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| 10 November 2015 |

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| Reply form for the  Consultation Paper on PRIIPs Key Information Documents |
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| Date: 10 November 2015 |

Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the ESMA Consultation Paper on PRIIPs Key Information Documents, published on the ESMA website.

*Instructions*

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

* use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
* do not remove the tags of type <ESMA\_QUESTION\_PRIIPS\_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
* if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

* if they respond to the question stated;
* contain a clear rationale, including on any related costs and benefits; and
* describe any alternatives that ESMA should consider

**Naming protocol**

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESMA\_ PRIIPS \_NAMEOFCOMPANY\_NAMEOFDOCUMENT.

E.g. if the respondent were XXXX, the name of the reply form would be:

ESMA\_ PRIIPS\_XXXX\_REPLYFORM or

ESMA\_ PRIIPS\_XXXX\_ANNEX1

To help you navigate this document more easily, bookmarks are available in “Navigation Pane” for Word 2010 and in “Document Map” for Word 2007.

***Deadline***

Responses must reach us by **29 January 2016.**

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input/Consultations’.

***Publication of responses***

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

***Data protection***

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the headings ‘Legal notice’ and ‘Data protection’.

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_PRIIPS\_1>

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 appropriate disclosure will help to achieve this.

Implementation Timeframe:

Although supportive of the aims of the PRIIPs Regulation and the consultation process, we are increasingly concerned regarding the delay in implementation. According to the current level 1 deadlines and taking into account the Commission’s adoption of the draft RTS as well as the European Parliament and Council’s period for objection, there will only be a maximum of 4 months between the publication of the final Regulatory Technical Standards (RTS) and the legal implementation. The current implementation time table is unrealistic.

The final stage of defining technical specifications, programming, testing and launching by the industry can only begin once there is absolute certainty over the final presentation and content of the KID. Considering the implementation of complex methods and, in some circumstances, the need to collect new data, it has now become apparent that the time needed for the appropriate implementation of the KID has been underestimated. These methods will require important modifications to IT systems which technically cannot be achieved in only a few months. A one-year extension of the PRIIPs implementation deadline is required to ensure that customers receive the best outcome.

Legacy Products:

We do not believe that the PRIIPs Regulation requirement for a KID should apply to legacy contracts, because the requirement for a PRIIPs KID is based on it being a pre-contractual document.  However the ABI recognises that it is possible for existing customers to carry out further transactions, such as fund switches and the payment of additional premiums.   In these situations, the ABI considers that EIOPA should specify that only if a transaction creates a completely new contract should a PRIIPs KID be necessary.

The current uncertainty regarding legacy products creates a risk that impacted jurisdictions will adopt different approaches to how these products should be dealt with.  It would be preferable to avoid such divergences to ensure a consistent approach is adopted across the EU.

Regulatory Technical Standards:

The following bullet points highlight the ABI’s specific concerns that we have with the proposals in the ESAs Joint Consultation Paper.

* *Multiple Option Products (MOPs):* The PRIIPs Regulation must ensure that a level playing field is ensured between the different types of PRIIPs. Retail investors should get a fair view of the insurance product, regardless of the number of investment options available. As the RTS currently stand a potential unintended consequence of the PRIIPs Regulation could be to restrict the product variety or options in the underlying investments if there is a requirement for insurers to develop a MOPs PRIIPs KID for a product that they do not manufacture themselves.
* *Personalisation:* The PRIIPs Regulation also does not stipulate personalisation for either the PRIIPs KID or for MOPs. The PRIIPs KID is intended to be a generic pre-contractual document and is not a personalised document. The requirement to prepare separate KIDs for different target groups is a level of personalisation that is not required in a generic 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 (at the contractual stage and in the UK with the Key Features Illustration) 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 considerable compliance costs for the insurance sector specifically.
* *Costs & Charges:* The representation of annualised costs together with a “reduction in yield (RIY)” approach is the most appropriate method for the cost representation. The RIY approach is also generally understood and very useful for retail investors. Since the risk and reward section as well as costs and performance are strongly correlated, a thorough consistent approach of these features is needed. It is also perhaps worth considering the use of a more customer-friendly term than “Reduction in Yield”. A lot of the language used in the costs section is not consumer friendly, as it utilises financial terminology that is not commonly understood.
* *Transaction Costs:* The ABI supports the introduction of a European Union wide methodology to calculate transaction costs.  The proposed scope of the types of transaction costs included within the proposed PRIIPs KID calculation methodology is sufficiently broad to capture the critical transaction costs, yet also focused on costs that are relatively tangible and easy to calculate. However, considerable further supporting detail is required to enable us to comment on the practicality of the proposals, and to ensure that the level and type of information collected is both meaningful and proportionate to the cost of collection.
* *Credit Ratings:* 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.
* The PRIIPs KID should be capable of reflecting both long-term (such as insurance-based investment products) and very short-term investment products. Therefore scenarios of 1, 3 and 5 years as suggested in Annex VII will be misleading for products that have longer recommended holding periods (of 30 years or more). Therefore the timeframes suggested by the ESAs should be more flexible for the manufacturer, to choose the relevant holding period.

