

Opinion on the supervisory reporting of costs and charges of IORPs

1. LEGAL BASIS

- 1.1. The European Insurance and Occupational Pensions Authority (EIOPA) provides this Opinion on the basis of Article 29(1)(a) of Regulation (EU) No 1094/2010¹. This article mandates EIOPA to play an active role in building a common Union supervisory culture and consistent supervisory practices, as well as in ensuring uniform procedures and consistent approaches throughout the Union.
- 1.2. EIOPA delivers this Opinion on the basis of Directive (EU) 2016/2341² (the IORP II Directive), in particular in relation to Article 19(1)(a), Article 45(1), Article 46, Article 48(8)(a), Article 49 and Article 50 thereof.
- 1.3. This Opinion is provided to the competent authorities (CAs), as defined in Article 4(2) of Regulation (EU) No 1094/2010.
- 1.4. The Board of Supervisors has adopted this Opinion in accordance with Article 2(7) of its Rules of Procedure³.

2. CONTEXT AND OBJECTIVE

- 2.1. A transparent and comprehensive view of all costs and charges is essential for IORPs, social partners and supervisors to assess the value for money – considering costs in conjunction with risk and returns – and affordability of occupational pension schemes. According to the OECD⁴, annual costs and charges of 1% of assets reduce final pension

¹ 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.

² Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs), OJ L 354, 23.12.2016, p. 37.

³ Decision adopting the Rules of Procedure of EIOPA's Board of Supervisors, available at: https://www.eiopa.europa.eu/sites/default/files/publications/administrative/bos-rules_of_procedure.pdf.

⁴ OECD, Pension costs in the accumulation phase: Policy options to improve outcomes in funded private pensions, OECD Pensions Outlook 2018: https://doi.org/10.1787/pens_outlook-2018-en

income by more than 20% after 40 years of pension saving – or equivalently raise contributions by more than 20% to achieve a given level of retirement income.

- 2.2. The IORP II Directive establishes that the main objective of prudential supervision is to protect the rights of members and beneficiaries, as set out in Article 45 thereof. Article 46 of the IORP II Directive mandates Member States to ensure that IORPs are subject to prudential supervision including investment management. Furthermore, IORPs have to adequately protect the interests of scheme members and beneficiaries, as set out in Article 48 of the IORP II Directive, and in particular invest the assets in the best long-term interest of members and beneficiaries, as set out in Article 19 thereof. In addition, the IORP II Directive affords CAs the necessary powers to review the strategies, processes and reporting procedures established by IORPs to comply with the relevant regulations adopted pursuant to that Directive, as set out in Article 49 thereof, and the necessary powers and means to supply at any time information about all business matters, as set out in Article 50 thereof.
- 2.3. Directive 2014/65/EU⁵ (MiFID II) has imposed requirements on investment firms (brokers, portfolio managers) to disclose information on all costs and charges to clients, including IORPs. Pan-European Personal Pension products (PEPPs) are not occupational pension schemes, but they may be provided by IORPs. Regulation (EU) 2019/1238⁶ (the PEPP Regulation) requires providers to disclose a breakdown of all costs, incurred directly at the level of the provider or at the level of an outsourced activity or investment fund, in the PEPP key information document. The costs related to the PEPP are broken down by administrative, investment and distribution costs. Further, any additional charges for a financial guarantee must be disclosed separately.⁷
- 2.4. In the 2015 report on costs and charges of IORPs⁸, EIOPA found that there is a lack of detailed information and practical experience to obtain details on costs and charges in a number of Member States. In consequence, it proved not possible at that time to accomplish the original goal of the project to develop common definitions and

⁵ Article 24(4)(c) of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast), OJ L 173, 12.6.2014, p. 349: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0065>.

⁶ Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP), OJ L 198, 25.7.2019, p. 1.

⁷ Article 5 of Commission Delegated Regulation (EU) 2021/473 of 18 December 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; OJ L 99, 22.3.2021, p. 1; http://data.europa.eu/eli/reg_del/2021/473/oj.

