Association of British Insurers

ABI Response: Technical Discussion Paper; Risk, Performance Scenarios and Cost Disclosures In Key Information Documents for Packaged Retail & Insurance –based Investment Products:

The Association of British Insurers (ABI) is the leading trade association for insurers and providers of long term savings. Our 250 members include most household names and specialist providers who contribute £12bn in taxes and manage investments of £1.8trillion.

Introduction

The ABI welcomes the opportunity to respond to the ESA's Technical Discussion Paper on PRIIPs. We support the objective of enhancing retail investor protection and improving retail investor confidence in PRIIPs products. We believe that greater transparency and relevant disclosure will achieve this.

Although supportive of the aims, we are concerned by some of the proposals in the discussion paper, specifically:

- The cost information proposed for disclosure in the KID, which has the potential to be confusing for retail investors.
- We do not support Total Cost Ratio (TCR) as a measure for capturing and presenting costs. We believe that Reduction in Yield (RIY) is more appropriate.
- The use of credit ratings in a risk indicator could be misleading for the retail investor, especially as they are not relevant to all products and funds.
- Proposals to produce several KIDs dependent on the age of customers and other parameters, which are inconsistent with the Level 1 text and regulated advice boundaries.

Cost Disclosure. We believe that the focus for cost disclosure should be on costs customers are charged, as opposed to costs incurred. The provision of excessively granular detail for costs incurred will impact the KID's effectiveness as a meaningful document for its intended audience. It is also important that the features of insurance-based investment products are taken into account appropriately with additional benefits and protection reflected in the KID.

Reduction in Yield. Retail investors should be provided with relevant performance scenarios that are easily understood and the ABI strongly supports the use of RIY as a cost indicator. RIY is much more suitable than the TCR since it can capture the costs of insurance products appropriately as it takes into account the timing of costs and is not based on the term "average investment". RIY also uses both percentage and monetary terms which is required by the level 1 PRIIPs regulation and we believe this makes the indicator more accessible to retail investors.

Risk Ratings. We recognise the challenge of developing a set of measures and a risk indicator that is meaningful across industry and funds that will provide easy-to-understand information for an average retail customer. We heavily favour a risk indicator for market risk with a narrative for credit and liquidity risk. We do not support the use of credit ratings because these ratings are based on the performance of the firm instead of the fund. There is also the added complexity that not all firms use credit ratings. Furthermore the incorporation of credit ratings in the risk indicator could potentially be very confusing for the retail investor.

Personalised Information. Based on our understanding of the level 1 text, the PRIIPs KID is intended to be a generic pre-contractual document and is not a personalised document. This is incompatible with the consideration to produce several KIDs dependent on the "age of the customer and other parameters", which also risks bordering on the provision of advice. Retail investors will obtain personalised information later in the product distribution process and Risk assessments for insurance products take into account a large number of factors and criteria, including age. Developing multiple KIDs by age bracket for insurance products would therefore be unnecessary and will add compliance costs for the insurance sector specifically.

The ABI understands the scale of the challenge for ESA's to develop methodologies that are suitable for all types of PRIIPs products. While we understand that the timeframe is largely dictated to by the PRIIPs regulation, we would like to highlight that the short consultation period for this technical paper, has made it difficult to provide in-depth technical feedback.

RISK & REWARD:

1. Please state your preference on the general approach how a distribution of returns should be established for the risk indicator and performance scenarios' purposes. Include your considerations and caveats.

From the five approaches considered by the ESAs, option 'A' is the ABI's preferred approach. Performance scenarios must be meaningful for retail investors and previous ABI research identified that 75% of consumers found deterministic modelling the easiest to understand. Stochastic modelling triggered polarised responses with some consumers finding the information harder to absorb, especially those with low levels of financial sophistication. Deterministic modelling is, therefore, more suitable for the distribution of returns. While we agree with the ESA's that the past does not necessarily reflect the future, historical data makes estimating the distribution of potential returns more accurate. .

With regards to the remaining options; option B is very difficult to standardise. Option D is probably the most straightforward but will potentially not mean much to the consumer. Option E is very easy to manipulate by the manufacturer and Option C is the most complicated and would require frequent updating.

While Option A is our preference, there will be a need for consistency on how historical data is used and presented. However using historical data has the undesirable feature that past results are not necessarily a good indicator of the future. It may also be difficult to determine appropriate historic data for products new to the market and/or historic data may not be available over a sufficiently long time period.

Additionally, since performance and costs of a PRIIP are strongly correlated, it would be helpful to have this consistency of approach throughout the PRIIPs KID. Therefore defined parameters would be useful.

2. How should the regulatory technical standards define a model and the method of choosing the model parameters for the purposes of calculating a risk measure and determining performance under a variety of scenarios?

The ABI supports a prescribed model, despite there being some disadvantages. This will ease comparisons for investors and avert the risk of manufacturers' choosing an inappropriate model that could give an inaccurate view of the risk of the product.

The model should only ensure comparability within the relevant product classes. This will allow sufficient flexibility. Otherwise setting similar assumptions across all products would result in retail investors receiving irrelevant information and a view of certain products outperforming others, based on the KID, even though they might not be suitable for all retail investors. It is important that the level II measures do not result in information that might be confusing or even misleading being provided to retail investors.

Fine-tuning or detailing the assumptions at EU level will be very difficult, because of the different spectrums of products available in different markets and the differences in investment behaviour and capital at expense across the EU. This fine-tuning should therefore be informed by consumer behaviour and expectations at national level.

We are therefore of the view that high-level general principles for the performance scenarios should be set at EU level, while the fine-tuning or detailing of the assumptions to be used should be developed at a national level by the different PRIIPs manufacturers. This can be done in co-operation with the local supervisory authorities, to ensure a certain level of comparability between the different products and within certain product classes. This would also help to ensure that the assumptions and methodology used do not restrict product development and ultimately the product design.

3. Please state your view on what benchmark should be used and why. Are there specific products or underlying investments for which a specific growth rate would be more or less applicable?

Option A is the most compelling option as this is the simplest and easiest to understand of all the three options, however this will still need to be explained to the consumer. Option B is the least preferred benchmark, whereas option C would need a prescribed rate that would have to be set by the National Competent Authority.

4. What would be the most reasonable approach to specify the growth rates? Would any of these approaches not work for a specific type of product or underlying investment?