<ESMA\_COMMENT\_ PRIIPS\_1>

***Question 1***

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

<ESMA\_QUESTION\_PRIIPS\_1>

The ABI would see merit in clarifying the criteria set out in Recital 18. The comprehension alert would lose its value and would not help retail investors if it was used for a wide range of products including some that should not fall under its scope. The current criteria lacks clarity and there is still some confusion over which underlying assets are “not commonly invested”. Manufacturers will not risk being non-compliant with the regulation and what is understood under recital 18 is that all unit-linked products will fall under the comprehension alert. There is there is the risk that the comprehension alert label will be disclosed on products that do not fall under its scope.

Different firms risk interpreting recital 18 differently causing confusion to the retail investor, the comprehension alert losing its value and therefore not helping investors distinguish between different products.

To avoid this happening, it would be helpful to clarify recital 18 either with guidelines through EIOPA or at the National Competent Authority level. NCAs will know the different products and therefore which products should have the comprehension alert label. This will at least ensure consistency within Member States. Should EIOPA chose to issue further guidelines, it should be consistent with the Insurance Distribution Directive (Article 30 (7)). In the IDD there is an obligation for EIOPA to develop guidelines for the assessment of insurance based investment products that incorporate a structure, which makes it difficult for the customer to understand the risks involved. This would be in line with the ABI’s call for a one year extension of the implementation of the PRIIPs Regulation. This would ensure consistency and sufficient time for these guidelines to be developed by EIOPA.

<ESMA\_QUESTION\_PRIIPS\_1>

***Question 2***

1. *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?*
2. *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?*

<ESMA\_QUESTION\_PRIIPS\_2>

The ABI does not agree with the assumptions used because these assumptions should be set in line with the product features. Artificially setting and obliging manufacturers to use assumptions that do not fit their products would not help retail investors get a good overview of costs. Standardised investment amounts will also not reflect that different investment levels will lead to a different charging structure and in the UK this will be a strong contrast with what is produced in the Key Features Illustration (KFI). This risks confusing the retail investor further.

Additionally certain investments will have a recommended investment amount and this should be reflected in the PRIIPs KID. Showing amounts below the recommended investment amount could set an expectation that this is available to retail investors. Therefore setting similar assumptions for all products would most likely result in retail investors not receiving relevant information and certain products outperforming others based on the KID although they might not be the best fit for all retail investors.

Inadequate and irrelevant assumptions, which are not tailored to the product, would lead to additional complexity and confusion for retail investors. Furthermore retail investors should not be directed away from certain products that match their interests and investments on the basis of a KID only because it is not tailored to the features of the products appropriately. For example, the average investment by a retail consumer could significantly differ from country to country as a result of investor behaviour and/or average purchasing power.

Fine-tuning or detailing the assumptions in the regulatory technical standards (RTS) at EU level (such as setting the initial amount invested) might prove to be very difficult notably because of the different nature of products available in different markets and 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.

