EC "recommendation" and not discriminate PEPPs versus existing national PPPs (Personal Pension Products), even though they too frequently suffer from the NIH ("Not Invented Here) syndrome.

BETTER FINANCE acknowledges that the EU institutions do not have jurisdiction in the area of taxation, this being one of the main barriers to construct a true single European market for financial services. In the particular case of the PEPP, our organization recommends to treat it as another national PPP. Typically, tax incentives for existing PPPs are reserved to residents of the provider's domicile, and this would harm the promotion of the PEPP.

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

III. BETTER FINANCE'S DETAILED POSITION AND AMENDMENTS

AMs	EC's proposal	BETTER FINANCE's amendments	Justifications
		CHAPTER I- GENERAL PROVISIONS	
		Article 2- Definitions	
1	**(2)** pan European Personal Pension Product (PEPP) "means a long-term savings personal pension product, which is provided under an agreed PEPP scheme by regulated financial undertaking authorized under Union law to manage collective or individual investments or savings, and subscribed to voluntarily by an individual PEPP saver in view of retirement, with no or strictly limited redeemability	**(2)** pan European Personal Pension Product (PEPP) "means a long-term savings personal pension product, which is provided under an agreed PEPP scheme by regulated financial undertaking authorized under Union law to manage collective or individual investments or savings and subscribed to voluntarily by an individual PEPP saver or by **an independent PEPP savers association on behalf of its members** in view of retirement, with no or strictly limited redeemability.	In some Member states such as in France, existing Personal Pension products are subscribed to through such independent associations of savers.
	(3) "PEPP" saver means: **(a)** a retail client as defined in point (11) of article 4(1) of Directive 2014/65/EU of the European Parliament and of the Council. **(b)** a customer within the meaning of Directive 2002/92/EC of the European Parliament and of the Council, where that customer would	**(3)** "PEPP" saver means: **(a)** a retail client **means a client who is not a professional client** as defined in point (11) of article 4(1) of Directive 2014/65/EU of the European Parliament and of the Council;	To make the reading of the Regulation easier and more intelligible: trying to avoid non explicit references to other pieces of EU rules.

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

	not qualify as a professional client as defined in point (10) of Article 4(1) of Directive 2014/65/EU	**(b)** a customer within the meaning of Directive 2002/92/EC of the European Parliament and of the Council, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of Directive 2014/65/EU;	
		(c) an independent association subscribing PEPP products for its members;	Cf. supra
2	**(21)** "capital" means aggregate capital contributions and uncalled committed capital, calculated on the basis of amounts investible **~~after~~** deduction of all fees, charges and expenses that are directly or indirectly borne by investors;	**(21)** "capital" means aggregate capital contributions and uncalled committed capital, calculated on the basis of amounts investible **before** deduction of all fees, charges and expenses that are directly or indirectly borne by investors;	Article 37 refers to "capital protection". If this is capital after deduction of all fees borne by savers throughout the accumulation phase, it is quite misleading as- even with an annual charge as low as 1%, only 70% of the accumulated savings would be "protected", and only in nominal terms.
CHAPTER IV - DISTRIBUTION AND INFORMATION REQUIREMENTS - SECTION I - General provisions			
Article 20 - Inducements			

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

3	With regard to the payment or reception of fees or commissions or the provision or reception of non-monetary benefits in connection with the distribution of a PEPP to or by any party except the PEPP saver or a person acting on behalf of the PEPP saver, PEPP providers or distributors referred to in Article 19(c) of this Regulation shall comply with the applicable national laws giving effect to the rules set out for investment firms in Article 24(7)(b) and (9) of Directive 2014/65/EU. For the purposes of this Article, the reference in Article 24(9) of Directive 2014/65/EC to Article 23 of that Directive shall be read as a reference to Article 18 of this Regulation.	With regard to the payment or reception of fees or commissions or the provision or reception of non-monetary benefits in connection with the distribution of a PEPP to or by any party except the PEPP saver or a person acting on behalf of the PEPP saver, PEPP providers or distributors referred to in Article 19(c) of this Regulation shall comply with the applicable national laws giving effect to the rules set out for investment firms in Article **24 (4) (c),** (7)(b) and (9) of Directive 2014/65/EU. For the purposes of this Article, the reference in Article 24(9) of Directive 2014/65/EC to Article 23 of that Directive shall be read as a reference to Article 18 of this Regulation.	As provided in MiFID I and II, commissions and their amounts should be disclosed prior to the sale of the PEPP to the PEPP saver (article 24(4) (c)). If the advice is given in an independent basis, no commissions are allowed (article 27(7)(b)).
CHAPTER IV -DISTRIBUTION AND INFORMATION REQUIREMENTS Section II- Pre-contractual information			