For a comparison between products invested in different asset classes to be meaningful then asset growth rates must include asset specific risk premiums. Option B would be the preferred choice for simplicity and ease of explanation to the consumer. Due to the uncertain nature of risk premiums, Option C is not very practical as market conditions can change rapidly and would need regularly updating to understand the impacts of constantly changing risk premiums over time. Deterministic risk premiums differing by asset class are suitable for comparison purposes and should ideally be set by an authority.

5. Please state your view on what time frame or frames should the Risk Indicator and Performance Scenarios be based

Options A and C are our preferred option. Option A is the most informative and useful for a retail investor, especially for open ended products, as it shows the variability over several time periods and including the recommended holding period. Option B is likely to be confusing for retail investors.

With option C the timeframe and other assumptions should be set in line with the product features, ensuring sufficient flexibility. In addition, these should be consistent with the maturity of the product (whether it is three months or thirty years), or if not known, with the recommended holding periods (in case of open-ended products for example) which also tends to vary depending on various factors.

Inadequate and irrelevant scenarios, which are not tailored to the product, would lead to additional complexity and confusion for retail investors. It is important, therefore, that the properties of insurance-based investment products are taken into account in the modelling of the performance scenarios.

6. Do you have any views on these considerations on the assessment of credit risk, and in particular regarding the use of credit ratings?

For market risk a volatility measure would be preferred as it captures both upside and downside risks and is more informative than just a downside measure. The use of additional qualitative measures such as those mentioned in the paper will help to provide a well-rounded view of the risks. Historical volatility on traded products may be open to manipulation depending on the level of prescriptiveness of the rules. The value/impact of capital guarantees must also be captured

We do not support the use of credit ratings, or credit risk being integrated into a quantitative risk indicator, as this will add unnecessary complexity to the KID. For insurance-based PRIIPs products market risk is the most relevant factor, whereas credit and liquidity risks are more relevant for non-insurance PRIIPs.

For insurance-based investment products, credit risk is already factored into Solvency II capital adequacy calculations. Solvency II incentivises the diversification of insurers' risks and ensures the financial capability of insurers to fulfil their contractual obligations, even under stressed conditions. Additionally, credit risk is further reduced thanks to insolvency guarantee schemes which should, therefore, be taken into account when assessing the credit risk.

Credit risk of the underlying financial instruments may be relevant for unit-linked products, however any credit risk for the underlying assets will also be reflected in the PRIIP's market risk and should under no circumstances be accounted for twice.

In regards to credit ratings and spreads, we acknowledge that credit spreads fluctuate more but are not convinced that the ratings will mean much to the consumer, especially as they are not performance driven.

7. Do you agree that liquidity issues should be reflected in the risk section, in addition to clarifications provided in other section of the KID?

We agree with liquidity being in the risk section, but this may have to be in qualitative and narrative form. For insurance-based investment products market risk is the most relevant factor, whereas the credit and liquidity risks are more relevant for non-insurance PRIIPs.

Regarding liquidity risk, retail investors usually purchase insurance-based investment products because they seek a long-term investment, which is a feature of the product rather than a risk. For such a product the liquidity risk is less relevant, per se, considering that the investor has purchased this specific product notably because it has a long-term horizon.

However with multiple option products, the liquidity risk will be relevant, especially in the event that an investor has multiple funds that experience different liquidity issues.

8. Do you consider that qualitative measures such as the ones proposed are appropriate or that they need to be supplemented with some quantitative measure to some extent?

The ABI agrees that there is a difference between the liquidity risk and the liquidity profile of a product. However we do not support liquidity being disclosed within a quantitative measure. The liquidity profile refers to the characteristics of the product. For liquidity risk, we support a qualitative approach.

9. Please state your views on the most appropriate criteria and risk levels´ definition in case this approach was selected.

The ABI supports option 1 for the risk indicator because it is appropriate for many types of products and would be straightforward to implement, especially given the very short implementation timeline envisaged. We are in favour of a risk indicator for market risk along the lines of what is already in place for UCITs.

For insurance-based investment products market risk is the most relevant factor whereas credit and liquidity risks are more relevant for non-insurance PRIIPs. Therefore although supportive of option 1, we would prefer a quantitative indicator for market risk complemented by qualitative risk information, with the narrative explanation of the risks which are materially relevant for the product.

Credit risk should not be integrated into the risk indicator, as this will add a layer of complexity to the model which would be unnecessary. Furthermore a reliance on credit ratings is not necessarily appropriate considering some firms do not use credit ratings and as indicated by the recent financial crisis, they are not necessarily a reliable indicator of risk.

10. Please state your views on the required parameters and possible amendments to this indicator.

This type of indicator is inappropriate for long term products, although would be appropriate for short term products. The formula suggests that risk is proportionate to the level of guarantee and tenor, which is not the case for very long-term insurance based PRIIPs.

11. Please state your views on the appropriate details to regulate this approach, should it be selected.

We do not support this approach and do not think this option should be selected. This indicator adds a level of complexity that is not necessary. To compare this indicator across products would be challenging, as it is on the basis of an identical holding period for all the

products. Applying a short holding period to a long term life product would be an unfair and misleading indicator for a retail investor.

12. Please state your views on the general principles of this approach, should it be selected. How would you like to see the risk measure and parameters, why?

Applying option 3 and this indicator across products will be challenging, because it would be on the basis of an identical holding period for all the products. Applying a short holding period to a long term life product would be an unfair and misleading indicator for a retail investor.

13. Please state your views on the potential use of a two-level indicator. What kind of differentiators should be set both for the first level and the second level of such an indicator?

A two-level indicator is potentially very confusing for a consumer. Furthermore option 4, as it is currently laid out in the Technical Discussion Paper, is vague with many important details missing.

14. Do you have suggestions or concrete proposals on which risk scale to use and where or how the cut-off points should be determined?

For the sake of consistency and comparability, we would prefer the use of the UCITs scale from 1-7.

15. Please express your views on the assessment described above and the relative relevance of the different criteria that may be considered.

Retail investors need to be able to understand the performance scenarios presented to them and we are of the view that deterministic modelling is more suitable for this purpose.

The ABI has previously undertaken consumer testing which identified that probabilistic modelling is often not understood by retail investors, whereas deterministic modelling is. Detailed analysis (also based on consumer testing) on this question has also been undertaken during for the key information disclosures for UCITS. This clearly identified that deterministic modelling is the most appropriate methodology.

A “What if: prescribed approach” is preferred as it allows more meaningful comparisons to be drawn between different products and reduces the likeliness of companies manipulating the rules. Different scenarios may need to be used for different classes of product.