Therefore high-level general principles should be set at EU level, while the fine-tuning or detailing of the assumptions should be developed at a national level by the relevant national competent authorities in cooperation with the different PRIIPs manufacturers. This will ensure a certain level of comparability between the different products and within certain product classes. From a UK perspective this will also enable the amounts to be set within UK Sterling and ensure consistency across insurers. It would not be desirable to produce revised KIDs if there is a move in exchange rates. This would also ensure that the assumptions and methodology used do not impact the product development and ultimately the product design.

<ESMA\_QUESTION\_PRIIPS\_2>

***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?*

<ESMA\_QUESTION\_PRIIPS\_3>

The ABI would highlight that the methodology under category III (involving bootstrapping and a minimum of 10.000 forward-looking simulations) is much more complicated than the one under category II (historical volatility over the last 5 years). However instead of applying an excessively complex methodology to category II as well, the methodology behind category III products should be simplified. The ESAs seem to assume that different measures are required in order to ensure accurate measurement of risk for different types of PRIIPs, and thus to ensure fair comparison. Insurance Europe believes that this assumption ought to be thoroughly assessed before introducing a complex - and very costly system. The ESAs should thoroughly assess and consider whether a simpler, more uniform measures for most types of PRIIPs would lead to different results and rankings in order to ensure that the draft RTS are cost-effective to implement.

<ESMA\_QUESTION\_PRIIPS\_3>

***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.*

<ESMA\_QUESTION\_PRIIPS\_4>

The ABI has no strong position on a confidence interval so long as it is one figure to be used by all products.

<ESMA\_QUESTION\_PRIIPS\_4>

***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?*

<ESMA\_QUESTION\_PRIIPS\_5>

The ABI does not support credit risk being included in the risk indicator because the aggregation of market risk and credit risk will potentially be very confusing for retail investors. As for the inclusion of guarantee schemes, they will complicate and distort the credit risk assessment. The inclusion of these schemes in the risk indicator will only serve to mislead the retail investor. In the UK, insurers’ credit risk is reduced due to the Financial Services Compensation Scheme (FSCS). However this compensation is not guaranteed for all investments under a fund. This is because a product could be under a different entity of the fund and therefore the product will be included under the FSCS but not the fund as a whole. There is also the added confusion that certain funds will have a cross border investment and a different Member State will have a different guarantee scheme. Explaining this in the risk indicator will be challenging and misleading.

However the credit risk retail investors could be facing, when purchasing a PRIIP, is the risk linked to a PRIIP manufacturer’s insolvency. If this is the case then this risk should be effectively mitigated under the Solvency II regime and therefore it becomes immaterial for the retail investor whether the security comes from the manufacturer himself or from a third party manufacturer.

The ABI would therefore strongly support qualitative information regarding the credit risks with a narrative explanation of the risks which are materially relevant for the PRIIP.

<ESMA\_QUESTION\_PRIIPS\_5>

***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?*

<ESMA\_QUESTION\_PRIIPS\_6>

The ABI does not favour manufacturers voluntarily increasing the disclosed SRI or assigning a higher risk class to their PRIIPs than would be a result from the methodology as this would be a purely subjective assessment. This approach would effectively make the methodology redundant and to ensure that products are comparable, the ABI prefers that all risk indicators are objectively chosen from the tables.

<ESMA\_QUESTION\_PRIIPS\_6>

***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?*

<ESMA\_QUESTION\_PRIIPS\_7>

The ABI does not support credit risk being included in the risk indicator because the aggregation of market risk and credit risk will potentially be very confusing for retail investors. The ABI believes that credit risk should be disclosed in a narrative form and not aggregated into the risk indicator. The aggregation of the market and credit risk is also in contrast to the UCITs KIID risk indicator that only uses market risk. Retail investors will also be comparing UCITs and PRIIPs products and the inclusion of credit risk for PRIIPs will distort this comparison.

Additionally given the robust and comprehensive prudential regime that insurance companies are subject to, this requirement would be disproportionate. Solvency II already incentivises the diversification of insurers’ risks and ensures their financial capability to fulfil their financial capability.

