Association des Banques et Banquiers, Luxembourg
The Luxembourg Bankers' Association
Luxemburger Bankenvereinigung

ABBL Response to ESAs Joint Consultation Paper JC/2015/073 on PRIIPs

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Information about the ABBL:
ABBL ID number in the Transparency Register:
3505006282-58

Identity:	Organisation
Capacity:	Industry body
MS of establishment:	Luxembourg
Field of activity/industry sector:	Banking & other financial services
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General Comments

Application date

PRIIPs are used in the context of advising clients when investing so as for them to be able to understand and compare such packaged products. Therefore, PRIIPs are correlated with MiFID II. We believe that PRIIPs' KID application should be aligned with MiFID II application and should be postponed.

Due to the delays in the application of MiFID, and to the delays of ESAs in developing level 2 and 3 measures, we believe it will not leave enough time for the financial sector to develop, adapt and compute the KID (i.e. computing the MRM, the SRM, the SRI, etc.). We note the experience from Luxembourg where for UCITS KIDs there were more than 300.000 documents to be produced. In perspective, considering the KID for all managed products in each Member State (MS) the impact is likely to be a true operational challenge if every rule was ready now.

Furthermore, it is yet unclear for which products a KID must be in place as of 1st January 2017. It should be further clarified if it will apply only to new products launched as of 1st January 2017 or also for products launched before and for which the subscription period is still opened.

Information on costs

We also believe that the draft RTS are going far beyond KIDs set of objectives. The KID should first serve as a tool for retail investors to compare products and to understand the key features of such investments. Therefore, the KID should not be altered by the inclusion of confusing information. As such, lots of factors related to costs should not be included, as we believe these factors are marginal and not material. In reality, such factors are not sufficient to discriminate products. Therefore, including such factors will lead to a situation where a product might not be selected due to the inclusion of some factors that are in fact not so relevant for the choice of a product. This is especially the case of many costs factors.

For this reason, we propose that information on costs are disclosed only when a material threshold is crossed. Namely, transactions and legal costs should not be disclosed if they represent less than a given percentage of overall costs.

This can be inserted via a message such as: “*other costs may amount to less than ***% of management fee”.*

We point out that for those investors who wish more detailed information, there remains the full prospectus or its equivalent.

Similarly, certain costs as defined by the draft RTS are difficult to ascertain due to the lack of granularity in current data. For example, it is difficult to define a precise exit cost of a PRIIP right at the moment the product is launched on a primary market. Exit costs will change in the future, notably due to market circumstances. Thus, only expected costs should be included. Of course, the level of such costs should be material (see reasoning above). Indeed, it is not justified to see an investor switching between one product to another just because a potentially not significant cost may be 2 basis points more for custody. This should not be a discriminating factor. On top of this, we note that investors may misinterpret costs as of today they face only one single aggregated figure.

As an illustration, we are of the view that the methodology to calculate potential transaction costs is inappropriate as for non-equities. The concept of mid-market price is not relevant. On top of this, the difference between bid and ask may also act as a risk mitigator for being exposed to market, thus that may add to confusion.

Furthermore, regarding the cost table, we would welcome clarity on the computation of Total Cost. It is not yet clearly stated that the Total Cost divided by the Investment should equal the Reduction in Yield (annualised).

Furthermore, holding period assumed for costs should be the same as for performance scenarios and we oppose having two tables for costs as it might contravene to the objective of having a concise KID.

Handing over the KID

While it is certain that the KID should be provided to investors, we believe that the means to provide such KID are not appropriately described. The draft RTS could benefit from more clarity on the way KIDs can be delivered to clients so as to solve several practical issues the industry has been confronted with in the past. Therefore, when there is no physical meeting between distributors and investors, the draft RTS should clearly allow for online access to the KID. Furthermore, in a digital environment, having a prior access to online KIDs is a prerequisite for most investors before taking a decision, independently of the advice they may receive on top.

Scope

The ABBL would like to underline the remaining issue relative to the scope of the PRIIPs KID. It seems that derivatives as defined in MiFID II are included in the scope (see Annex II, Part 1, 9(c)). According to the PRIIPs Regulation (EU Regulation no. 1286/2014) a PRIIP is an investment product where the investment is made with the purpose of obtaining a return based on a risk taken. We therefore wonder if derivatives are included in the scope or if derivatives are included only if the objective of the derivative correspond to the PRIIPs definition (i.e. to follow an underlying purpose of obtaining a return based on a risk taken). If as stated in Annex II, part 1, 9(c), all derivatives are included in the scope, we fear it can be really misleading. Indeed, in that case, as by design derivatives are often of a bilateral nature, the underlying purpose of derivatives is not adequately taken into consideration. For example, including hedging derivatives in the scope may lead to counterproductive effects, where small customers will not have access to proper hedging derivatives. It might increase the cost of using customised derivatives, more able to hedge a specific risk. Therefore, only standardised derivatives will be used for small customers.

Furthermore, some derivatives do not correspond to those of PRIIPs as defined in the Regulation. Some derivatives represent an agreement between counterparties to exchange pre-determined cash flows and do not present any amount repayable subject to fluctuations. Regarding these derivatives the exchange of cash flows is not based on a floating reference rate or benchmark. These derivatives are not leveraged instruments and do not contain optionalities.

Therefore, they should not be in the scope of the PRIIPS regulation and should, generally speaking, be excluded all bespoke or tailor made derivatives.

Performance Scenarios

The article 6, point 2, of the draft RTS states that: "*the performance scenarios shall be defined for the recommended holding period and for certain holding periods in between, when appropriate*".

Defining performance scenarios for certain periods in between the holding periods will be highly problematic for some products like structured products. Indeed, this will have to be simulated at the date at which the KID is made, by the mark to market at this in-between period. Investors will have the tendency to think it is an indication of the performance of the price in the future, while it will not. Therefore, for such kind of products with fixed maturity, there should be a single performance scenario at term. These products should be part of the exemption foreseen in Annex II, part 5, paragraph 76. In between, the scenarios should only illustrate cash flows (e.g. coupons or early redemption).

We are fully opposed to a "personalisation" of the PRIIPS document, this shall be information produced to inform a client or potential client. It is not an on-going risk/performance analysis document. Both the procedure and structure are not compliant with that approach.

Risk Indicator

As a general rule, we disagree with proposing new methodologies when the methods used until now produce similar results. Therefore we disagree with the bootstrapping method and would prefer that:

- for structured products which fall into the categories III and IV manufacturer should be given the responsibility to compute the VaR of the PRIIP using audited internal models, and simulate product payoff using the Black & Scholes model calibrated with parameters derived from the historical sample,
- for UCITS/AIFs that fall into the categories III and IV: an "historical simulation VaR" should be used.

Methodologies for credit risk assessment

The methodology sets out for credit risk assessment is overall appropriate. We welcome the exclusion of AIFs and UCITS from the obligation to compute credit risk. We would however suggest revising the scope of the CRM so as to allow funds to be classified in CR1.

Detailed questions

Question 1 *Would you see merit in the ESAs clarifying further the criteria set out in Recital 18 mentioned above by way of guidelines?*

We would see merit in ESAs developing guidelines clarifying and harmonising the comprehension of such definitions.

Throughout the EU there are divergences in structured product regulatory treatments and we would particularly welcome an harmonised comprehension of the criteria.

Furthermore, we would suggest not considering the simple fact that a number of different mechanism is used to label the product as not simple and difficult to understand. We believe that the approach should be more on the intelligibility of the product rather than on the supposed “complexity”. Or, to put it differently, the investors should understand the objectives of the products and not necessarily how it is managed on a daily basis. If retail investors understood the mechanisms underlying the products, they should not be discouraged to invest in innovative products.

If a clarification is to be given, it should clearly identify the products in the scope. Also it should be clarified that such criteria can be interpreted as complementary to those set out by ESMA Opinion on “MiFID practices for firms selling complex products” (7 February 2014) and by ESMA Guidelines on complex debt instruments and structured deposits (26 November 2015).

Finally and importantly, we would also like to underline that accumulating comprehension alerts throughout the KID might in fact create unreadable documents. Thus, we believe that if these comprehension alerts are retained they should be simple, concise and easy to read.

