EUROPEAN BANKING AUTHORITY

European Insurance and Occupational Pensions Authority

European Securities and Markets Authority

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

JC 2017 49

21 December 2022

Questions and answers (Q&A) on the PRIIPs Key Information Document (KID)

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Acronyms and definitions used

AIF	Alternative Investment Fund
CCP	Central Counterparty
CDS	Credit Default Swap
CRM	Credit Risk Measure
ETD	Exchange traded derivative
IPO	Initial Public Offering
KID	Key Information Document
MOP	Multi-option Product
MRM	Market Risk Measure
MTF	Multilateral Trading Facility
NAV	Net Asset Value
OTC	Over The Counter
PCA	Principal Component Analysis
PRIP	Packaged Retail Investment Product
PRIIP	Package Retail and Insurance-based Investment Product
Q&A	Question and Answer
RHP	Recommended holding period
RIY	Reduction in Yield
SRI	Summary Risk Indicator
UCITS	Undertakings for Collective Investment in Transferable Securities
VaR	Value-at-risk
VEV	VaR-Equivalent Volatility

Introduction

These Q&As concern Regulation (EU) No 1286/2014 (the PRIIPs Regulation) and its Delegated Acts. The original delegated rules are found in Commission Delegated Regulation (EU) 2017/653. However, this has been amended, in particular by Commission Delegated Regulation (EU) 2021/2268. The rules in Commission Delegated Regulation (EU) 2021/2268 are, in general, applicable from 1 January 2023.

Following the Q&A publication of 14 November 2022 this document includes Q&As that relate to the amendments introduced in Commission Delegated Regulation (EU) 2021/2268 that are applicable on 1 January 2023. Where a Q&A relates to the amendments in Commission Delegated Regulation (EU) 2021/2268, this is specifically indicated underneath the answer.

Given that some Q&As published since 2017 concerned requirements that were amended by Commission Delegated Regulation (EU) 2021/2268, these Q&As needed to be revised or deleted. These revisions or deletions were published on 21 December 2022 and in these cases it is specifically indicated underneath the answer.

General topics [Last update 14 November 2022]

1. **Does the categorisation of a retail investor depend on the definition in Directive 2014/65/EU?**

   Yes, in accordance with Article 4(6) of the PRIIPs Regulation.

   It is noted that in addition to the categories of "professional clients" and "retail client" in Directive 2014/65/EU a number of Member States have introduced further categories (such as "qualifying investor", "informed investor", or "semi-professional investor") which, by their definition, share some, but not all elements of the definition of "professional client" pursuant to Point 10 of Article 4(1) of Directive 2014/65/EU. The obligation in the PRIIPs Regulation to provide a KID extends to all investors that do not meet the criteria laid down in Annex II of Directive 2014/65/EU, irrespective of any additional categorisation provided for in national law.

   (Published 18 August 2017)

2. **Is a KID always required when an investment product is listed on a regulated market?**

   A manufacturer is not required to draw up a KID for a product listed on a regulated market when they have defined the product as meant only for non-retail investors

   (Published 20 November 2017)

3. **The Delegated Regulation uses terms "biometric risk premium" and "insurance premium". Do these terms have the same meaning?**

   The Delegated Regulation defines the term "biometric risk premium" in point 54 of Annex VI. The term "insurance premium payment" in the second sub paragraph of Article 2(4) and the term "insurance premium" at the top of Templates A and B of Annex V - Single or Regular premiums paid – are considered to have the same meaning as biometric risk premium.

   It can be added that some of the references to "premiums" in the Delegated Regulation, for example in the first sub paragraph of Article 2(4) the terms "overall premium", "premium" or "annual premium", refer to the total amount paid or total annual payments made by the retail investor. The term "Investment" at the top of Templates A and B of Annex V – Single or Regular premiums paid - also refers to the total amount paid or total annual payments.

   (Published 20 November 2017)

4. Does the KID need to be published on the public section of a website?

Yes, in order to comply with the obligation laid down in Article 5(1) of the PRIIPs Regulation, a PRIIP manufacturer must publish a KID on the public section of its website. As reasoned in Recital 12 of the PRIIPs Regulation, the publication ensures the widespread dissemination and availability of KIDs.

(Published 19 July 2018)

5. What aspects should be considered by the manufacturer when determining the RHP of a PRIIP?

In accordance with Article 8(3)(g)(ii) of the Regulation and Articles 2(5) and 6 of the Delegated Regulation, as well as the RHP, the PRIIP manufacturer needs to consider if there is a minimum required holding period and if there is a maturity date when preparing the KID.

The minimum required holding period covers the period of time where the PRIIP does not offer potential early exit or redemption possibilities, if any. The maturity date is the term of the product, where the product has a fixed end date. The RHP represents the view of the PRIIP manufacturer regarding a recommended period of time for the retail investor to hold the product.

The dates of these time periods can coincide, e.g. in the case of open-ended products (i.e. where there is no maturity date) that the PRIIP manufacturer considers that the minimum required holding period can be recommended, or e.g. in the case of fixed-term products that the maturity date can be recommended. In many cases such coincidence may be reasonable, for example this is expected to be the case for many investment funds, insurance-based investment products and structured bonds. However, for some PRIIPs it may not be, for example it is expected that for certain derivatives it is not recommended to hold the product until the maturity date. Therefore, the RHP should not automatically be either the minimum required holding period or the maturity date.

Rather, when deciding on the RHP, the manufacturer needs to consider how long it might be advisable for the targeted retail investor to be prepared to hold a product in view of the characteristics or underlying financial structure of the product, such as its risk/reward profile, capital guarantees and cost structure. There may also be other considerations, such as the tax implications where these apply at the level of the product, (for example this may be relevant for some insurance-based investment products). Considering that the risk indicator, as well as (some of) the return and costs figures are based on the RHP, the selection of a RHP that is markedly different from how the manufacturer can reasonably anticipate that the PRIIP is likely to be used by the targeted retail investors may increase the risk of misleading those investors as regards the true risks and returns that the PRIIP might provide. The manufacturer may also use evidence of how similar products have been used by the intended retail investors, or when reviewing the KID over time have evidence of how the product has been used by retail investors (in this respect there is a link to the product governance arrangements required by MiFID and IDD).

For example in terms of the link between a product’s characteristics and the RHP, for “return target” and guaranteed products the RHP is expected to result from the analysis of the underlying mechanisms of protection or guarantee. Its calculation requires a careful analysis of each component comprised in the financial structure in order to get a clear picture of how any single protection or guarantee mechanism actually works. In “risk target” or “benchmark” products, the RHP is expected to be determined according to the criterion of the costs break-even, given the degree of risk of the product. From the retail investor’s perspective, the RHP is not expected to be less than the minimum time period within which the costs incurred may be amortized, taking into account the risks embedded in their financial engineering. In other words, the link between the risk and the potential returns of the PRIIP can be fully appreciated only over the RHP.

The above elements should be considered when preparing the brief description of the reasons for the selection of the RHP (Article 6(a) of the Delegated Regulation) as well as the information on the main factors upon which the return of the product depends in accordance with Article 2(2) of the Delegated Regulation.

At the same time, the selection of a RHP by the PRIIP manufacturer does not necessarily mean that only that period would be a reasonable holding period. There may be products where different holding periods are considered equally or similarly viable. This aspect could be reflected in this brief description (Article 6(a) of the Delegated Regulation), including by describing other possible holding periods. However, since the RHP is used as a basis for the risk, performance and cost figures, it should be clear in the section 'How long should I hold it and can I take money out early?' the time period that has been selected for the purposes of preparing the KID, including in the highlighted text 'Recommended [required minimum] holding period: [x]'.

Further, considering that retail investors may decide to use the product in a different way, or their personal circumstances may change, the relevant implications of not holding the PRIIP for the RHP should be clearly shown in the KID. For example, the investor should be warned if the risk of the PRIIP is significantly higher if it is held for shorter or longer than the RHP (see Article 3(2)(d) of the Delegated Regulation), as well as regarding the implications of disinvestment in the section 'How long should I hold it and can I take my money out early?' as set out in points (b) and (c) of Article 6 of the Delegated Regulation.

(Published 4 April 2019)

6. How does Article 15(2)(c) of the Delegated Regulation regarding the review of the KID apply to the different holding periods shown? If the mean return for the PRIIP's moderate performance scenario, expressed as an annualised percentage return, has changed by more than five percentage points for at least one of the holding periods should an update be made?

This provision applies to all holding periods for the moderate performance scenario (at 1 year, half the recommended holding period and the recommended holding period, as applicable, based on the length of the recommended holding period of the PRIIP), i.e. where the annualised percentage return has changed by more than five percentages points for at least one of the holding periods shown.

(Published 17 December 2021)

7. Is it possible to signpost to a glossary?

Yes, a glossary may be used to provide additional information. However, the relevant legislative requirements need to be taken into account, such as that the KID shall be a stand-alone document (Article 6(2) of the PRIIPs Regulation), containing information on all of the key features of the product and be understandable by itself, written in a language that is "clear, succinct and comprehensible", and of a maximum of three sides (Article 6(4) of the PRIIPs Regulation). This means that where terminology is used in the KID that may not be comprehensible to the type of retail investor targeted, the term should be explained within the KID. If a glossary is used, it should be easily accessible from the KID, such as via a hyperlink, and referred to in the 'Other relevant information' section of the KID.

(Published 14 November 2022)

8. Is it possible to show the complete name of the PRIIP when first mentioned in the KID and then simply refer to it as "the product" or "the Fund" thereafter?

Yes, an appropriate short form can be used after the full name has been stated and the same approach can be taken for share classes of funds with a reference to "the share class of the fund/product", as well as for other types of PRIIPs, such as insurance-based investment products.

(Published 14 November 2022)

9. It should be clarified in Annex I of the Delegated Regulation, where the name of the group should be included and whether it should be shown in bold.

Where applicable, the name of the group should be included as part of the "Name of the PRIIP manufacturer".

(Published 14 November 2022)

10. Prior to 1 January 2023 is it possible to prepare a KID based on the new requirements in Commission Delegated Regulation (EU) 2021/2268, for example for a product launched between September and December 2022 or a product with a subscription period that runs from 2022 into 2023?

The requirements in Commission Delegated Regulation (EU) 2021/2268 do not apply until 1 January 2023. Therefore, all KIDs published prior to that point need to comply with the existing requirements in Commission Delegated Regulation (EU) 2017/653.

(Published 14 November 2022)

‘What is this product?’ section [Last update 14 November 2022]

1. **Does Article 2(2a)(d) of the Delegated Regulation require a UCITS or AIF to provide a clear indication of whether it is actively or passively managed?**

   Yes. Article 2a(d) of the Delegated Regulation requires that a UCITS or AIF either has an index tracking objective, or alternatively allows for discretionary choices, and in both cases this must be disclosed in the objectives section of the KID.

   In the case of index-tracking UCITS or AIFs, using the terms ‘passive’ or ‘passively managed’ in addition to ‘index-tracking’ is recommended practice in order to assist investor understanding. A UCITS management company or an AIF manager should consider providing additional wording to ensure the meaning of the term ‘passive’ or ‘passively managed’ is clear. An index-tracking (passive) UCITS or AIF must disclose the index it is tracking and show performance against that index in the information published on past performance.

   An actively managed UCITS or AIF is one where the manager has discretion over the composition of its portfolio, subject to the stated investment objectives and policy. As opposed to a passive UCITS or AIF, an active UCITS or AIF does not have an index-tracking objective although it may include or imply reference to a benchmark. A spectrum exists regarding the level of discretion active UCITS or AIFs may wish to take or be permitted to take against a benchmark index. Some active UCITS or AIFs take a lower level of risk against a benchmark index than others, and some are managed without any reference to a benchmark index at all.

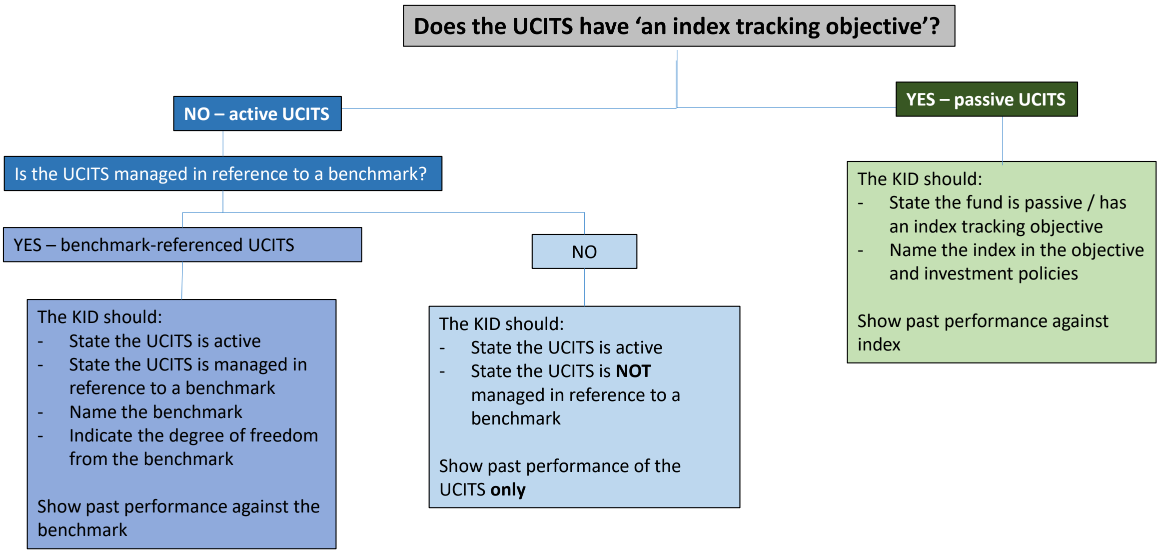
   Nevertheless, it should be equally clear to investors where the UCITS or AIF is actively managed. Explicitly using the terms ‘active’ or ‘actively managed’ is recommended practice in order to assist investor understanding, and a UCITS management company or an AIF manager should consider providing additional wording to ensure the meaning of the term ‘active’ or ‘actively managed’ is clear.

   Active UCITS or AIFs which are managed in reference to an index must provide additional disclosure on the use of the benchmark index (Article 2a(d)) and show past performance against it (Point 11 of Annex VIII)). They must also indicate the degree of freedom from the benchmark (see Q&A 8c). Point 11 of Annex VIII requires active UCITS or AIFs managed in reference to a benchmark index to display past performance against that benchmark.

   It should be clear which benchmark index (or indices) the UCITS or AIF is tracking or is being managed in reference to. Where more than one version of a benchmark index is published (for example a total return version, price return version, etc.), it should be clear which version is being used by the UCITS or AIF.

   To assist investor understanding, it is recommended practice that active UCITS or AIFs which are not managed in reference to any benchmark should also make this clear to investors (see Q&A 8b).

This information is summarised in the following graphic, which is also applicable to Q&As 2 and 3 below in this section and Q&A 2 in the section 'Past performance'.



The information disclosed in the UCITS or AIF KID should be consistent with the UCITS or AIF's objectives and investment policy in the legal and regulatory documents of the fund.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

2. What is the meaning of 'whether this approach includes or implies a reference to a benchmark' in Article 2a(d) of the Delegated Regulation?

A UCITS or AIF managed in reference to a benchmark index is one where the benchmark index plays a role in the management of the UCITS or AIF, for example, in the explicit or implicit definition of the portfolio's composition and/or the UCITS or AIF's performance objectives and measures. This reference may be present at the outset of a UCITS or AIF's existence, or may be introduced during its lifecycle; in both cases it should be disclosed. Ultimately, the onus is on the UCITS management company or AIF manager to identify whether the UCITS or AIF is in practice managed in reference to a benchmark index. However, the following are (non-exhaustive and non-cumulative) examples of where an approach may include or imply reference to a benchmark index and where a UCITS or AIF should disclose that it is managed in reference to that benchmark index:

Portfolio composition

- The UCITS or AIF uses a benchmark index as a universe from which to select securities. This applies even if only a minority of securities listed in the index are held in the portfolio and the weightings of the UCITS or AIF' portfolio holdings diverge from their equivalent weighting in the index.
- The UCITS or AIF portfolio holdings are based upon the holdings of the benchmark index. For example:
    - The individual holdings of the UCITS or AIF' portfolio do not deviate materially from those of the benchmark index.