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

<table>
<tr><th colspan="4">Article 23- PEPP Key Information Document</th></tr>
<tr><td>4</td><td>5. Potential PEPP savers shall also be provided with information on the past performance of investments related to the PEPP scheme covering a minimum ~~of five~~ years, or, where the scheme has been operating for fewer than ~~five~~ years, covering all the years that the scheme has been operating, as well as with information on the structure of costs borne by PEPP savers and PEPP beneficiaries.</td><td>5.Potential PEPP savers shall also be provided with information on the past performance of investments related to the PEPP scheme covering a minimum of <u>twenty</u> years, or, where the scheme has been operating for fewer than <u>twenty</u> years, covering all the years that the scheme has been operating, <u>alongside with the past performance of the benchmark chosen by the provider if any,</u> as well as with <u>clear information on the total costs and the structure of those</u> costs borne by PEPP savers and PEPP beneficiaries.
The information provided shall also include whether and how environmental, social and governance factors have been included in the investment strategy.</td><td>Since pension products are long-term ones, we believe that the current proposal of a five-year timeframe for the disclosure of the past performance's information is clearly too short (for example, currently EU Law requires a minimum 10 years disclosure for money market funds which have obviously a much shorter time horizon).

Therefore, we propose to increase the disclosure of the past performance of the investment product to at least twenty years.</td></tr>
<tr><th colspan="4">Section III - Advice and standards for sales where no advice is given</th></tr>
<tr><th colspan="4">Article 25 Specification of demands and needs and provision of advice</th></tr>
</table>

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

5	2. Where advice is provided prior to the conclusion of any specific contract, the PEPP provider or distributor referred to in Article 19(c) of this Regulation shall provide the PEPP saver with a personalised recommendation explaining why a particular PEPP would best meet the PEPP savers' demands and needs.	2. Where advice is provided prior to the conclusion of any specific contract, the PEPP provider or distributor referred to in Article 19(c) of this Regulation shall provide the PEPP saver with a personalised recommendation **<u>in writing</u>** explaining why a particular PEPP would best meet the PEPP savers' demands and needs. When a PEPP provider or distributor proposes any other option than the **<u>default one to the client, he/she must explain to the client in writing why the other option he/she is recommending is at least as suitable as the default one".</u>**	This action will ensure that the default option is really default and that retail investors and consumers of financial products will be effectively covered by the safe and simple default option. This is similar to the RU 64 rule for UK Stakeholder accounts. This rule already exists in the Insurance Distribution (article 21 (1) which provides for a "personalised recommendation" on the basis of the PEPP savers' demands and tests and for PPPs sold in the UK.
CHAPTER V – ACCUMULATION PHASE Section II Investment rules for PEPP savers			
Article 34- General provisions			
6	1.PEPP providers shall offer ~~up to five~~ investment options to PEPP savers.	1. PEPP providers shall offer **<u>at least one or several</u>** investment options to PEPP savers	BETTER FINANCE believes that the number of the investment options should be up to providers to decide, and not limited to five). Thus, the probability of aligning the customers' needs and the objectives of the product is higher than with a restricted number of investment options. **Name of the default Investment option:** the name "default investment option" (DIO) is preferable to "basic PEPP" for several reasons. DIO is used in several Member States regulations such as in Sweden and in France.

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

7	3. ~~All investment options~~ shall be designed by PEPP providers on the basis of proven risk-mitigation techniques which shall ensure sufficient protection for PEPP savers.	3. **<u>The default investment option</u>** shall be designed by PEPP providers on the basis of proven risk-mitigation techniques which shall ensure sufficient protection for PEPP savers.	See amendments 12 to 14
Article 35- Choice of investment option by the PEPP saver			
8	The PEPP saver shall opt for ~~an~~ investment option upon conclusion of the PEPP contract.	The PEPP saver shall opt for **<u>one or several</u>** investment options upon conclusion of the PEPP contract.	There is no reason to prevent EU pension savers to choose a mix of different investment options, for example 50% of their savings in the default option and 50% in another one.
Article 37- Default investment option ("Basic PEPP")			
9	1. The default investment option shall ensure capital protection for the PEPP saver, on the basis of a risk-mitigation technique that results in a safe investment strategy.	**1.The default investment option shall ensure capital protection for the PEPP saver, on the basis of a risk-mitigation technique that results in a safe investment strategy and includes the consideration of environmental, social and governance factors in said risks management framework.** **<u>If this capital protection is only nominal (i.e. not taking into account the cumulative impact of inflation on the real value) it should at least be also accompanied by a stated objective to compensate for the inflation, and a prominent warning about the impact of inflation over time on the purchasing power of PEPP savings.</u>**	We believe that in order to protect consumers, the default option should be safe, simple and cost-effective. However, the current proposal does not protect the long-term purchasing power (the real value of pension savings) since it is based on nominal base and not a real one. This reinforces "monetary illusion" and it is highly misleading for consumers: even with a low annual average inflation of 2% over 40 years, this nominal capital "protection" would mean that the PEPP holder will have lost 55% of the real value of his pension savings.

