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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>

In this comment the Federation of German Consumer Organisations (vzbv) places particular emphasis on understandable cost information and therefore focuses on selected questions of the consultation paper.

<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>

TYPE YOUR TEXT HERE

<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>

1. Default amounts make it easy for consumers to compare costs when the amount of money actually invested differs. In this sense, it is especially important to support a comparison between different forms of investment products. For this reasons the default should be equal always. A difference between investment funds and insurance-based investment products is not helpful.

vzbv suggests to distinguish between one-time investments and ongoing, monthly investments. The default for one-time investments should be 10.000 Euro. The default for monthly investments should be 100 Euro (or yearly 1.200 Euro). These defaults ensure the [comparability](http://dict.leo.org/ende/index_de.html#/search=comparability&searchLoc=0&resultOrder=basic&multiwordShowSingle=on) and are easy to forecast to the actual investment.

1. vzbv is in favor of the same default even if the PRIIP has a known required investment. The same default is important to ensure the comparability to other investments. However vzbv proposes a clear note that the actual investment sum is different.

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

vzbv does not agree with an allocation to MRM class 1 for any PRIIPs that offer a capital protection. This is only possible when the promise is underlayed with capital resources of the PRIIP offeror. Otherwise the default risk of the guarantor must be taken into account.

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

From the investor’s point of view the currency risk is crucial. Therefore the risk indicator of PRIIPs should take into account currency risks.

The further effort of the manufacturer is manageable. It should be a matter of course to produce the KID referring the target market including foreign markets with other currencies. Only when the PRIIP is created for the Home Memberstate market soleley and foreign consumers ask for that specific PRIIP on their own initiative, currency risk need not to be considered.

<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>

With respect to long running investments it is quite common that investors do not preserve the whole retention. For this reasons it is important to illustrate the risk of an early exit. vzbv strongly supports the option 5.2. of multiple time frames to illustrate this risk.

<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>

TYPE YOUR TEXT HERE

<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>

In order to reduce information overload vzbv supports a graph only.

<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>

TYPE YOUR TEXT HERE

<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>

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<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>

vzbv strongly supports a sum of costs over the respective holding periods because clear sums are most informative to consumers.

With respect to the figure of the reduction in yield (RIY) it is absolutely needless and redundant to reflect annualized amounts.

<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>

The approach to estimate a fair value of biometric risk premium is technically difficult and leads to undesirable market behavior by the insurers. Generally risk premiums are over calculated by uncertainties of the real payments to consumers. If an insurer chooses a very strict coverage policy picking out the good risks, he can calculate with a small surcharge. An insurer running an opener business model has to take into account a higher variety of risks leading to a higher average surcharge. Furthermore both have to keep an eye on the potential development of the collective of insured persons which has in the second case a higher uncertainty.

The estimation of a fair value is only possible by an obligation to conclude a contract with any consumer and clearing mechanism over all insurers. Only this creates a level playing field between all insurers and makes the calculated premium comparable.

<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>

vzbv advocates a separation of saving and risk coverage. Only in case of mandatory bundling by national law a connection of these aspects is unavoidable. Bundled products are highly intransparent. MiFID in Article 24 par. 11 lays down:

*“When an investment service is offered together with another service or product as part of a package or as a condition for the same agreement or package, the investment firm shall inform the client whether it is possible to buy the different components separately and shall provide for a separate evidence of the costs and charges of each component.”*

In Germany “Riester” and “Rürup” as pension products which, under national law, are recognised as having the primary purpose of providing the investor with an income in retirement and which entitle the investor to certain benefits regarding to par. 12 *Verordnung zum Produktinformationsblatt und zu weiteren Informationspflichten bei zertifizierten Altersvorsorge- und Basisrentenverträgen nach dem Altersvorsorgeverträge-Zertifizierungsgesetz* are obliged to numeralise the part of the payment using additional risk coverage in KID. So insurers are able to calculate and to number biometric risk premium. In the moment these products are out of scope of PRIIP-Regulation. But from a view of level playing field it is useful to implement this rule in PRIIP-KID as well.

The Information must be based on a summarised, calculated risk premium. Possible returns, paybacks or set-offs coming from overcalculation have to be ignored. Because the cash flow is not certain. Furthermore risk profit flows into the common profit distribution, which is also used to stabilise the return over time. This enables insurer to offer a higher return on investment. A fair value approach would count the profit twice.

<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>

As stated under question 18 vzbv strongly supports a sum of costs over the respective holding periods because clear sums are most comprehensive to consumers. Default amounts ensure the comprehensibility.

As table 1 requires sums, table 2 requires percentage figures. This is a brake in the presentation and makes it hard to understand the connection between table 1 and table 2. For this reason table 2 should also require sums instead of percentage figures.

The sum should not reflect annualized amounts. The sum should be accumulative over the investment period to demonstrate the effect of disposition of costs and to demonstrate the accumulative overall costs.

RIY stands for an annual presentation/cost information.

<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>

Even if a more graphic presentation might be easier to understand vzbv supports a presentation with a full table. The table is helpful and important to illustrate and explain the connection between the different cost components.

<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>

vzbv is an opponent of the permission of performance fees. As performance fees lead to wrong incentives, performance fees should be forbidden.

Besides, vzbv is of the opinion that a variability of performance fees by showing the level for all three performance scenarios leads to an information overload. Therefore vzbv supports only one scenario. This scenario should be the moderate scenario.

<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>

vzbv supports two tables. The first table ensures a quick overview of costs. The second table gives deeper and more detailed information.

To ensure that both tables are understandable and connected, the cost information in table two shoud also numerical, not in percentage.

<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>

TYPE YOUR TEXT HERE

<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>

Yes, vzbv supports a sophisticated detailed presentation of costs.

One of the problems with the RIY approach is, that the value of the RIY depends on the time frame of the PRIIP and its return. This makes it very hard to compare different PRIIPs and can lead to confusing results. Furthermore the RIY is displayed in relative values which shrouds the real value for the investor and it does not include guaranteed costs. Another problem with RIY is that the costs it includes are dynamic and not static. They change during the investment (e.g. issue surcharges or success related costs) and have to be estimated.

The reduction in payment (RIP) approach addresses the issues with other approaches mentioned in question 20 and can also be (and should be) expressed in monetary values via an easy calculation. Therefore we think it is the most suited method to prepare “total aggregate cost” figures.

<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>

Yes, vzbv supports a sophisticated detailed presentation of costs.

One of the problems with the RIY approach is, that the value of the RIY depends on the time frame of the PRIIP and its return. This makes it very hard to compare different PRIIPs and can lead to confusing results. Furthermore the RIY is displayed in relative values which shrouds the real value for the investor and it does not include guaranteed costs. Another problem with RIY is that the costs it includes are dynamic and not static. They change during the investment (e.g. issue surcharges or success related costs) and have to be estimated.

The reduction in payment (RIP) approach addresses the issues with other approaches mentioned in question 20 and can also be (and should be) expressed in monetary values via an easy calculation. Therefore we think it is the most suited method to prepare “total aggregate cost” figures.

<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>

Form a consumer point of view a cost disclosure has to distinguish between

* costs of management/administration and
* distribution commissions (both direct commissions and internal commissions (kick-backs) also
* costs that accrue in the case of cancellation of the contract.

All costs are nominalised concretely, where appropriate under specification of the reference parameter.

An information about distribution commissions is nessesarry to disclose the interests of the distributor. At least conflicts of interests in selling must be disclosed. This is the softest form of regulation to prevent miss-selling.

Unfortunatelly PRIIP neglects any information regarding distribution commissions.

<ESMA\_QUESTION\_PRIIPS\_28>