FESE response to the EIOPA consultation on the methodology for Value for Money (VfM) benchmarks

13th March 2024

Q1: Stakeholders are invited to provided inputs and views as to how value for money benchmarks should work and their usefulness for product comparability.

FESE cautiously welcomes the Commission's proposal to introduce “Value for Money” benchmarks in its Retail Investment Strategy. FESE believe that a clear focus on “cost-efficiency” is needed. Otherwise, if “cost” is the main indicator for constructing benchmarks, OTC products may benefit against transparent financial products traded on regulated trading venues. Analysing overall costs could appear cheaper for products traded OTC because they may not apply listing, trading, clearing, or settlement fees. As a result, these benchmarks, if constructed with a strong emphasis on the cost aspect without giving proper relevance and value to products offered via secure and regulated financial market infrastructures, will push retail investors away from regulated trading venues to the OTC space, which does not offer sufficient transparency and investor protection.

The reference to the notion of “high cost” could lead to legal uncertainty as the concept is rather broad and can vary depending on the investor. Thus, while the “Value for Money” of an investment could be a good tool for comparison, cost should not be the only parameter to take into consideration, as it would misrepresent certain financial products.

Furthermore, it will be extremely challenging to design benchmarks or cost calculation methods that can be suitable for all financial products and distribution channels. FESE sees a significant risk in constructing benchmarks that do not adequately match financial products, generating an inaccurate “Value for Money” which could lead to misallocation of invested capital and unsuitable investment decisions by retail investors. Broad benchmarking by way of regulation risks condensing investment choices on the mean, effectively concentrating the market on a few products, instead of favouring a landscape of diverse financial products.

Q2: Stakeholders are also invited to share whether they agree on what the benchmarks are and are not.

FESE agrees with the view that the indicators and VfM methodology are not targeted for consumers. We also understand that matching a benchmark is not a safe harbour in the sense of an exemption from the POG requirements. However, we do not agree with EIOPA’s view that a product may not deliver value for money even if it matches the relevant benchmark and outperforms investments in the same product cluster. This would contradict the intention and purpose of a benchmark.

Q3: Do you already have similar tools in your market that would serve the same purpose?

Q4: While EIOPA indicated that initially it will not publish the benchmarks, stakeholders are also invited to share views as to whether the benchmarks should be published or not already in the first initial phase.

FESE believes EIOPA should not publish the benchmarks during the initial phase. EIOPA should consider publishing benchmarks once they are properly calibrated and finalised. However, it is questionable whether benchmarks for supervisory purposes are also suitable for other purposes, such as investment decisions by retail investors. It is much more important for benchmarks under the Retail Investment Strategy to meet the needs of retail investors in a comprehensive, reliable, and non-discriminatory way.

Q5: Stakeholders' views on the approach to product clustering are sought.

FESE agrees with the idea of product clustering. However, it is important to ensure that clustering and benchmarking are suitable for all financial products. As mentioned in Q1, we see a significant risk in constructing benchmarks that do not adequately match financial products, generating an inaccurate "Value for Money", leading to misallocation of invested capital and unsuitable investment decisions by retail investors.

Q6: Do you agree with the essential and additional criteria for product clustering? Should additional criteria be collected?

Q7: Do you agree with the proposed approach to use the additional criteria to either develop more detailed clusters or to provide qualitative considerations on how to take these elements into account when looking at the benchmarks?

Yes, we agree with this proposal to include qualitative factors, especially with the proposal that takes into account the products' distribution channel. As indicated in Q1, the analysis of overall costs could appear cheaper for products traded OTC because they may not apply listing, trading, clearing, or settlement fees. As a result, these benchmarks, if constructed with a strong emphasis on the cost aspect without giving proper relevance and value to products offered via secure and regulated financial market infrastructures, will push retail investors away from regulated trading venues to the OTC space, which does not offer sufficient transparency and investor protection. Therefore, consideration of whether an instrument is traded on regulated trading venues is essential.

Q8: Do stakeholders think that for MOPs Option 1 would suffice or that Option 2, which would be more substantial in terms of reporting but also more precise and granular, should be preferred?

Q9: For Option 2 do you think the clustering approach should be revised by focusing more on the underlying options and less on some of the other essential product features?

Q10: For Option 2 do you think that the inclusion of the profit participation investment option in the asset class feature is appropriate for a correct interpretation of hybrid products?

Q11: Stakeholders are invited to provide feedback on the use of VfM Methodology Level II indicators, are these a good fit for the benchmarks? Should Level I indicators be used?

Q12: Stakeholders' views on the proposed indicators are sought, including on the intervals at which the indicators need to be assessed.

Q13: Stakeholders are invited to also provide feedback as to which indicators work best for which cluster/product features.

FESE believes the product clusters should be comprehensible and designed in a non-complex way and with only relevant indicators. Too many indicators would make it significantly more difficult to properly classify the cluster, which could lead to misinterpretations. The following indicators could be used:

- Net returns
- Reduction in yield (RIY)
- Return-to-cost-ratio (in absolute terms, total costs)

Q14: Do you believe additional indicators should be measured?

See Q13.

Q15: In case option 2 for MOP is chosen, do you think that more appropriate indicators applicable only to the single investment options should be identified?

Q16: Do you agree with the proposal of using PRIIPs KID assumptions for the moderate scenario for the calculations of the indicators? Should an additional scenario (point in time) being included to evaluate the current performance of the product?

The use of the standardised figures provided by the PRIIPs KID should be the primary source to calculate performance measures that ultimately lead to product cluster distribution.

Q17: Do stakeholders agree to use percentiles to define benchmarks?

FESE sees the risk of discrimination for investments being part of the lower percentiles which, nevertheless, may deliver value for money to investors. This also contradicts the argument in section 3.7 where a product is "not automatically complying with POG as some of the costs could still be undue and/or value for money is not proven". A product in a lower percentile without undue costs could be discriminated against a product within a higher percentile with undue costs.

Q18: Do stakeholders agree that percentiles should be defined once the data is available and that such percentiles should be adjusted as relevant?

Q19: In stakeholders' views are there some minimum/maximum percentiles which should be used?

Q20: Do stakeholders think that the data collection should be expanded?

FESE believes that the current process is working as intended and the scope is sufficient.

Q21: If yes, which data collection principles should be used?

Q22: Do stakeholders foresee a significant impact in the data collection in terms of resources and time in comparison to the current Cost and Past Performance data collection?

Q23: How would you assess the impact that the benchmarks methodology would have in your organisation? Please consider both the data collection and the use of the benchmarks when they will be available.

Q24: Do stakeholders agree with benefits of the proposed approach?

FESE does not fully concur that the proposed approach will achieve the expected conclusions.

It must be noted that incorrect clustering (grouping of products that are not comparable in all aspects) leads to incorrect evaluations, which would in turn lead to misallocations. Product manufacturers would also suffer a negative impact as a consequence.

Q25: Are there additional benefits in stakeholders' views?

Q26: What could be the costs of implementing Option 2?