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

10		**2.The default investment option shall alternatively (at the choice of the provider) use a life-cycle risk-mitigation technique.** **The design of the life-cycle for the default option should be clear, simple, standardised and supervised by EIOPA. Information on the risk mitigation technique must be disclosed clearly to the PEPP saver.** **3.Overall fees of life-cycle approach must be capped at 1% per annum.**	Under current solvency rules, it is very unlikely that a capital protected investment option will deliver an adequate return and therefore an adequate pension to PEPP holders. Another default option should be offered, but must be clear, simple and cost effective. Cf. Research report of BETTER FINANCE on the existing life-cycle strategies/funds.
11		**4. The default investment option shall be a cost-effective option.**	Not only an alternative investment option must be cost effective. It is crucial that the default investment option is cost effective as well, as a lot of independent research shows that costs and fees are the primary driver for long term net investment returns.
		Article 38 - Alternative investment options	
12	1. If PEPP providers offer alternative investment options, ~~at least one~~ of them shall offer a cost-effective investment option to PEPP savers.	1. If PEPP providers offer alternative investment options, **all of them** should offer a cost-effective investment option to PEPP savers.	BETTER FINANCE believes that every alternative investment option that it is offered by providers should be cost-effective.
13	2. **The alternative investment options shall include risk-mitigation techniques to be defined by PEPP providers.**	~~2. The alternative investment options shall include risk-mitigation techniques to be defined by PEPP providers~~.	As long as the default option is really default (see our amendment on article 34.4), really simple and really safe, there should be no restriction imposed on the other investment

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

			options, which shall allow PEPP providers and savers to offer options with more upside potential, and better alignment with the CMU goal to foster retail investment into capital markets. In particular, those pension savers who wish it (and meet the investor protection rules) must be allowed to invest directly in low cost simple capital markets instruments such as equities (in particular listed SME equities) and in low cost index exchange traded funds.
14		2. At least one alternative option must allow direct investments into low costs instruments equities listed on regulated markets and also on MTFs that offer access to individual investors.	PEPP is a Pan-European product and should invest only in Pan-European packaged investment products to avoid the proliferation of purely national and sub-size retail investment funds in addition to UCITS funds.
Article 39 - Delegated act on the investment options			
15	The Commission shall be empowered to adopt a delegated act in accordance with Article 62 specifying**:** a) the risk-mitigation technique to ensure capital protection under the default investment option; ~~**b) the risk-mitigation techniques to**~~	The Commission shall be empowered to adopt a delegated act in accordance with Article 62 specifying **the risk-mitigation techniques <u>under the default investment option.</u>**	BETTER FINANCE is very concerned that a delegated act on the other investment option would make the PEPP overly complicated (see the awful precedent of the Commission Delegated Regulation (EU) 2017/653 on PRIIPs of 52 pages) and will prevent EU citizens as pension savers to access low cost and simple investment products such as listed equities and UCITS ETFs. BETTER FINANCE is opposed to this provision:

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

	~~be applied for the alternative investment options.~~		it will prevent savers from opting for simple and low costs alternative investments options such as index ETFs and equities.
CHAPTER IV- Investor Protection			
Article 43- Complaints			
16	Article 46(3) “The competent authorities shall set up procedures which allow PEPP customers and other interested parties, including consumer associations, to submit complaints to the competent authorities with regard to PEPP providers' and distributors' alleged infringements of this Regulation. In all cases, complainants shall receive replies.”		BETTER FINANCE supports this proposal to introduce cross border (collective) complaints and redress mechanism. The current legislative framework lacks a collective redress scheme for financial services, leaving many consumers unable to exercise their rights.
CHAPTER VIII- DECUMULATION PHASE			
Article 52 Forms of out-payments			
17	1.PEPP providers may make available to PEPP savers one or more of the following forms of out-payments: (a)annuities; (b)lump sum; (c)drawdown payments; (d)combinations of the above forms.		

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -

	2.The choice of the form of out-payments for the decumulation phase shall be exercised by PEPP savers upon conclusion of a PEPP contract and can be changed once every five years thereafter during the accumulation phase, if applicable.	2.To ensure a safe and effective retirement phase for the default investment option: - First, either fixed term annuities or draw-downs up to 80/85 years old maximum should be proposed to the PEPP saver. - A deferred life annuity subscribed at retirement and kicking off at 80/85 years the latest	

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu -