

26 March 2021

## Circular on the implementation of Regulation (EU) 2019/1238 on a pan-European Personal Pension Product (PEPP)

### 1.0 Introduction

[Regulation \(EU\) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product](#) hereinafter referred to as '*the PEPP Regulation*' or '*the Regulation*', was published in the EU Official Journal on 25 July 2019. Following the publication of [the Commission Delegated Regulation \(EU\) 2021/473 of 18 December 2020](#), the PEPP Regulation has been finalised and will commence to apply as from 22 March 2022.

The Regulation acknowledges the demographic challenges emerging from an ageing continent and recognises the need for portability for PEPP savers through the freedom of movement who chose to take up residence in another Member State other than the Member State of their citizenship. The aim of this product is to target the younger generation and mobile workers and to help facilitate further the right of European Union citizens to live and work across the European Union.

The purpose of this circular is to notify the market on the salient features of the PEPP Regulation and to gauge the interest of the market in distributing or manufacturing the pan-European Personal Product hereinafter referred to as '*PEPP*'.

### 2.0 What is PEPP?

The PEPP is a long-term savings personal pension product which can be provided by a financial undertaking as defined in paragraph 2.1 below and subscribed to by a PEPP saver with the aim of providing income on retirement. PEPPs should provide for long-term capital accumulation and thus the possibilities for early withdrawal before retirement should be limited.

PEPPs are considered as a complimentary pension product to the state pensions (first pillar) and occupational pensions (second pillar) and are thus categorised as third pillar pension products.

## 2.1 PEPP Providers and Distributors

The PEPP Regulation lists the following financial undertakings authorised or registered under European Union Law that are eligible to apply for registration of a PEPP:

- a) credit institutions authorised in accordance with Directive 2013/36/EU of the European Parliament and of the Council;
- b) insurance undertakings authorised in accordance with Directive 2009/138/EC of the European Parliament and of the Council, engaged in direct life insurance according to Article 2(3) of Directive 2009/138/EC and Annex II to that Directive;
- c) institutions for occupational retirement provision (IORPs) authorised or registered in accordance with Directive (EU) 2016/2341 which, pursuant to national law, are authorised and supervised to provide also personal pension products. In this regard, retirement scheme administrators registered under the Retirement Pensions Act are eligible to register a PEPP;
- d) investment firms authorised in accordance with Directive 2014/65/EU, providing portfolio management;
- e) investment companies or management companies authorised in accordance with Directive 2009/65/EC;
- f) EU alternative investment fund managers (EU AIFM) authorised in accordance with Directive 2011/61/EU.

A financial undertaking mentioned in points (a) to (f) above may also be authorised to distribute a PEPP which is not manufactured by them. As a consequence, the financial undertakings indicated above can also be PEPP Distributors. Other entities which can distribute a PEPP and thus fall under the category of a PEPP Distributor are investment firms providing investment advice, or insurance intermediaries as defined in Directive (EU) 2016/97 (the Insurance Distribution Directive).

The financial undertakings mentioned in points (a) to (f) above may commence providing and distributing a PEPP after the relevant application for registration has been submitted to and approved by the MFSA and the PEPP has been registered in the central public register held by EIOPA.

## 2.2 Types of PEPP

The PEPP product may offer up to six (6) investment options to PEPP Savers which shall include:

- the Basic PEPP which offers a default investment option and overall costs and fees which shall not exceed 1% of the accumulated capital per year; and

- in addition to the Basic PEPP, the product may offer up to five alternative investment options with different risk return profiles.

These investment options shall be designed on the basis of guarantee of the capital or on the basis of risk mitigation technique. The concept behind these investment options is to offer PEPP savers a safe product which allows for good returns and mitigate the investment risks and the effects of market volatility.

### 2.3 Features of the PEPP

#### Disclosures to PEPP Savers<sup>1</sup>

Prior to the conclusion of a contract, the PEPP saver shall be provided with a Key Information Document. This document enables PEPP savers to acquire further knowledge on the PEPP and thus identify any risks and rewards before signing up to the contract. When the contract is successfully concluded, PEPP savers shall be provided with a personalised PEPP Benefit Statement on an annual basis, which includes the amount of contributions made, costs incurred and investment returns. The statement should also include pension benefit projections.

#### Advice<sup>2</sup>

PEPP savers will benefit from advice, provided by the PEPP provider or PEPP distributor, both prior to purchasing a PEPP as well as prior to retirement. The advice shall include a personal recommendation explaining why a particular PEPP would best meet the PEPP savers' demands and needs and to ensure the most appropriate form of payments for their specific needs upon retirement.

#### Cross-border provisions<sup>3</sup>

The PEPP can be provided or distributed on a cross-border basis within the territory of a host Member State via the freedom of establishment and the freedom of services. In such instances, relevant notifications by the PEPP providers to the MFSA apply.

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<sup>1</sup> Section II of Chapter IV of the PEPP Regulation

<sup>2</sup> Section III of Chapter IV of the PEPP Regulation

<sup>3</sup> Chapter III of the PEPP Regulation

#### Portability<sup>4</sup>

PEPP savers shall have the right to use a portability service when changing their residence to another Member State by opening a PEPP sub-account with the same PEPP provider in their new Member State of residence (where the PEPP provider makes such an option available). Where such an option is not available, PEPP savers will be given the possibility to switch provider, free of charge and without delay, or to continue to contribute to the PEPP within the previous country of residence.

#### Switching<sup>5</sup>

PEPP savers will have the right to switch PEPP providers at a capped cost after a minimum of five years from the conclusion of the contract, and in case of subsequent switching, after five years from the most recent switching. A PEPP provider may allow PEPP savers to switch PEPP providers more frequently.

#### 2.4 Reporting to the MFSA

Once registered the PEPP provider shall report to the MFSA via reporting quantitative templates on an annual basis. The PEPP provider shall also submit to the MFSA any information which is necessary for supervisory purposes of supervision, in addition to the information provided under the relevant sectorial law.

#### Conclusion

Finally, pursuant to this Circular, the MFSA is issuing a [Survey](#) with the aim of gauging the interest of the market in this product. The deadline to complete the Survey is Friday 23 April 2021.

Any queries or requests for clarifications in respect of the above should be sent by email on [pepp@mfsa.mt](mailto:pepp@mfsa.mt).

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<sup>4</sup> Section II of Chapter III of the PEPP Regulation

<sup>5</sup> Chapter VII of the PEPP Regulation