Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

OPINION

on

Proposal for a Regulation of the European Parliament and of the Council on a Pan-European Personal Pension Product
(PEPP) [COM (2017) 343 final - 2017/0143 (COD)]

(own-initiative resolution)

Sofia, 2018

The Economic and Social Council included in its Action Plan an opinion on the Proposal for a Regulation of the European Parliament and of the Council on a Pan-European Personal Pension Product (COM (2017) 343 final - 2017/0143 (COD)]". The elaboration of the opinion was assigned to the Budget, Finances, Insurance and Social Security Commission of ESC.

For rapporteurs on the opinion were appointed Prof. Dr. Neno Pavlov - Chairman of the Budget, Finances, Insurance and Social Security Commission of ESC, member of ESC Group 3 - other organizations, and Dimitar Manolov - member of ESC Group 2 - trade unions.

At its plenary session held on 25 May 2018 ESC discussed and adopted this opinion.

ABBREVIATIONS USED

- GDP - Gross Domestic Product
- BPCEU - Bulgarian Presidency of the Council of the EU
- MS - Member States
- TEU - Treaty on European Union
- VPF - Voluntary Pension Funds
- TFEU - Treaty on the Functioning of the European Union
- SG - State Gazette
- EESC - European Economic and Social Committee+
- EU - European Union
- EC - European Commission
- ESC - Economic and Social Council
- BFISSC - Budget, Finances, Insurance and Social Security Commission of ESC
- FSC - Financial Supervision Commission
- PPI - Personal Pension Insurance
- CoM - Council of Ministers
- MF - Ministry of Finance
- NA - National Assembly
- PEPP - Pan-European Personal Pension Product
- CEU - Council of the EU
- CEE - Central and Eastern Europe
- EIOPA - European Insurance and Occupational Pensions Authority
- CMU - Capital markets union

Key findings and recommendations

1. The Economic and Social Council (ESC) joins the opinion of the European Economic and Social Committee (EESC) of 19 October 2017 on the benefits, risks and challenges of implementing the proposal for a Regulation on a Pan-European Personal Pension Product (PEPP) in all Member States as a step towards promoting and increasing additional personal savings for a pension[1]. Moreover, its development is in line with the main challenge to the public policy of the European Commission (also confirmed in the White Paper of 2012[2]) to ensure, in the long term, sufficient and sustainable post-pension retirement benefits based on a mix of state, occupational and personal pension schemes developed by EU countries.

2. ESC shares the initiative of the European Parliament and the Council to supplement and further develop the existing national pension schemes for personal retirement provision with new pension products, for mobile workers, self-employed workers, etc., working in different Member States, to accumulate additional, long-term investment resources to develop capital markets across the EU. However, there are serious concerns about the extent to which the proposed Regulation and the existing European directives as a basis for defining a specific range of new product suppliers will be a necessary and sufficient condition for achieving adequacy, sustainability and security in the further development of the additional voluntary pension insurance with personal contributions in Bulgaria and other Member States.

3. ESC welcomes the main objective of the Regulation to promote additional savings on the basis of greater cross-border choice and variety of suppliers and products for personal retirement provision that enable insured persons to rely on capital and investment-based capital markets. Analyses show that not only the development of the personal pension product markets is currently uneven, but also the structure of pension systems, investment regulation, the tax treatment of products, accessibility and cross-border ownership across the EU. At the same time, the ESC draws attention to the extent to which PEPPs will be able to fulfil the function of universal investment products across the EU as they are to a certain extent related to national social policies, in particular to pension policies which are prerogative and function of each individual Member State.

4. ESC shares the view that, with the easing of savings money from long-term investments and free cross-border movement of financial capital, the proposal for a regulation opens the way to

[1] EESC opinion on the Economic and Monetary Union, Economic and Social Cohesion, on the Proposal for a Regulation of the European Parliament and of the Council on a pan-European personal pension product (COM (2017) 343) final - 2017/0143 (COD)], Brussels, 2017.

