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Additional Information

Level 1 Regulation
Markets in Financial Instruments Directive II (MiFID II) Directive 2014/65/EU- Investor Protection and Intermediaries

Topic
Information to clients on costs and charges

Subject Matter
Post-sale reporting

Question
How should investment firms use the product's costs as presented in the PRIIPs KID?

ESMA Answer

28-03-2019

Original language

[ESMA 35-43-349 MiFID II Q&As on Investor protection Ch. 9, question 7]

The PRIIPs KID will contain detailed information about costs and charges of the PRIIP. ESMA is of the view that the cost components, as mentioned in the PRIIPs KID, cover all cost components, so that an investment firm can fulfil its obligation under the MiFID II regime with regard to the ex-ante costs and charges of a financial instrument.

Based on the prescribed calculation methodology of the PRIIPs RTS Annex VI, PRIIPs manufacturers have to calculate the total amount of costs on an annualised basis, for standardised investments (usually either €10,000 lump sums or €1,000 p.a. for recommended holding periods). This means that PRIIPs manufacturers have insight in (i) one-off costs; (ii) ongoing costs, which include transaction related costs and charges and (iii) incidental costs. In order to calculate the reduction in yield this total amount of costs is turned into values that reflect the annualised impact on return per year at the recommended holding period. Firms could use this raw annualised data as the basis for the MiFID II cost calculation, and they could also use the PRIIPs annualised Reduction in Yield (RIY) indicator. For products with non-linear charging structures (linear charging structures being understood as where the charges increase in direct proportion to the size of the investment) where investment amounts are different from the abovementioned standardised ones, firms would need to amend the PRIIPs KID data or indicator depending in particular on these charging structures. Once the firm has adjusted the raw annualised data or the RIY indicator in such way that it reflects the costs and charges associated with the amount that actually will be invested, it could use either the adjusted raw annualised data or the adjusted RIY indicator as the basis for the MiFID II costs and charges calculation. Unless all relevant annualised data is already publicly available, it is probable that an investment firm will have to liaise with the PRIIPs manufacturers to obtain such data.

As investment firms need to include inducements in the costs of the investment services, any inducements mentioned as costs of the PRIIP should be added to the costs of the investment

services and deducted from the costs of the PRIIP (as mentioned in the KID).