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COMMISSION DELEGATED REGULATION (EU) .../...

of 18.12.2020

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

(Text with EEA relevance)

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE DELEGATED ACT

1.1. General background

Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP) introduces an EU-wide complementary personal pension savings framework.

Europe's population is ageing. In 2060, for every retired person there will be on average only two people of working age, compared to four today. As a result, despite the important reforms carried out by many EU Member States, the sustainability and adequacy of pension systems in the Member States will be under increasing strain. In particular state-run pension systems are already under pressure.

More savings are necessary to complement retirement incomes from traditional state-run pension systems by supplementary pensions. To this end, the PEPP Regulation is an important milestone on the road to addressing the pension gap and achieving a pan-European market for personal pension products within the Capital Markets Union.

It provides consumers with an additional option to save for retirement. The PEPP Regulation lays down the foundations for a pan-European personal pension market, by providing standardised rules for the core product features, such as transparency requirements, advice, investment rules, switching right, type of investment options, and type of out-payments.

1.2. Objectives

In accordance with the PEPP Regulation, the regulatory technical standards laid down in this delegated Regulation aim to achieve the following objectives:

- To ensure that consumers are given key information of the PEPP that is easy to read and provided in an understandable way, also in a digital format, which allows pension savers to take informed decisions of investment options that meet their long term pension savings needs.
- To ensure that relevant information is provided to consumers in a standardised way that facilitates understanding and comparability between investment options; this concerns comparability, where possible, between PEPP products and packaged retail investment and insurance products (PRIIPS) as well as comparability between different investment options of PEPP.
- To ensure that risk and possible return are displayed in an accurate, fair, clear and not misleading manner, at all times, so that the prospective PEPP saver is able to rely on the information when deciding on the long-term savings for retirement.
- To enable the PEPP savers to easily track and monitor the development of their PEPP savings, notably how they compare to the pre-contractual information given, allowing for continuous evaluation and a possible switch of the PEPP investment option or PEPP provider.
- To provide clear and enforceable criteria in order to enable the assessment of the effectiveness of any chosen risk-mitigation technique in a consistent way.
- To specify how costs and fees should be presented and what kind of costs are excluded from the cost cap for the default investment option (basic PEPP) to

ensure a level playing field amongst providers offering a distinct additional feature such as guaranteed return on capital.

1.3. Legal background

The regulatory technical standards (RTS), which are based on the empowerments set out Articles 28(5), 30(2), 33(3), 36(2), 37(2), 45(3) and 46(3) of the PEPP Regulation, into a single Commission Delegated Regulation, this choice being based on substantial links amongst the provisions laid down in the RTS.

2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

In accordance with Article 10(1) of Regulation (EU) No 1094/2010, before submitting the RTS to the Commission, EIOPA conducted an open public consultation from 2 December 2019 to 2 March 2020. Before the public consultation and for both consultation papers, EIOPA received joint opinions by its two stakeholder groups, Insurance and Reinsurance Stakeholder Group (IRSG) and Occupational Pension Stakeholder Group (OPSG). Further, EIOPA set up a consultative group of Expert Practitioners for the PEPP to discuss practical aspects of the developed ideas as well as exchanged views with the OECD and outstanding pension academics. On 24 February 2020, EIOPA organised a public hearing in which it sought stakeholder input. EIOPA carried out a consumer testing of the draft information documents. EIOPA also performed a cost-benefit analysis, which was included in the final report together with the outcome of the public consultation and EIOPA's responses to stakeholders. EIOPA sent the final report on RTS to the Commission on 14 August 2020, in accordance with the deadline set out in the PEPP Regulation.

3. LEGAL ELEMENTS OF THE DELEGATED ACT

This Delegated Regulation aims to specify some technical details of the PEPP regime that do not imply strategic decisions or policy choices. They complement the policy framework laid down in Regulation (EU) 2019/1238 with more details and clarifications for those elements covered by the empowerments.

- Chapter I lays down the requirement for information documents in an electronic format including online specificities such as layering.
- Chapter II introduces general requirements for the presentation and content of the PEPP key information document (KID), including 'what is the product', 'what are the risks and returns', 'what are the costs' and standard layout.
- Chapter III specifies the requirements for the review, revision and provision of the PEPP KID.
- Chapter IV specifies the requirements for the presentation of the PEPP benefit statement, including its standard layout.
- Chapter V lays down the requirements in relation to the costs and fees for the basic PEPP.
- Chapter VI sets out requirements for risk mitigation techniques including their objective, life cycling and the need to establish reserves, minimum return guarantees and holistic assessment of risks and returns.

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP)¹, and in particular Article 28(5), fourth subparagraph, Article 30(2), third subparagraph, Article 33(3), third subparagraph, Article 36(2), second subparagraph, Article 37(2), third subparagraph, Article 45(3), third subparagraph, and Article 46(3), third subparagraph, thereof,

Whereas:

- (1) Regulation (EU) 2019/1238 lays down uniform rules on the registration, manufacturing, distribution and supervision of personal pension products that are distributed in the Union under the designation pan-European Personal Pension Product (PEPP).
- (2) The PEPP information documents are crucial components of the PEPP framework. Those documents allow for relevant information to be provided to consumers in a way that facilitates understanding and comparability of the PEPPs and of different investment options.
- (3) To achieve comparability of PEPPs and packaged retail investment and insurance products (PRIIPs), the information requirements, where appropriate and relevant, should be aligned with Commission Delegated Regulation (EU) 2017/653² concerning the key information document for PRIIPs. In a few areas, it is necessary to tailor the requirements to a long-term pension savings product, which can be kept throughout an individual's career and life, with a particular focus on pension-specific risks, such as inflation and risks to maintaining contributions.
- (4) Given that online distribution is an important feature of PEPPs, it is particularly critical that consumers can easily access, understand and use the information presented in a digital environment. The design of the information documents should, therefore, be further developed to present the information in an effective and transparent way when provided using digital means such as website, mobile application, audio or

¹ OJ L 198, 25.7.2019, p. 1.

² Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents (OJ L 100, 12.4.2017, p. 1).

video. Those designs should facilitate provision of information by digital means in an appealing and comprehensible way. Layering of information should ensure sufficient flexibility in adapting the presentation to different types of digital means and to the evolving digital environment.

- (5) To provide consumers with key information of the PEPP that is easy to read and to understand, and to allow for comparability between PEPPs, it is necessary to have a high degree of standardisation. It is therefore necessary to establish mandatory templates for the information documents. To facilitate consumers' understanding of the PEPP as a long-term retirement savings product, the information requirements should be tailored to the pension objective of the PEPP, to deliver decision-useful information in an attractive and clear way for the potential PEPP saver and at the same time enabling the use of digital means of distribution of the information by the PEPP provider.
- (6) The classification of the risk-rewards profiles and the 'summary risk indicator' of the PEPP should follow the identified pension-specific risks and the objective to reach appropriate and stable retirement income. The design of the summary risk indicator should provide for a consistent and comparable risk categorisation and should be complemented by consistently derived supplementary information to distinguish 'superior' investment strategies and risk mitigation techniques from 'inferior' ones in order to provide consumers with relevant information about whether a riskier investment option indeed provides for the potential of relatively higher rewards.
- (7) Projections of future retirement income are important to the consumers' understanding of the PEPP and its suitability for the individual retirement objectives. The PEPP key information document (KID) should therefore display the results of the inflation-adjusted retirement outcomes of generic PEPP savers with defined accumulation periods and standardised contributions.
- (8) Key indicators for risks and costs should be designed to be applied to different potential PEPP investment options in a coherent and consistent manner. The disclosure of costs should focus on tangible, monetary amounts and should ensure comparability to the Basic PEPP's capped level of cost and fees.
- (9) A template is necessary for the PEPP KID. That template should be easily understandable and focus on information that is useful for consumers when taking decisions on saving in a PEPP and mitigate any potential behavioural biases.
- (10) In accordance with Article 26(2) of Regulation (EU) 2019/1238 PEPP providers are to ensure that PEPP KIDs are accurate, fair, clear and not misleading, at all times, so that the prospective PEPP saver is able to rely on the standardised information contained in the document when deciding on the long-term savings for retirement. Rules should therefore be laid down to ensure regular and appropriate review of the PEPP KID and, where necessary, timely revision of the PEPP KID.
- (11) Taking a decision on long-term savings for retirement is challenging, as future retirement needs may not be fully known and personal circumstances and careers may change. Therefore, even if the PEPP KID is designed to provide information useful for taking decision on saving in a PEPP in a comprehensible and reliable way, the prospective PEPP savers should have sufficient time – taking into account their needs, experience and knowledge - to understand and consider the relevant information before taking a decision on whether to save in a particular PEPP.