Question 2 *(i) Would you agree with the assumptions used for the proposed default amounts? Are you of the opinion that these prescribed amounts should be amended? If yes, how and why?* *(ii) Would you favour an approach in which the prescribed standardised amount is the default option, unless the PRIIP has a known required investment amount and price which can be used instead?*

From a practical point of view, we think that an amount of EUR 10.000 (or similar in other currencies) is more appropriate to ensure comparability across most products. It is not too high nor too low for retail investors and easy to use for mental computation.

Regarding structured products, whether the calculation is based on a default amount or the actual invested amount (or denomination, or notional amount) should not make any difference in the resulting %, but using the defaulting amount would probably enhance comparability.

Question 3
For PRIIPs that fall into category II and for which the Cornish Fisher expansion is used as a methodology to compute the VaR equivalent Volatility do you think a bootstrapping approach should be used instead? Please explain the reasons for your opinion?

Regarding PRIIPs falling into category II, the Cornish Fisher expansion is an appropriate methodology. However we would see merit in having more clarification with regard to the wording and formulae. Indeed while the paragraph 10 refers to daily or weekly prices, the section 20 and 27 only refers to daily prices.

Regarding PRIIPs falling into category III, the VaR should be calculated from a simulation to be based on a well-established practice. Thus we are doubtful on recommending using a simulation based on bootstrapping. Furthermore, for UCITS/AIFs falling into category III, the industry standard “historical simulation VaR” is more appropriate as the results will be the same and the calculations are simpler.

We also consider that the calculations should be based on observable quantities and the methodology should be simple enough to reduce the model risk and ensure/facilitate comparability of results.

In particular:

- Non observable quantities like expected dividends, borrow cost, (future) storage costs should not be used in the calculations as they cannot be projected in the future,
- Using the risk free rate (which by the way can be negative) as the expected return is justified in the risk neutral framework, but not in the historical one.

Question 4
Would you favour a different confidence interval to compute the VaR? If so, please explain which confidence interval you would use and state your reasons why.

With regard to structured products and UCITS/AIFs, it is our view that a 5% level would be more appropriate as the results would be more differentiating for products with soft capital protection, having different barrier levels.

Question 5
Are you of the view that the existence of a compensation or guarantee scheme should be taken into account in the credit risk assessment of a PRIIP? And if you agree, how would you propose to do so?

We do not believe any statutory investor compensation or guarantee scheme should be taken into account.

There are too much differences in compensation/guarantee schemes to take these protections into material consideration. Compensation or guarantee schemes are not harmonised at the European level, neither at industry level nor at product level. Also, the guarantee can be different (notably on the level) for different types of investment. The level of guarantee may differ when the underlying is defaulting (namely a bank) or the security itself. Based on banking regulation for example if the guarantee is to be applied at the product level it is likely that only one single account will be eligible for the guarantee scheme (the account used by the asset manager, not individual client). In that case, only a tiny proportion of the instrument will be covered.

Thus, compensation or guarantee schemes are positive for the investors but cannot be considered as being a proper cover for credit risk.

Question 6
Would you favour PRIIP manufacturers having the option to voluntarily increase the disclosed SRI? In which circumstances? Would such an approach entail unintended consequences?

For retail investors, the objective of the KID is to properly assess the products, to compare and to understand the risk associated with PRIIPs. We therefore believe that allowing PRIIP manufacturers to voluntarily increase the disclosed SRI will contravene the said comparison. The format and the scale of risks should be uniform so as retail investors are not lost between different KIDs.

In addition, we believe that for more complex products for which such options might probably apply, there is already a discriminating element. Indeed, under the MiFID II regime, more complex products are discussed with an adviser that may discriminate products in a given bucket of risks.

Question 7 *Do you agree with an adjustment of the credit risk for the tenor, and how would you propose to make such an adjustment?*

We disagree to adjust the CRM class for the tenor.

The Credit Risk Measurement in the proposed draft RTS is based on the creditworthiness of the obligor and not on the tenure. Therefore, discriminating further the credit risk for the tenor will accentuate the complexity of the credit risk measurement computation.

This would be detrimental to the SRI computation and could have negative unintended consequences on the product offer, as manufacturers with poor credit rating would be incentivised to design their products to benefit from a favourable credit assessment and show a better SRI.

Question 8 *Do you agree with the scales of the classes MRM, CRM and SRI? If not, please specify your alternative proposal and include your reasoning.*

We generally agree with the CRM scale and SRI matrix as they are defined in the CP. We would however point out that simplicity is key.

Scale of the classes under MRM

In order to compute the MRM for PRIIPs, the PRIIPs are classified into categories that are more or less liquid. Once classified into the category, certain categories are assigned a specific MRM following a qualitative assessment while others are assigned a MRM based on the VaR. In any case, we believe that there should be a correspondence of MRM classification between those computed by the VaR and those computed by a qualitative assessment so as to make sure less liquid PRIIPs are assigned to the less liquid MRM class.

Scale of the classes under CRM

The Credit Risk Measurement should be as simple as possible. As such we welcome, ESAs statement, paragraph 54, part II of annex II: "*for the avoidance of doubt credit risk shall not be assessed on AIFs or UCITs (…)*".

In general we believe that funds should always be classified into a CR1 as potential credit risk arising within a fund's portfolio impacts the fund's NAV and thus is already implicitly taken into consideration through its market risk.

Scale of the classes under SRI

We believe that the scale of classes for the SRI is not proportional. There is no proper justification in apply a higher SRI for CR4 combined with MR1, MR2, MR3 and MR4. Therefore we would propose the following amended correspondence table:

	MRM class						
CRM Class	MR 1	MR 2	MR 3	MR 4	MR 5	MR 6	MR 7
CR 1	1	2	3	4	5	6	7
CR 2	1	2	3	4	5	6	7
CR 3	3	3	3	4	5	6	7
CR 4	~~5~~ **4**	~~5~~ **4**	~~5~~ **4**	~~5~~ **4**	5	6	7
CR 5	5	5	5	5	5	6	7
CR 6	6	6	6	6	6	6	7

Question 9
Are you of the opinion that for PRIIPs that offer a capital protection during their whole lifespan and can be redeemed against their initial investment at any time over the life of the PRIIP a qualitatively assessment and automatic allocation to MRM class 1 should be permitted?
Are you of the opinion that the criteria of the 5 year tenor is relevant, irrespective of the redemption characteristics?

PRIIPs, that offer a capital protection during their whole lifespan and can be redeemed against their initial investment at any time, are de facto offering a capital protection. This however does not preclude the product from potentially encountering liquidity issues. Therefore, we believe that these kinds of products can benefit from a qualitative assessment but should not necessarily automatically be classified into MRM class 1. We would welcome having a more appropriate solution that can be built for example on the principle, to classify the said PRIIP in one class superior to the class it would have been classified into otherwise. If the capital protection is free from credit risk, we would welcome the possibility to assign a MRM class 1 to such products.

Question 10
Are you aware of other circumstances in which the credit risk assessment should be assumed to be mitigated? If so, please explain why and to what degree it should be assumed to be mitigated?

We welcome the possibility to consider credit risk mitigation into the credit risk measure techniques. Collateralised credit risk exposure should indeed beneficiate for mitigation, as the risk is immaterial.

Question 11
Do you think that the look through approach to the assessment of credit risk for a PRIIP packaged into another PRIIP is appropriate?

We do not think that a look-through approach is appropriate for the assessment of credit risk for a PRIIP packaged into another PRIIIP. The retail investors will first and foremost be interested in having access to the relevant documents. We need to take as well into consideration that not all PRIIPs are the same; some may need investor's involvement (pension schemes) to build their own portfolio with possibilities of regular change. Thus, as long as the change brought in, does not materially change the risk profile of the PRIIP, regulation shall privilege access to information. A contrario, the consequences will be to produce KID on demand for each iteration of the portfolio, which in our view is not the purpose of an information document. In any case, the investor's advisor will most likely provide information to the investor.

Question 12
Do you think the risk indicator should take into account currency risk when there is a difference between the currency of the PRIIP and the national currency of the investor targeted by the PRIIP manufacturer, even though this risk is not intrinsic to the PRIIP itself, but relates to the typical situation of the targeted investor?

