



EUROPEAN COMMISSION

Directorate-General for Financial Stability, Financial Services and Capital Markets Union

Director General

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Mr Steven MAIJOOR
Chairman
European Securities and Markets
Authority

Per email:
steven.maijoor@esma.europa.eu

Mr Gabriel BERNARDINO
Chairman
European Insurance and
Occupational Pensions Authority

Per email:
gabriel.bernardino@eiopa.europa.eu

Mr Andrea ENRIA
Chairman
European Banking Authority

Per email:
andrea.enria@eba.europa.eu

Subject: Request to issue recurrent reports on the cost and past performance of the main categories of retail investment, insurance and pension products – building a Capital Markets Union

Dear Chairmen,

Retail investor engagement is critical for building a Capital Markets Union. Encouraging and enabling Europeans to save more effectively to meet future financial needs is more crucial than ever against the backdrop of protracted low interest rates and demographic ageing. Greater retail engagement with capital markets is also critical for mobilising the capital needed for long term funding of the economy.

The Commission Communication on the Mid-term review of the Capital Markets Union stresses that retail engagement depends on the availability of attractive investment propositions on competitive and transparent terms.

We are committed to working together to improve transparency on the most widely used retail investment and pension products, starting from disclosure requirements set in recent legislation (MiFID II, PRIIPS).

Reporting on the cost and past performance of those investment products is therefore a central tool for the successful engagement of retail investors with the most common forms of capital market investment, and consequently for the development of capital market financing of the economy in the Union. This work should enhance retail investor participation in capital markets through increased awareness of the net return of retail investment products and the impact of diverse fees and charges.

This work will take shape as the first generation of disclosures are published. This represents an opportunity for EU public authorities to demonstrate a collective commitment to putting these disclosures to their most effective use and to enable individuals to take informed decisions when investing in capital markets.

The enclosed request invites the ESAs to issue recurrent reports on the cost and past performance of the main categories of retail investment, insurance and pension products. The request aims at providing a pragmatic/staggered approach to the issuing of reports by the ESAs, as discussed with your staff and agreed at the ESAs Joint Committee meeting of 19 September 2017. I would like to use this opportunity to thank you and your services for your interest in and understanding of the importance of this initiative.

My services will continue to cooperate with the ESAs on this work and stand ready to exchange views on its organisation. We will in particular wish to liaise closely with you in the start-up phase of this work and to share the findings of our emerging study on distribution of retail products.

Yours sincerely,



Olivier GUERSENT

c.c.: M. Suardi, T. Panova, E. Melngaile, J. Ceysens (Cabinet Dombrovskis), S. Berrigan, U. Bassi, A. Schaedle, N. Bohan, H. Arp, J. Lichtenberger, N. Berger, R. Jacob, S. Gentner, T. Lueder, F. Stanescu, M. Spolc, R. Painter, P. Nowak (FISMA)

Encl: Request to ESAs to report on the cost and past performance of the main categories of retail investment, insurance and pension products.

REQUEST TO THE EUROPEAN SUPERVISORY AUTHORITIES TO REPORT ON THE COST AND PAST PERFORMANCE OF THE MAIN CATEGORIES OF RETAIL INVESTMENT, INSURANCE AND PENSION PRODUCTS

With this formal request, the Commission invites the European Supervisory Authorities (ESAs) to issue recurrent reports on the cost and past performance of the main categories of retail investment, insurance and pension products.

This request implements the action announced in the Commission communication¹ on the Mid Term Review of the Capital Markets Union of 8 June 2017 on recurrent reporting by the ESAs of cost and performance of the main categories of retail investment, insurance and pension products. The action will contribute to the objective of the CMU Action Plan to foster the participation of retail investors in capital markets by supporting the assessment of the net return of retail investment products and the impact of diverse fees and charges.

The request is made in accordance with the possibility set out in founding Regulations establishing the European Supervisory Authorities (ESAs)² to request their input in areas of their competence, including the collection, analysis and reporting on consumer trends.

The reporting should be based on data and information originating from disclosures and reporting already required by Union law (e.g. UCITS, MiFID/MiFIR, IDD, IORP and PRIIPs) or national legislations, and collected in a direct or indirect manner.