- (12) The PEPP Benefit Statement should be presented in a way that enables the PEPP savers to easily track and monitor the development of own PEPP savings. Whilst the PEPP Benefit Statement is by its nature personalised, it should be consistent with pre-contractual information and should allow for constant comparison amongst PEPPs in order to enable the PEPP savers to take informed decisions on changing the investment option, switching PEPP provider or adapting the contribution levels to achieve the PEPP saver's retirement objective.
- (13) In order to ensure the cost-efficiency of the Basic PEPP it is necessary to ensure that all costs and fees are included in the cost cap, except where it is necessary to ensure that Basic PEPPs that provide the additional product feature of the capital guarantee are not disadvantaged compared to Basic PEPPs which do not offer that product feature so as to ensure a level playing field.
- (14) The PEPP's risk-mitigation techniques are essential to foster appropriate investment strategies that are capable of achieving better pension benefit outcomes. For this purpose, clear and enforceable criteria are needed to enable the assessment of the effectiveness of the chosen risk-mitigation technique in a consistent way. Those criteria should therefore apply to the three main types of risk-mitigation techniques of life-cycling, setting reserves and guarantees, and take into account the specificities of those types. Those criteria should also apply to any new, innovative risk-mitigation technique in order to foster better retirement outcomes through innovation.
- (15) The long-term nature and the retirement income objective of the PEPPs require stochastic modelling which is a tool to forecast the probability of various outcomes under different conditions, so as to project future PEPP benefits in a reasonable manner. It is therefore necessary to ensure that stochastic modelling is used when assessing the risk profile and the potential performance of the investment strategies offered by PEPP providers, reproducing the range of possible PEPP benefit outcomes that could be observed in real life due to uncertain asset returns and contribution levels. Stochastic modelling should also be used when determining the appropriate levels of ambition in terms of risks, when building the performance scenarios for the PEPP KID and the pension benefit projections for the PEPP Benefit Statement as well when implementing the methodology for the summary risk indicator effectively. For this purpose, it is appropriate to establish certain references for the stochastic modelling to be used by the PEPP provider. The PEPP provider should remain free to adapt the stochastic modelling to reach the required objective and to integrate the models elaborated by the PEPP providers for other, similar products.
- (16) The provisions of this Regulation are closely linked. They deal with requirements concerning the information documents, the costs and fees for the Basic PEPP, as well as the risk-mitigation techniques. Due to substantive interlinkages between provisions in this Regulation and to enhance the consistency between different regulatory areas covered by this Regulation, it is appropriate to further specify the rules in those areas in a comprehensive and holistic manner. This is necessary in order to ensure a high level of consistency between the rules on high-quality product features and rules on the effective communication of those features to consumers. The rules for specific product features of the PEPP are necessary in order to achieve a holistic assessment of the balance of risks and rewards for the PEPP saver, whilst ensuring better pension outcomes through innovation and cost efficiencies through digitalisation. It is important to communicate these innovative approaches to consumers in a consistent and comparable way. To ensure coherence between the provisions, they should be included in a single Regulation.

- (17) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Insurance and Occupational Pensions Authority (EIOPA).
- (18) EIOPA has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Insurance and Reinsurance Stakeholder Group and the Occupational Pension Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council³,

HAS ADOPTED THIS REGULATION:

CHAPTER I

INFORMATION DOCUMENTS IN AN ELECTRONIC FORMAT

Article 1

Presentation of information documents in an online environment

Where the content of the pan-European Personal Pension (PEPP) key information document (KID) or PEPP Benefit Statement is presented using a durable medium other than paper, the presentation shall comply with the following requirements:

- (a) the information shall be presented in a way that is adapted to the PEPP saver's device used for accessing the PEPP KID or PEPP Benefit Statement;
- (b) where the size of the components in the layout is changed, the layout, headings and sequence of the standardised presentation format, as well as the relative prominence and size of the different elements, shall be retained;
- (c) font and font size shall be such that the information is noticeable, understandable and presented in a clearly legible format;
- (d) if audio or video is used, such speed of speaking and volume of sound shall be used which, given ordinary attention, makes the information noticeable, understandable and presented in a clearly audible format;
- (e) the information presented shall be identical to the information provided in the paper version of the PEPP KID or PEPP Benefit Statement respectively.

³ Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

Article 2

Layering of information

The layering of information in the PEPP KID or PEPP Benefit Statement respectively in accordance with Articles 28(3), 35(1) and (2), 36(1) and 37(1) of Regulation (EU) 2019/1238 shall have a design that does not distract the customer's attention from the content of the document or obscure any key information. In case of layering of the information, it shall be possible to print the PEPP Benefit Statement as one single document.

CHAPTER II

CONTENT AND PRESENTATION OF THE PEPP KID

Article 3

Section titled ‘What is this product?’

1. Information stating the long-term retirement objectives of the PEPP and the means for achieving those objectives in the section titled ‘What is this product?’ of the PEPP KID shall be summarised in a brief, clear and easily understandable manner. That information shall identify the main factors upon which investment return and pension outcomes depend, the underlying investment assets or reference values and how the return is determined, as well as the impact of contribution levels and the expected savings period until retirement. The principles of the applied risk-mitigation techniques, in particular the allocation of returns within a portfolio to the individual PEPP contract, shall be explained. It shall also refer to the type of the PEPP provider and to the resulting specific features of the PEPP contract.
2. The description of the type of PEPP savers to whom the PEPP is intended to be marketed in the section titled ‘What is this product?’ of the PEPP KID shall include information on the target PEPP savers identified by the PEPP provider. The determination of the type of PEPP savers to whom the PEPP is intended shall be based upon the ability of PEPP savers to bear investment loss and their investment horizon preferences, their theoretical knowledge of, and past experience with PEPPs and the financial markets in general, as well as the needs, characteristics and objectives of potential PEPP savers.
3. The details of PEPP retirement benefits in the section titled ‘What is this product?’ of the PEPP KID shall include in a general summary the key features of the PEPP contract. Those details shall in particular include the following:
 - (a) possible forms of out-payments as referred to in Article 58(1) of Regulation (EU) 2019/1238, and the right to modify the form of out-payments as referred to in Article 59(1) of that Regulation;
 - (b) a specification of each PEPP retirement benefit included, with an explanatory statement indicating that the value of those benefits is shown in the section titled ‘What are the risks and what I could get in return?’.
4. Where the PEPP contract covers biometric risk, information shall be included in the section titled ‘What is this product?’ of the PEPP KID on details of that coverage,