Currency risk should not be taken into account, especially as this type of currency risk is not intrinsic to the PRIIP itself. Furthermore, advisers will certainly explain this type of situation.

Question 13 *Are you of the opinion that the current Consultation Paper sufficiently addresses this issue? Do you it is made sufficiently clear that the value of a PRIIP could be significantly less compared to the guaranteed value during the life of the PRIIP? Several alternatives are analysed in the Impact Assessment under policy option 5: do you see any additional analysis for these assessment?*

The level of risk is, in our view, both intrinsic and extrinsic. Indeed, the level of risk depends of the product nature (intrinsic risks), and of the market (they are comparative in a wider market). As an illustration, in most cases, such products may present a lower risk potential than other instruments. Therefore, the fact that it is only at final redemption that the value is guaranteed should simply be explained. In addition, many of these products will be discussed with clients/investors.

Question 14 *Do you agree to use the performance fee, as prescribed in the cost section, as a basis for the calculations in the performance section (i.e. calculate the return of the benchmark for the moderate scenario in such a way that the return generates the performance fee as prescribed in the cost section)? Do you agree the same benchmark return should be used for calculating performance fees for the unfavourable and favourable scenarios, or would you propose another approach, for instance automatically setting the performance fees to zero for the unfavourable scenario? Please justify your proposal.*

By definition, performance scenarios are estimations. To get the best estimate, the underlying assumptions depend of the products. Therefore, we believe that the approach should not be overly prescriptive and it should be up to the product manager to pick the basis for the calculations in the performance scenarios.

Question 15 *Given the number of tables displayed in the KID and the to a degree mixed consumer testing results on whether presentation of performance scenarios as a table or a graph would be most effective, do you think a presentation of the performance scenarios in the form of a graph should be preferred, or both a table and a graph?*

For the sake of clarity, the KID should be as concise as possible. Therefore the table is the preferred presentation solution in that context.

However, we would point out that adding multiple information in the presentation of the performance scenarios is detrimental both to the length of the KID and to investors' comprehension. As such, adding holding periods in the performance scenarios presentation creates a risk of confusion for investors who are usually not fully able to appreciate their investment period.

Thus, for products with fixed maturity dates, only one performance analysis should be required with reference to such maturity date.

Question 16
Do you agree with the scope of the assets mentioned in paragraph 25 of Annex VI on transaction costs for which this methodology is prescribed? If not, what alternative scope would you recommend?

The ABBL thinks that transaction costs, unless they represent a material component of the fund cost structure should not be disclosed in details. Instead, we would suggest having a generic statement e.g.: "*other costs including transactions represent less than ***% or basis point*".

In the end, the real issue is what would be the trade off. We do not consider that an otherwise good product should be abandoned because the transaction costs are too high. Indeed, for an investor the trade-off is between a product that delivers a given return and the risk to attain that return, so that 5% of return will nearly always be preferred to 4%.

In addition, the methodology prescribed by the ESAs in the draft RTS is not appropriate. Indeed, for PRIIPs operating for more than three years, several difficulties arise with such a methodology:

- getting data to calculate the mid-market price will be difficult and burdensome for non-equities assets
- it will be possible that a trade could incur negative transaction costs, if the market price at execution is lower than the mid-market price at the time of the order, in case the market collapse
- the methodology proposes an estimation (based on historical data) which therefore can never be accurate.

Nonetheless, we would suggest to amend the approach. Regarding the scope of the assets for which the methodology is prescribed, it would merit having:

- A standard industry definitions corresponding to categorisation of data providers.
- Considering extending the table to other asset classes in which PRIIPs invest in.
- In the long term, refining the sub-categorisation of asset classes.

Regarding the methodology, we would suggest using direct transactions costs as much as possible. When using direct transaction costs is impossible we would propose using a standardised table provided by the ESAs for new PRIIPs.

Question 17
Do you agree with the values of the figures included in this table? If not, which values would you suggest? (please note that this table could as well be included in guidelines, to allow for more flexibility in the revision of the figures)

As stated above the ABBL thinks that transaction costs, unless they represent a material component of the fund cost structure should not be disclosed in details.