[2] White Paper on Adequate, Safe and Sustainable Pensions Program, Brussels, 16.02.2012, COM (2012) 55 final.

systematically providing a fresh, long-term financial resource for strengthening and growth of the EU single capital market, large and priority infrastructure projects. At the same time, ESC expresses some reservations as to whether the unquestioned prudence of this objective will be able to meet the needs of European citizens who do not save for a personal supplementary pension[1], not because there is no pan-European pension product available, and because of the trivial cause, that they have no financial opportunities for this (due to unemployment, low income, precarious or seasonal employment), do not feel secure in their financial knowledge, or do not trust long-term savings in specific financial institutions with social security character.

5. ESC supports the strong experience of the EP, the Council and the EC to create a sign of quality and security of personal pension products within the EU, to increase consumer confidence in the third pension pillar, to provide greater choice of suppliers and to ensure uniform, standardized conditions for competition in the pension products market. At the same time, ESC draws attention to the fact that the a priori exclusion from the scope of providers under the Regulation of well-established and long-term voluntary pension funds offering personal pension products in the Member States under national law, from whom the concept of defining the characteristics, organization and structure of the OERP is borrowed - is incompatible with the formulated objectives.

6. ESC shares the view that harmonizing the offer of PEPP electronically fully corresponds to the development of digital technologies and it can provide suppliers with economies of scale and lower costs for the sale of PEPP respectively to free up resource for product innovation and improvement of the service provided, which is undoubtedly in the interests of depositors and beneficiaries. In parallel, ESC stresses that the protection of personal data in the context of PEPP is becoming a fundamental issue for ensuring the quality, security, sustainability and strategic success of the proposed cross-border pension product.

7. ESC agrees that when in Member States (such as Bulgaria) the poverty rate among the adult population is high and the solidarity (state) social security system is unable to provide adequate and sustainable pension income, it can hardly be expected that PEPPs will guarantee the desired high growth in retirement savings, as it will, in itself, be most attractive to mobile professionals (incl. for self-employed persons, non-standard employment, etc.) working in different Member States during the period of their professional life. In this sense, according to the ESC, the proposal for a regulation on PEPP should be seen as a fundamental, initial stage in the process of building a larger pan-European third-pillar pension market, similar to the CMU[3], rather than as a means

[3] The capital markets union (CMU).

of financing capital markets with the additional accumulated personal pension assets in the individual accounts of EU citizens.

8. Undoubtedly, in the spirit of pan-European values, the proposal of the EP, the Council and the Commission for a regulation aims to help cross-border tax obstacles to long-term pension savings for European citizens. In the Impact Assessment of the Proposal[4], the Commission firmly states that, without specific tax incentives, the PEPP could not ensure the growth of the personal pension insurance market within the EU[5]. ESC draws attention to the fact that the decision on the introduction of the PEPP by means of a directly applicable regulation at the European level rather than a Directive may be effectively frustrated by the reluctance of individual Member States to voluntarily accept the EC Recommendation on the Tax Treatment of Products for Personal Pensions provision in the context of the concept of PEPP.

9. ESC recommends to the national state institutions to develop a long-term strategy for the development of the third pillar of the pension system in the context of the challenges to the introduction and harmonization in the shortest possible time of the main characteristics of the PEPP, in collaboration with the social partners, the non-governmental sector and leading academics. To propose adequate long-term solutions for the future development of personal and occupational voluntary retirement provision based on shared knowledge, innovations and values, priority objectives, policies and good retirement practices in the developed countries of the EU.

10. Among the many challenges and difficulties faced by the development and dissemination of PEPP in the EU, particular attention should be paid to the discussion question: Is it appropriate and necessary to allow suppliers to partially reconcile the characteristics of the standardized GMES with the specificities of local retirement markets as long-term values, experience, consumer demand, traditions and development trends, in the context of large differences and the existing diversity of pension models and products in individual Member States?

Introduction

[4] See: Commission Staff Working Paper "Summary Impact Assessment" accompanying the Proposal for a Regulation of the European Parliament and of the Council on the MEPP and Commission Recommendations on the Tax Treatment of Personal Pension Products, incl. of the PEPP, COM (2017) 343 final, CWD`2017) 243 final, EC, Brussels, 29.06.2017.