including a list of risks covered and the circumstances that would trigger the cover and the insurance benefits. The biometric risk premium, as described in point 54 of Annex VI to Regulation (EU) 2017/653, shall be presented in percentage terms of the annual contribution or in the form of the impact of the biometric risk premium on the investment return at the end of the accumulation phase, based on the generic holding periods used for the projected PEPP benefits. Where the premium is paid in the form of a single lump sum, the details shall include the amount invested. Where the premium is paid periodically, the number of periodic payments and an estimation of the average biometric risk premium as a percentage of the annual contribution shall be included in the information.

5. The section titled ‘What is this product?’ of the PEPP KID shall include the following information on the portability service:
 - (a) information that PEPP savers have, upon request, the right to use a portability service referred to in Article 17(1) of Regulation (EU) 2019/1238;
 - (b) information on which sub-accounts are immediately available;
 - (c) a reference to the EIOPA central public register referred to in Article 13 of Regulation (EU) 2019/1238, where information for the conditions for the accumulation phase and the decumulation phase of the national sub-accounts determined by Member States are contained;
 - (d) information on the choice provided for in Article 20(5) of Regulation (EU) 2019/1238 where the PEPP provider is not able to ensure the opening of a new sub-account corresponding to the PEPP saver’s new Member State of residence.
6. The section titled ‘What is this product?’ of the PEPP KID shall include information on the provision of the switching service, and in particular, information about switching possibilities provided for in Article 52(3) of Regulation (EU) 2019/1238. If the PEPP provider, in accordance with that Article, allows the PEPP saver to switch PEPP provider more frequently, the frequency shall be indicated in the PEPP KID. The PEPP KID shall specify whether the switching is free of charge. Where it is not free of charge, the PEPP KID shall disclose the associated costs.

The information on the provision of the switching service shall also include information about the right to receive additional information about the switching service as referred to in Article 56(2) of Regulation (EU) 2019/1238. This information shall be made available on the PEPP provider’s website and upon request by PEPP savers in accordance with Article 24 of Regulation (EU) 2019/1238.
7. The section titled ‘What is this product?’ of the PEPP KID shall include information on the conditions for modification of the chosen investment option. In particular, where relevant, information on any alternative investment options offered that the PEPP saver can switch to in accordance with Article 44 of Regulation (EU) 2019/1238. If the PEPP provider allows the PEPP saver to modify the chosen investment option more frequently than the minimum requirement, the frequency of possible modification shall be indicated and the disclosure shall specify that this modification is free of charge or disclose the associated costs.
8. The information related to the performance of the PEPP provider’s investments in terms of environmental, social and governance factors (‘ESG factors’) in the section

titled ‘What is this product?’ of the PEPP KID shall include narrative explanations and quantitative information, where available, on how the integration of ESG factors affects the actual and expected performance of the PEPP provider’s investments.

9. The section titled ‘What is this product?’ of the PEPP KID shall include information, where applicable, on whether there is a cooling-off period or cancellation period for the PEPP saver, and the consequences thereof, including all applicable fees and penalties for using the cooling-off period or cancelling the contract.
10. The information in the section entitled ‘What is this product?’ of the PEPP KID shall include a reference to the information on past performance of the PEPP’s investment options, as allocated to the PEPP savers. The information on past performance shall be made available on the PEPP provider’s website.
11. Where information is presented in an electronic format with layering of information, the first layer shall contain at least the following information:
 - (a) information referred to in paragraphs 1, 2 and 3;
 - (b) information on whether the PEPP contract covers biometric risk;
 - (c) information on either of the following:
 - (i) whether the Basic PEPP provides a guarantee on the capital or takes the form of a risk-mitigation technique consistent with the objective to allow the PEPP saver to recoup the capital;
 - (ii) whether and to what extent any alternative investment option, if applicable, provides a guarantee or a risk- mitigation technique.

Other information may be provided in the additional layers of detail.

Article 4

Section titled ‘What are the risks and what could I get in return?’

1. The information on the risk-reward profile of a PEPP, including the narrative explanations of the summary risk indicator in the section titled ‘What are the risks and what could I get in return?’ of the PEPP KID, shall be provided in a brief, clear and easily understandable manner. The information shall explain the objective and the results of the summary risk indicator to identify, in a standardised and comparable manner, different risk and reward profiles and that the summary risk indicator shall be regarded as a reference point when comparing different PEPPs’ risk-reward profiles. The PEPP provider shall clearly state that the PEPP summary risk indicator is different from and not comparable with the summary risk indicator of products falling under Regulation (EU) 1286/2014 of the European Parliament and of the Council⁴.