16. Do you think that these principles are sufficient to avoid the risks of manufacturers presenting a non-realistic performance picture of the product? Do you think that they should be reinforced?

Setting similar assumptions for all products would create the risk of presenting a non-realistic performance picture of the product to retail investors. Certain products would appear to be outperforming others based on the KID, even though they might not be the best fit for all retail investors. This is notably the case for insurance-based investment products providing additional benefits. As such, it is important that the level II measures do not result in information that might be confusing or even misleading to retail investors.

Fine-tuning or detailing the assumptions at EU level (such as setting the initial amount invested), however, might prove to be very difficult notably because of the different

spectrums of products available in different markets and also because of the differences in investment behaviour and capital at expense across the EU. This fine-tuning should be in line with consumer behaviour at national level. In this context, high-level general principles for the performance scenarios should be set at EU level, while the fine-tuning or detailing of the assumptions to be used should be developed at a national level by the different PRIIPs manufacturers in cooperation with the local supervisory authorities to ensure a certain level of comparability between the different products and within certain product classes. This would also ensure that the assumptions and methodology used do not impact the product development and ultimately the product design.

In this context and in line with Solvency II requirements and structured UCITs, as well as to ensure that the investor is not over-burdened with irrelevant information within a three page document, there should be more than three scenarios in the KID. A disclaimer should be added to explain that none of these three scenarios involve a stronger likelihood of occurrence.

However, it should be possible to present more scenarios if the manufacturer considers these scenarios to be relevant to the retail investors and there is sufficient space on the document.

17. Do you think the options presented would represent appropriate performance scenarios? What other standardized scenarios may be fixed?

A combination of past performance and growth rates would provide appropriate performance scenarios, that would also be generally compatible with widely available information for investment products. Furthermore with products that an income or capital guarantee there could be the additional option to include this in the performance scenarios.

We believe that the “what if” prescribed approach with defined scenarios would produce meaningful performance scenarios.

18. Which percentiles do you think should be set?

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19. Do you have any views on possible combinations?

We believe that the “what if” prescribed approach with defined scenarios would produce meaningful performance scenarios.

20. Do you think that credit events should be considered in the performance scenarios?

Credit events should be covered under credit risk and should be approached in a qualitative form (as per our response to question 9)

21. Do you think that such redemption events should be considered in the performance scenarios?

We do not believe that redemption events should be shown in the performance scenarios. The PRIIPs KID is constrained to three pages, which means that it is more appropriate to have performance scenarios that accommodate the majority of the investors and not a minority that will redeem their investment prior to the recommended holding period.

Redemption events could instead be addressed in the section of the KID addressed “how long should I hold it and can I take the money out early”.

22. Do you think that performance in the case of exit before the recommended holding period should be shown? Do you think that fair value should be the figure shown in the case of structured products, other bonds or AIFs? Do you see any other methodological issues in computing performance in several holding periods?

We do not believe that performance in the case of exit before recommended holding period should be shown. The PRIIPs KID is constrained to three pages, which means that it is more appropriate to have performance scenarios that accommodate the majority of the investors and not a minority that will redeem their investment prior to the recommended holding period.

Redemption events could instead be addressed in the section of the KID addressed “how long should I hold it and can I take the money out early”.

COSTS SECTION:

23. Are the two types of entry costs listed here clear enough? Should the list be further detailed or completed (notably in the case of acquisition costs)? Should some of these costs included in the on-going charges?

The ABI does not feel that the list should be further detailed. We feel that there is a concentration on the traded costs being incurred as opposed to what the customer is actually being charged. We feel that this should be avoided as this is not helpful to the investor.

24. How should the list be completed? Do you think this list should explicitly mention carried interest in the case of private equity funds

We do not feel that it is necessary to explicitly mention carried interest. We feel that there is a concentration on the traded costs being incurred as opposed to what the customer is actually being charged. We feel that this should be avoided as this is not helpful to the investor.

25. Should these fees be further specified?

We do not feel it is necessary to further specify these fees.

26. Should these fees be further specified? The “recovering fees” cover the following situation: when an investor receives income from foreign investments, the third-country government may heavily tax it. Investors may be entitled to reclaim the difference but they will still lose money in the recovering process (fee to be paid).

We do not feel that it is necessary to further specify these fees especially as recovering fees are very variable. . We feel that there is a concentration on the traded costs being incurred as opposed to what the customer is actually being charged. We feel that this should be avoided as this is not helpful to the investor.

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government may heavily tax it. Investors may be entitled to reclaim the difference but they will still lose money in the recovering process (fee to be paid).

We do not feel that it is necessary to further specify these fees especially as recovering fees are very variable. . We feel that there is a concentration on the traded costs being incurred as opposed to what the customer is actually being charged. We feel that this should be avoided as this is not helpful to the investor.

28. This list is taken from the CESR guidelines on cost disclosure for UCITS. What is missing in the case of retail AIFs (real estate funds, private equity funds)?

29. Which are the specific issues in relation to this type of costs?

30. Is it relevant to include this type of costs in the costs to be disclosed in the on-going charges? Which are the specific issues in relation to this type of costs? Which definition of Costs for capital guarantee or capital protection would you suggest? (Contribution for deposit insurance or cost of external guarantor?)

It is relevant to include costs of capital guarantee or capital protection, if it is a cost that is borne by the consumer. However, the benefits of the guarantee/protection should equally be reflected in the PRIIPs KID.

A capital guarantee and capital protection shield an investor from potential losses. With a capital guarantee any losses experienced by the underlying investments are absorbed by the firm, which tends to invest the majority of fund capital in very conservative securities to help minimize the likelihood of losses, a move that also limits return.

31. Which are the specific issues in relation to this type of costs? Should the scope of these costs be narrowed to administrative costs in connection with investments in derivative instruments? In that respect, it could be argued that margin calls itself should not be considered as costs. The possible rationale behind this reasoning would be that margin calls may result in missed revenues, since no return is realized on the cash amount that is deposited, and that:

We agree that the scope of these costs should be narrowed to administrative costs.

33. How to deal with the uncertainty if, how and when the dividend will be paid out to the investors? Do you agree that dividends can be measured ex-post and estimated ex-ante and that estimation of future dividends for main indices are normally available?

We would prefer ex-post but dividends are highly variable and therefore this could be misleading for the retail investor.