[5] See: Recommendation of 29 June 2017 on the tax treatment of products for personal retirement provision, incl. of the pan-European product for personal pension insurance, C (2017) 4393final; EP proposal of 23 February 2018 for a Resolution with Recommendations to the Commission on Tax Treatment of Personal Pension Products, incl. of PEPP (2018/2002 (INL), EP, Committee on Economic and Monetary Affairs, 2018/2002 (INL).

11. Under the concurrent procedures in the European legislative process, the proposal for a Regulation[6] is currently being considered and discussed across the EU by all stakeholders in the Member States. We believe that the analyses, assessments, opinions and concrete proposals prepared on this international basis will undoubtedly influence positively the improvement of its original draft legislative proposal[7]. Although the ESC refers to the published proposal for a Regulation when drafting this opinion, the revised version will in no way downplay and devalue in a timely manner the shared expertise and civic position presented in this ESC opinion.

Pan-European context of the PEPP proposal

12. ESC notes that the realization of the Proposal for the creation of the PEPP with a special regulation has an indisputable legal basis under Art. 114 of the Treaty on the Functioning of the European Union (TFEU), which authorizes the adoption of measures to approximate national provisions for the completion of the internal market. According to Art. 4 TFEU, EU action to develop this market should be assessed in the context of the principle of subsidiarity[8] (as set out in Art. 5, para 3 of the Treaty on the European Union - TEU). From this point of view, ESC shares the finding that the objectives of the PEPP proposal could not be achieved by the Member States (incl. by Bulgaria) within and with the means of national legal systems, as the uncoordinated efforts of Member States (regardless whether on the central, regional or local level) can not overcome the existing legal fragmentation in the regulation of pension products, requiring providers to meet all requirements, which could discourage cross-border insurance activities for mobile citizens.

13. ESC recalls that, in accordance with the principle of proportionality[9], the content and form of action of the EU institutions must not go beyond what is necessary to achieve the objectives of the Treaties. The alternative - 'harmonization' of national regimes - would allow the objectives

[6] See: Proposal for a Regulation of the European Parliament and of the Council on a pan-European personal pension product (PEPP), SWD (2017) 243 final, SWD (2017) 244 final, EC, Brussels, 29.06.2017, COM (2017) 343 final, 2017/0143 (COD).

[7] Concerning the summary proposals submitted by the Member States, see: Presidency notes on modifications of the PEPP regulation, Working Document 12; Eligible PEPP providers - Art. 5(1)(c), Working Document 9, EK, Brussels, 29.06.2017, COM Financial services Working Party, Bulgarian presidency of the Council of the EU, 2018.

[8] Subsidiarity is a principle for distinguishing the responsibilities of Member States from those of the EU. Answers the question: "Who needs to take action?" If the EU has exclusive competence in the field, it should take action. If the EU and the Member States share competence, the principle lays down the primacy of Member States to implement concrete actions and policies. The EU does so only when Member States cannot achieve their objectives / incl. for reasons of scale), while the EU can achieve them to a greater extent.

[9] The principle of proportionality defines the way in which the EU should exercise its competence. It answers the question: "In what form and by what nature should the EU actions be?" It is important that the specific action of the EU does not go beyond what is necessary to achieve the objectives of the Treaties.

to be attained but, at the same time, it would require full harmonization of extremely diverse national situations and regimes across the wide spectrum of well-developed private pension provisions in some Member States and underdeveloped in others. Harmonization would cause too much financial burden to achieve the stated objectives and policies. Therefore, ESC has joined the EU-wide approach to the creation of a PEPP and to complement the products marketed by existing domestic, national pension schemes.

14. The proposal for a Regulation establishes a common European framework for a voluntary personal pension scheme to be applied in parallel to national retirement plans for all Community citizens wishing to benefit from additional savings[10]. It is particularly necessary and useful for mobile people, for those who do not yet have access to occupational pension schemes (such as self-employed) in individual countries, and where personal pension products offered on national markets are not sufficiently innovative, reliable and attractive. It should be borne in mind that the proposed new product framework for PEPP does not replace or harmonize existing national personal pension products in the EU Member States. Rather, it should improve the retirement protection of insured persons through the organization and the main features of the product, providing the flexibility needed for suppliers to offer PEPPs in a manner consistent with their business model.