<ESMA\_QUESTION\_PRIIPS\_7>

***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.*

<ESMA\_QUESTION\_PRIIPS\_8>

Overall the ABI does 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 we are not convinced that the ratings will mean much to the consumer, especially as they are not performance driven.

Therefore the ABI does not agree with the scales of the classes. This is because if an insurer doesn’t have a rating, it will be automatically allocated to CR3. According to the aggregation method proposed, this would mean that even if the insurer has a MR1, its final SRI would be 3. Given that the market risk is the most relevant factor for insurance-based investment products, it would be more appropriate to disclose the credit risk in a qualitative form rather than be integrated in the quantitative risk indicator.

This only adds unnecessary complexity to the model. However, should it be decided to aggregate both the market and credit risks, the market risk should be factored in in a much more prominent manner than what is proposed in the current draft RTS.

The ESAs’ alternative scale proposed page 9 is already a step in the right direction because the default credit assessment 3 would allocate an insurer to CR2. The aggregated risk indicator would, thus, still allow that insurer to be allocated a summary risk indicator of 1 if they belong to MR1 class.

<ESMA\_QUESTION\_PRIIPS\_8>

***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?*

<ESMA\_QUESTION\_PRIIPS\_9>

A guaranteed product with a maturity of more than five years is no more risky than a similar product with a shorter tenor. This arbitrary cap there becomes misleading for retail investors. The ABI is of the opinion that PRIIPs that offer a capital protection at maturity and can be redeemed against their initial investment at any time over the life of the PRIIP, upon a redemption fee, a qualitative assessment and automatic allocation to MRM class 1 should be permitted regardless of their tenor. Additionally this 5 year tenor is not a realistic timeframe and does not increase comparability or transparency between products.

<ESMA\_QUESTION\_PRIIPS\_9>

***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?*

<ESMA\_QUESTION\_PRIIPS\_10>

The very strict prudential regime that insurance companies are subject to under Solvency II already incentivises the diversification of insurers’ risks and ensures the financial capability of insurers to fulfil their contractual obligations, even under stressed conditions.

However the ABI does not support credit risk being included in the risk indicator because the aggregation of market risk and credit risk will potentially be very confusing for retail investors. The ABI believes that credit risk should be disclosed in a narrative form and not aggregated into the risk indicator. The aggregation of the market and credit risk is also in contrast to the UCITs KIID risk indicator that only uses market risk. Retail investors will also be comparing UCITs and PRIIPs products and the inclusion of credit risk for PRIIPs will distort this comparison.

<ESMA\_QUESTION\_PRIIPS\_10>

***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?*

<ESMA\_QUESTION\_PRIIPS\_11>

The ABI does not support credit risk being included in the risk indicator because the aggregation of market risk and credit risk will potentially be very confusing for retail investors. The ABI believes that credit risk should be disclosed in a narrative form and not aggregated into the risk indicator. The aggregation of the market and credit risk is also in contrast to the UCITs KIID risk indicator that only uses market risk. Retail investors will also be comparing UCITs and PRIIPs products and the inclusion of credit risk for PRIIPs will distort this comparison.

<ESMA\_QUESTION\_PRIIPS\_11>

***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?*

<ESMA\_QUESTION\_PRIIPS\_12>

The ABI agrees that it is difficult for a consumer to assess the currency risk and therefore the disclosure of currency risk (or in certain cases no currency risk) may be appropriate in a narrative form.

However the inclusion of currency risk into the SRI would not be appropriate as a significant move in exchange rates could require a revised KID on a monthly basis. Therefore the ABI supports the ESAs approach that a narrative approach is the most appropriate format.

<ESMA\_QUESTION\_PRIIPS\_12>

***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?*

<ESMA\_QUESTION\_PRIIPS\_13>

The ABI feels that a risk warning below the indicator could be appropriate however the PRIIPs Regulation does prescribe an entire section of the KID for the description of what happens if retail investors take their money out early. Therefore consumers, are informed in this section about what happens when they surrender early. If the same information is included differently in different sections this will merely lead to confusion. Should EIOPA chose to proceed with a risk warning then this should include standardised wording.