34. Is this description comprehensive?

Transaction costs are included in the costs for managing capital investments and should not be double counted. For life insurers that provide long term products, the assets in their portfolios have often mid-to-long term maturities. Thus, the frequency of reallocation is relatively rare compared to other PRIIPs and implicit costs are marginal. Therefore we consider that disclosure of explicit costs only is appropriate.

35. Can you identify any difficulties with calculating and presenting explicit broker commissions? How can explicit broker commissions' best be calculated ex-ante?

Broker commissions will generally only be calculated ex-ante if a model approach is used, based on figures from the previous year or an average from several previous years. Some broker commissions represent a specific charge and some are included in the bid-ask spread. Therefore the model needs to be specific about whether this element is stripped out of the spread or not, so that costs are not dual reported under this category and also in the bid-ask spread.

36. How can the total of costs related to transaction taxes best be calculated? How should this be done to give the best estimate ex-ante? Are there other explicit costs relating to transactions that should be identified? Do you think that ticket fees (booking fees paid to custody banks that are billed separately from the annual custodian fee paid for depositing the securities) should be added to this list?

Quantifying and reporting implicit costs is a complex area, particularly when this is done ex-ante. It is important to focus the debate on providing meaningful, real world information, rather than data that is difficult for to interpret, which is challenging when dealing with explicit costs. We favour a hybrid approach, to allow modelled or industry average data to be used where it is too expensive or difficult to use real world data, but for accurate data to be used where it is feasible or available.

Most costs can be modelled and reported upon to varying degrees of 'real world' accuracy ex-post. A modelled approach using historic data is, on balance, the best way to attain an understanding of costs within funds of funds. However, we need to ensure that this information will be of value, and that it is presented in a way that provides useful context and clearly demonstrates that it is modelled. Some explicit costs will be relatively simple to quantify and declare at a portfolio level, such as tax, whereas other costs will be more difficult to quantify or extremely expensive to obtain (such as information for overseas fund of funds) and may benefit from a modelled approach. Ticket fees represent a cost on funds and should also be included within the model.

It is important that there is an agreed, consistent approach to which costs should be reported using models, as well as the mechanism for doing so.

37. As regards the abovementioned estimate, can the fair value approach be used?

Bid-ask spreads present a cost to consumers, so we believe that they should be disclosed as part of the transaction costs framework where possible. The provision of this information will require the support of fund managers and some spreads will be easily identifiable, whereas others may require a modelled approach.

It is critical to have a single definition and consistent method of calculating the spread across the industry to allow for comparison. Requiring the disclosure of bid-ask spreads, without specifying how it is to be calculated would create a risk of different methods and definitions being used resulting in a range of figures which are not comparable. Some fund managers show spreads between the bid and mid, and mid and offer, whereas we believe it is the full spread that should be disclosed.

It is possible to capture and report on bid-ask spread either on a point in time basis, or as an average over a specified period of time. Where possible, taking a quarterly average on the underlying portfolio would be the most proportionate manner of assessing and disclosing these costs. This should be applied on average rolling basis over a period of at least one

year, in order to be a meaningful measure. Ultimately, however, whichever calculation period is chosen, it is essential that the timing of the calculation is consistent across industry.

There may be practical issues with reporting bid/offer spreads due to the fact that the quoted spreads are for small order sizes. Fund managers dealing in larger order sizes will incur different spreads than the quoted spread. A large order placed on the market would generally involve a larger spread than that quoted (but may have lower commissions). However, a purchase via a closing auction would have no apparent bid/offer spread because the price is determined to enable the most shares to be traded. Whilst the quoted market spread could be reported, it may not represent the true transaction cost.

For some assets and fund structures it is possible to calculate and disclose spreads, however few funds are as simple in structure as the Novarca template suggests, typically investing in multiple asset classes as part of a 'fund of funds' structure. Therefore costs are also associated with buying and selling in the underlying fund, as well as costs within the funds themselves. Assessing costs within these structures is therefore extremely difficult and there is a risk of double counting if the purchase of the cost of the fund is in scope, as well as the transaction costs within the fund.

In summary, we believe that a consistent approach that doesn't double-count certain costs, such as broker commissions, is required. Option 1 of the entire market switching to gross pricing does not appear to be feasible, and option 2 makes the system vulnerable to 'gaming' by asset managers and would need monitoring. Option 3 is a crude measure, but may be the most feasible and pose the least risk of manipulation.

38. Can you identify any other difficulties with calculating and presenting the bid-ask spread? Do you believe broker commissions included in the spread should be disclosed? If so, which of the above mentioned approaches do you think would be more suitable for ex-ante calculations or are there alternative methods not explored above?

Bid-ask spreads do present a cost to consumers, so we believe that they should be disclosed as part of the transaction costs framework where possible. We do not feel that there is a need to display the broker commissions separately in the PRIIPs KID. The broker commissions included in the spread should, if possible, be included in the aggregated cost indicator.
It is critical to have a single definition and consistent method of calculating the spread. Requiring the disclosure of bid-ask spreads, without specifying how it is to be calculated would create a risk of different methods and definitions being used resulting in a range of figures which are not comparable. Some fund managers show spreads between the bid and mid, and mid and offer, whereas we believe it is the full spread that should be disclosed. It is possible to capture and report on bid-ask spread either on a point in time basis, or as an average over a specified period of time. Where possible, taking a quarterly average on the underlying portfolio would be the most proportionate manner of assessing and disclosing these costs. This should be applied on average rolling basis over a period of at least one year, in order to be a meaningful measure. Ultimately, however, whichever calculation period is chosen, it is essential that the timing of the calculation is consistent across industry.

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39. Do you believe that market impact costs should be part of the costs presented under the PRIIPs regulation? If so, how can the market impact costs best be calculated? How should this be done to give the best estimate ex-ante?

The amount the market moves once an investment manager starts dealing is difficult to quantify and report upon. We would favour separating out costs incurred directly by consumers, from indirect costs relating to the quality of trading. That is not to say that providing information on the efficiency and quality of trading by an asset manager is not important, however there is at present no methodology that would allow this to be measured and communicated in a clear and non-misleading manner.

In addition the quality of the trading is mandated by the broker's obligation to trade on a "best execution" basis. It is challenging and costly to estimate and disclosure market impact and we would recommend that this is not included.

40. How should entry- and exit charges be calculated considering the different ways of charging these charges? How should this be done to give the best estimate ex-ante? Can you identify any other problems related to calculating and presenting entry- and exit fees?