15. PEPP is a cross-border pension product with standardized characteristics whose sale to the market is based on direct negotiation between the insured depositor and the supplier / distributor organization. Its purchase is voluntary and organized with the right to use a tax preferential savings mechanism to provide additional retirement income through savings in the form of social security contributions, investment in instruments and capitalization of realized investment income in personal pension accounts. It is the Commission's expectation to increase the growth of assets on the personal pension insurance market to 2.1 trillion Euros by 2030 as by 2017 only 27% of citizens aged 25-59 living in the EU make personal pension savings for the post-retirement period. Probably the positive social impact will most likely occur in Member States where there is a more limited choice of products for personal retirement provision and limited access to occupational pension schemes.

16. ESC believes that PEPP can be a reliable way of overcoming the existing barriers to the development of localized internal markets for personal pension insurance due to the fragmentation in the structure of pension systems in the EU, the heterogeneous nature of national rules and taxation regimes treatment hampering cross-border portability of pension products,

[10] The European Commission on 29 June 2017 published and made public its Proposal for a Regulation laying down the framework for a new pan-European personal pension product.

asset transfer, risk diversification and innovation to achieve economies of scale. It is a fact that supplier organizations continue to face significant difficulties in using the right of freedom of establishment and free cross-border provision of these services across the EU. The lack of standardization among the wide variety of personal pension products, some of which have poor performance in individual Member States, also has its impact on this.

17. ESC notes that the PEPP does not aim to harmonize existing national personal pension products but rather to create an innovative and accessible to all Member States pan-European product complementing the existing national regimes. It should allow consumers to continue to benefit fully from products in the internal market while ensuring cross-border portability and the use of a wider choice of PEPPs from different EU Member States. In this case, the European context of harmonization as a process will only apply to the main features of the PEPP itself, within the framework of the procedures: licensing, dissemination (incl. disclosure and provision of information, advice, control and monitoring), investment policy, supplier switching, cross-border offering and portability of pension rights and assets to depositors and beneficiaries.

18. ESC agrees with the possibility of allowing a larger variety of suppliers / distributors of PEPP, which will accelerate cross-border competition in the EU-wide pension market in order to reduce costs, improve the quality and portability of products, protection and return on depositors' savings. PEPP will be eligible to be distributed and purchased, incl. electronically in all Member States from banks, insurance companies, asset managers, occupational pension funds, investment firms and companies.

19. Pursuant to the proposal for a regulation, PEPP will be disseminated and marketed within the EU once the provider has been licensed by EIOPA[11], enrolled in the central, international register at European level, and the national competent authority assumes responsibility for exercising on-going supervision and control over its on-site insurance . The single license, accepted as an "EU passport" for suppliers, allows the holder to distribute PEPPs in the domestic markets of all Member States, ensuring transparency of costs and fees, disclosure of data in the form of a pre-contractual and post-conclusion basic information document, periodic standardized statements of assets in the personal pension account, mitigated complaints and dispute resolution procedures.

[11] European Insurance and Occupational Pensions Authority (European Insurance and Occupational Pensions Authority) is a financial regulatory institution representing one of the three European Supervisory Authorities of the European System of Financial Supervision. Founded in 2011 with EU Regulation 1094/2010 and headquarters in Frankfurt am Main (Germany).

20. The standardization of an essential part of the PEPP characteristics of all Member States justifies the ESC to fully support the pan-European inter-state trans-national portability of the product and the accumulated assets provided for in the Regulation in full transparency of costs. This means that with moving from one EU Member State to another, insured persons can continue to save in the PEPP while retaining the same product, rules, tax incentives and the same provider in an environment of greater pooling of pension assets, saving from scale and ensuring compliance. In this case, the persons retain the right of their choice to change the supplier and respectively transfer the accumulated funds into the personal account. The transfer service is initiated by the receiving provider of the product at the request of the depositor, but not more than once every five years after the conclusion of the contract. To this end, it is necessary to ensure greater freedom for cross-border service provision, establishment and portability on a pan-European scale, which could encourage more people to buy similar products of a saving nature. This will make it easier for suppliers to offer flexible product solutions in the Member States.