<ESMA\_QUESTION\_PRIIPS\_13>

***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.*

<ESMA\_QUESTION\_PRIIPS\_14>

Not all products/funds will have a performance fee that could be applied and this should be recognised when the PRIIPs KID’s intention is to enable greater comparison between products. However, where such a fee can be applied, it should be against favourable scenario rather than the moderate scenario. The moderate scenario demonstrates the product meeting its target; whereas a performance fee usually applies in a favourable scenario where the product over-performs.

<ESMA\_QUESTION\_PRIIPS\_14>

***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?*

<ESMA\_QUESTION\_PRIIPS\_15>

The performance visual element showing three scenarios in one graph would be the most useful presentation for investors as allowing clear comparison. However we do recognise that there is no one preferred method by customers and the outcomes in the consumer testing varied. On a practical basis a graph would be harder to build and automate given the need to include lots of data points rather than one which would be required for a table. This could take significant amount of time given the number of KIDs to be produced and lead to delays. Given the potential short timeframe for implementation, this should be a consideration.

Additionally, the performance scenarios should be able to reflect both long-term (such as insurance-based investment products) and very short term investment products. Therefore scenarios of 1, 3 and 5 years as suggested in Annex VII will be misleading for products that have longer recommended holding periods (of 30 years or more). Therefore these timeframes suggested by the ESAs should be more flexible for the manufacturer, to choose a relevant holding period.

<ESMA\_QUESTION\_PRIIPS\_15>

***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?*

<ESMA\_QUESTION\_PRIIPS\_16>

It is difficult to comment on the validity of contents of the table included in paragraph 25 of Annex VI, which shows standardised percentage fees for different asset and sub-asset classes, without understanding the methodology used for choosing these asset classes.

The approach for new PRIIPs should include a clear definition of liquid and illiquid assets, to ensure consistency in application of the methodology.

In addition, the standardised percentages in the table should be applied to actual trading carried out, rather than using a weighted average allocation (which would be sensitive to the point in time chosen). This would minimise the difference between the modelled transaction costs for new PRIIPs, and the actual transaction costs incurred in subsequent years.

The ABI also has a number of broader comments on the proposed transaction cost calculation methodology, outlined below. The proposed PRIIPs transaction cost calculation methodology is a useful starting point for domestic regulations for occupational DC schemes and personal pension schemes within the UK, which are required under existing legislation. This is prompted by the potential introduction of regulations within the UK, under the Pensions Act 2014, requiring information about some or all of the transaction costs of occupational DC schemes and personal pension schemes used as default schemes for automatic enrolment purposes[[1]](#footnote-2).

The costs to providers associated with measuring transaction costs will vary depending on the final framework, but are likely to be significant. A case study by Novarca commissioned by the Financial Conduct Authority has estimated that the costs of collecting this information for a group personal pension provider within the UK could cost several million pounds.[[2]](#footnote-3) Ultimately, these costs will be borne by consumers. It is therefore essential that the level and type of information collected should be meaningful, as well as proportionate to the cost of collecting the information.

Through the course of our own consultation process on this document, the ABI received mixed feedback from members (both pension providers and asset managers for pension providers) about how they would apply the proposed methodology, highlighting the considerable scope for interpretation, and the need for further detail to enable consistent and meaningful disclosure. Details such as standardised benchmarks that could be used to model transaction costs where there is insufficient data should be included in guidelines, to allow for more flexibility in revisions. However, other details, such as the clarification of the scope and aggregation of costs, the definition of a number of key terms, and the appropriate level of reporting, will need to be addressed in the final regulations.

**Proposed methodology**

The term ‘transaction cost’ can encompass a broad range of direct and indirect costs incurred through the buying and selling of securities. The scope of the proposed transaction cost calculation methodology appears to be focused on direct (ie. explicit, observable) costs, as well as bid-ask spreads, which represent an indirect (or implicit) cost. We believe that this definition is sufficiently broad to capture the critical transaction costs, yet also focused on costs that are relatively tangible and easy to calculate. However, the definition would benefit from greater clarity, including an explicit list of which types of transaction costs are included and excluded from scope.