Dual pricing could potentially be used to calculate entry and exit charges. However this method risks the double counting of transaction costs. The cost paid by investors entering or exiting needs therefore to be deducted from the total transaction costs paid by the fund. It is vital that the duplication of costs is avoided in the PRIIPs KID.

41. Which other technical specifications would you suggest adding to the abovementioned methodology? Which other technical issues do you identify as regards the implementation of the methodology?

42. Do you think that an explicit definition of performance fees should be included? Do you think the definition by IOSCO is relevant in the specific context of the cost disclosure of the PRIIPs Regulation?

An explicit definition would be useful especially as this will be particularly relevant to multiple option products. The IOSCO definition is relevant but it fails to address the different general performance fee structures. For example there are agreements under which performance fees are payable for a positive performance during a financial period, regardless of past results. There are also agreements with continuous performance fee calculation, but where payment is postponed until the termination or agreed expiry of the agreement.

43. What would be the appropriate assumption for the rate of returns, in general and in the specific case of the calculation of performance fees?

We favour the straightforward approach indicated within the discussion paper of using the same assumptions on returns as used in the rewards section of the KID. This will be easier for consumers to navigate and understand. Furthermore it will ensure a level of consistency between the risk and the costs section.

44. Which option do you favor? Do you identify another possible approach to the disclosure and calculation of performance fees in the context of the KID?

We prefer option 1 of disclosing the performance fees in the performance scenarios, as this method will enable the investor to understand the impact of the performance fees. We

understand the concerns of these not being included in the costs indicator, however an accompanying text can be included to highlight that the performance fees are included as costs in the figures shown.

45. Which of the above mentioned options 1 and 2 for the calculation of aggregate costs would you prefer? Do you agree with above mentioned assumptions on the specificities of the costs of life-insurance products? How should the breakdown of costs showing costs specific to the insurance cover be specified? Do you think that risk-type riders (e.g. term or disability or accident insurances) have to be disregarded in the calculation of the aggregated cost indicator? How shall risk-type rider be defined in this context? (one possible approach might be: A risk-type rider in this context is an additional insurance cover without a savings element, which has separate contractual terms and separate premiums and that the customer is not obliged to buy as a compulsory part of the product).

Option 1 is preferred so that biometric risk premiums can be separated and consumers are clearer how the full costs are broken down. This is especially important when comparing against products without an insurance element.
As this is unique to insurance investments and the risk premium not purely being a cost, we support the premium being included in a separate section detailing the insurance cover, benefits and premium. In addition and to ensure complete transparency, a reference to this could be made in the cost section, such as: "The contributions for additional benefits that are not related to the savings process are presented separately."

46. Do you think this list is comprehensive? Should these different types of costs be further defined?

The ABI feels that this list is extremely comprehensive and includes the trading costs incurred, as opposed to just the transaction costs that the customer is actually being charged. There appears to be a mix of what are the retail investors' costs for the product; and the insurers' expenses. It is necessary to separate the two in order to ensure that costs are not accounted for twice in the KID.

As far as the costs listed are concerned we do not feel that early redemption fees should be treated as entry costs. While it is important to inform retail investors about the possibility of early redemption or surrender value this issue would be better addressed in the section of KID on surrender value.

Furthermore, there is a strong correlation between costs and performance of the PRIIP. An integrated presentation of both is, therefore, necessary for the retail investors to understand the link between the two.

47. Do you agree that guaranteed interest rate and surrender options should be handled in the above mentioned way? Do you know other contractual options, which have to be considered? If yes how?

We believe that the issue of surrender values would be better addressed in the section of the KID on the surrender value. It is important to inform retail investors about the possibility of early redemption or surrender value but this should be done in the form of narrative.

48. Should the methodology for the calculation of these costs be further specified?

We do not feel that it is necessary to specify further.

49. Do you think this list and breakdown is comprehensive?

We believe that when identifying costs, the relevant method should incorporate the main features of each of the costs, when and how often the investor is charged, the basis of this charge; and whether it is conditional or unconditional. This is identified on page 52 of the Technical Discussion Paper. Furthermore we would reiterate that it is important to avoid disclosing trading costs incurred, instead of the costs that the customer is actually being charged.

In regards to the specific costs listed, profit sharing is a challenge because often these are dealt at the level of the company rather than at the level of individual contracts. Look-through costs are additionally a challenge for underlying funds as the PRIIP manufacturer may not know these costs.

50. Should the methodology for the calculation of these costs be further specified? How?

We believe that when identifying costs, the relevant method should incorporate the main features of each of the costs, when and how often the investor is charged, the basis of this charge; and whether it is conditional or unconditional. This is identified on page 52 of the Technical Discussion Paper.

51. Should the methodology for the calculation of these costs be further specified? How?

We believe that when identifying costs, the relevant method should incorporate the main features of each of the costs, when and how often the investor is charged, the basis of this charge; and whether it is conditional or unconditional. This is identified on page 52 of the Technical Discussion Paper.

While we understand the need for biometric costs to be included in the cost section, we would ask for these to be disclosed separately and have a separate narrative (and/or performance scenario) explaining the benefit of this insurance cover to accompany this disclosure.

52. Should the methodology for the calculation of these costs be further specified?

Presentation of costs should not be duplicated and we support exit costs being treated as fees rather than costs. It is important to inform retail investors about the possibility of early redemption or surrender value and these could be disclosed in a narrative format.

53. Should the methodology for the calculation of these costs be further specified? How? Do fund related costs also exist for with profit life insurance products?

Presentation of costs should not be duplicated and we support early redemption costs being treated as fees rather than costs. It is important to inform retail investors about the possibility of early redemption or surrender value and these could be disclosed in a narrative format.

In regards to underlying funds, the challenge here will be that the manufacturer will not necessarily know these fees in advance. If the PRIIPs manufacturer is to estimate these fees then there is a risk of misleading the investor.

54. How to ensure that the look-through approach is consistent with what is applied in the case of funds of funds?

Look-through costs will need to be estimated. If the underlying of a PRIIPs is not a PRIIP itself for e.g. a UCITS fund, then the manufacturers might not be able to provide all

information for the underlying which is required by the PRIIPs Regulation since there is no full “look-through’. In this case it should be ensured that the manufacturers are only obliged to disclose the information they are legally entitled to receive from the investment management companies.