The information shall explain that a low risk-reward profile implies that the PEPP saver is more likely to receive a moderate retirement income, whilst a high risk-reward profile implies that the PEPP saver is more likely to receive a relatively higher or lower retirement income than lower risk-reward profiles. Narrative

⁴ Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) (OJ L 352, 9.12.2014, p. 1).

explanations shall identify the limitations of the summary risk indicator, including where relevant, the dependence of the risk-reward profile on the actual development of the investments, the saving period and the effectiveness of the applied risk-mitigation technique.

2. The required information, according to point (ii) of Article 28(3)(d) of Regulation (EU) 2019/1238 of the possible maximum loss of the invested capital in the section titled ‘What are the risks and what could I get in return?’, of the PEPP KID shall be complemented by information on the standardised, stochastically determined, accumulated capital at decumulation under a stressed scenario, equal to the fifth percentile of the distribution.
3. In the section titled ‘What are the risks and what could I get in return?’ of the PEPP KID, information on the standardised performance scenarios of favourable, best estimate and unfavourable, shall be presented in relation to the projected PEPP retirement benefits based on the following elements:
 - (a) the projections shall include four generic PEPP savers with 40, 30, 20 and 10 years until the end of the accumulation phase and be based on a standardised contribution level;
 - (b) the favourable scenario shall refer to the 85th percentile of the distribution, the best estimate scenario to the median and the unfavourable scenario to the 15th percentile of the distribution;
 - (c) the projected accumulated capital at the end of the accumulation period and the projected monthly retirement benefits shall be adjusted for the effects of inflation;
 - (d) the information shall contain narrative explanation, including nominal amounts, of the translation in today’s values due to the changes in purchasing powers over time.
4. Where applicable, the information on the conditions for returns to PEPP savers or built-in performance caps in the section titled ‘What is this product?’ of the PEPP KID shall make reference to the design and the allocation mechanisms of the applied risk-mitigation techniques.
5. The inputs, assumptions and methodologies for the information referred to in paragraphs 1, 2 and 3 shall be in line with Annex III.
6. Where information is presented in an electronic format with layering of information, the first layer shall contain at least the summary risk indicator and the projected PEPP retirement benefits of four generic PEPP savers, whereas the nominal projected benefits may be provided in the additional layers of detail. Other information may be provided in the additional layers of detail.

Article 5

Section titled ‘What are the costs?’

1. The information in the section titled ‘What are the costs?’ of the PEPP KID shall be provided in a brief, clear and easily understandable manner. Any costs and fees identified in the section ‘What are the costs?’ shall refer 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. If applicable, costs and fees charged to the prospective PEPP saver, before saving in the PEPP, shall be separately disclosed as ‘initial costs’. Costs and fees, both one-off and recurring, shall be presented as ‘total costs per annum’ in monetary terms and as a percentage of the accumulated capital, as defined by Article 2(24) of Regulation (EU) 2019/1238. The compound effect of the costs shall be presented based on a standardised monthly contribution by the PEPP saver in monetary terms, as specified in Part III of Annex III to this Regulation.

2. The section titled ‘What are the costs?’ of the PEPP KID shall contain the following information:
 - (a) information on the administrative costs arising from the PEPP provider’s activities when administering PEPP accounts, collecting contributions, providing information to members and executing payments;
 - (b) information on the following investment costs:
 - (i) costs of safekeeping of assets, including fees paid to the custodian for keeping assets safe and collecting dividends and interest income;
 - (ii) portfolio transaction costs, including actual payments by the PEPP provider to third parties to meet costs incurred in connection with the acquisition or disposal of any asset in the PEPP account;
 - (iii) other costs relating to the management of the investments;
 - (c) information on the distribution costs arising from marketing and selling the PEPP product, including the costs and fees related to providing advice;
 - (d) information on costs of guarantees charged to the PEPP saver for the financial guarantee to pay back at least the accumulated capital at decumulation and of any other financial guarantee provided under the PEPP contract.
3. Where a PEPP provider charges fees to recoup the incurred costs for initial advice during the initial term of the PEPP contract, before the PEPP saver has the right to switch the PEPP provider according to Article 52(3) of Regulation (EU) 2019/1238, the PEPP provider shall inform prospective PEPP savers about the total amount of those fees, the time period during which, and the frequency with which, such fees shall apply.
4. Where information is presented in an electronic format with layering of information, the first layer shall contain at least the following information:
 - (a) the information on total costs per annum in monetary terms and as a percentage of the accumulated capital at the end of the year, as specified in paragraph 1;
 - (b) if applicable, information on any initial costs.

Other information may be provided in the additional layers of detail.

Article 6

Standard layout of the PEPP KID

PEPP providers shall present the PEPP KID in accordance with Annex I. Where information is presented in an electronic format, the presentation by means of the template set out in that Annex may only be adapted to allow for layering of information.