- Monitoring systems are in place to limit the extent to which portfolio holdings and/or weightings diverge from the composition of the benchmark index.
- The UCITS or AIF invests in units of other UCITS or AIFs in order to achieve similar performance to a benchmark index

Performance measures

- Performance fees are calculated based on performance against a reference benchmark index.
- The UCITS or AIF has an internal or external target to outperform a benchmark index.
- Contracts between the UCITS management company or AIF manager and third parties, such as the Investment Management Agreement covering delegation of investment management, or between the UCITS management company or AIF manager and its directors and employees, state that the portfolio manager must seek to outperform a benchmark index.
- The individual portfolio manager(s) receive(s) an element of performance-related remuneration based on the fund's performance relative to a benchmark index.
- The UCITS or AIF is constrained by internal or external risk indicators that refer to a benchmark index (e.g. tracking error limit, relative VaR for global exposure calculation).
- Marketing communications issued by the UCITS management company or AIF manager to one or more investors or potential investors shows the performance of the fund compared with a benchmark index.

For clarity, a benchmark index may refer to an individual index or composite index comprised of more than one index / a basket of indices.

For additional clarity on disclosure of benchmarks, see the graphic in the previous Q&A (Q&A 1 of this section).

To assist investor understanding, it is recommended that UCITS or AIFs which are not managed in reference to a benchmark index also make this clear to investors.

To ensure fair, clear and not misleading communications, the information disclosed in the UCITS or AIF KID should be consistent with the UCITS or AIF's Investment Objectives in the legal and regulatory documents of the fund.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

3. What is the meaning of indicating 'the degree of freedom from the benchmark' in Article 2a(d) of the Delegated Regulation?

To satisfy the requirements of this element of the Article, investors should be provided with an indication of how actively managed the UCITS or AIF is, compared to its reference benchmark index. The KID should strike a balance between providing the level of detail required to sufficiently disclose a UCITS or AIF's degree of freedom from a benchmark index, and the obligation to do so in clear language understandable to a retail investor.

On this basis, the UCITS management company or AIF managers should at least take into account the following elements when indicating in the KID the degree of freedom from the benchmark index for actively managed UCITS or AIFs whose investment approach includes or implies a reference to a benchmark index:

a) The description of the underlying investment universe of the UCITS or AIF should indicate to what extent the target investments are part of the benchmark index or not.

b) The KID should describe the degree or level of deviation of the UCITS or AIF in regards to the benchmark index, thereby considering, where applicable, the quantitative and/or qualitative deviation limitations underlying the investment approach (e.g. risk limits defined by reference to the benchmark index such as tracking error) as well as the narrowness of the investment universe. In this context UCITS or AIFs may, when necessary for investor understanding, also disclose quantitative metrics (e.g. precise internal limits on tracking error etc.).

Unless stricter requirements specific to a Member State apply, UCITS or AIFs which are actively managed in reference to a benchmark index are not required to numerically quantify the degree of freedom by outlining for instance expected tracking error, active share, or other metrics in order to provide a quantitative indication. However, where the UCITS management company or AIF manager believes such information will assist investor understanding, it may do so by providing explanations in language sufficiently comprehensible to retail investors.

Some examples of wording that is likely to be acceptable when indicating the degree of freedom from the benchmark index in the KID can be found below. These examples are for illustrative purposes only and are non-exhaustive:

1. Regarding point a) above: "The majority of the Sub-Fund's equity securities will be components of and have similar weightings to the Benchmark. The Investment Manager may use its discretion to invest in companies or sectors not included in the Benchmark in order to take advantage of specific investment opportunities."
2. Regarding point b) above: "The investment strategy will restrict the extent to which the portfolio holdings may deviate from the ABCD index. This deviation may be [limited]/[material]/[significant]. This is likely to limit the extent to which the Sub-Fund can outperform the ABCD Index. Deviations from the ABCD index are limited by a target tracking error of [X] [accompanied by a clear, concise description of the quantitative indicator's meaning]".

Where a UCITS or AIF has a defined strategy to vary the risk it will take against an index, this should be disclosed. For example, where a UCITS or AIF is structured in order to be managed in alignment with an index during periods of market volatility, it should disclose this. This does not imply that the KID should be updated to reflect very short-term / one-off variations in the investment strategy during a UCITS or AIF lifecycle, as long as the capacity for such variations has been previously disclosed.

For additional clarity on disclosure of benchmarks, see the graphic in Q&A 1 of this section above.

To ensure fair, clear and not misleading communications, the information disclosed on past performance should be consistent with the UCITS or AIF's Investment Objectives in the legal and regulatory documents of the fund.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

4. What type of information should be included in the "What is this product?" section of the KID of index-tracking UCITS and index-tracking leveraged UCITS?

For index-tracking UCITS, the following information should be included in a summary form in the "What is this product?" section:

a) a clear description of the indices including information on their underlying components. In order to avoid the need to update the document frequently, the KID can direct investors to a web site where the exact compositions of the indices are published;

b) information on how the index will be tracked (for example whether it will follow a full or sample based physical replication model or a synthetic replication) and the implications of the chosen method for investors in terms of their exposure to the underlying index and counterparty risk;

c) information on the anticipated level of tracking error in normal market conditions;

d) a description of factors that are likely to affect the ability of index-tracking UCITS to track the performances of the indices, such as transaction costs, small illiquid components, dividend reinvestment etc.

For index-tracking leveraged UCITS, the following information should be included in a summary form in the "What is this product?" section:

a) a description of the leverage policy, how this is achieved (i.e. whether the leverage is at the level of the index or arises from the way in which the UCITS obtains exposure to the index), the cost of the leverage (where relevant) and the risks associated with this policy;

b) a description of the impact of any reverse leverage (i.e. short exposure);

c) a description of how the performance of the UCITS may differ significantly from the multiple of the index performance over the medium to long term.

The summary information included in the KID needs to reflect the relevant legislative requirements in the PRIIPs Regulation, such as that the language used is clear, succinct and comprehensible to the retail investor.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

5. How should UCITS ETFs be identified in the KID, and what information should be included in the "What is this product?" section of the KID?

A UCITS ETF should use the term 'UCITS ETF' which identifies it as an exchange-traded fund. This should be used as the "Type" of PRIIP in the KID (Article 2(1) of the Delegated Regulation) and this should be used in all EU languages. A UCITS which is not a UCITS ETF (as defined in the ESMA guidelines on ETFs and other UCITS issues[1]) should use neither the 'UCITS ETF' identifier nor 'ETF' nor 'exchange-traded fund'.

[1] https://www.esma.europa.eu/sites/default/files/library/2015/11/esma-2014-0011-01-00_en_0.pdf

A UCITS ETF should disclose clearly in the “What is this product section?” of the KID the policy regarding portfolio transparency and where information on the portfolio may be obtained, including where the indicative net asset value, if applicable, is published

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

6. How should actively-managed UCITS ETF be identified in the KID, and what information should be included in the “What is this product?” section of the KID?

An actively-managed UCITS ETF should inform investors clearly in the KID of that fact and should disclose clearly in the “What is this product?” section how it will meet the stated investment policy including, where applicable, its intention to outperform an index.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

Market risk assessment (Annex II, Part 1)

I. Product categories [Last update 14 November 2022]

1. **Will it be possible for the manufacturer to include certain products, such as leveraged products, voluntarily in "Category 1" for the purposes of the market risk assessment?**

   It is not possible to voluntarily include a PRIIP in any Category. The analysis of the appropriate categorisation must be done. For example, leveraged products that could lead retail investors to lose more than their initial investment would be Category 1. Other types of leveraged products, for example those that track a reference value that cannot fall below zero, may be Category 2 or 3.

   (Published 4 July 2017)

2. **The main difference between Category 2 and Category 3 is whether the condition of "constant multiple" is fulfilled in Annex II, Part 1, Point 5. Would it be correct to treat unit-linked insurance products with minimal fees charged by the insurer (or absolute fees or fees depending on value) as not fulfilling the definition of "constant multiple" and therefore belonging to Category 3?**

   The categorisation referred to in Annex II concerns the MRM of the product. Annex VI and VII concern the calculation and presentation of costs or fees. For insurance-based investment PRIIPs which do not fall into Category 4, the categorisation depends only on the characteristics of the payoff of the PRIIP and the availability of data. It does not depend on the nature of the charges.