21. In this regard, ESC examines with caution the provisions of the Proposal on the order, manner and nature of the information disclosed and provided to users of PEPP, as it has a direct link to ensuring the security and control of personal savings during the different stages of the life-cycle of the pension product. It is foreseen that all documents and data are provided to users of the product electronically only on condition that they are able to store this information in a way that makes it available for subsequent inquiries and an administration period corresponding to the purposes, the tools for its reproduction.

22. In line with the requirements to ensure the stability, sustainability and legality of the process of personal pension savings, market transparency and increased consumer protection of PEPP, ESC agrees with the Commission's proposals aimed at exercising day-to-day supervision of the activity of PEPP suppliers ; to simplified administrative procedures for portability in saving and using OELP; the requirements for disclosure of clear, representative information in the form of an information document; the protection of insured persons when withdrawing assets on health issues; the setting of a ceiling for switching costs and the submission to the competent authorities in the Member States of information at least for: an assessment of the management system applied by the PEPP suppliers, the principles of asset valuation, risk management systems and the capital structure.

23. ESC considers that it is an important challenge for suppliers under the Regulation to provide depositors in PEPP with capital protection through a free choice between a capital investment that is at low risk and returning the invested capital and alternatives with four different risk

profiles and options for choosing between risk and potential return on investment. Providers of PEPP can invest in all of these options provided they comply with the conservative investor principle and take into account the long-term interest of depositors.

24. ESC draws particular attention to the most important factor for the creation of a single market for personal pension insurance in the EU, namely the process of standardizing the characteristics of PEPP as a quality sign for PEPPs (without replacing, but complementing, the existing national schemes) and an indicator of competitive conditions defining the future expansion of cross-border insurance activity and the centralization of certain functions of suppliers in a European context. The pursued effect is: reduction of administrative and investment costs, based on greater institutional pooling of pension plan assets and economies of scale for suppliers[12]; adapting PEPP to the increasing mobility of EU citizens and flexible employment, making it more accessible to more consumers (with its identified characteristics and transparent structure); expanding the scope of providers at the European level; deepening competition, and ultimately increasing service quality and return on investment for depositors and beneficiaries.

25. With regard to outgoing payments for the "pay-off" phase, the ESC subscribes to the Commission's proposal: Providers when concluding the contract to provide depositors and beneficiaries with the right to freely choose one or more of the following forms recognized in the insurance practice: Annuity; lump sum; disbursement payments (resp. the so-called programmed withdrawals) and combinations thereof. This flexibility is offered to the Member States as a mandatory condition with the expectation that it will have a positive impact on the policy on tax incentives for depositors in the Member State concerned. At the same time, ESC insists that the information on the forms, practices, rules and personal strategies for withdrawing accumulated funds and the pay-back protection assets mechanism be standardized for all Member States in the context of portability.

26. ESC supports the conclusion of the EP and the Commission that due to the strong fragmentation of domestic markets for personal pension insurance with regard to fiscal incentives, fiscal incentives play a key role in investing in the PEPP and the development of national pension schemes in Member States with exclusive competence in the field of direct taxation[13]. The EP calls on the Council to draw up proposals for the equal treatment of PEPPs'

[12] The conclusion of the commission study commissioned by the Commission on the European Personnel Pensions Framework is that the PEPP will not only increase the value of the personal pension market by about three times by 2030, but by allocating the fixed costs to ENPI providers on a larger the number of cross-border covered insured persons on a pan-European scale will reduce their costs by around 25%.