Due to the expected difficulties in accessing the full set of data and making resources available for the work to be undertaken, a pragmatic and staggered approach should be envisaged. Specifically, the reports may be based on already available but potentially incomplete databases. Alternatively, collection of limited sample of data from the product manufacturers may be foreseen.

The first iteration should establish a baseline for the future cycles and serve also as a basis for the further development of the reporting, e.g. extension of the scope, modification of the methodology. The reporting should therefore include a description of data gaps and other difficulties faced during the implementation of the request, including any recommendations for the consecutive reporting cycles as appropriate.

The need for this request and the scope of the work to be undertaken has been agreed by the Joint Committee of the ESAs. The Commission, in close cooperation with ESAs, may revise and/or supplement this request and revise the timetable accordingly.

The European Parliament and the Council will be informed about this mandate.

This request will be available on DG FISMA's website once it has been transmitted to the European Supervisory Authorities.

¹ Mid Term Review of the Capital Markets Union: https://ec.europa.eu/info/sites/info/files/communication-cmu-mid-term-review-june2017_en.pdf

² Regulations (EU) No 1093/2010, 1094/2010 and 1095/2010 of the European Parliament and of the Council

1. CONTEXT

The objective of building deep capital markets requires that retail investors are attracted into capital-markets investment on a widespread and sustained basis. This goal will only be realised if retail investors have confidence that the investment solutions proposed yield a return that compensates for the corresponding level of risk or locking-up funds for a given period.

Under their founding Regulations one of the main missions of the ESAs is to contribute to enhancing customer protection and ensuring the integrity, transparency, efficiency and orderly functioning of financial markets. In order to achieve those objectives, the ESAs have a leading role in promoting transparency, simplicity and fairness in the market for consumer financial products or services across the internal market, including by collecting, analysing and reporting on consumer trends and by contributing to the development of common disclosure rules.

Clear, accurate, comprehensive and comparable information is a precondition if retail investors are to be encouraged back into capital markets. In recent years, the Commission and the ESAs have made significant progress in setting disclosure requirements of investment products; however, as stated in the ESAs' Joint Committee Report on Risks and Vulnerabilities in the EU financial System, a question remains "*whether investors make proper use of the information*"³.

Pre-contractual disclosure requirements and reporting to investors introduced through different legislative measures, e.g. UCITS, MiFID/MiFIR, IDD, IORPII and PRIIPs⁴ will generate data to power increased transparency at every level for products and distributors. However, in order to make a comparison among products, retail investors also need access to information at a higher level, i.e. categories and subcategories of investment products. Getting a broader picture of the performance and cost in retail investment would allow retail investors to better interpret the information available at product level and ease their investment decision making process.

The ultimate objective of this action is to ensure that these new disclosures and reporting are made easily accessible to, and effectively support, retail investors in their investment choices. Issuing recurrent reports on the cost and performance of the main categories of retail investment, insurance and pension products should enhance competition pressure and drive pricing discipline in these markets. It will also form a strong basis for public authorities, notably the Commission, to identify market segments and regions where investors are in a sub-optimal situation and identify those issues which call for careful analysis.

It will complement other actions set out in the CMU which aim to improve the functioning of retail investment markets, i.e. study on distribution systems of retail investment products across the EU⁵ and study on options for consolidation of mandatory disclosure requirements of retail investment products and related services.

The first iteration of reporting should also benefit from analysis and identification of observed differences in data availability across product categories

³ <https://esas-joint-committee.europa.eu/Publications/Reports/JC%202016%2047%20RSC%20-%20Joint%20Risk%20Report%20-%20Autumn%202016%20-%20Public.pdf>

⁴ To some extent also IORPII

⁵ See tender documentation: <https://etendering.ted.europa.eu/cft/cft-display.html?cftId=1746>

2. PRODUCTS SCOPE

Subject to the availability and accessibility of data (see details in Section 4), the following investment products should be covered:

- a) Products covered by PRIIPs - KID and UCITS – KIID:
 - UCITS investment funds,
 - AIF investment funds sold to retail investors for which KIID rules are applicable at national level,
 - Structured products (e.g. structured deposits and structured notes) sold to retail investors
 - Insurance-based investment products (with guarantee and with profit products as well as unit-linked life products)
- b) Personal pension products – 3rd Pillar - according to the definition provided in EIOPA's Advice on PEPP⁶ or PRIIPs definition of pension products: pension products which, under national law, are recognised as having the primary purpose of providing the investor with an income in retirement and which entitle the investor to certain benefits (see PRIIPs Regulation, art. (2(2e))).