Nonetheless, if such an approach is not taken back we believe that the table in paragraph 25 of Annex VI should be part of level-3 guidelines. It will allow triggering an in-depth reflection notably on the fact that market spreads, as they reflect market volatility, do not remain constant. We would also like to suggest that PRIIPs providers are granted the option to estimate the transaction costs for some products where standardisation of costs is not the norm (e.g. for OTC).

Question 18
Do you agree that the monetary values indicated in the first table are a sum of costs over the respective holding periods? Or should the values reflect annualized amounts? If you prefer annualized amounts, which method for annualisation should be used (e.g. arithmetic average or methods that consider discounting effects)?

The simplest methods are usually preferred for such kind of documents. Indeed, we believe that methods should be simple, in order for investors to better understand, if asked, how amounts are calculated. Therefore, we would prefer annualised amounts as it best reflects the situation of most investors. In that vein, we would therefore prefer an arithmetic average method. Specific much lengthier duration/maturities shall apply to insurance like products.

Question 19
Do you think that estimating the fair value of biometric risk premiums as stated in paragraph 55(b) of Annex VI would raise any technical or practical difficulties?

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Question 20
Knowing that the cost element of the biometric risk premium is included in the total costs calculation, how do you think the investor might be most efficiently informed about the other part of the biometric risk premium (i.e. the fair value), and/or the size of biometric risk premium overall? Do you consider it useful to include the fair value in a separate line in the first table, potentially below the RIY? Or should information on the fair value be disclosed in another part of the KID (for instance, the "What is this product?" section, where the draft RTS currently disclose biometric risk premiums in total, and/or in the performance section)? What accompanying narrative text do you think is needed, and where should this be placed, including specifically narrative text in the cost section?

N/A

Question 21
Given evidence as to the difficulties consumers may have using percentage figures, would you prefer an alternative presentation of the second table, solely using monetary values instead? As with the first table, please also explain what difficulties you think might arise from calculating monetary values, and whether this should be on an annualized basis, and if so, how?

The ABBL is not convinced that the expression of costs should be expressed in two different ways throughout the table. However, this is an element to carefully consider by taking into account that MiFID II Delegated Acts require distributors to provide investors with information regarding the total aggregated costs of the products and the service both, as cash amount and as percentages.

Despite the difficulties arising for consumers to understand percentage figures, the ABBL is convinced that it best reflects "estimates". Indeed, the ABBL fears that it can mislead investors to describe costs in absolute values and would rather prefer having percentages. We suggest adding that all costs in % in the second table are expressed per year so that their sums add up to the RIY.

Question 22
Given the number of tables shown in the KID, do you think a more graphic presentation of the breakout table should be preferred?

The graphical presentation of the costs does not add value to the KID nor to investors understanding. On the contrary, we believe that the table is easier to understand as it clearly represents the addition of costs leading to the total costs.

Question 23
The example presented above includes a possible way of showing the variability of performance fees, by showing the level for all three performance scenarios in the KID, highlighting the 'moderate' scenario, which would be used for the calculation of the total costs. Do you believe that this additional information should be included in the KID?

The Cost section of the KID is supposed to be accompanied by the preamble of the Annex VII, which clearly illustrates that there might be other costs. Also, the preamble states that the figures "assume" the investor invest a particular amount. We therefore believe that the cost section is sufficiently clear as it is. We fear that adding performance scenarios is this section can mislead and confuse retail investors. This additional information should not be included in the KID.

Question 24
To reduce the volume of information, should the first and the second table of Annex VII be combined in one table? Should this be supplemented with a breakdown of costs as suggested in the graphic above?

The objective of the KID is to facilitate easy reading for retail investors to compare and understand PRIIPs. Thus, there is a need to first focus on the big picture and key items whilst ensuring that the length of the document remains appealing to be read in most situations. To meet this objective, the shortest the information presentation is, the easiest to read and the better it is.

We believe that the presentation of the prescribed cost items in the KID would better be restricted to only one table. For the sake of clarity, and in order for clients to better understand PRIIPs, table 1 should be favoured.