[13] This is also confirmed by the Commission's special study, June 2017 for the implementation of the EU framework for personal pension insurance (FISMA / 2015/146 (02) / D). See: EP proposal for a Resolution with

home market suppliers regardless of their nationality / country of origin, in order to provide the same tax relief for depositors in PEPP as that accorded to comparable domestic personal pension insurance products in the Member State (although not fully compliant with national criteria). The proposal also puts forward a more radical alternative where, following agreement on the harmonization of the special tax relief arrangements for PEPP at the EU level, they are institutionalized on a multilateral basis by signing an agreement between Member States in the field of taxation[14].

27. ESC pays particular attention to the safeguards for depositor savings by defining EIOPA's key role in overseeing suppliers, monitoring the PEPP market and national supervisory procedures on the structure and management of PEPPs across the EU. The aim is to achieve consistency and convergence in insurance practices, to prevent the involvement of product suppliers in individual countries, with the suggestion that there are PEPP without licensing and without complying with the requirements of the Regulation. In coordination with the other European Supervisory Authorities, EIOPA is foreseen to review the annual surveillance plans of the PEPP providers, adopted by the competent authorities of the individual Member States.

28. At the same time, the ongoing oversight of compliance with the PEPP Regulation is carried out by the competent authority for the suppliers (in Bulgaria - FSC). It is responsible for carrying out systematic control over the observance of the obligations and responsibilities determined by the rules entered in the founding documents of the provider of PEPP concerning: the organization for negotiating the service with the depositors; the provision and administration of pension products; forms of outgoing payments; investment policy, etc. In close cooperation with EIOPA, competent supervisors should exchange systematic, ongoing information on the fulfilment of their legal obligations under the Regulation.

Concrete challenges and problems facing Bulgaria

29. Against the background of sustained discussions on the appropriateness of the development of a savings model of privately managed equity funded pension funds with defined contributions and individual capitalization in the national pension systems, conducted in Bulgaria and the other CEE countries, the EC, through the Proposal for a Regulation on PEPP, to a large extent validates such a type of national policies and promotes their benefits. The recommendation is that they be implemented directly under the conditions of a free European market. This fact gives Bulgaria a

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Recommendations to the Commission on Tax Treatment of Personal Pension Products, including CESR, (2018/2002 (INL), EP, Committee on Economic and Monetary Affairs, 2018/2002 (INL).

[14] Motion for a resolution with Recommendations to the Commission on Tax Treatment of Personal Pension Products, incl. of PEPP (2018/2002 (INL), EP, Committee on Economic and Monetary Affairs, 2018/2002 (INL).

comparative advantage in European insurance relations, as the proposed pan-European pension product (PEPP) has a similar structure and functional characteristics with the voluntary pension insurance with personal contributions created and developed during the last 24-year period in the country.

30. Evidence of the evolving legislative evolution in policies at the European level are the provisions of the Regulation, which include a broader range of different types of financial corporations subject to specific sectoral regulation, including:

• credit institutions licensed in accordance with EU Directive 2013/36 / EC
The European Parliament and the Council;

• insurance undertakings licensed in accordance with the Directive
2009/138 / EC of the European Parliament and of the Council of 25 November 2009, developing direct life assurance business, in accordance with Art. 2, para (3) of Directive 2009/138 / EC and Annex II thereto;

• institutions for occupational retirement provision, registered or
licensed in accordance with European Parliament and Council Directive 2016/2341 / EU;

• investment firms licensed in accordance with the Directive
2014/65 / EU, which manage portfolios or provide investment advice;

• investment companies or management companies licensed in
accordance with Directive 2009/65 / EC of the European Parliament and of the Council;

• managers of Alternative Investment Fund (AIF) which are
licensed in accordance with Directive 2011/61 / EU of the European Parliament and of the Council.

Despite the fact that PEPP is a newly created cross-border European product, its providers do not include traditional providers of national personal pension products in the EU Member States (such as the State Pension Fund in Bulgaria) whose sole object of activity is supplementary pension insurance . Since the aforementioned financial institutions are subject to different sectoral regulations, ESC insists that they be subjected to the same rigorous regulatory regime in order to ensure an equal level of consumer protection and security for PEPPs.