   (Published 4 July 2017)

3. **Are PRIIPs with unconditional capital protection categorised as Category 2 or Category 3?**

   If there is an unconditionally protected amount this usually indicates a non-linear PRIIP and therefore Category 3 or 4 is more likely. In this case, in accordance with Points 24 and 29 of Annex II, Part 1, the MRM may be calculated by discounting the protected amount to get the (97,5%) VaR.

   (Published 4 July 2017)

4. **Would a hedge fund that meets the following criteria be considered a Category 1 or Category 3 PRIIP? The criteria are: the hedge fund invests in transferable securities, these transferable securities are valued daily, the hedge fund has quarterly (or less frequent) redemption right, hedge fund is able to use leverage.**

   A determination as a Category 1 PRIIP overrules the other categories; thus where a PRIIP satisfies the conditions for a Category 1 PRIIP it shall be classified as a Category 1 PRIIP irrespective of whether it also meets the conditions of another category. The historic availability of price data relates to the frequency of the calculation of the NAV, not the frequency of redemption rights. That means it is a Category 3 PRIIP if there is sufficient historic data from the hedge fund or a benchmark available.

(Published 4 July 2017)

5. **It appears that unit-linked insurance products without guarantees would fall into Category 2. However cost-profit-participation and risk-profit-participation is not reflected in the market values or the Cornish-Fisher methodology. Please provide guidance on how this is to be taken into account.**

Pure unit-linked insurance products, i.e. those which do not have a profit participation mechanism and do not depend on other factors that are unobserved in the market, would fall into categories 1, 2 or 3 depending on the nature of the product´s payoff and the availability of data.

The same unit-linked product may offer units backed by different investment propositions (funds, structured instruments, etc.) that fall into different categories, (e.g. some being Category 2, whilst others being Category 3); separate Risk Indicators would be displayed for these different units.

In the cases of cost and risk profit participation described, the PRIIP or the units offered – depending at what level the participation is occurring -- would not be Category 2, but Category 4. The cost-profit or risk-profit participation is considered an unobserved factor in the market, therefore resulting in the PRIIP being Category 4. Points 25 to 29 of Annex II, Part 1 describe the methodology for calculating the VEV of the part of the PRIIP that depends wholly or partly on factors that are unobserved in the market.

(Published 4 July 2017)

6. **What is the meaning of the term "underlying investments" in Annex II, Part 1, Points 4-6 for a PRIIP that is an Undertaking for Collective Investment (UCI)? In particular, do we need to look at the portfolio of the UCI itself to determine which Category we should consider the PRIIP?**

The determination of the PRIIPs' Category addresses the PRIIP itself, and depends on the pay-off structure and the availability of data. If the pay-off of the UCI is linear, it would be classified as Category 2 provided there is enough data available for the calculation. If there is no data, it would be Category 1. If the pay-off is not linear (for example a structured UCITS), it would be a Category 3 product, provided the data history requirements are met.

(Published 4 July 2017)

7. **For PRIIPs that allow for investment in underlying instruments of a different nature, which are classified in different groups for risk calculation, how should the Summary Risk Indicator (SRI) be calculated? For instance, if the PRIIP that is a fund invests in non-linear instruments that are not material at portfolio level or that do not induce a non-linear payoff for the fund? The reason for the question is that Commission Delegated Regulation indicates the methodology for the calculation of the single underlying and not the combination.**

It can be helpful to make a distinction between those PRIIPs that allow for investment in underlyings of a different nature because they are for example an Undertaking for Collective Investment or a structured product, and those PRIIPs that allow for the retail investor to invest in different types of underlyings of their choosing (i.e. multi-option products).

For the first type of PRIIP described above the categorisation for the purposes of the market risk assessment depends on the overall PRIIP pay-off structure of the portfolio as a whole, and not on the underlyings as such. In the two cases mentioned in the question the PRIIP would be classified as Category 2. Where a PRIIP includes a material exposure to a non-linear underlying financial instrument and a linear one, and that, as a consequence, the combined pay-off structure is materially non-linear (e.g. a PRIIP delivers an overall return equal to the upside of an index above a given strike, then the PRIIP would be Category 3).

For multi-option products, the categorisation may be different for different units offered. The KID for the MOP itself (the generic KID) would include a range of SRI classes in accordance with Article 12(1)(a), but not the range of categorisations.

(Published 4 July 2017)

8. **In Annex II, Part 1, Points 9 and 10 it states that the minimum observation frequency is monthly but subsequently it is specified that in the event of bi-monthly publication of prices the frequency will be bi-monthly. Is that not contradictory? Further, in Point 10, no minimum history is explicitly mentioned for bi-monthly prices.**

It is important to clarify that bi-monthly means that prices are available twice a month (to avoid confusion with every 2 months), so that is more frequent than the minimum monthly frequency. Regarding Point 10, where prices are not available on a weekly basis, but are available on at least a monthly basis (i.e. also including where they are available on a bi-monthly basis), the minimum data history is 5 years.

(Published 4 July 2017)

9. **How should the requirement to use data of an appropriate benchmark/proxy be interpreted where there is no, or insufficient, price data for the PRIIP or the underlying value. For example:**

   - **Would an open end structured product linked to the performance of a newly issued stock automatically qualify as a Category 4 PRIIP?**
   - **Would it change its Category during the tenor (into Category 2/3) once enough prices are available?**
   - **Do you agree that Point 14 of Annex II may also be applied for new funds or funds with daily observation of return lower than 2 years.**

   When insufficient price data for the PRIIP or its underlying asset are available, data of an appropriate benchmark or proxy should be used. Such a PRIIP should not be assigned to a different Category unless no appropriate benchmark or proxy exists, in which case it shall be classified as a Category 1 PRIIP and a default MRM (MRM 6) will be assigned. The availability of data has no bearing on the applicability of Point 14 of Annex II. The MRM of a PRIIP based on a newly issued stock should be computed using an appropriate benchmark or proxy if available, until there is enough real data of the new stock. The Category of such a product then will not change once sufficient data becomes available.

   More specifically, in relation to the sub-questions above:

   - No – it would be a Category 3 PRIIP, though the simulation would require using the returns of a suitable proxy.
   - No – it is a Category 3 PRIIP.
   - Yes Point 14 may be applicable, but it depends on the nature of the investment policies or strategies and not on the availability of data. Point 14 can apply to new funds (and equally to funds with sufficient data history), but the requirements regarding sufficient data history or the use of a suitable benchmark or proxy still apply.

   (Published 4 July 2017)

10. **Is the provision in Annex II, Part 1, Point 14 (b) applicable where a fund has sufficient history? This is particularly relevant to multi-asset funds; it would be misleading to put these products in Category 1 (thus MRM class 6), whereas most often, they would actually fall into MRM class 2 or 3.**

    The same requirements apply to products to which Point 14 applies as to other products in general as regards the case where there is insufficient data, where a benchmark should be used. If there is no appropriate benchmark or proxy the minimum data requirements will not be satisfied and the PRIIPs will be categorised as 1.

    Point 14(b) relates specifically to the case where there has been a revision (that is a material change) to the investment policy (not, that is, simply a rebalancing of asset allocations according to an existing investment policy). The portfolio composition of "life cycle funds", for example, changes substantially over time usually becoming more defensive by switching from equity to fixed income assets. This means that not all of the return history of the fund may be representative of the fund's current overall risk profile. Therefore, the data history requirements in Point 5 or 6 may be met, but part or all of that history may no longer be relevant for the fund due to a revision of its investment policy. In this case the actual fund data history is not used for the VEV calculation, and instead the maximum of Points 14 (a) (ii) and (iii) should be used. This would not involve a re-categorisation of the PRIIP into Category 1.

(Published 4 July 2017)

11. Can an appropriate benchmark or proxy continue to be used once sufficient data becomes available?

It is not possible to use an appropriate benchmark or proxy where sufficient market data is available for the PRIIP. However, where market data is available only for a part of the period used for the calculation, the available market data should be concatenated with the relevant price data of an appropriate benchmark or proxy (for example where monthly market data of the PRIIP is available, it should be concatenated with monthly market data of the benchmark or proxy). Once sufficient market data of the PRIIP becomes available to complete the data series, that data should be used in its entirety rather than the data of the benchmark or proxy.