Question 25
In relation to paragraph 68 a) of Annex VI: Shall the RTS specify that for structured products calculations for the cost free scenario have always to be based on an adjustment of the payments by the investor?

Our understanding is that the RIY would be computed as a Total Cost annualised, defined broadly as the Total cost divided by the tenor of the product.

This would ensure numbers in the cost table add up, and comparability with UCITs funds.

We believe the calculation of the RIY (66 and 68) should be reworded and that examples should be provided for structured products.

Question 26
Regarding the first table of the cost section presented in Annex VII, would you favour a detailed presentation of the different types of costs, as suggested in the Annex, including a split between one-off, recurring and incidental costs? Alternatively, would you favour a shorter presentation of costs showing only the total costs and the RIY?

The detailed presentation of different types of costs as suggested by the draft RTS is really problematic and we strongly oppose to such an approach.
Adopting such a presentation and disclosure of cost can be very misleading for retail investors and thus contravene to the objective of the KID. It is indeed inappropriate to mix existing and possible costs, as well as distribution and product costs. In addition, the classification into one-off, recurring, and incidental costs will be very difficult to explain to retail customers. Clients will for example easily be confused by one-off an incidental costs.

More specifically, we are strongly opposed to include distribution costs, as they do not form part of the product. If included, a product will loose its comparability across distributors. It might be very problematic to include costs that vary from one channel to another in documents that should be used for comparison. In addition, the KID should describe the packaged product and we fear such costs are not linked per se to the product. Also, it does not seem appropriate, as under distribution regulation, such costs should also be disclosed.

Nonetheless, we would like to underline that the document is supposed to not exceed 3 pages. Thus a shorter presentation will always be preferred, be it by presenting only total costs or by merging the 2 tables. The document shall remain simple to read and understand.

Question 27
Regarding the second table of the cost section presented in Annex VII, would you favour a presentation of the different types of costs showing RIY figures, as suggested in the Annex, or would you favour a presentation of costs under which each type of costs line would be expressed differently, and not as a RIY figure - expressed as a percentage of the initial invested amount, NAV, etc.?

The simplest approach is the better. Also, in order to ensure possible comparison for investors the same approach should be applied to all costs. In that sense, all types of costs in table 2 should be expressed on the same basis, i.e. an annualised percentage homogeneous to a RIY. This would ensure all cost item of Table 2 are adding up the RIY calculated in the first table.

Regarding UCITS, we recommend keeping the KID UCITS format.

Question 28
Do you have any comments on the problem definition provided in the Impact Assessment?
Are the policy issues that have been highlighted, in your view, the correct ones? If not, what issues would you highlight?
Do you have any views on the identified benefits and costs associated with each policy option?
Is there data or evidence on the highlighted impacts that you believe needs to be taken into account?
Do you have any views on the possible impacts for providers of underlying investments for multi- option products, and in particular indirect impacts for manufacturers of underlying investments used by these products, including where these manufacturers benefit from the arrangements foreseen until the end of 2019 under Article 32 of the PRIIPs Regulation?
Are there significant impacts you are aware of that have not been addressed in the Impact Assessment? Please provide data on their scale and extent as far as possible.

We are puzzled regarding the level of details and computation required by product providers to deliver the information addressed generally to retail investors, which is really high. Seen in perspective to the low interest and understanding clients/investors have in the different concepts used, we believe the high level of requirements is not justified. Furthermore, even if more information is generally positive, with this approach, we expect that investors may in the end be more confused than helped, unless they are high-end financial or mathematical specialists.
Of course, we strongly support the concept of having a PRIIPs KID a 3 pages document to inform about the key features of a given managed product. However, we do consider that the burden to produce such KID, and to maintain it up-to-date at all time, is disproportionate to the objectives of PRIIPs KID and does not compare well with the similar information presented today in many marketing material. Indeed, while retail investors should be well informed in order to choose one product instead of another, it seems difficult to reach this objective when most of the elements to be included are based on assumptions and forward looking measures. One should not over-expect what the regulation can deliver.

In conclusion, in order for this regulation to deliver optimal results for all stakeholders, it should be as pragmatic and straightforward as possible.