⁸ EIOPA Report on Costs and charges of IORPs, EIOPA-BoS-14/266, 7 January 2015: <https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-14-266-Final-report-on-costs-and-charges-of-IORPs.pdf>.

breakdowns of costs and charges. Since then, the pension sectors in a number of European countries have taken initiatives to enhance the transparency of costs.^{9,10}

- 2.5. EIOPA surveyed existing national practices and gaps with regard to supervisory cost reporting among CAs in twenty Member States.¹¹ The answers to the questionnaire make clear that only a few CAs have a transparent view of IORPs' cost levels under their supervision. Most CAs receive costs information based on the IORPs' annual accounts, which follow national accounting rules and are commonly not subject to a look-through approach, i.e. including fees and charges of external investment funds/managers as well as transaction costs.
- 2.6. In addition, several CAs have also responded that IORPs are required to report data on costs to the CA directly through supervisory reporting, and others indirectly through disclosure documents envisaged by the IORP II Directive. Five out of twenty-five surveyed CAs collect transparent cost data from IORPs, explicitly disclosing all of the costs charged, in particular with respect to investment costs.
- 2.7. The main objective of the Opinion is to foster an effective cost supervision across the EU in order to enhance the value for money offered to members and beneficiaries, the cost efficiency of IORPs and the affordability for sponsors.
- 2.8. The supervisory reporting of transparent cost data will allow CAs to assess the cost efficiency of IORPs, the affordability for sponsors and the value for money offered to members and beneficiaries and consider the outcomes within the supervisory review process, including in the dialogues with the IORP's management board.
- 2.9. The cost reporting to CAs obliges IORPs to assess and manage their cost structure in a more comprehensive and transparent way, in particular where IORPs are now only considering direct and not indirect investment costs.
- 2.10. This Opinion further aims to facilitate risk-based and proportionate supervision of IORPs. In this context, CAs may take into account national specificities of the IORP sector to determine the requirements necessary for implementing this Opinion considering a risk-based and proportionate approach. In particular, EIOPA recognises that changing national reporting requirements to implement this Opinion may require substantial time.

⁹ See the (revised) set of recommendations for classifying and reporting costs in Federation of the Dutch Pension Funds, Recommendations on Administrative Costs, February 2016, The Hague: <https://www.pensioenfederatie.nl/website/engelse-website/publications-in-english/recommendations-on-administrative-costs>

¹⁰ The Cost Transparency Initiative (CTI) in the UK developed a set of templates to assist pension schemes in receiving standardised cost and charges information from asset managers: <https://www.plsa.co.uk/Policy-and-Research-Investment-Cost-Transparency-Initiative>

¹¹ See Annex of the cost-benefit analysis in EIOPA, Impact assessment - Opinion on the supervisory reporting of costs and charges of IORPs, EIOPA-BoS-21-427, 7 October 2021.

3. SUPERVISORY REPORTING OF COSTS AND CHARGES OF IORPS

Annual reporting of cost information

- 3.1. CAs should require IORPs to report on an annual basis information on all costs and charges.

Classification and definitions of IORP costs and charges

- 3.2. In the collection of information on costs and charges, CAs should distinguish the cost categories specified in the following high-level generic cost classification:

Cost category	Description
Investment costs	All on-going and one-off investment costs incurred in connection with the management of assets (excluding portfolio transaction costs): <ul style="list-style-type: none">▶ Fiduciary fees▶ Remuneration to the external asset manager for management of (discretionary) portfolios and for the management of the investment funds.▶ Internal management costs incurred for the management of assets▶ Investment administration▶ Costs of safekeeping of assets▶ Other asset management costs▶ Management costs for direct investments in property
Transaction costs	All costs incurred as a result of the acquisition and disposal of investments, including indirect transaction costs for when part of the portfolio is invested in one or more investment funds: <ul style="list-style-type: none">▶ Broker commissions and transaction taxes (explicit costs)▶ Amounts charged to investors at the entry into or withdrawal from an investment fund, in favour of the fund, the manager, and/or the already existing investors.▶ Subscription and redemption fees charged by underlying investment funds (indirect costs)▶ Acquisition costs (including investments in property and private equity)▶ Implicit transaction costs
Administrative costs	All administrative costs of the IORP: <ul style="list-style-type: none">▶ Collection of contributions/premiums, pension payments, accrued pension rights, value transfers▶ General administrative costs such as staff and premises▶ Communication to participants and employer▶ Oversight (certifying actuary, auditor) and advice (except for asset management related advice)▶ Costs of adapting to changes to the pension system
of which:	Costs of distribution, including distribution to sponsoring undertakings, where applicable
Costs paid by sponsors	Additional costs borne by the sponsor ¹² , not charged to the IORP

¹² For example transaction costs (broken deal costs), administrative costs (staff, IT equipment and office).