CHAPTER III

REVIEW, REVISION AND PROVISION OF THE PEPP KID

Article 7

Review of the PEPP KID

1. PEPP providers shall, review the information contained in the PEPP KID in accordance with Article 30(1) of Regulation (EU) 2019/1238, every time there is a change that significantly affects or is likely to affect significantly the information contained in the PEPP KID and, at least, every 12 months following the date of the initial publication of the PEPP KID.
2. When carrying out the review referred to in paragraph 1, PEPP providers shall verify whether the information contained in the PEPP KID is accurate, fair, clear, and not misleading. In particular, it shall verify compliance with the following criteria:
 - (a) whether the information contained in the PEPP KID is compliant with the general form and content requirements under Articles 26, 27 and 28 of Regulation (EU) 2019/1238, and with the specific form and content requirements laid down in Article 6 of this Regulation;
 - (b) whether the PEPP's risks and rewards have changed, where such a change has the effect of that necessitating the PEPP's move to a different class of the summary risk indicator from that attributed in the PEPP KID subject to review.
3. For the purposes of paragraph 1, PEPP providers shall establish and maintain adequate processes throughout the life of the PEPP so as to enable the PEPP savers to identify at all times and without undue delay, any circumstances which might result in a change that affects or is likely to affect the accuracy, fairness or clarity of the information contained in the PEPP KID.

Article 8

Revision of the PEPP KID

1. PEPP providers shall promptly revise the PEPP KID where a review pursuant to Article 7 concludes that changes to the PEPP KID need to be made. PEPP providers shall ensure that all sections of the PEPP KID affected by those changes are updated.
2. The PEPP provider shall publish the revised PEPP KID on its website and inform the PEPP savers promptly in accordance with Article 7(3).

Article 9

Provision of the PEPP KID

1. The person advising on or selling a PEPP shall provide the PEPP KID sufficiently early so as to allow a prospective or current PEPP saver enough time to consider the document before being bound by a contract or an offer relating to that PEPP, regardless of whether or not the prospective or current PEPP saver is provided with a cooling off period.
2. For the purposes of paragraph 1, the person advising on or selling a PEPP shall assess the time needed by each prospective or current PEPP saver to consider the PEPP KID, taking into account the following criteria:
 - (a) the knowledge and experience of the prospective or current PEPP saver with the PEPP or with PEPPs of a similar nature or with risks similar to those arising from the PEPP;
 - (b) the complexity, long-term nature and limited redeemability of the PEPP;
 - (c) where the advice or sale is at the initiative of the prospective or current PEPP saver, the urgency explicitly expressed by the prospective or current PEPP saver of concluding the proposed contract or offer.
3. For the purposes of paragraph 1, if the PEPP KID is provided online, it shall comply with the following conditions:
 - (a) it shall be located in an area of the website or a mobile application where it can be easily found and accessed;
 - (b) it shall be provided in a stage of the purchase process where the prospective or current PEPP saver is allowed enough time to consider the document before being bound by a PEPP contract or an offer relating to that PEPP contract.

CHAPTER IV

PRESENTATION AND LAYOUT OF THE PEPP BENEFIT STATEMENT

Article 10

Presentation of the PEPP Benefit Statement

1. The information in the PEPP Benefit Statement shall be provided in a brief, clear and easily understandable manner. The information shall be presented in the following sequence, for each existing sub-account:
 - (a) information referred to in Article 35(1) and (2) of Regulation (EU) 2019/1238;
 - (b) in the section titled 'Product name', information referred to in points (a), (b) and (c) of Article 36(1) of Regulation (EU) 2019/1238;
 - (c) in the section titled 'How much have I saved in my PEPP?', the following information:

- (i) information referred to in point (i) of Article 36(1) of Regulation (EU) 2019/1238;
 - (ii) information on the total amount of the PEPP account, broken down by paid-in contributions and accumulated investment returns net of costs and charges since the PEPP saver started saving into the PEPP;
 - (iii) information on biometric risk premiums;
- (d) in the section titled ‘What will I receive when I retire?’, the following information:
- (i) information referred to in point (d) of Article 36(1) and point (d) of Article 37(1) of Regulation (EU) 2019/1238 and Article 4(3) of this Regulation, where the actual contributions, expected contribution levels and individual terms and conditions are applied;
 - (ii) where applicable, information on additional pension benefit projections based on national rules in accordance with Article 37(3) of Regulation (EU) 2019/1238;
- (e) information on the projected accumulated capital at the end of the accumulation period and the projected monthly retirement benefits;
- (f) in the section titled ‘How has my PEPP changed in the last 12 months?’, information referred to in points (e), (f) and (h) of Article 36(1) of Regulation (EU) 2019/1238 about the evolution of the PEPP account in the previous 12 months, reconciling the starting balance to the end balance by presenting contributions paid in, investment returns allocated to the PEPP account and costs and fees referred to in Article 5(2) of this Regulation;
- (g) in the section titled ‘Key factors affecting the performance of my PEPP’, information, where relevant, referred to in points (g), (j) and (l) of Article 36(1) of Regulation (EU) 2019/1238 and Article 3(10) of this Regulation;
- (h) in the section titled ‘Important information’, the following information:
- (i) information about any material changes to the PEPP terms and conditions referred to in Article 35(5) and (6) of Regulation (EU) 2019/1238;
 - (ii) indication where and how to obtain supplementary information referred to in points (a), (b), (c) and (e) of Article 37(1) of Regulation (EU) 2019/1238;
 - (iii) if applicable, a reference to the statement of investment policies considering ESG factors according to point (c) of Article 37(1) of Regulation (EU) 2019/1238.