55. Should the methodology for the calculation of these costs be further specified?

We believe that when identifying costs, the relevant method should incorporate the main features of each of the costs, when and how often the investor is charged, the basis of this charge; and whether it is conditional or unconditional. This is identified on page 52 of the Technical Discussion Paper.

It is not necessary to further specify the methodology for the calculation of these costs.

56. Which above mentioned or further options do you support, and why? More generally, how to measure costs that are passed to policy holders via profit participation mechanisms? Would you say that they are known to the insurance company? Do you think an estimate based on the previous historical data is the most appropriate methodology for the calculation of these costs?

Costs should not be accounted for twice in the PRIIPs’ KIDs and duplication must be avoided. An estimate based on the previous historical data can be the most appropriate methodology in some markets and for some products. Against this background, the ESAs should consider and duly take into consideration national differences and specificities. In addition, an estimate based on the previous historical data cannot be calculated for new products, so alternative methods will be required in this scenario.

57. Is this type of costs really specific to with-profit life-insurance products? Do you agree that these costs should be accounted for as on-going costs?

Costs for managing capital investments are not specific to with-profit products and apply to other PRIIPs as well. These costs also apply to market return products.

58. Do you think the list of costs of life-insurance products presented above is comprehensive? Which types of costs should be added?

The list is sufficiently comprehensive.

Structured Products:

59. To what extent are those two approaches similar and should lead to the same result

60. In comparison to structured products, do you see any specificity of costs of structured deposits? Do you think that the potential external guarantees of structured deposits might just have to be taken into account in the estimation of the fair value of these products?

61. Do you agree with the above mentioned list of entry costs? Which of these costs are embedded in the price? Should we differentiate between “delta 1” and “option based” structured products? In which cases do you think that some of these costs might not be known to the manufacturer? Which of these types of costs should be further defined?

62. To what extent do you think these types of costs should be further defined and detailed?

63. How would you estimate ex ante the spread referred to above in (b), in the case the product is listed as in the case it is not? Should maximum spreads, when available, be considered? Should the term “proportional fees” be further defined? Which definition would you suggest?

64. Do you agree with the list of costs outlined above? Which types of costs would require more precise definitions? To what extent should the methodology be prescriptive in the definition and calculation methodologies of the different types of costs?

65. Would you include other cost components?

66. Under which hypothesis should the costs of the underlying be included?

67. How would you deal with the issue of the amortization of the entry costs during the life of the product? For derivatives it will be notably important to define what the invested capital is, in order to calculate percentages. The possibilities include: the amount paid (i.e. option premium price or initial margin/collateral) or the exposure (to be defined for optional derivatives). Do you see other possible approaches on this specific point?

68. Do you think that there are products with ongoing hedging costs (to ensure that the manufacturer is able to replicate the performance of the derivative component of the structured product)?

69. Do you agree with the general framework outlined above?

70. Which criteria should be chosen to update the values in the KID when input data change significantly?

71. As the evolution of underlying asset/s should be taken into account, are there specific issues to be tackled with in relation to specific types of underlying? To what extent should the RTS be prescriptive on the risk premium?

72. Are you aware of any other assumptions to be set?

73. Having in mind that most of the applied models in banking are forward looking (e.g. using implied volatility instead of historical volatility) which are the pros and cons of backward looking approach and forward looking approach?

74. Do you think that there are other risk free curves that could be considered?

75. Do you think that there are other market data that could be used to determine the credit risk? Do you think that implied credit spreads from other issuer bonds (other than structured products) could be used?

76. How would you determine the credit risk in the absence of market data and which are the criteria to identify the comparable?

77. How would you include the counterparty risk in the valuation? Would you include specific models to include counterparty risk in valuation (CVA models)? How would you consider the counterparty risk for pure derivatives?

78. In which circumstances do you think parameters cannot be computed/estimated using market data? What would you suggest to deal with this issue?

79. Would it be meaningful to prescribe specific pricing models for structured products, derivatives and CFDs? If yes which are the pros and cons of parametric and non-parametric models?

AGGREGATING COSTS:

80. What should be the value of x? (in the case of UCITS, x=5, but the extent to which this is appropriate for other types of PRIIPs, notably life-insurance products, is unclear).

In the UK the records of calculations are normally kept for the entire term of the product. Furthermore the value x=5 is too short for life insurance products with a very long term.

81. Should this principle be further explained / detailed? Should the terms “rank pari passu” be adapted to fit the different types of PRIIPs?

This is not necessary.

82. What should be the relevant figure for the initial invested amount to be taken into account for the calculation of cost figures? Should a higher initial investment amount be taken into account not to overestimate the impact of fixed costs? How should the situation of products with regular payments be taken into account for that specific purpose? (Would an invested amount of 1 000 euros per period of time be a relevant figure?)

The total cost should be presented in monetary and percentage terms per year (annual average). The specificities of the insurance-based investment products (very long duration) should be duly taken into account. An option presenting the total costs for the whole investment period would not allow for an effective comparison between, for example, a product with a few months investment period and one characterised by a 35 years investment period.

In this context, high-level general principles should be set at EU level, while the fine-tuning or detailing of the assumptions to be used should be developed at a national level by the different PRIIPs manufacturers in co-operation with the local supervisory authorities to ensure a certain level of comparability between the different products and within certain product classes. This would also ensure that the assumptions and methodology used do not impact the product development and ultimately the product design.

If this approach is not adopted it will be difficult to set assumptions that work for all products. Artificially setting and obliging manufacturers to use assumptions which do not fit their products would not help retail investors get a good overview of costs. Setting similar assumptions for all products would most likely result in retail investors not receiving relevant information and certain products appearing to outperform others, based on the KID, even though they might not be the best fit for all retail investors.

Retail investors should not be directed away from certain products that match their interests and investments, on the basis of information contained in a KID that is not tailored to the features of the products appropriately.

83. For some life-insurance products, the costs will differ on the age of the customer and other parameters. How to take into account this specific type of PRIIPs for the purpose of aggregating the costs? Should several KIDs for several ages be considered?

The PRIIPs KID is provided at the pre-contractual stage and is not a personalised document. It is therefore not appropriate to consider several KIDs dependent on the “age of the

customer and other parameters". The retail investor will obtain personalised information later in the product distribution process. Personalisation is not included in the level 1 PRIIPs text and therefore we do not feel that it is appropriate for the ESAs to include this in the level 2 text.

In addition, developing several KIDs for different age groups for life-insurance products will have an effect on the compliance costs, including when comparing with other PRIIPs manufacturers.