- 3.3. Annex 1 contains further definition of investment, transaction and administrative costs (Table 1) and a reporting template to assist CAs to collect the information on costs and charges of IORPs (Table 2).
- 3.4. CAs are encouraged to collect cost data at a higher level of granularity than the generic cost classification. The granularity of the classification can be increased by including more detailed cost categories or by distinguishing investment and transaction costs by asset class. A higher level of granularity will contribute to validating the cost data as well as explaining the differences in cost levels when comparing cost data of IORPs.
- 3.5. All costs should be reported in the reporting currency and as a percentage of average investment assets (including that related to third party investments). In addition, administrative, distribution costs and sponsor costs should be reported in the reporting currency per participant. The CAs should define whether the number of participants is the combined number of active members and pension beneficiaries or is only composed of active members. Where the IORP collects the investment and transaction costs data based on MiFID II disclosures by the service providers, this should be indicated in the reporting template submitted. The use of estimates should also be clearly communicated.
- 3.6. The 'administrative costs' category includes 'distribution costs'. To ensure consistency with the PEPP Regulation, IORPs providing PEPPs should also report this cost component separately. CAs may choose to apply this more detailed breakdown to other IORPs.
- 3.7. Where the sponsor is paying directly any cost related to the IORP, either in cash or in kind, and that cost is not charged to the IORP, and when reporting of such cost is deemed proportionate as referred to in paragraph 3.16, those costs should be reported as a separate cost category.

Cost reporting at scheme level, if IORPs provide multiple schemes

- 3.8. CAs should expect IORPs, where possible, to report at the level of the scheme or of the investment option where IORPs provide different schemes or investment options that differ in term of features, such as the investment strategy. Reporting at the level of schemes/ investment options will provide better insight in the costs for sponsors and plan members of a specific scheme and in the costs for plan members of a specific investment option. If there are no material differences in the cost structure, e.g. because the different schemes have the same investment policy, IORPs are not expected to differentiate cost reporting at the scheme level.

Principles for compiling the cost information

- 3.9. CAs should expect IORPs to apply the following principles in compiling the information on costs and charges:

Look-through and no-netting

- 3.10. In order for all costs and charges to be reflected in the reported costs, CAs should expect IORPs to apply a look-through approach, i.e. include all costs and charges incurred at the level of investment funds, managers, and transactions. Moreover, the no-netting principle should be applied, meaning that cost items should not be subtracted from income items and vice versa. The cost data that can be requested by IORPs from their portfolio managers and brokers in accordance with MiFID II rules is assumed to fulfil the look-through and no-netting principles.

Costs paid directly by sponsors

- 3.11. CAs should expect IORPs to report the costs paid directly by sponsoring undertakings, including pension administration activities that IORPs outsource to the sponsoring undertaking. The latter would require sponsoring companies to provide an estimate of the staff and resource allocated to the administration of the IORP. Including costs directly paid by the sponsor ensures that CAs receive cost data that will allow for greater comparability between IORPs which bear the administrative costs themselves and IORPs for which the sponsor bears (a substantial part of) these costs.

Matching principle of accounting

- 3.12. Reported costs are attributed to the accounting period to which they relate, and costs are stated in the accounts for the same period as the related revenues. For example, performance fees are stated in the accounts for the period in which the associated performance occurred, and not the period when the fee is paid.

Taxation

- 3.13. Indirect taxes are implicit in the price of a product or service and are thus payable by the IORP or by the investment fund. Examples are value-added tax (VAT) and transfer tax. Taxes that add to cost price should be stated as costs in the category under the relevant cost category where the tax in question applies. For example the VAT on asset management costs is attributed to and stated under investment management costs and transfer tax on direct transactions in property is attributed to transaction costs. Taxes that are levied on the investment return of IORPs or investment funds should not be stated as costs. Such taxes include, for example, withholding tax on dividends and interest (levies on direct return) and capital gains levies on book profits.

Reporting currency

- 3.14. Costs should be reported in the national reporting currency.

Estimations

- 3.15. If costs cannot be directly identified from IORP records or data provided by third parties, CAs should expect IORPs to estimate the costs, ensuring that the estimates are plausible and underlying assumptions can be verified. Therefore, IORPs are expected to indicate which costs are estimates, and which are not.