At a later stage, the work should also cover:

- c) Defined Contribution occupational pension schemes, whose funding is provided either by insurance undertakings or institutions for occupational retirement provision (IORPs).

3. PRINCIPLES

The reporting of cost and past performance of different categories of the products, subject to the availability of data, should be based on the following principles:

- **Member State by Member State analysis:** Recent studies show strong disparities in terms of performance and level of costs and fees of retail investment products across the European Union. Product features and market size also differ from one to another, notably in the pension area. Performing a country by country analysis should make it possible to highlight these differences and cater for national specificities.
- **Comparability of indicators:** For investors to make informed decisions, it is important that they are able to compare the various products offered by financial providers within categories of products. The type of manufacturer (e.g. asset managers, insurance undertakings) which offers the various products or the legal nature of those products is often of less significance for investors. Whenever possible, the indicators should be reported in a comparable manner for all retail products of similar characteristic.
- **Level of aggregation:** Indicators should be computed and presented at the appropriate level of granularity with categories comprising products with broadly homogenous characteristics. Whenever possible, actively and passively managed products should be reported separately.
- **Net Return and impact of costs:** Work on net return should imply giving equal importance to returns and diverse costs which impact net returns. Whenever appropriate, the results should be presented against relevant indexes or other indicators.

⁶ EIOPA's advice on the development of an EU Single Market for personal pension products (PPP), EIOPA-16/457, 04 July 2016

- **All fees impacting the net performance of retail investment products should be reported, and** notably the investment costs (asset management fees, custodian fees) and possibly transaction costs, the **performance** fees, the administration costs, the fees and commissions charged by financial intermediaries, the initial charges (subscription fees) and exit charges (redemption fees).

Differences in fees between distribution channels - direct sale by product manufacturers / intermediated distribution through financial institutions / advised versus execution-only sales / new distribution channels such as fund supermarkets - should also be considered subject to data availability. This approach takes into account the fact that distribution costs are usually not made publically available given that each service provider has its own costs which may vary per type of service provided at point of sale (e.g. advice, execution services), per instruments concerned, amounts invested, number of transactions etc.

- **Time horizon:** The reporting on cost and performance should present the net return for varied periods of time. These intervals should be the same for all categories of investments products. They should preferably cover cost and performance over the last 1, 3, 7 and 10 years subject to data availability.

Different factors should be taken into account when determining the holding periods over which the performance indicators are calculated, such as the availability of historic data, the impact of the holding period on the depreciation of the one-off fees such as entry and exit fees and, where relevant, the liquidity / redeemability pattern of the investment products.

- **Inflation:** The impact of inflation should be taken into account. This principle is particularly relevant for insurance and pension products which have long investment horizons and for considerations around purchasing power, old age retirement, etc.

The qualitative and quantitative comparison of the costs and performance indicators of different categories of products should be provided both at the levels of each Member State and the EU, and should include: comparison between net returns of different categories of products, proportion of impact of costs on the net return; comparisons with benchmarks, when available, to establish qualitative reference points for gross return, and any other specific conclusions that can be drawn from the indicators.

4. DATA SOURCING

Sourcing the full set of data impacting the net performance of retail investment products is a critical consideration for achieving the objectives pursued. The information may not be obtainable from a single data service provider. Given the wide range and the diversity of retail investor products, simplification may need to be envisaged, notably by working on the basis of representative samples of products. The weightings of different product categories within the sample analysed should be adjusted so to reflect the volumes of different categories of products sold locally.

Product costs:

The UCITS KIID and underlying data for preparation of PRIIPs KID should be considered as the default source of information for costs at product level⁷. For some products, information on costs may be available through databases managed by national supervisors, third party service providers or on the websites of the manufacturers and distributors. For personal

⁷ For PRIIPs, the costs are forward-looking

pension products, which are exempted from PRIIPs Regulation, a specific process to source information would need to be designed. Where alternative or more effectively accessible data sources are available, these could be used as substitutes.