The inclusion of the requirement to deduct the amount of any benefit accruing to the ongoing holders of a product from any anti-dilution mechanism is a sensible way to ensure that these transaction costs are not double counted within the broader disclosure framework. These costs are not typically charged by pension funds. Ideally, these costs should be disaggregated, and the methodology for calculating the appropriate amount of anti-dilution levies should be prescribed within the methodology, to enable comparisons across products.

In addition, the approach needs to ensure a viable, low cost alternative to estimating transaction costs where mid-market prices are not readily available. This is particularly relevant to derivatives, which are not typically traded regularly. For these securities, there is generally limited look-through for fund managers, and therefore calculating transaction costs with reference to the underlying assets, or fair value, will not be practical. It may be more appropriate to employ a modelled approach, based on historical data or an industry standard for different types of derivatives.

**Look-through**

The ability for pension providers to access timely and accurate information on transaction costs from will be a critical issue, particularly where the investment management function is outsourced. This will be particularly challenging for funds of funds or blended funds, where several layers of complexity will exist.

Pension providers and asset managers will be reliant on third parties to provide them with timely and accurate information. EU-wide regulations should require the provision of information by these third parties to providers and asset managers, at specified points in time and in a standardised format. For information held by asset managers outside the EU, a modelled approach, based on similar funds within EU jurisdiction, may be the most appropriate proxy. We would suggest that further guidance should be provided where such information is not readily available.

<ESMA\_QUESTION\_PRIIPS\_16>

***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)*

<ESMA\_QUESTION\_PRIIPS\_17>

It is difficult to comment on the validity of contents of the table included in paragraph 25 of Annex VI, which shows standardised percentage fees for different asset and sub-asset classes, without understanding the methodology used for calculating these figures.

The ABI does not have any comments on the values of the figures included in the table. Please see answer to question 16 (above) for comments on the methodology for the calculation of transaction costs for new PRIIPs, as well as more general comments on the proposed methodology.

<ESMA\_QUESTION\_PRIIPS\_17>

***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)?*

<ESMA\_QUESTION\_PRIIPS\_18>

The total cost should be presented in monetary terms per year (annual average) and percentage terms. Indeed the specificities of the insurance-based investment products (ie. 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.

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 will help consumers to get a fairer comparison of the average costs between products that have different holding periods.

<ESMA\_QUESTION\_PRIIPS\_18>

***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?*

<ESMA\_QUESTION\_PRIIPS\_19>

In order to achieve meaningful comparisons between products, the biometric risk premium and the investment costs cannot be aggregated in one figure and must be presented in separate sections of the KID.

The PRIIPs Regulation is important to help enhance consumer protection and improve consumer confidence by aiming to improve the transparency and comparability of PRIIPs products. It is, therefore, extremely important that the features of insurance-based investment products are appropriately presented in the key information document.

The ABI considers that, only if the full biometric risk premium is presented separately, would consumers actually be able to make a meaningful comparisons. Meaningful comparison remains the key objective of the PRIIPs Regulation and the insurance sector considers that only separating the full biometric risk premium from the investment costs could achieve such an objective.

If this separation is not made, the consumer will be disadvantaged in several ways, as they would not be in a position to compare what is comparable:

The cost indicator of an insurance-based investment product will be deceptively higher than that of other PRIIPs, and consumers will not be in a position to compare the investment part of the different products on the market.

The amount of the insurance premium will not be clearly visible to consumers and this will prevent them from comparing the insurance cover, including the potentially high benefits if the insurance cover payment is granted. It will also allow them to compare the premium with the ones offered through other insurance-based investment products and through pure life insurance products with no investment component.

<ESMA\_QUESTION\_PRIIPS\_19>

***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?*

<ESMA\_QUESTION\_PRIIPS\_20>

A sharp and clear distinction must, therefore, be made between investment costs associated to the insurance-based investment product and the insurance premiums paid. Premiums, which are payments that directly finance the insurance benefits of the products, should not be considered as costs. This is simply because the consumer knowingly receives insurance benefits for these payments and in fact specifically chooses an insurance-based investment product in order to receive these benefits along with investment returns. If consumers are interested in receiving additional insurance benefits, the presentation of insurance premiums as investment costs would not give them the appropriate and necessary information on the product.