Proportionality

- 3.16. In applying the above principles, CAs should allow IORPs to apply a proportionate approach in terms of costs and benefits. The benefits of a more complete view of indirect costs and charges incurred at the level of investment funds, managers, and transactions in terms of accuracy may not outweigh the costs of obtaining this information. In some cases, a full look-through of costs and charges may also not be feasible. Similarly, the benefits of including costs paid directly by the sponsor in terms of comparability may be small relative to the costs for the sponsor to estimate/provide these data. In addition, even though an IORP provides different schemes with distinct investment strategies, distinguishing the costs and charges at scheme level may be relatively costly.

Guidance for IORPs to collect costs from asset managers

- 3.17. To assist IORPs in collecting costs and charges, CAs should provide IORPs with the templates included in Annex 2 and 3, to facilitate the collection of investment and transaction costs from their asset managers.
- 3.18. Under MiFID II, investment firms providing brokerage and portfolio management services have to provide, at the request of their clients, including IORPs, an itemised breakdown of all cost and charges related to investment and ancillary services as well as to financial instruments. Annex 3.1 provides this itemised breakdown of cost and charges and explains how the breakdown can be mapped to the cost categories 'Investment costs' and 'Transaction costs' of the generic classification above.
- 3.19. With regard to a higher level of granularity than the generic classification of cost reporting per asset class, investment firms are currently not required to disclose an asset-by-asset (ISIN-by-ISIN) breakdown of investment and transaction costs to their clients. However, as this is necessary to distinguish these costs by asset class, IORPs, being important institutional investors, could request investment firms to provide such a breakdown.
- 3.20. Not all investment and transaction costs items are included in the scope of MiFID II, most notably costs and charges related to direct investments in property and private equity. The Institutional Limited Partners Association provides guidance and a reporting template for fees, expenses, and carried interest of investments in private equity.¹³ For real estate investments, the European Association for Investors in Non-Listed Real Estate Vehicles provides a global standard for fees and costs.¹⁴
- 3.21. The template in Annex 3 can be used by IORPs to receive standardised granular cost

¹³ See <https://ilpa.org/wp-content/uploads/2016/10/ILPA-Reporting-Template-Guidance-Version-1.1.pdf>; and <https://ilpa.org/reporting-template/get-template/> (page visited on 11 February 2021)

¹⁴ Total Global Expense Ratio, see: <https://www.inrev.org/news/inrev-news/new-global-standard-fees-and-costs> (page visited on 11 July 2021)

and charges information from asset managers, and report the aggregated costs and charges information, which is a summary of key information across all investments, to the CA. The more granular information included in this template will provide IORPs with better insight in the main drivers of investment costs.

Proportionality

- 3.22. IORPs' cost reporting should be proportionate to the transparency and supervisory objectives of this Opinion and take a risk-based approach. In particular, CAs should have discretion to determine the level of cost reporting for DB IORPs, e.g. a lower frequency of reporting, reduced scope of cost reporting or full exemption for certain DB IORPs, where certain DB IORPs should be considered non-commercial small or non-commercial closed DB IORPs. As a first step to exercise this discretion and to determine the level of cost reporting, CAs may conduct a one-off fact-finding exercise to assess the national situation regarding the costs and benefits of cost reporting.

4. USE OF COST DATA FOR SUPERVISORY REVIEW AND OTHER SUPERVISORY ACTIONS

Comparative analysis of cost levels

- 4.1. Within their supervisory activities, CAs are expected to use the data to conduct comparative analysis of the cost levels reported by IORPs to assess:

Cost efficiency

- 4.2. Benchmarking costs across IORPs may improve peer pressure in the market. Cost information allows to identify inefficiencies in the investment supply chain, for example if the fiduciary manager does not choose the most cost efficient external asset managers, or if asset managers charge high fees.
- 4.3. Thematic reviews, for example, can identify whether conflicts of interest occur between IORPs and fiduciary managers as well as other asset managers (or as well whether costs add too much to employers' costs). Differences in cost levels of similar-sized pension funds (for instance for the same asset class) is an indicator of uncompetitive market or conflicts of interest that permit identifying outliers in the best interests of members.

Affordability to sponsors

- 4.4. The cost efficiency of IORPs has direct implications for the affordability to sponsors, in particular with regards defined benefit (DB) schemes. Costs are one of the relevant factors when assessing the affordability of DB schemes, and as such may play an important role in DB closures.