84. Do you agree with the above mentioned considerations? Which difficulties do you identify in the annualisation of costs?

The ABI believes that the representation of annualised costs together with a "reduction in yield" (RIY) approach is the most appropriate method for the cost representation, which is also very useful and well understood by retail investors. The RIY has two key advantages when compared to the total cost ratio (TCR):

- It takes into account the timing of costs.
- It is not based on the term "average investment", which is not a meaningful term and does not provide relevant information for life insurance products with regular contributions.

As an illustration, when comparing the two products presented in the tables pages 123 and 124 of the Technical Paper, it is clear that the RIY is the most suitable measure to allow retail investors to compare products. The TCR method does not allow the retail investor to differentiate between the two products. Furthermore the use of percentages is not generally understood by UK consumers without accompanying monetary value.

85. Which other assumptions would be needed there? In the case of life-insurance products, to what extent should the amortization methodology related to the amortization methodology of the premium calculation? To what extent should the chosen holding period be related to the recommended holding period?

In our view, the TCR is not a feasible indicator to capture the costs of insurance products appropriately and, therefore, should not be used. Reduction in Yield is a much more reliable indicator.

TCR does not take into account the timing of costs and this is particularly important if a product has significant acquisition costs. In addition it is based on the term "average investment" which is not a meaningful term and does not provide relevant information for insurance products with regular contributions, in certain life insurance products. As for retail investors, we do not consider that this is the clearest and easiest way of disclosing costs.
We also believe that there should be a strong correlation between the chosen holding period and the recommended holding period.

86. This definition of the ratio is taken from the CESR guidelines on cost disclosure for UCITS. Is it appropriate also in the case of retail AIFs? Should it be amended? Another approach to calculate these costs is to calculate the ratio of the total of these amortized costs to the invested amount in the fund. However in that case the question remains as to how to aggregate this ratio with the on-going charges ratio. Another possible approach could be to use the ratio between the total amount of costs over the holding period and the average net investment (assumed during the whole period, in order to take into account future additional investments, partial withdrawals, payments (i.e. programmed investments or disinvestments)). Do you think this approach would be appropriate?

The ABI feels that the representation of annualised costs together with a “reduction in yield” (RIY) approach is the most appropriate method for the cost representation, which is also very useful and well understood by retail investors. The RIY has two key advantages when compared to the total cost ratio (TCR):

- It takes into account the timing of costs.
- It is not based on the term “average investment”, which is not a meaningful term and does not provide relevant information for life insurance products with regular contributions.

As an illustration, when comparing the two products presented in the tables pages 123 and 124 of the Technical Paper, it is clear that the RIY is the most suitable measure to allow retail investors to compare products. The TCR method does not allow the retail investor to differentiate between the two products.

Since insurance-based investment products have terms that sometimes last over decades, only annualised costs are comparable for different PRIIPs in a consistent, robust and stable way. This becomes particularly apparent when considering products that have a term of 3 months that could be compared with products that have duration of 30 years. Thus, it is important to apply a suitable, transparent, comprehensive and comparable cost indicator. In our view, the reduction in yield approach is the most appropriate method for the cost representation since it fulfils the above mentioned requirements.

The biggest disadvantage of TCR – inability to take into account the effects of interest – could be negligible for contracts with a short term. If in these cases the TCR produces equivalent results, it could be also applied instead of RIY. However, only RIY provides meaningful cost indicators for products with long maturities.

87. What would be other options to define the TCR ratio in the case of life-insurance products? What about the case of regular payments or regular increasing? Which definition would you favour? How to ensure a level playing field and a common definition with the other types of PRIIPs in this regard? Another possible approach could be to use the ratio between the total amount of costs over the holding period and the average net investment (assumed during the whole period, in order to take into account future additional investments, partial withdrawals, payments (i.e. programmed investments or disinvestments)). Do you think this approach would be appropriate? To what extent do these possible calculation methodologies fit the case of insurance products with regular payments?

The ABI feels that the representation of regular payments together with a “reduction in yield” (RIY) approach is the most appropriate method for the cost representation, which is also very useful and well understood by retail investors. The RIY has two key advantages when compared to the total cost ratio (TCR):

- It takes into account the timing of costs.
- It is not based on the term “average investment”, which is not a meaningful term and does not provide relevant information for life insurance products with regular contributions.

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88. What would be other options to define the TCR ratio in the case of structured products? Do you identify other specific issues in relation to the TCR if applied to structured products? Another possible approach could be to use the ratio between the total amount of costs over the holding period and the average net investment (assumed during the whole period, in order to take into account future additional investments, partial withdrawals, payments (i.e. programmed investments or disinvestments)). Do you think this approach would be appropriate? For derivatives, it might be the case that it is necessary to further define the concept of investment to be used as denominator of the ratio. Possibilities include the use of the actual sums paid and received (i.e. initial margins, variation margins, collateral postings, various payoffs, etc.) or the use of the exposure (i.e. market value of the derivative underlying). Do you think these approaches would be appropriate?

The ABI feels that the representation of regular payments together with a “reduction in yield” (RIY) approach is the most appropriate method for the cost representation, which is also very useful and well understood by retail investors. The RIY has two key advantages when compared to the total cost ratio (TCR):

- It takes into account the timing of costs.
- It is not based on the term “average investment”, which is not a meaningful term and does not provide relevant information for life insurance products with regular contributions.

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The biggest disadvantage of TCR – inability to take into account the effects of interest – could be negligible for contracts with a short term. If in these cases the TCR produces equivalent results, it could be also applied instead of RIY. However, only RIY provides meaningful cost indicators for products with long maturities.

89. This definition of the ratio is taken from the CESR guidelines on cost disclosure for UCITS. Is it appropriate also in the case of retail AIFs? Should it be amended? Another possible approach could be to use the ratio between the total amount of costs over the holding period and the average net investment (assumed during the whole period, in order to take into account future additional investments, partial withdrawals, payments (i.e. programmed investments or disinvestments)). Do you think this approach would be appropriate?

The ABI feels that the representation of regular payments together with a "reduction in yield" (RIY) approach is the most appropriate method for the cost representation, which is also very useful and well understood by retail investors. The RIY has two key advantages when compared to the total cost ratio (TCR):

- It takes into account the timing of costs.
- It is not based on the term "average investment", which is not a meaningful term and does not provide relevant information for life insurance products with regular contributions.