Effective comparison should be ensured for consumers. Meaningful comparison remains the key objective of the PRIIPs Regulation and the insurance sector considers that only separating the full biometric risk premium from the investment costs could achieve such an objective.

The ABI therefore supports the biometric risk premium in total to be presented in a section separate from the KID cost section. To ensure transparency, a reference to the biometric risk 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.” Similarly, a reference to this separate section could be made in the performance scenario section, such as: "The additional benefits that are not related to the savings process are presented separately."

<ESMA\_QUESTION\_PRIIPS\_20>

***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?*

<ESMA\_QUESTION\_PRIIPS\_21>

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 understandable for retail investors.

Firstly, only the costs at the recommended holding period or at maturity are meaningful. Otherwise, not only would it lead to confusing information and information overload for consumers, but such a presentation would send the wrong message to retail investors. The RIY method, selected by the ESAs, has the advantage of taking into account the timing of costs, compared to the Total Cost Ratio. In this context, it seems irrelevant to display all these costs figures over time.

Insurance-based investment products are usually long-term products. These products are being considered by retail investors also for this very feature. When acquiring an insurance-based investment product, the retail investor should aim to keep it until the recommended holding period or at maturity.

The ABI agrees that surrender costs are important and must be displayed in a fully transparent way to retail investors. It is understood that this is the reason why the PRIIPs level 1 Regulation dedicates a specific section of the KID to the surrender. However, in order to avoid confusion and double counting, it is key that early redemption fees are not treated as a cost. The issue would be better addressed in the section of the KID on surrender value.

Should the ESAs decide to include intermediate periods, the RTS must consider the different products included in the PRIIPs Regulation, including long-term (such as insurance-based investment products) and very short term investment products. Regarding insurance-based investment products specifically, it should be noted that adding scenarios for intermediate stages of 1, 3 and 5 years as suggested in Annex VII makes no sense, given that insurance-based investments generally have very long recommending holding periods (of 30 years or more). It would be necessary for the intermediate stages to be rather: “early stage during the recommended holding period”; “intermediate stage during the recommended holding period” and “recommended holding period”.

The total cost should be presented in monetary terms per year (annual average) and percentage terms. Indeed the specificities of the insurance-based investment products (ie. 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. Since risk and reward as well as costs and performance are strongly correlated, a thorough consistent approach of these features is needed.

<ESMA\_QUESTION\_PRIIPS\_21>

***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?*

<ESMA\_QUESTION\_PRIIPS\_22>

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 understandable for retail investors. The RIY provides retail investors with a simple and understandable figure and enables them to compare different products in a robust and consistent manner.

Since risk and reward as well as costs and performance are strongly correlated, a thorough consistent approach of these features is needed.

It is perhaps however worth considering the use of a more customer-friendly term other than “Reduction in Yield”. A lot of the language used in the costs section is financial terminology that is not necessarily the most consumer friendly.

<ESMA\_QUESTION\_PRIIPS\_22>

***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?*

<ESMA\_QUESTION\_PRIIPS\_23>

It is not clear if there would be room within the three pages of A4 to include this additional information. There is also a risk of overloading the consumer with information and graphs.

<ESMA\_QUESTION\_PRIIPS\_23>

***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?*

<ESMA\_QUESTION\_PRIIPS\_24>

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 understandable for retail investors. The RIY provides retail investors with a simple and understandable figure and enables them to compare different products in a robust and consistent manner.

Since risk and reward as well as costs and performance are strongly correlated, a thorough consistent approach of these features is needed.

It is perhaps however worth considering the use of a more customer-friendly term other than “Reduction in Yield”. A lot of the language used in the costs section is financial terminology that is not necessarily the most consumer friendly.

<ESMA\_QUESTION\_PRIIPS\_24>

***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?*

<ESMA\_QUESTION\_PRIIPS\_25>

It is necessary for provisions to be comparable.