Value for money

- 4.5. From a consumer protection perspective, CAs should have a holistic view of IORPs costs and charges to ensure they provide value for money to members and do not use up savers' pension pots.
- 4.6. IORPs provide value to members, when their needs for retirement and investment

preferences, when these are expressed, are addressed¹⁵. The consideration of costs is part of the suitability of the investment policy to the IORP membership structure .

- 4.7. For “value for money” assessments, CAs are expected to take into account return and risk data, as well as the type and quality of the service provided, jointly with cost data, as absolute levels of costs do not give enough information to make this assessment.
- 4.8. Assessments should also compare against what other, similar pension schemes are paying (benchmarking). Although typically low costs are a good indication of better outcomes (they usually correlate with higher returns), the assessment of the efficiency, affordability and value for money requires to take into account the risk levels of the investment strategy and the net return (after costs) delivered.

Comparability of results

- 4.9. Costs should be reported in supervisory templates according to a comparable approach. CAs should compare “equals to equals”, taking into account differences between schemes (investment strategy) or IORPs (DB and DC, hybrids), decumulation options and the role of the sponsor, if relevant. In particular, costs need to be assessed taking into account the investment strategy, the risk profile of the IORP and the financial return achieved.
- 4.10. The comparability and usefulness of the cost reporting will generally increase with the comprehensiveness and granularity of the costs data. For example, including costs paid directly by sponsors increases comparability between IORPs where sponsors do and where sponsors do not bear such costs. As a second example, the collection of costs at the scheme level, where IORPs provide multiple schemes, will increase the usefulness of comparisons.

Supervisory review

- 4.11. In order to enhance efficiency, affordability and value for money, CAs should address the results of the comparative cost analyses in the supervisory review of IORPs, according to Article 49 of the IORP II Directive, including during the regular dialogue with the IORP’s management board.
- 4.12. CAs are expected to evaluate costs over time, assess whether IORPs act to improve the cost-efficiency of the schemes, and assess the consistency of cost reporting.

¹⁵ The importance of the membership structure is laid down in recital 45 of the IORP II Directive. The Opinion on the supervision of long-term risk assessment of DC schemes sets out EIOPA’s expectations on IORPs’ consideration of risk-return preferences in the conduct of long-term risk assessment from the perspective of members and beneficiaries and the design of the investment strategy. See EIOPA, Opinion on the supervision of long-term risk assessment by IORPs providing DC schemes, EIOPA-BoS-21/429, 7 October 2021.

Disclosure of costs

- 4.13. Taking into account confidentiality, CAs are encouraged to publish the outcomes of the analysis as well as aggregated cost figures. The publication of the results of benchmarking assessments can bring benefits to the market in the form of “peer pressure” for IORPs to select cost-efficient asset managers and improve further competition between service providers. In addition, cost data may be also used internally for official statistics and research activities.
- 4.14. CAs should encourage IORPs to disclose the reported costs and charges to the sponsor and to the public.

5. MONITORING BY EIOPA

- 5.1. Two years following the publication of this Opinion, EIOPA will look into the supervisory practices of the CAs with a view to evaluate supervisory convergence.
- 5.2. This Opinion will be published on EIOPA’s website.

Done at Frankfurt am Main, on 30 September 2021.

[signed]

For the Board of Supervisors

Petra Hielkema

Chairperson

ANNEX 1: SUPERVISORY COST REPORTING TEMPLATES

CAs are expected to require IORPs to submit cost reporting data to the CA using the template presented in Table 2 of this Annex. For the purposes of this Annex, the definitions in Table 1 of this Annex should apply.

Further breakdown of cost types and associated definitions in the tables below aims at securing uniformity of the reported data. IORPs should verify whether they have identified the full range of costs.