Information referred to in point (c)(iii) of the first subparagraph shall be presented separately in accordance with Article 3(4).

Information referred to in point (e) of the first subparagraph shall be presented adjusted for the effects of inflation. The information shall be complemented by a narrative explanation of the translation in current values due to the changes in purchasing powers over time.

For the purposes of point (f) of the first subparagraph the compound effect of the costs on the projected accumulated capital at decumulation according to point (f) of

Article 36(1) of Regulation (EU) 2019/1238 shall be presented as ‘Reduction in Wealth’ as specified in Part III of Annex III to this Regulation.

The information referred to in point (g) of the first subparagraph shall refer to the past performance of the PEPP saver’s investment option, as allocated to the PEPP savers, and shall be provided for the previous ten years, if possible. If it is not possible to provide the information for the previous ten years, the information shall be provided for the longest period the PEPP saver has been saving into the PEPP. That information shall be presented as the average investment returns, net of investment costs, for the periods of the previous year, the three previous years, the five previous years and the ten previous years, as a percentage of the accumulated capital.

2. The assumptions for the information referred to in paragraph 1 shall be in line with Annex III.
3. Where information is presented in an electronic format with layering of information, the first layer shall contain at least the information covered in points (a), (b), (d) and (e) of paragraph 1. Other information may be provided in the additional layers of detail.

Article 11

Standard layout of the PEPP Benefit Statement

PEPP providers shall present the PEPP Benefit Statement in accordance with Annex II. Where information is presented in an electronic format, the template set out in that Annex may only be adapted to allow for layering of information.

CHAPTER V

THE COSTS AND FEES FOR THE BASIC PEPP

Article 12

Types of costs and fees for the Basic PEPP

1. 1.

The costs and fees referred to in Article 45(2) of Regulation (EU) 2019/1238, in relation to the Basic PEPP saver’s accumulated capital at the end of the respective year, shall comprise all actual incurred costs and fees, incurred directly at the level of the provider or at the level of an outsourced activity, including appropriate overhead costs and fees in relation to the saving in the Basic PEPP and distribution of the Basic PEPP. Those costs and fees shall include in particular the following costs:

- (a) administrative costs;
- (b) investment costs;

- (c) distribution costs.
2. Any costs and fees linked to additional elements or features of the Basic PEPP, that are not required by Article 45 of Regulation (EU) 2019/1238, and any costs and fees linked to the switching services as set out in Article 54 of Regulation (EU) 2019/1238, shall not be included in the costs referred to in Article 45(2) of Regulation (EU) 2019/1238.

Article 13

Costs and fees for guarantees the Basic PEPP

1. If the Basic PEPP provides for a guarantee on the capital, which is to be due at the start of the decumulation phase and during the decumulation phase as provided for in Article 45(1) of Regulation (EU) 2019/1238, the costs directly linked to that capital guarantee shall not be included in the costs referred to in Article 45(2) of Regulation (EU) 2019/1238.
2. The PEPP provider shall explicitly and separately disclose the costs charged for the capital guarantee under the section titled ‘What are the costs?’ in the PEPP KID and under the section titled ‘How has my PEPP changed in the last year?’ in the PEPP Benefit Statement.
3. Where relevant, the PEPP provider shall be able to provide evidence that the respective costs are directly linked to the capital guarantee at the request of the national competent authority or EIOPA.

CHAPTER VI

RISK-MITIGATION TECHNIQUES

Article 14

Objective of the risk-mitigation techniques

1. When using the risk-mitigation techniques for the investment strategy of the PEPP, PEPP providers shall set up an objective in line with the specific retirement objective of the PEPP saver or a group of PEPP savers, in accordance with the conditions referred to in Article 47(2) of Regulation (EU) 2019/1238.
2. The PEPP provider shall design the risk-mitigation technique in a way to achieve the objective of providing for stable and adequate individual future retirement income from the PEPP, taking into consideration the expected remaining duration of the PEPP saver’s or group of PEPP savers’ individual accumulation phase and the PEPP saver’s chosen decumulation option. To implement that objective, the risk-mitigation technique shall be designed in the following manner :
 - (a) ensure that the expected loss, defined as the shortfall between the projected sum of the contributions and the projected accumulated capital at the end of the