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Since insurance-based investment products have terms that sometimes last over decades, only annualised costs are comparable for different PRIIPs in a consistent, robust and stable way. This becomes particularly apparent when considering products that have a term of 3 months that could be compared with products that have duration of 30 years. Thus, it is important to apply a suitable, transparent, comprehensive and comparable cost indicator. In our view, the reduction in yield approach is the most appropriate method for the cost representation since it fulfils the above mentioned requirements.

The biggest disadvantage of TCR – inability to take into account the effects of interest – could be negligible for contracts with a short term. If in these cases the TCR produces equivalent results, it could be also applied instead of RIY. However, only RIY provides meaningful cost indicators for products with long maturities.

90. These different aforementioned principles are taken from the CESR guidelines on cost disclosure for UCITS. Is it also appropriate in the PRIIPs context?

The ABI feels that the representation of regular payments together with a "reduction in yield" (RIY) approach is the most appropriate method for the cost representation, which is also very useful and will understood by retail investors. The RIY has two key advantages when compared to the total cost ratio (TCR):

- It takes into account the timing of costs.
- It is not based on the term "average investment", which is not a meaningful term and does not provide relevant information for life insurance products with regular contributions.

As an illustration, when comparing the two products presented in the tables pages 123 and 124 of the Technical Paper, it is clear that the RIY is the most suitable measure to allow retail investors to compare products. The TCR method does not allow the retail investor to differentiate between the two products.

Since insurance-based investment products have terms that sometimes last over decades, only annualised costs are comparable for different PRIIPs in a consistent, robust and stable way. This becomes particularly apparent when considering products that have a term of 3 months that could be compared with products that have duration of 30 years. Thus, it is important to apply a suitable, transparent, comprehensive and comparable cost indicator. In our view, the reduction in yield approach is the most appropriate method for the cost representation since it fulfils the above mentioned requirements.

The biggest disadvantage of TCR – inability to take into account the effects of interest – could be negligible for contracts with a short term. If in these cases the TCR produces equivalent results, it could be also applied instead of RIY. However, only RIY provides meaningful cost indicators for products with long maturities.

91. To what extent do the principles and methodologies presented for funds in the case of on-going charges apply to life-insurance products?

The ABI wishes to highlight that the representation of annualised costs together with a "reduction in yield (RIY)" approach is the most appropriate method for the cost representation, which is also very useful and well understood by retail investors. The RIY has two key advantages when compared to the total cost ratio (TCR):

- It takes into account the timing of costs.
- It is not based on the term "average investment", which is not a meaningful term and does not provide relevant information for life insurance products with regular contributions.

As a good illustration, when comparing the two products presented in the tables pages 123 and 124 of the Technical Paper, it is clear that the RIY is the most suitable measure to allow retail investors to compare products. The TCR method does not allow the retail investor to differentiate between the two products.
Since the insurance-based investment products have terms that sometimes last over decades, only annualised costs are comparable for different PRIIPs in a consistent, robust and stable way. This becomes particularly obvious if products that have a term of 3 months are compared with products that have duration of 30 years. Thus, it is important to apply a suitable, transparent, comprehensive and comparable cost indicator. In our view, the reduction in yield approach is the most appropriate method for the cost representation since it fulfils the above mentioned requirements.

The biggest disadvantage of TCR – inability to take into account the effects of interest – could be negligible for contracts with a short term. If in these cases the TCR produces equivalent results, it could be also applied instead of RIY. However, it is clear that only RIY provides meaningful cost indicators for products with long maturities.

92. Do you think this methodology should be further detailed? To what extent do you think this methodology is appropriate and feasible (notably in terms of calibration of the model)? It might indeed be considered that valuation models for Solvency II usually are not likely to be designed for per contract calculations. Life insurers may restrict the calculation of technical provisions in the Solvency II-Balance-Sheet to homogenous risk groups. Furthermore they are allowed to use simplified calculation methods if the error is immaterial at the portfolio level. As profit sharing mechanisms in many countries are applied on the company level and not on a per contract level, projected cash flows from future discretionary benefits will not

easily be broken down on a per product or even a per contract basis with the existing Solvency II-Valuation-Models.

The ABI agrees with the difficulties and drawbacks outlined by the ESAs and we do not feel it is necessary to further outline the methodology. In our view, quantification is neither meaningful nor necessary:

Embedded options and capital guarantee protecting against market risk will already be covered in the performance and risk section of the KID (more narrow spread between the performance scenarios). This is due to the fact that it is achieved by collective investment management, which is usually influenced by the corresponding legal provisions, e.g. in Solvency II that enables insurance undertakings to design options and guarantees.

The effect of capital guarantee on the risk/reward profile and performance scenarios should be treated consistently: the higher the guarantees, the lower the risk/reward class, and the more narrow the spread between the performance scenarios (e. g. a lower maximum value). This implies, however, that no fictitious, additional guarantee costs are assumed.

93. Do you identify any specific issue in relation to the implementation of the RIY approach to funds?

In our view, the RIY approach can be applied to funds.

94. In addition to the abovementioned issues and the issues raised in relation to TCR when applied to structured products, do you identify any other specific issue in relation to the implementation of the RIY approach to structured products?

In our view RIY can be applied to structured products. The difficulties that are stated to be specific to RI will also apply, in the same way, for TCR.

95. Do you agree with the above-mentioned assessment? Should the calculation basis for returns be the net investment amount (i.e. costs deducted)? Do you identify specific issues in relation to the calculation per se of the cumulative effect of costs?

The representation of annualised costs together with a “reduction in yield” (RIY) approach is the most appropriate method for the cost representation, which is also very useful and well understood by retail investors. The RIY has two key advantages when compared to the total cost ratio (TCR):

- It takes into account the timing of costs.
- It is not based on the term “average investment”, which is not a meaningful term and does not provide relevant information for life insurance products with regular contributions.

As a good illustration, when comparing the two products presented in the tables pages 123 and 124 of the Technical Paper, it is clear that the RIY is the most suitable measure to allow retail investors to compare products. The TCR method does not allow the retail investor to differentiate between the two products. Finally, since risks and reward as well as performance and costs of a PRIIP are strongly correlated, a consistent approach and presentation of these features throughout the KID are needed.

96. Is this the structure of a typical transaction? What costs impact the return available to purchasers of the product?

97. What costs impact the return paid on the products?

98. What are the potential difficulties in calculating costs of an SPV investment using a TCR approach?

99. What are the potential difficulties in calculating costs of an SPV investment using a RIY approach?