Table 1: Definitions	
Cost category	Definition
Investment costs	<p>All on-going and one-off investment costs incurred in connection with the management of assets (excluding portfolio transaction costs), which should include:</p> <ul style="list-style-type: none"> ▶ Fiduciary fees (risk management fee, remuneration strategic and fiduciary advice, including VAT); ▶ Remuneration to the external asset manager for management of (discretionary) portfolios (strategic and investment advice, research, the management of assets and liabilities), including any fees and charges paid through Net Asset Value (less management fee rebate); ▶ Remuneration paid to the external asset manager for the management of the investment funds. Services covered by the fund management fee include the day-to-day management of investment funds and portfolios, the administration thereof, reporting and communication with investors, including any fees and charges paid through Net Asset Value (less management fee rebate); ▶ Investment administration: remuneration paid to an administrator for the administration of assets and liabilities in the fund, and for other bookkeeping and reporting activities. Execution of administration of the investments may be outsourced to specialist companies by the pension fund and/or asset manager; ▶ Internal management costs: all expenses (operational costs) incurred for the internal management of assets, such as personnel costs allocated to the asset management, facility costs or advice costs borne by the IORP; ▶ Custody or safekeeping of securities in a fund, payable by the fund & depositary fees (AIFs), if not reported jointly with investment administration costs; ▶ Other asset management costs: fees incurred for the establishment of funds or partnerships, auditing costs of the investments, consultancy fees, and fees including financing fees, technology costs, performance fees including paid through NAV, tax advice; ▶ Stock lending and borrowing fees; ▶ For investments in property: management property expenses.
Transaction costs	All transaction costs, which should include costs incurred as a result of the acquisition and disposal of investments, including indirect transaction

	<p>costs for when part of the portfolio is invested in one or more investment funds:</p> <ul style="list-style-type: none"> ▶ Explicit costs such as broker commissions (exchange fees, settlement fees, clearing fees) and transaction taxes (financial transaction tax); ▶ Amounts charged to investors at the entry into or withdrawal from an investment fund, in favour of the fund, the manager, and/or the already existing investors; ▶ Indirect transaction costs: subscription and redemption fees charged by underlying investment funds; ▶ Acquisition costs (within investment funds or, in fund-of-funds structures) such as broken deal expenses, appraisal and auditing fees, fiscal and legal consultancy fees related to transactions, bank fees; ▶ Costs of direct investments in private equity; ▶ Implicit transaction costs, which represent the loss of value implied by the difference between the buying or selling price and the mid-market price of the asset (embedded in the bid-offer spread).
Administrative costs	<p>All administrative costs of the IORP:</p> <ul style="list-style-type: none"> ▶ Collection of contributions/premiums, pension payments, accrued pension rights, value transfers; ▶ General administrative costs such as staff and premises; ▶ Communication to participants and employer; ▶ Oversight (certifying actuary, auditor) and advice (except for asset management related advice); ▶ Where applicable, any cost for the distribution of the IORP, including to sponsors.
Costs paid by sponsors	<p>Additional costs borne by the sponsor¹⁶, not charged to the IORP</p>

¹⁶ For example transaction costs (broken deal costs), administrative costs (staff, IT equipment and office)

Table 2: IORP cost reporting template to CAs

Cost category	Definition	In reporting currency	In % of average assets under management	In reporting currency per participant for administrative, distribution and sponsor costs	[Optional: add columns per asset class]
Investment costs	All on-going and one-off investment costs incurred in connection with the management of assets including safekeeping of assets (excluding portfolio transaction costs)	[figure should be inserted]	[figure should be inserted]	Not applicable	[figure should be inserted]
Transaction costs	All transaction costs, which should include costs incurred as a result of the acquisition and disposal of investments, including indirect transaction costs for when part of the portfolio is invested in one or more investment funds.	[figure should be inserted]	[figure should be inserted]	Not applicable	[figure should be inserted]
Administrative costs	All administrative costs of the IORP	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]	Not applicable
Of which	Cost for the distribution of the IORP to sponsors	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]	Not applicable
Costs paid by sponsors	Additional costs borne by the sponsor ¹⁷ , not charged to the IORP	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]	Not applicable

¹⁷ For example transaction costs (broken deal costs), administrative costs (staff, IT equipment and office).

ANNEX 2: ITEMISED MiFID II CLASSIFICATION OF COSTS AND CHARGES TO BE DISCLOSED BY INVESTMENT FIRMS TO CLIENTS

For the reporting to the CA on investment and transaction costs in Table 2 of Annex 1, aggregated costs items as presented in Table 2 of this Annex can be used.

For that purpose, the MiFID II itemised tables included in Table 1 here below have to be collected, or aggregated where diverse service providers are providing services to the IORP, including where the IORP manages investments internally, in order to collect investment and transaction costs. IORPs can use the itemised MiFID II breakdown of costs relating to investment/ancillary services and financial instruments to calculate a generic classification of investment/transaction costs.