(Published 18 August 2017)

12. What is meant by factors not observed in the market as stated in Annex II, Part 1, Point 7?

Category 4 products are those where the value depends, at least in part, on factors not observed in the market. That is, the value is not calculated using market prices of underlyings but depends to some extent on decisions of the manufacturer which are not triggered automatically by external factors. In insurance, a typical example mentioned in the Delegated Regulation is with-profit insurance contracts that distribute to retail investors a portion of the manufacturer's profits.

Structured products which depend on multiple underlying securities should not be classified as Category 4 due to the impact of the correlation. These products are expected to be either Category 1 or 3 depending on the availability of data.

(Published 18 August 2017)

13. How should credit-linked notes be treated, for example which is their product category for the purposes of the MRM calculation?

The Delegated Regulation does not in general address the treatment of specific product types, and for credit-linked notes the contractual arrangements for each product would need to be assessed on a case-by-case basis, to identify the applicable category and the methodology for this category would then be applied.

However, some guidance can be given in relation to how the Delegated Regulation can be applied to instruments that pay a periodic coupon to the investor until either maturity or the default of a reference entity.

First, in accordance with Annex II, Part 1, point 4(c), where there is not sufficient historical data the product shall be considered a Category 1 product, and hence the MRM is 6. For example, if a product depends, on the default of multiple entities, there may not be observable correlations for a joint default.

Where there is market data, for example CDS prices that give a market based estimate of the probability of default for a particular reference entity, these products may be Category 3 and the corresponding methodology for the risk and performance calculations would apply.

Credit events are not considered to be “factors not observed in the market” (see also Q&A no. 12, Section MRM, 1. Product Categories), and therefore Category 4 is not considered to be applicable.

(Published 20 November 2017)

14. **If the PRIIP is an AIF investing into linear products yet the leverage on investments changes throughout time (therefore leverage factor is non-constant but underlying exposures are linear), would this be categorized as a Category 2 or Category 3 PRIIP?**

    This should be treated as a Category 2 PRIIP in accordance with point 5 of Part 1 of Annex II of the Delegated Regulation.

    (Published 17 December 2021)

15. **Annex II, paragraph 10 of the Delegated Regulation shows sub intervals to use for funds with pricing frequencies of daily, weekly or monthly, but not what to apply for those funds with other pricing frequencies, e.g. bi-weekly or bi-monthly. Should the sub intervals for weekly apply to any frequency less than daily and the sub intervals for monthly apply to any frequency less than weekly, in a similar manner to the data history requirements for the MRM?**

    The sub interval “daily prices” only applies to daily prices. The sub interval “weekly” applies to any interval that is at least weekly but is less frequent than daily. The sub interval “monthly” applies to any interval that is at least monthly but is less frequent than weekly.

    (Published 17 December 2021)

16. **Are the redemption prices of open-ended real estate AIFs "prices" within the meaning of point 5 of Annex II of the Delegated Regulation? The question arises because the redemption price is determined on the basis of the net asset value (NAV) of the respective fund. For the NAV, the market prices of the AIF properties are determined only once a year. In contrast to UCITS, no market prices of the underlying assets are available on a daily basis.**

    In accordance with point 4(c) of Annex II, Part 1 of the Delegated Regulation, unless there is an appropriate benchmark or proxy which is priced on at least a monthly basis, where the net asset value is calculated on a less regular basis than monthly (e.g. only yearly), the PRIIP would be Category 1.

    (Published 14 November 2022)

17. **The UCITS KIID framework introduced the concept of "Absolute Return Funds". For these types of funds, there is no need to select an appropriate risk benchmark and the UCITS SRRI is determined in its entirety by the risk limit of the fund as well as the NAV history if sufficient data are available. Is there any recommendation for how to consider "Absolute Return Funds" under the PRIIPs Regulation – as regular or flexible funds? Additionally, in case these are flexible funds, is it required to produce the VEV of the returns of the pro-forma asset mix for former Absolute Return Funds?**

    In the context of PRIIPs, specific provisions or guidance has not been developed concerning "absolute return funds". It needs to be considered whether or not the provision in Annex II, point 14 of the Delegated Regulation concerning "flexible investment" approaches is applicable to the specific fund.

    (Published 14 November 2022)

18. **In the Delegated Regulation, the VEV for flexible funds is determined by taking the maximum of the three following options: 1. VEV of the returns of the share class self-history, 2. VEV of the returns of the pro-forma asset mix, 3. VEV which is consistent with the risk limit of the fund. As regards option 1, is it required to backfill the time series with appropriate proxy (similarly to non-flexible funds) if the share class have insufficient self-history to perform the calculation?**

    Yes, the requirements regarding the necessary historical data (and use of appropriate proxies) would apply.

    (Published 14 November 2022)

II. MRM class determination [Last update 20 November 2017]

1. The MRM class determination for Category 3 PRIIPs, as specified in Annex II, Point 16, states that the "[…] VaR shall be the value of the PRIIP at the 97.5% confidence level […]". Since the formula in Annex II, Point 17 can only be reasonably applied for a value of VaR between 0 and 1, please clarify that the VaR in this formula shall be the ratio of the value of the PRIIP at the 97.5% confidence level and the initial value of the PRIIP according to the proposed methodology?

The VaR is calculated from the ratio of the value at a 97.5% confidence level and the amount invested in the PRIIP (as this represents the potential loss to the investor). This is stated in Annex II, Part 1, Point 1.

(Published 4 July 2017)

2. Does the formula in Annex II Point 17 use the simulated value of the PRIIP divided by its initial value? Should the calculation of VEV post-issuance be based on the ratio of the simulated value divided by its initial value, or the ratio of the simulated value divided by the current value of the PRIIP? We would expect that the current value seems more appropriate.

When calculating the VEV, the ratio should reflect either the initial price to be paid at the time of the first production of the KID, or the price at the point of the review and revision of the KID. The VaR that is used to calculate the VEV is specified under Point 1 of Annex II as 'the percentage of the amount invested that is returned to the retail investor', and is a reference to a rate of return based on the value of units in the PRIIP at the point at which the KID is being prepared.

In more general terms, it should be stressed that the figures to be shown in the KID, are presented according to a standardised and comparable starting point (for most PRIIPs 10 000 EUR according to Annex VI Point 90).

(Published 4 July 2017)

3. For products with an automatic early-redemption feature, the holding periods might differ for each of the simulations. What value of T, related to the formula for the calculation of the MRM, the length of the recommended holding period, should be chosen?

The recommended holding period should not be confused with the T (Time) to be used in the conversion of the VaR into a volatility.

When performing a set of simulations, the exact holding time (T) associated with the 97.5% confidence level can be identified. That is the time to be used in the conversion instead of the recommended holding period.

It can be noted that any contract with an early redemption feature will be either a Category 3 or a Category 4 product and will require simulations.

(Published 4 July 2017)

4. **The principal component analysis of Annex II, Point 23 ensures the consistent simulation of curves. Is it mandatory to use this method also for PRIIPs that depend on only one interest rate underlying, e.g. bonds with yearly coupons of max (12m EURIBOR + 0.5%, 0.3%)?**

   A PCA is required whenever an interest rate or interest rates are observed at multiple times in the future. The purpose of the PCA is to capture the correlation between interest rate movements at different points of time in the future. In the example given a PCA would be needed.

   (Published 4 July 2017)

5. **Are we right to assume that the bootstrapping of equity baskets should also be based on a principal component decomposition (at least for baskets of more than two underlyings)? On which rule should the dimension of the resulting factor model be based (dimension 3 as in the curve case could be too small)?**

   A principal component analysis is not needed for equity baskets.

   (Published 4 July 2017)

6. **What is meant by unconditional protection of the capital (e.g. Point 24 of Annex II)?**

   This means that irrespective of market movements the amount invested in the PRIIP is protected up to a prescribed level. The term refers only to market risk and therefore excludes losses in relation to the obligor's default (i.e. credit risk).

   (Published 4 July 2017)

7. **A fully protected product can be allocated to MRM 1. Is this still the case if the underlying assets do not have the required minimum historical data, or is the product automatically allocated to MRM 6 in that case?**

   When a product has protection at maturity this prevails over the availability of data. For a PRIIP that has a 100% protection at maturity and insufficient availability of data, the manufacturer may apply the methodology set out in Points 24 and 29 of Annex II, which indicates that the 97.5% VaR at maturity may be assumed to be the redemption amount. This redemption value should then be discounted to the present date using the expected risk-free discount. This does not necessarily mean that the PRIIP will be allocated in MRM 1 as this depends on the discounted value.