31. ESC's view is that not incorporating the current national providers of personal pension products in the EU which are specifically licensed and supervised by the competent authorities under local law in the Member States in the offer of the PEPP may form certain negative, speculative attitudes towards the reliability and stability of a traditional local supplier due to the fact that depositors will be forced to look for another, new service provider for PEPP. There is

danger that this could become a prerequisite for a loss of confidence in the entire capital cap system in the countries and Bulgaria.

32. According to ESC, the EC's proposed definition of PEPP provider is dominated by financial accents. VPFs in Bulgaria and similar local providers in other EU Member States are predominantly social institutions that actually operate in the financial markets but do so in order to realize their long-term social protection, social security function, such as providing additional pension. In practice, a precise redrafting of the definition in the Regulation would preserve and expand the social commitment and accountability of PEPP providers in the EU, taking into account the particular social status of the beneficiaries.

33. Bulgaria has the unique historical chance to participate actively and noticeably in the realization of the largest cross-border project in the field of supplementary pension insurance in recent years. The current Bulgarian Euro-Presidency can play a key role in improving the basic parameters, structure, organization and functional characteristics of the PEPP within the widely discussed pan-European project.

34. ESC considers it logical that the proposal for a Regulation should contain detailed provisions governing the content and the mandatory requirements for free pre-contractual information, in a clear and comprehensible manner in the form of an official document. Certainly Bulgaria could insist on avoiding the overcompensation of regulations by focusing more on the characteristics of the proposed pension product. The targeting of the information requirements mainly to PEPPs is in the interest of both the suppliers and the insured persons themselves because it is not only an investment product but an occupational pension scheme. This also applies to the mandatory annual returns from the personal accounts of insured persons (depositors and beneficiaries).

35. ESC considers that the presence in Bulgaria of an effective institutional infrastructure with a relevant statutory basis in the form of pension insurance companies and supplementary voluntary pension funds requires the Bulgarian legislator to accelerate the process of changes in the Social Insurance Code, enabling the introduction and management of multi-investment portfolios, as well as for providing adequate guarantees for the funds of the insured persons invested in them. In fact, multifunds and guarantee mechanisms are the two most important components, which, if added to the VPF, will provide Bulgaria with not only a full feasibility for the implementation of the PEPP concept, but also an immediate advantage in international insurance relations within the EU. In addition, the EC promotes a similar solution with a special European regulation.

36. ESC stresses that Bulgaria is once again at the height of a pan-European discussion on the problems of the capital pension system. Proof of this is the coincidence of expert opinions with

those of the European Institutions, with regard to the options offered by PEPP for guarantee mechanisms, respectively: life cycle products or capital guarantee, in which case the guarantee may be granted at the time of retirement, and not to apply when changing supplier. In line with the safeguards provided for in the Regulation for PEPP, similar changes can be made to their implementation and to products under the local pension legislation in the country.

37. ESC draws attention to the fact that the fee for the transfer of savings to another provider, which the Bulgarian legislator has removed, is introduced by the proposal for a regulation on PEPP. Legislative developments at the EU level are likely to pass through the introduction of a fee already known for Bulgaria in order to minimize unjustified transfers or to cover the supplier's associated costs, as well as a combination of both. But, ultimately, the 1.5% fee proposed in the Regulation, expertly, seems to exceed significantly the costs that the provider will inevitably incur to satisfy its client's wish, even though in the case of PEPP this includes cross-border transfers. Indications for revising the amount originally proposed above are already on the agenda as a result of the current intensive discussions in all Member States ranging from 1.5% to 1% to 0.5%.

38. The form of outgoing repayments of the repayment phase proposed by the Regulation is unlikely to trigger changes to the options provided by VPF in Bulgaria (incl. also by the upcoming additions), as they are as close as possible to the ones referred to in the Regulation, they have the necessary flexibility and offer a reasonable balance between providing regular pension income, mobility and freedom of choice.