The following items will not be included in the MiFID II breakdown and would have to be added by the IORP itself:

- ▶ Direct investment costs of the IORP (i.e. staff and equipment);
- ▶ All charges and incidental costs related to direct investments in property and private equity;
- ▶ All costs related to transactions related to direct investments in property and private equity.

According to Article 24(4) of MiFID II and Article 50(2) of the Commission Delegated Regulation (EU) 2017/565¹⁸, firms should aggregate costs and charges in connection with the investment service and costs and charges associated with the financial instruments. Third party payments received by investment firms in connection with the investment service provided to a client should be itemised separately. The aggregated costs and charges should be totalled and expressed both as a cash amount and as a percentage.

This does not only apply to investment firms providing "portfolio management" services but also investment firms providing brokerage services relating to the "reception and transmission of orders in relation to one or more financial instruments" and the "execution of orders on behalf of clients".

According to Article 24(4) of MiFID II, where the client so requests, an itemised breakdown should be provided. Where applicable, such information should be provided to the client on a regular basis, at least annually, during the life of the investment.

Annex 2 of the Commission Delegated Regulation (EU) 2017/565 specifies the itemised breakdown to be provided:

¹⁸ Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, OJ L 87, 31.3.2017, p. 1.

Table 1 - itemised breakdown of investment and transaction costs according to Annex 2 of the Commission Delegated Regulation (EU) 2017/565

MiFID II Annex 2 - Table 1 - All costs and associated charges charged for the investment service(s) and/or ancillary services provided to the client that should form part of the amount to be disclosed

	Cost items to be disclosed:		Examples:
1.1	One-off charges related to the provision of an investment service	All costs and charges paid to the investment firm at the beginning or at the end of the provided investment service(s).	Deposit fees, termination fees and switching costs.
1.2	On-going charges related to the provision of an investment service	All on-going costs and charges paid to investment firms for their services provided to the client.	Management fees, advisory fees, custodian fees.
1.3	All costs related to transactions initiated in the course of the provision of an investment service	All costs and charges that are related to transactions performed by the investment firm or other parties.	Broker commissions, entry- and exit charges paid to the fund manager, platform fees, mark ups (embedded in the transaction price), stamp duty, transactions tax and foreign exchange costs.
1.4	Any charges that are related to ancillary services	Any costs and charges that are related to ancillary services that are not included in the costs mentioned above.	Research costs. Custody costs.
1.5	Incidental costs		Performance fees

MiFID II Annex 2 - Table 2 - All costs and associated charges related to the financial instrument that should form part of the amount to be disclosed

	Cost items to be disclosed:		Examples:
2.1	One-off charges	All costs and charges (included in the price or in addition to the price of the financial instrument) paid to product suppliers at the beginning or at the end of the investment in the financial instrument.	Front-loaded management fee, structuring fee, distribution fee.
2.2	On-going charges	All on-going costs and charges related to the management of the financial product that are deducted from the value of the financial	Management fees, service costs, swap fees, securities lending costs and taxes, financing costs.

		instrument during the investment in the financial instrument.	
2.3	All costs related to the transactions	All costs and charges that incurred as a result of the acquisition and disposal of investments.	Broker commissions, entry- and exit charges paid by the fund, mark ups embedded in the transaction price, stamp duty, transactions tax and foreign exchange costs.
2.4	Incidental costs		Performance fees

Currently, MiFID II does not include a requirement that investment firms should provide an ISIN-by-ISIN breakdown of costs and charges. ESMA’s Technical Advice to the Commission on the impact of the inducements and costs and charges disclosure requirements under MiFID II (31 March 2020, ESMA35-43-2126) recommends that investment firms should also be required to provide an ISIN-by-ISIN cost breakdown at the request of clients.

The industry¹⁹ has developed templates for asset managers to collect and disclose MiFID II cost data to clients, European MiFID II Template - Version 3.0. This template can be used as a starting point for the collection of data.

Where the IORP is relying on MiFID II itemised cost disclosures for the reporting of investment and transaction costs to the CA, the following cost items from Table 2 should be included in “investment costs” and “transaction costs” of Table 1 of Annex 2.