   (Published 4 July 2017)

8. **Regarding the correction for risk neutrality in Annex II, 22(c) of the Delegated Regulation - each of the 10,000 simulated returns needs a correction to ensure that the simulated average return is equal to an expected risk-neutral return and to avoid that the simulations follow the implicit drift of the historic row. When applying a correction for risk neutrality, the resulting simulations at the end are only usable for final returns (that appear risk-neutral) but not for the intermediate returns, which means that they are not usable for products where the pay-off is a function of the underlying asset even during the holding period.**

   To determine the performance at intermediate holding periods, the correction has to be performed for each interval of time (e.g. from the start of the investment to the start of the intermediate holding period and then from the start of the intermediate holding period to the end of the recommended holding period). As the correction only depends on the length of each period in time, it can be applied as required.

   (Published 20 November 2017)

Methodology for assessing credit risk (Annex II, Part 2) [Last update 18 August 2017]

1. **In which situations does the credit risk of the underlyings of a PRIIP need to be assessed? In particular, a) what approach should be taken for stocks and UCITS investing in stocks? And b) If a position is fully collateralized, shall we consider that there is no residual Credit Risk?**

   Stocks are not PRIIPs so they could only be subject to the PRIIPs methodology as underlyings of a PRIIP, such as an investment fund, an SPV, unit-linked insurance product, or structured product.

   For the PRIIPs methodology, stocks – for instance equity holdings in companies – do not carry credit risk (as it has been defined for the SRI purposes) since the return on these instruments does not depend on the creditworthiness of a manufacturer or party bound to make, directly or indirectly, relevant payments to the investor. The credit risk of this type of product would be generally captured by the MRM.

   In certain situations the credit risk of a PRIIP needs to be assessed at the level of the underlyings to determine the CRM. In this case either a look-through or a cascade assessment shall be performed.

   A look-through assessment is to be made when the credit risk is entailed solely at the level of the underlying investments or exposures and not at the level of the PRIIP itself (e.g. securities issued by a special purpose vehicle (see point 34 of Annex II Part 2). Point 40 of Annex II Part 2 shall apply in this case.

   A cascade assessment is to be made when the credit risk is entailed at the level of the PRIIP, as well as at the level of the underlying investments or exposures of the PRIIP (e.g. unit-linked insurance contracts). In this case Point 41 of Annex II Part 2 shall apply.

   It is correct that where a position is fully collateralised it is considered that there is no residual credit risk.

   (Published 4 July 2017)

2. **For a PRIIP with an MRM of 6, the aggregate SRI will always be 6. Therefore, is it still necessary to assess the credit risk for a PRIIP with an MRM of 6?**

   The CRM may only adjust the MRM upwards for the SRI. Therefore, if the MRM is 6, the SRI would be 6 as well since the credit risk scale is 1 to 6. Therefore, where the MRM is 6, the CRM has no impact on the SRI based on the aggregated table. However, in terms of the presentation of the SRI, the manufacturer shall include a brief explanation of the classification of the product in the narrative explanation. That explanation may differ depending on the CRM. Therefore, the CRM still needs to be calculated when the MRM is 6. In addition, whilst a credit risk assessment is not required for a PRIIP with an MRM of 7 (in accordance with Annex II, Part 2, Point 30), for the same reasons, the PRIIP manufacturer should still be aware of the credit risk in this case, and where there is material credit risk it may be a good practice for a credit risk assessment to be performed.

   (Published 4 July 2017)

3. **Where the investor has access to a compensation scheme for the investment amount of the KID, is it correct to assume that credit risk is zero?**

It is not correct to assume that there is no credit risk. A compensation scheme is not included in the CRM assessment. However, a narrative below the SRI (element J) indicates whether a compensation scheme is applicable and cross-refers to the section "What happens if [the name of the PRIIP manufacturer] is unable to pay out?"

(Published 4 July 2017)

4. **In case a PRIIP is a fund of funds, where the underlying investment is a fund which is in turn investing in another fund, should we consider the funds in which the PRIIP is investing in directly as the underlying investments, or should look through to the underlying exposures, for the credit risk assessment?**

In the case of fund of funds it is necessary to look-through the different levels of funds to identify the underlying exposures. This does not mean that a credit risk assessment is necessary for all underlying investments or exposures. Point 34 of Annex II, Part II stipulates that the underlying investments or exposures of a fund shall be assessed "where necessary". "Where necessary" refers to whether those underlying investments or exposures entail credit risk as described in Points 30-36 of Annex II, Part 2, for example, whether the investment represents more than 10% of the total assets or value of the PRIIP.

(Published 4 July 2017)

5. **How should derivatives be weighted when applying Point 40 of Annex II?**

The credit risk of the counterparty to a derivative, if it is not fully and appropriately collateralised, should be weighted in proportion to the assets that it represents compared to the other assets for which a credit risk assessment needs to be undertaken.

(Published 4 July 2017)

6. **Please clarify the requirement in Point 38 of Annex II, part II: where a credit assessment is not available under both (a) and (b), i.e. there is not both a credit assessment assigned to the PRIIP and a credit assessment assigned to a relevant obligor, but one is available solely under (a) or solely under (b), is it possible to use either of these (depending on which of the two is available)?**

A default credit assessment as set out in Point 43 of Annex II is to be applied in the absence of a credit assessment assigned to the PRIIP, the relevant obligor, or both. The measures under Points 46 to 49 may also apply. In general, where a credit assessment has been assigned at the level of the PRIIP this should take precedence as to a credit assessment at the level of relevant obligors in relation to the PRIIP. Where there are multiple obligors for which a credit assessment is necessary, and a credit assessment is not available for certain of these, the default credit assessment according to Point 43 shall be applied for each of these obligors for which a credit assessment is not available.

(Published 4 July 2017)

7. **Is it fair to assume that a EU-regulated UCITS fund will always meet the requirements under Annex II Point 46 (a) and (b) and thus the CRM for a UCITS fund will always be equal to 1. If not under what circumstances would a UCITS fund not comply with Point 46?**

   A UCITS fund will not always have a CRM equal to 1. As described in Points 33 to 36 of Part 2 of Annex II, in the case of a fund, credit risk may need to be assessed in relation to the underlying investments or exposures, for example in the case of exposures to non-exchange traded derivatives and non-cleared OTC derivatives, and to other efficient portfolio management techniques such as repo or securities financing transactions, where these are not fully and appropriately collateralised and amount to 10% or more of the total assets or value of the PRIIP. This is also the case for a structured fund providing a full capital guarantee to its investors.

   (Published 4 July 2017)

8. **Is it possible for an insurance company to satisfy the criteria in Point 47 of Annex II, Part 2?**

   The drafting of the credit risk mitigation factor in Point 47 of Annex II, Part 2 is purposefully abstract and general in view of ensuring its broad potential applicability by the full range of PRIIP manufacturers, so as to not include or exclude specific types of PRIIP manufacturers or provide a specific treatment only for certain PRIIP manufacturers, for instance to either exclude insurance undertakings or to result in only insurance undertakings being able to satisfy this provision.

   Point 47 (a) relates to the matching of assets and liabilities over time. It ensures that the assets backing the payment obligations of a PRIIP are able to satisfy – that is, are at least equivalent to, the payment obligations of the PRIIP.

   Point 47 (b) relates to the specific identification of these assets. It refers to arrangements based on provisions in the Solvency II Directive, but does not exclude that other arrangements, including by PRIIP manufacturers who are not insurance undertakings, can satisfy this provision.

   Point 47 (c) relates to the priority of claims of retail investors to these assets over the claims of other creditors.

   With respect to insurance undertakings, the Commission Delegated Regulation does not automatically lead to the conclusion that either all or no insurance undertakings would benefit from the application of Point 47. Some insurance undertakings are exempt from Solvency II, and these may not be able to meet the conditions under Point 47. In addition, the application of Point 47 would not be met by all insurance undertakings that are subject to Solvency II. Each insurance undertaking would need to apply the criteria set out in Point 47 to assess whether the mitigation foreseen in Point 47 can be applied.

   Having said this, the breadth of the drafting has raised some specific practical challenges for insurance undertakings as to how to assess the criteria, including in particular in regards the application of 47 (a) and 47 (c) to an insurance undertaking subject to Solvency II. It is therefore appropriate to further clarify the application of Point 47 in this case without altering the substance of this provision.