39. ESC considers that the requirement to ensure the portability of PEPP between suppliers is common practice for Bulgarian pension insurance companies because of the savings-capital nature of the insurance in defined contribution schemes and individual capitalization. The Bulgarian legislator has left no room for concern about the rights of insured persons when switching to the country. This is so because, as soon as the contribution is made to the individual account in the VPF, the person automatically acquires full rights on the savings. Asset valuation is daily, allowing for transparency, security and trouble-free daily valuation of fund assets accumulated by each insured person.

40. ESC's view is that setting up a custodian bank for storing the assets of the PEPP provider would not be a problem for Bulgaria and the Member States in cases where the supplier of this product is the pension insurance company. At the same time, the subject is becoming more problematic given the heterogeneous palette of suppliers contained in the proposed regulation. The challenge for the highly regulated sphere of supplementary pension insurance in Bulgaria

and the Member States would be any crisis situation and probable financial "failure" of one of the other providers of PEPP provided that the mere existence of a sectoral directive for them is not a guarantee of protection against financial crises.

41. The ESC notes that the disclosure of national sub-accounts under the Regulation is not unknown to the Bulgarian legislation. On the contrary, it is an established practice under which pension insurance companies already comply with special social security conditions (also under the Staff Regulations of Officials of the European Communities and the Conditions of Employment of Other Servants of the European Communities, 259/68, as amended by Council Regulation 723/2004), in the case of transfers of funds from and to a pension scheme with institutions in EU Member States. This can be used as a basis for upgrading the national sub-accounts offered by the Regulation. However, the obligation for PEPP providers to submit national sub-accounts for all Member States three years after the entry into force of the Regulation would represent a significant administrative burden for the EU retirement business. Perhaps free market competition alone will require sub-accounts to be offered in as many Member States as possible. At the same time, turning it into a mandatory rule for all Member States is unlikely to ensure faster full coverage across the EU. This would rather discourage smaller suppliers from participating in the EC initiative, which in turn would reduce competition in the private pension market.

42. In Bulgaria, a specialized oversight institution is established over supplementary pension insurance, incl. for VPF. The authorization mandated to EIOPA in the Regulation would require the introduction of complex procedures for the allocation of responsibilities between national competent authorities (in the Bulgarian case FSC) and EIOPA. The alternative option is for EIOPA to provide its professional opinion to the respective provider and PEPP to the local supervisor (FSC) and then to license it, and EIOPA to continue conducting an international, centralized public register for the licensed PEPP, its suppliers and the relevant competent oversight authority to exercise market monitoring and national supervisory regimes for the purpose of convergence and coherence between states in the area of personal pension insurance. This will preserve the key role of national supervisors in the implementation of all licensing procedures on the local insurance market (incl. of PEPP) and the exercise of supervision over all providers operating in their jurisdiction.

Conclusion

Undoubtedly, the proposal for a regulation is the largest and most ambitious, cross-border EC project for the last years in the field of pension insurance, which all European countries have announced as an undeniable national priority. By facilitating long-term investment savings and removing barriers to free cross-border movement of people and financial capital, the Regulation aims, on the one hand, to ensure long-term retirement benefits and, on the other, to provide a strategic financial resource for business and investment by strengthening the Union's capital markets within the EU[15]. Since the reasons for the creation of the new pension product are justified and prudent, the main problems and challenges facing Bulgaria related to the implementation of the Regulation's objectives depend on the suitability of the Bulgarian pension model to continue to develop and improve upon the complementary role of the main characteristics and functional mechanism of the PEPP. The reality of the success of PEPP goes through a deep understanding of the concept shared by the EESC that "multi-pillar pension systems are the most effective way to ensure the sustainability and adequacy of retirement income"[16].

(signed)
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PRESIDENT OF THE ECONOMIC AND SOCIAL COUNCIL

[15] See: Union of Capital Markets - A New Action Plan Will Provide More Financial Resources for Business and Investment, European Commission, Brussels, 30 September 2015.
[16] See EESC opinion on Economic and Monetary Union, Economic and Social Cohesion, on the Proposal for a Regulation of the European Parliament and of the Council on a pan-European personal pension product (COM (2017) 343 final - 2017 / 0143 (COD)], Brussels, 2017.