ČESKÁ BANKOVNÍ ASOCIACE

Set up in 1990, the Czech Banking Association (CBA) is the voice of the Czech banking sector. The CBA represents the interests of 37 banks operating in the Czech Republic: large and small, wholesale and retail institutions. The CBA is committed to supporting quality regulation and supervision and consequently the stability of the banking sector. It advocates free and fair competition and supports the banks' efforts to increase their efficiency and competitiveness.

We appreciate the opportunity to comment on JC 2015 073 **PRIIPS KEY INFORMATION DOCUMENTS**.

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

No. All PRIIPs should be classified as 'You are about to purchase a product that is not simple and may be difficult to understand.'

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?

i. 1000 euro is reasonable amount.
ii. Yes. We prefer standardized amount so that PRIIPs are comparable.

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?

No, it should not. Bootstrapping used for category III and somehow for category IV is employed only as a substitute for lacking historical data. Current methods of fund risk assessment are based on VaR. The advantage of using bootstrapping for category II as well would be only methodological because the calculation would be performed for all market risk categories in the same way.

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.

No, 2.5% VaR is reasonable.

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?

If the compensation scheme is linked to the particular PRIIP like the sort of guaranty it should be a part of its credit risk assessment. If it regards a compensation scheme in general it should be the part of "What happens" section.

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?

Yes. This might be a good tool how to assess PRIIP´s complexity. We would not see any unintended consequences. Only few investors will be able to understand the risk assessment methodology anyway.

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?

Credit Risk Agencies distinguish the tenor. We would suggest using the same approach accordingly.

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.

MRM – it is good that the scaling aligned with UCITS scale is being suggested.
CRM – selection of 6 classes seems to be the reflection of credit risk grades of risk agencies scaling
SRI – it has the least logical justification. Nearly all effort for correct MRM calculation is wasted for manufacturers in CRM class higher than 3. An alternative suggested six class CRM scaling would improve this shortcoming. (New 6x7 matrix is preferred.)

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?

Yes

Are you of the opinion that the criteria of the 5 year tenor are relevant, irrespective of the redemption characteristics?

No. See answer to Q7.

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?

No.

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?

It may be difficult to look through the complex PRIIPs. However, if the principle of looking through approach is required all manufacturers will be forced to be able to approve that they did their best for the complex credit risk structure explanation.

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?

If the currency risk is a part of PRIP´s market risk (like PRIIP´s denominated in one currency with its underlying in another currency) the currency risk should be included in MRM. This should be assessed by the manufacturer.

If the currency of the PRIIP is different from the national currency it would be fair to say more that the currency risk exists. This may be, however, complicated for the manufacturer from abroad with regard to the distributor. So the risk may be perhaps explained in detail by the seller.

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 recommended or even fixed holding period is one of parameters of a PRIIP. All statements regarding final return are made “on condition that the recommended holding period will be obeyed”. It should be understood by the investor. The dependence of the KID´s statements on this condition should be therefore said clearly in one of the first sentences in the risk section. The influence of the most prominent risk may be shown for illustration.

Stated example regards 30 year maturity and it can be really expected that the investor will sell this product sooner. It may be possible to look at such products as if they had infinite maturity. In this case the interest rate risk would become one of inherent parameters of this PRIIP.

However, calculation and characteristic of price fluctuation before maturity is very complex issue. It covers the whole space of outcomes if the agreed condition for holding period is not fulfilled.

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.

Favourable and unfavourable scenarios should use the performance fee linked to the returns of each scenario, i.e. the fee that would be really used in case of the calculated return. Not that one calculated for the moderate scenario. So if no performance fee is collected for the unfavourable scenario it would be automatically set to zero. If the performance scenario is higher for the favourable scenario higher rate should be used as well.

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?

Suggested visual presentation of performance scenarios is clear and bears all information presented in tables in a concise and understandable way. Even if the consumer testing may have shown preference for tables we would recommend using suggested set of graphs instead of tables. This would also save the space which will be used for the suggested narrative description of these scenarios.

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?

(Q16 regards UCITS.)

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)

(Q17 regards UCITS.)

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 monetary values should be used without annualisation, which is in line with the scenario concept.

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?

(Q19 regards insurance products.)

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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?

(Q20 regards insurance products.)

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?

If monetary values without annualization are used in the first table (which we recommend in Q18) the split of these one-off, recurring and incidental costs should be also in monetary terms.

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?

Unlike the scenario tables the cost tables are simple and need not be converted in charts. Above that the suggested "graphical" presentation is only presentation of the table in the way making it more difficult to see the cost structure.

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?

Additional information regarding different performance fees should be shown in KID. However, performance fees are rather Incidental than Recurring. Information on different fees can be easily presented in the last row of the Table 2. We expect that the same performance fees are used for scenario calculations.

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?

It is a good option. We prefer using table for costs instead of graphics.

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?

Yes. The calculation should be done in the way described in the explanatory text Annex VI, 68.

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?

No. If only total costs and RIY are shown part of information will be hidden. It would make it impossible or very difficult to compare similar products of different manufacturers. The complex concept of detailed cost split would be then useless. If some information is to be omitted it may concern the second table.

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.?

If the table two is to be changed it might be reasonable to show the percentage of each cost item as a ratio of the total (gross) return of perhaps moderate scenario in each of the three considered time periods.

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.

This is a very complex question. The aim to provide retail investors with concise and comparable information is clear. However, it seems that one of the main reasons for such a complex regulation was the assumption that product manufacturers did not provide their clients with clear description of their products or that they were not able to do it in a comprehensible way. This basic assumption seems to be wrong. Then the main value added may be better comparability of products. It is a question if the retail clients will be able to perform this comparison and be keen on doing that rather than asking their investment advisors as before.

However, after months of preparation of the whole industry and huge costs incurred it does not seem to be of great benefit to discover now that this or that concept has been too much simplified or that some measure is difficult for the clients to understand.

RTS in this current form seems to be already simplified to the extent that all manufacturers will be able to fulfil all requirements with the tools that they were using in this or that way before the regulation came into force. This is good news but still a lot of effort and money will have to be spent by the end of this year. These will be the main impacts on the industry. The way how the KIDs will be used by the retail investors will prove if all these costs were worth of spending.
We are of the opinion that the RTS should distinguish between retail clients who are consumers and retail consumers who are not consumers. Information for retail clients who are not consumers should be less onerous and KIDs for retail clients who are not consumers should be simplified.

A fundamental open issue is the problem of OTC derivatives. We are of the opinion that KIDs for OTC derivatives should be generic rather than individual ones. The RTS should clarify whether KIDs for OTC derivatives may be produced at the level of product category (i.e. category of OTC derivatives). The RTS should also clarify that it is not necessary to produce specific KIDs on transaction level, i.e. that it is not necessary to create individual KIDs for each individual OTC derivative transaction. The RTS should also specify the granularity of OTC derivatives, i.e. to specify the categories or types of OTC derivatives for which generic KIDs may be produced. **This comment is fundamental.**

In case of products with UCITS underlying two different KIDs with different risk assessments and cost estimates are required. This may be misleading and confusing for clients.

It is still unclear whether all derivatives are in scope. Recital 1 of the Regulation states that "Retail investors are increasing offered a wide variety of packaged retail and insurance-based investment products (PRIIPs) when they consider making an investment." It is unclear whether hedging derivatives should be considered as investments or not, and whether KIDs are required also in such cases. Therefore the RTS should clarify what is meant by "an investment" in this context.

We hope that our response to the Joint Consultation Paper is sufficiently clear and our views are helpful.