Regarding Point 47(a), since insurance undertakings have future liabilities that relate to non-financial factors, the prudential approach in Solvency II is to ensure that in total the net present value of these liabilities is covered by assets on an ongoing basis. The insurance undertaking should, that is, be always in a position to transfer its different books of business to another insurance undertaking. For this reason, for those insurance undertakings that comply with Solvency II, Point 47 (a) can be met – this is indicated already in the Commission Delegated Regulation in Recital 6. However, it is not the case that all insurance undertakings subject to Solvency II will be capable of meeting this point at a given time.

Regarding Point 47 (c) this relates to the claims of policy holders in the insurance context. In this case, the two arrangements foreseen under Article 275 (1) (a) and (b) of Solvency II are relevant. The arrangement under Article 275 1 (a) entails the priority of the claims of policyholders over other claimants, and therefore should enable Point 47 (c) to be satisfied.

However, under Article 275 (1) (b) it would depend on how Article 278 of Solvency II is applied. Article 278 requires that any claims that are prior to those of policyholders shall be represented by assets. In view of this those insurance undertakings that are subject to Article 275 1 (b) are expected to hold specific assets in respect of any claims that can be made on the insurance undertakings assets that are prior to those of policy holders. An insurance undertaking subject to Article 275 (1) (b) may in some cases be able to meet the condition under Point 47 (c), so long as these specific assets entirely cover the claims that have priority over those of the policy holders, and also so long as the remaining assets match, on their own, the insurance undertaking's liabilities, as is required under Point 47 (a).

It can be noted that the legislative intention of the two alternatives foreseen in Article 275 (1) (a) and (b) respectively was that these should be implemented so as to be equivalent in outcome in view of policy holder protection.

(Published 4 July 2017)

9. Should the 10% threshold for calculating credit risk in Annex II, part 2, Point 35 be applied per instrument or per exposure?

The 10% threshold should be assessed per reference entity. For example, if a PRIIP invests directly in multiple financial instruments issued by the same reference entity which individually represent less than 10% of the total assets or value of the PRIIP, but which when considered together represent 10% or more of the total assets or value of the PRIIP, then for the purposes of Annex II, Part 2, Point 35, these instruments should be assessed as an exposure of more than 10% to be separately assessed.

When a PRIIP ("initial PRIIP") invests in another PRIIP ("underlying PRIIP") that does not entail credit risk itself but makes underlying investments that entail credit risk, a look through analysis is required only if the underlying PRIIP represents an exposure of 10 % or more of the total assets or value of the initial PRIIP.

(Published 18 August 2017)

10. **In accordance with Annex II, Part 2, Point 42 the credit quality step shall be adjusted to the maturity or recommended holding period of the PRIIP. Should the maturity to be used for this adjustment be updated over time during lifetime of the product?**

    Yes, the adjustment should reflect the maturity of the PRIIP at the time that the KID is prepared or reviewed. In this latter case, and for those products with a fixed end date, the remaining time to maturity should therefore be used.

    (Published 18 August 2017)

11. **Can a credit assessment assigned to a group be used for the assessment of the credit risk of the relevant obligor?**

    A credit assessment can only be used where it relates to the PRIIP or the legal entity that is the relevant obligor or guarantor.

    (Published 18 August 2017)

Summary Risk Indicator (SRI) (Annex III) [Last update 18 August 2017]

1. **Clarification is necessary on the specific currency risks which will be covered by Element C of Annex III of the Commission Delegated Regulation. Clarification is necessary for PRIIPs distributed simultaneously in EUR and a non-EUR jurisdiction, as to whether only the currency risk between the product currency and the home currency of the investor is covered.**

   Only the currency risk between the product currency and the currency of the Member State where the product is being marketed is covered. See Article 3(2)(c) of the Commission Delegated Regulation.

   (Published 4 July 2017)

2. **How should the CRM be calculated when the credit risk needs to be assessed only for a part of the assets of the PRIIP? For example if there are both individual investment holdings representing 10% or more of the total value of the PRIIP and individual holding of below 10%; are all individual holdings below 10% given a credit quality step of 0?**

   A proportional approach should be used when calculating the CRM.

   In the case of credit risk assessed on a look-through basis in accordance with Point 40 of Annex II, Part 2 the credit quality step (CQS) shall be weighted in relation to the proportion of total assets that each exposure represents. This can be illustrated with an example:

   Asset A 12% CQS 1

   Asset B 12% CQS 5

   The rest of the assets (i.e. 76%) are not separately assessed and therefore a CQS of 0 should be used.

   This means the weighted average CQS is (12% * 1) + (12% * 5) + (76% *0) = 0.72 (Rounded up to 1)

   (Published 18 August 2017)

3. **What are the implications of Point 53 of Annex II, Part 3 in terms of the monitoring of data? In particular, is it necessary to calculate the MRM on a daily basis?**

   The requirements for the review of the KID are set out in Article 15 of the Delegated Regulation, where it is stated that changes in the summary risk indicator shall be identified without undue delay. The requirement in Annex II, Part 3, Point 53 is for the PRIIP manufacturer to monitor the market data relevant to the calculation of the MRM.

   Where the reference points for the MRM calculation are daily market prices, although a daily recalculation of the MRM would be possible, the exact frequency with which the MRM needs to be calculated is not prescribed.

   (Published 18 August 2017)

4. **Does “as appropriate” in Point 7 of Annex III mean that the wording of the elements A-J can be amended? Or should the manufacturer remove an entire text element if it is not suitable for a specific PRIIP?**

   The term "as appropriate" refers to whether or not the issue is relevant to the PRIIP, for example in relation to element D this text is not appropriate where there are no circumstances in which the retail investors will be required to make further payments to pay for losses. Where the retail investor may be required to make further payments to pay for losses the exact wording of the narrative explanations shall be used, unless the template explicitly allows the manufacturer discretion to draft the appropriate text, such as for Element E.

   (Published 18 August 2017)

Performance Scenarios (Articles 3 and 8 and Annexes IV and V) [Last update 21 December 2022]

1. **Could you clarify for which intermediate holding periods should we show performance scenarios during the lifetime of a product? (E.g.: 1.1 years product, with remaining lifetime of 9 months). We believe this should reference the remaining life of the product.**

   For products with a fixed end date, the remaining time to maturity should be used to demonstrate the performance scenarios. Therefore, in this specific example, in accordance with Point 34 of Annex IV no intermediate performance scenario is needed where the time to maturity is less than a year.

   (Revised 21 December 2022)

2. **Template B of Annex V refers to "regular investments" and includes a line "amount invested over time", but can the manager delete the narrative that relates specifically to the insurance element (such as "survival" and "death")?**

   Yes, the terms [Survival] and [Death] are between square brackets to indicate that they can be deleted where they are not applicable.

   (Revised 21 December 2022)

3. **How should the number of trading periods to use be calculated (e.g. Point 19 of Annex IV)?**

   The Delegated Regulation does not specify a conventional number of trading periods which compose one year. Since conventions can vary between Member States or markets, the number of trading periods to use should be the actual number of prices observed in the prescribed interval.

   (Revised 21 December 2022)

4. **How should the term "rolling" in Point 18c) of Annex IV be applied?**

   Rolling means that the volatility should be measured with the sub-interval – of length w – increasing by one step each time; for example where there are daily prices and a recommended holding period of 1 year (see Point 18(a) of Annex IV of the Delegated Regulation) the sub-interval would start at 1-21 days and roll to 2-22, 3-23 etc.

   (Revised 21 December 2022)

5. **What performance scenarios shall be included in the Key Information Documents in the case of Category 1 PRIIPs, as defined in Point 4(c) of Annex II of the Regulation No 2017/653? If the answer includes the Stress scenario, could you, please, provide a rule how the Stress scenario value shall be calculated?**

   In accordance with Article 3(3) of the Delegated Regulation a stress scenario needs to be shown for such PRIIPs. The rules regarding the calculation of the stress scenario in this case are provided in point 31 of Annex IV.

   (Revised 21 December 2022)

6. **For narrative Element E in Annex V, Part 2 of the Delegated Regulation, which states "[Element E] This type of scenario occurred for an investment [add reference to benchmark where applicable] between [add dates in years]", which dates should be linked with this narrative? Is the requirement to put the start date and end date of period taken for each performance scenario (so basically different dates for each scenario)?**

   In line with the performance scenario calculation, the dates shown should be in terms of the month and year (e.g. March 2015 – March 2019) and should relate to the periods taken for each performance scenario, such that it is expected to be different dates for the unfavourable, moderate and favourable scenarios.