<ESMA\_QUESTION\_PRIIPS\_25>

***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?*

<ESMA\_QUESTION\_PRIIPS\_26>

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 understandable for retail investors.

Since risk and reward as well as costs and performance are strongly correlated, a thorough consistent approach of these features is needed.

It is perhaps however worth considering the use of a more customer-friendly term other than “Reduction in Yield”. A lot of the language used in the costs section is financial terminology that is not necessarily the most consumer friendly.

<ESMA\_QUESTION\_PRIIPS\_26>

***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.?*

<ESMA\_QUESTION\_PRIIPS\_27>

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 understandable for retail investors.

Since risk and reward as well as costs and performance are strongly correlated, a thorough consistent approach of these features is needed.

It is important that costs are expressed using the same approach in the two tables. It could be confusing for investors if two different units are used.

It is also perhaps worth considering the use of a more customer-friendly term other than “Reduction in Yield”. A lot of the language used in the costs section is financial terminology that is not necessarily the most consumer friendly.

<ESMA\_QUESTION\_PRIIPS\_27>

***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.*

<ESMA\_QUESTION\_PRIIPS\_28>

In regards to the Multiple Option Products (MOPs), the PRIIPs Regulation must ensure that a level playing field is ensured between the different types of PRIIPs. Retail investors should get a fair view of the insurance product. This should be regardless of the number of investment option available. As the RTS currently stand a potential unintended consequence of the PRIIPs Regulation could be to restrict the product variety or options in the underlying investments if there is a requirement for insurers to develop a MOPs PRIIPs KID for a product that they do not manufacture themselves. This is not the remit or one of the aims of the PRIIPs Regulation itself.

The PRIIPs Regulation also does not stipulate personalisation for either the PRIIPs KID or for MOPs. The PRIIPs KID is intended to be a generic pre-contractual document and is not a personalised document. The requirement to prepare separate KIDs for different target groups is a level of personalisation that is not required in a generic 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 (at the contractual stage and in the UK with the Key Features Illustration) 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 considerable compliance costs for the insurance sector specifically.

The RTS also seems to place additional burden on the MOPs manufacturers; Article 6(3) states that by way of derogation from Article 8(3), for a MOP the KID shall provide at least a generic description of the underlying investment options and state where and how more detailed pre-contractual information documentation relating to the investment products backing the underlying investment options can be found. The RTS says that these documents are the responsibility of the MOP provider. As compared to the Regulation the draft RTS requires a Multi Option Product (MOP) provider to either (a) provide a complete KID reflecting the combined product and investment option or (b) a generic KID and specific pre-contractual information document about each underlying investment option. This is in excess of what is currently required under UCITS.

The RTS goes on to say that these documents shall be the sole responsibility of the MOP provider. The market reality with MOPs products is that manufacturers give access to their products to thousands of funds i.e. other PRIIPS with other providers. The RTS as it stands makes the MOP provider responsible for this documentation. However a MOP provider giving access to other PRIIPs via Open Architecture, should not be held responsible for external PRIIPS as this would place a huge burden on them.

Furthermore for UCITs underlying options, the information flow of the necessary data for insurers to develop a PRIIPs KID for UCITs is likely to be burdensome and complicated considering that the data which will be needed is not the same as the one necessary to develop a UCITs KIID. It is not appropriate to require insurers to develop a document for a product that they do not manufacture themselves. Therefore in this context, the ABI would suggest that for any UCITs underlying option, the manufacturer is enabled to provide the UCITs KIID in line with the PRIIPs Regulation exemption under Article 32.

<ESMA\_QUESTION\_PRIIPS\_28>

1. To be clear- the Pensions Act 2014 places a duty on the FCA and DWP to require the disclosure and publication of transaction cost information and administration charges, and gives regulatory powers to the secretary of state to make regulations. See section 44. No domestic regulations have been drafted at this stage.

   <http://www.legislation.gov.uk/ukpga/2014/19/section/44> [↑](#footnote-ref-2)
2. <https://www.fca.org.uk/your-fca/documents/research/transaction-costs-transparency> [↑](#footnote-ref-3)