Table 2	
INVESTMENT COSTS	
1.1	One-off charges related to the provision of an investment service
1.2	On-going charges related to the provision of an investment service
1.4	Any charges that are related to ancillary services
1.5	Incidental costs related to the provision of an investment service
2.1	One-off charges related to the financial instruments
2.2	On-going charges related to the financial instruments
2.4	Incidental costs related to the financial instruments
*	Direct investment costs IORP (i.e. staff and equipment)
**	All charges and incidental costs related to direct investments in property and private equity

¹⁹ The MiFID II template has been developed by FinDatEx (Financial Data Exchange Templates), a joint structure established by representatives of the European financial services sector with the view to coordinate, organise and carry out standardisation work to facilitate the exchange of data between stakeholders in a application of European Financial markets legislation, [FinDatEx.eu](https://www.eiopa.europa.eu)

TRANSACTION COSTS	
1.3	All costs related to transactions initiated in the course of the provision of an investment service
2.3	All costs related to the transactions related to the financial instrument
***	All costs related to transactions related to direct investments in property and private equity

ANNEX 3: TEMPLATE FOR IORP'S COLLECTION OF COSTS DATA FROM ASSET MANAGERS AND OTHER SERVICE PROVIDERS

In order to report investment and transaction costs, following the -look through approach, IORPs can use the following template to request detailed cost data from fiduciary managers, external asset managers and other service providers.

Preferably the costs collected from the asset manager include the itemised list provided in Table 1 below, in order to enable the IORP to request a detailed report from fiduciary/external asset manager(s), and conduct a due diligence on the quality of the data provided by the fiduciary/asset manager(s) with regards investment and transaction costs.

When the CAs deem necessary to collect more granular data, CAs should request IORPs to provide more granular cost information than those included in the template in Annex 1. This can be done, for instance, by requesting the filled out template in Table 1 of this Annex in order to assess the reporting consistency.

Table 1: Template for IORP's collection of investment and transaction costs data from asset managers and other service providers				
Cost category	Definition	In reporting currency	In % assets	[Optional: add columns per asset class]
Investment costs	Total on-going and one-off investment costs incurred in connection with the acquisition or disposal of assets (excluding portfolio transaction costs):	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	Detailed costs broken down per item:			
	▶ Fiduciary fees (risk management fee, remuneration strategic and fiduciary advice, including VAT)	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	▶ Remuneration to the external asset manager for management of (discretionary) portfolios (strategic and investment advice, research, the management of assets and liabilities), including any fees and charges paid through Net Asset Value (less management fee rebate)	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
▶ Remuneration paid to the external asset manager for the management of the investment funds. Services covered by the fund management fee include the day-to-day management of investment funds and portfolios, the administration thereof, reporting and communication with investors, including any fees and charges	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]	

	paid through Net Asset Value (less management fee rebate)			
	▶ Investment administration: remuneration paid to an administrator for the administration of assets and liabilities in the fund, and for other bookkeeping and reporting activities. Execution of administration of the investments may be outsourced to specialist companies by the pension fund and/or asset manager	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	▶ Internal management costs: all expenses (operational costs) incurred for the internal management of assets, such as personnel costs allocated to the asset management, facility costs or advice costs borne by the IORP.	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	▶ Custody or safekeeping of securities in a fund, payable by the fund & depositary fees (AIFs), if not reported jointly with investment administration costs	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	▶ Other asset management costs (Fees incurred for the establishment of funds or partnerships, auditing costs of the investments, consultancy fees, and fees including financing fees, technology costs, performance fees including paid through NAV, tax advice)	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	▶ Stock lending and borrowing fee	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	▶ For investments in property: property expenses	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	▶ Costs of direct investments in private equity	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
Transaction costs	Total costs incurred as a result of the acquisition and disposal of investments, including indirect transaction costs for when part of the portfolio is invested in one or more investment funds:	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	Broken down cost per item:			
	▶ Explicit costs such as broker commissions (exchange fees, settlement fees, clearing fees) and transaction taxes (financial transaction tax)	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	▶ Buy and sell costs for direct holdings in investment funds: amounts charged to investors at the entry into or withdrawal from a fund (allocation or withdrawal of	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]

	monies to an investment fund), in favour of the fund, the manager, and/or the already existing investors.			
	▶ Indirect transaction costs: subscription and redemption fees charged by underlying investment funds.	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	▶ Acquisition costs (within investment funds or, in fund-of-funds structures) such as broken deal expenses, appraisal and auditing fees, fiscal and legal consultancy fees related to transactions, bank fees	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]
	▶ Implicit transaction costs, which represent the loss of value implied by the difference between the buying or selling price and the mid-market price of the asset (embedded in the bid-offer spread)	[figure should be inserted]	[figure should be inserted]	[figure should be inserted]