Distribution costs:

Product disclosures requirements may not include all specific distribution charges and costs. More particularly, the UCITS KIID and the PRIIPs KID do not always cover certain costs related to services such as investment advice. For Insurance-Based Investment Products (IBIPs) IDD includes obligations for transparency without specifying detailed measures on disclosures. The substance of the information may therefore vary across the different markets. Finally, although transaction and sale specific costs to be disclosed by intermediaries under MIFID may be used as a data source, the aggregation of PRIIPS and MIFID data may not be straightforward. Thus, gathering representative data on these additional costs on a sample basis should be envisaged.

Past performance:

UCITS KIID could serve as source of information about the past performance for UCITS and AIFs to which KIID rules are applicable at national level. Data on past performance that is fed in into commercial databases may be accessed indirectly via those sources. In order to get net performance figures, the information from these databases should be adjusted, whenever feasible, by taking into account extra costs (not included in these databases) such as the entry, exit, wrapping and transaction costs.

5. FIRST ITERATION

To allow for a quick implementation, the report for the first iteration(s) may be based on data that is already available, including privately managed databases, despite their limited coverage in terms of products and information thereon.

Alternative data sources may be used to complement or substitute for data of commercial vendors whenever accessible or deemed as essential for the analysis.

If privately managed databases do not provide the relevant data, data from regulatory data sources may be envisaged as measure for data collection.

In order to improve the scope of data and reporting, a description of the difficulties faced during the implementation of the first iteration should be included in the report, together with any appropriate recommendation for the consecutive reporting cycles.

6. STEPS

Step 1: Mapping of the cost and performance data requirements under EU or national legislation for pre-contractual disclosures and reporting to investors

Where relevant, the report should map existing requirements under Union or national law for pre-contractual disclosures and reporting to investors with the aim of better understanding the relevant information that is being published by manufacturers and distributors of the categories of the products in scope.

Step 2: Development of country specific methodologies

For each specific category/country, the appropriate methodology for sampling and gathering data to perform the steps of this request and for the presentation of a particular iteration of report should be developed.

It should describe the way the data collection will be performed, in particular: sources for data collection (private, public, own), the categories and names of providers; level of completeness and standardisation of data; when samples are foreseen, their scope and how their representativeness will be ensured, etc.

Step 3: Data collecting and processing

A meaningful set of sample data should be collected to allow for the creation of datasets encompassing the key product features and spanning Member States based on the methodology developed

The data should be assembled, analysed and reviewed in order to enhance comparability across Member States per the product categories for which data are available.

The creation of datasets of features for each product in the samples encompassing the key product features and spanning Member States could be envisaged.

Step 4: Reporting

The ESA should report on the costs and performance of the categories of products in scope across Member States.

Where possible, the first iteration(s) should also include analysis and identification of observed differences in data availability across product categories, including the development of recommendations for future iterations where appropriate.

Particular attention should be paid to the following:

- gaps between the needs and availability of data;
- impact of past, current and expected mandatory disclosure requirements and reporting to investors on the completeness or quality of data at the EU and national levels;
- issues of the data collection process: the steps, stakeholders, flow of data, costs of acquiring data;
- level of standardisation and comparability of data coming from different sources; accuracy of data, e.g. level of spotted error,
- differences (if any) between data providers

7. REPORT

The report should include the following aspects:

- 1) Presentation of the costs and performances of the main categories of products accompanied by the related calculation methodologies and assumptions made to aggregate the data
- 2) Difficulties faced during the data processing

- 3) Where appropriate, recommendations to improve the methodology for the consecutive reporting cycles

A dataset with detailed information about the relevant features of each investment product should be annexed to the report

8. TENTATIVE TIMETABLE

- a) First iteration

Step 1	Mapping disclosures	Q4 2017
Step 2	Development of methodology for the first iteration	Q1/Q2 2018
Step 3	Data collecting and processing	Q2/Q3 2018
Steps 4	First reporting on the costs and performances and data availability	Q3/Q4 2018

- b) Further iterations:

Timetable for the consecutive iterations will be communicated by the Commission based on the experience of the first iteration