- accumulation phase, is not higher than 20% under the stressed scenario, which equals the fifth percentile of the distribution;
- (b) aim at outperforming the annual rate of inflation with a probability of at least 80% over a 40 year accumulation phase;
 - (c) take into consideration the results of stochastic modelling.
3. For the Basic PEPP, when the PEPP provider does not offer a capital guarantee as referred to in Article 13, the PEPP provider shall employ an investment strategy that ensures, taking into consideration the results of stochastic modelling, recouping the capital at the start of the decumulation phase and during the decumulation phase with a probability of at least 92.5%. However, where the remaining accumulation phase is equal to or less than ten years when taking up the Basic PEPP, a probability of at least 80% may be used when employing the investment strategy.
 4. When designing a risk-mitigation technique for a group of PEPP savers, the PEPP provider shall design the risk-mitigation technique in such a way as to ensure a fair and equal protection of each individual PEPP saver within the group and shall disincentivise opportunistic behaviour of individual PEPP savers within the group.
 5. PEPP providers shall ensure that any performance-linked remuneration of individuals acting on behalf of the PEPP provider and implementing the risk-mitigation techniques is conducive to the objective of the risk-mitigation techniques.
 6. PEPP providers shall safeguard the appropriateness, efficiency and effectiveness of the risk-mitigation technique through a dedicated process and provisions within the product oversight and governance framework, as required by Article 25 of Regulation (EU) 2019/1238. That framework shall be subject to a supervisory review and to supervisory reporting.
 7. Where a PEPP saver chooses a different investment option according to Article 44 of Regulation (EU) 2019/1238 or switches the PEPP provider according to Article 20(5) or Article 52 of that Regulation, the PEPP provider shall fairly contribute the allocated reserves, if any, and the investment returns to the leaving PEPP saver. The PEPP provider shall ensure that the allocation is equally fair towards the leaving PEPP saver and towards the remaining PEPP savers.
 8. In the case of adverse economic developments within three years leading up to the expected end of the remaining duration of the PEPP saver's accumulation phase, the PEPP provider shall extend the last phase of the life-cycle or the applied risk-mitigation technique by an appropriate additional time of up to three years after the initially expected end of the accumulation phase. Such extension shall be subject to the PEPP saver's explicit consent and shall be done in accordance with the conditions referred to in Article 47 of Regulation (EU) 2019/1238.

Article 15

Life-cycling

1. When using a risk-mitigation technique that adapts the investment allocation to mitigate the financial risks of investments corresponding to the remaining duration, the PEPP provider shall specify average exposures to equity and debt instruments

whilst ensuring compliance with Article 41 of Regulation (EU) 2019/1238 for all potential sub-portfolios corresponding to the phases of the life-cycling.

2. The PEPP provider shall design the life-cycling in such a way as to ensure that the PEPP savers furthest away from the expected end of the accumulation phase invest, to a contractually specified extent, in long-term investments which benefit from higher investment returns due to their specific higher risks and rewards characteristics, including illiquid or equity-type characteristics. For the PEPP savers closest to the expected end of the accumulation phase, the PEPP provider shall ensure that the investments are predominantly liquid, of high quality and exhibiting fixed investment returns.

Article 16

Establishing reserves

1. When using a risk-mitigation technique that establishes reserves from PEPP savers' contributions or investment returns, the PEPP providers shall set out in the PEPP contract, in a transparent and comprehensible manner, the allocation rules of the accumulated capital and the investment returns to the individual PEPP saver's account, to and from the reserves, and, if applicable, to the corresponding group of PEPP savers.
2. The PEPP provider shall allocate contributions and investment returns of the earmarked assets to the reserves in a transparent and comprehensible manner, with the objective of building adequate reserves in times of positive investment returns. Equally, the PEPP provider shall allocate from the reserves to the individual PEPP saver's account and, if applicable, to the corresponding group of PEPP savers, in a fair and transparent manner, in times of negative investment returns.
3. The PEPP provider shall clearly identify and earmark the assets invested for the PEPP savers. The PEPP provider shall not be able to trade assets on its own account with the assets earmarked for the PEPP savers.
4. In the first ten years of the establishment of a new PEPP, the PEPP provider may contribute to the establishment of the reserves by providing a loan or an equity investment to the PEPP savers' assets. In that case, the PEPP provider shall specify and present in a transparent and comprehensible manner in the PEPP contract the terms and conditions of its contribution and profit sharing, as well as the pattern of the gradual dis-investment over the maximum period of ten years.

Article 17

Minimum-return guarantees

1. When the PEPP provider offers minimum-return guarantees, the PEPP provider shall clearly describe the features, including limits and thresholds, of the guarantee and specify whether the guarantee applies to inflation-adjusted returns or to nominal returns.

2. The PEPP provider shall explicitly disclose in the PEPP KID and subsequently in the PEPP Benefit Statement whether the level of the guarantee is or is not adjusted for the annual rate of inflation.

Article 18

Holistic assessment of the PEPP's risks and rewards

For the purposes of Articles 3, 4, 5, 10 and 14, PEPP providers shall apply the methodologies laid down in Annex III.

Article 19

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 18.12.2020

For the Commission
The President
Ursula VON DER LEYEN