   Q&A concerns rules applicable on 1 January 2023

   (Published 14 November 2022)

7. **In terms of the identification of sub intervals in point 7(a) of Annex IV of the Delegated Regulation are these all contained within in the time period defined in point 6 of Annex IV?**

   Yes. If, for example, the historical time period is 10 years, ranging from July 2012 to July 2022 and the RHP is 5 years, the 1st sub interval starts in July 2012 and the last one runs until July 2022, meaning that all subintervals start and end dates must be contained within that 10 year time period.

   Q&A concerns rules applicable on 1 January 2023

   (Published 14 November 2022)

8. **For the identification of additional shorter sub intervals in point 7(b) of Annex IV of the Delegated Regulation, does this mean only the sub intervals that are truncated by the end of the time period defined in point 6 of Annex IV?**

   Yes, and the sub intervals are intended to be based on monthly prices. For example, for a recommended holding period of 5 years, point 7(b) of Annex IV of the Delegated Regulation intends to capture sub-intervals of less than 5 years covering the most recent years (i.e. less than 5 years prior to the date of calculation). This means running from 4 years and 11 months to 1 year (i.e. including 4 years and 11 months, 4 years and 10 months, 4 years and 9 months…1 year and 2 months, 1 year and 1 month, and 1 year).

   Q&A concerns rules applicable on 1 January 2023

   (Published 14 November 2022)

9. **What is the intended calculation for the "linear transformation" in point 7(c)(iv) iof Annex IV of the Delegated Regulation?**

   The linear transformation that must be done on the performance calculated for sub intervals indicated in point 7(b) of Annex IV of the Delegated Regulation (i.e., shorter than the recommended holding period) is necessary to make these returns comparable to the ones calculated for sub intervals indicated in point 7(a) of Annex IV, (i.e. with length equal to the recommended holding period), such that they can all afterwards be ranked for the purpose of selecting the unfavourable scenario. The linear transformation means that the performance over that shorter period (e.g. an outcome of 8,000 EUR over 2 years) is taken to be also the performance over the recommended holding period (e.g. an outcome of 8,000 EUR over the recommended holding period).

   Q&A concerns rules applicable on 1 January 2023

   (Published 14 November 2022)

10. **Point 12 of Annex IV of the Delegated Regulation notes that where the objectives of the PRIIP make reference to a benchmark, that benchmark shall be used for the performance scenario calculations. However, is it permitted to use a different proxy (e.g. price simulation or model scenario) if data series are in line with the objectives of the PRIIP?**

    It is allowed to use a different benchmark for the performance scenario calculations only where the conditions in the first subparagraph of point 12 of Annex IV of the Delegated Regulation, are not met.

    Q&A concerns rules applicable on 1 January 2023

    (Published 14 November 2022)

11. Is it required to keep the same benchmark for the SRI and performance scenario calculations?

For certain Category 1 PRIIPs, Category 3 PRIIPs and Category 4 PRIIPs, the same underlying data should be used for calculating the SRI and performance scenario calculations.

For Category 2 PRIIPs falling into Case 2 or Case 3 set out in Annex IV of the Delegated Regulation, the benchmark or proxy used for the performance scenario calculation should be the same as the one used for SRI calculation. However, given that the historical data needed for the performance scenarios calculation is longer than the data needed for the SRI calculation, then a longer data series for the benchmark or proxy may need to be used for the performance scenario calculation. Where there is not sufficient historical data for the benchmark or proxy (that was used for the SRI calculation) that meets the criteria set out in point 5 of Annex IV, the historical data that is available for that benchmark or proxy should be used, supplemented by data from an additional benchmark or proxy in accordance with point 13 of Annex IV.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

12. Regarding the methodologies for performance scenario described in Annex IV of the Delegated Regulation ((EU) 2021/2268) it is not clear what approach should be used to build performance scenarios for Category 2 PRIIPs other than unit linked, UCITS and AIF, for which sufficient historical data are available. We would like to know whether this situation should fall under Case 1 or whether it should be considered under Case 3. If it needs to be considered under Case 3, we would like to ask for further explanation about the data to use. Since the historical data of the PRIIP are sufficient, no supplement should be necessary. Therefore, we would like to know whether only the historical data of the PRIIP should be used or whether they should be completely replaced by the historical value of the relevant benchmark regulated by Regulation (EU) 2016/1011.

Case 3 applies which covers 'any other Category 2 PRIIP' that does not fall within point 1 of Annex VIII of the Delegated Regulation.

However, Case 3 does not exclude the use of the actual price history or the use of a benchmark with sufficient price history. In the case described only the historical data of the PRIIP should be used. The use of benchmarks regulated by Regulation (EU) 2016/1011 covers the case where it is necessary to supplement the actual PRIIP values or the benchmark referred to in point 12 of Annex IV of the Delegated Regulation in order to have sufficient historical data.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

13. **Point 15 of Annex IV of the Delegated Regulation states that for Category 2 PRIIPs for which there is not an appropriate benchmark with sufficient history, performance scenarios shall be calculated in accordance with the method for Category 3 PRIIPs using 15 years of historical data of the PRIIP or the benchmark. If 15 years of historical data are available for the PRIIP or the benchmark, why are cases 1 or 2 not applicable? Or does this situation refer to a very long term PRIIP?**

    In accordance with point 5 of Annex IV of the Delegated Regulation, the historical data needs to be 5 years longer than the recommended holding period (as well as at least 10 years). Point 15 of Annex IV addresses the situation that more than 15 years of historical data would be needed to follow the methodology set out in points 7 to 11 of Annex IV, given that, for PRIIPs with a recommended holding period longer than 10 years, more than 15 years of historical data is needed.

    Q&A concerns rules applicable on 1 January 2023

    (Published 14 November 2022)

14. **For Category 2 PRIIPs, is it possible to use lower percentiles of the estimated distribution of outcomes as foreseen in point 24 of the Delegated Regulation?**

    Point 24 of Annex IV of the Delegated Regulation only applies to certain Category 1 PRIIPs, Category 3 PRIIPs and Category 4 PRIIPs. It only applies to Category 2 PRIIPs for which point 15 of Annex IV is applicable.

    Q&A concerns rules applicable on 1 January 2023

    (Published 14 November 2022)

15. **What approach should be taken for Category 2 PRIIPs for which there is not an appropriate benchmark or proxy with sufficient historical data which meets the criteria set out in point 5 of Annex IV of the Delegated Regulation for the PRIIP, and for which there are not 15 years of historical returns of the PRIIP or an appropriate benchmark or proxy (so point 15 of Annex IV also does not apply)?**

    In this case, performance scenarios should be calculated in accordance with point 31 of Annex IV of the Delegated Regulation.

    Q&A concerns rules applicable on 1 January 2023

    (Published 14 November 2022)

16. **Can a fund with multiple share classes use the price history of an existing share class when a new share class is created rather than use the price history of a benchmark?**

    Yes, it is expected to be appropriate to use the price history of an existing share class in this case, on the basis that in substance it is part of the same product. However, the features of the specific share class should be reflected, such as adjusted for differences in costs.

    (Published 14 November 2022)

17. **Regarding Article 8(3) of the Delegated Regulation:**

    a) What is meant by "performance scenario calculations"? Is it necessary for the full calculations underlying each scenario to be published or just the result for each scenario?
    b) When it says, "previous performance scenario calculations shall be published on a monthly basis", is the requirement just for the latest month's figures (over-writing the previous month each time) or will the full history from January 2023 need to be published?

    "Previous performance scenario calculations" intends to cover only the performance scenarios (i.e. the results for each scenario in terms of monetary units and average return in percentage included previously within the KID) and not the full calculations underlying each scenario need to be published.

    The information published should include figures covering all previous performance scenarios calculated at least on a monthly basis and not over-writing the previous figures.

    Q&A concerns rules applicable on 1 January 2023

    (Published 14 November 2022)

18. **Article 14(e) of the Delegated Regulation refers only to the publication of past performance of the underlying Category 2 investment options as required by Article 8(3) and not to the requirement in Article 8(3) to publish previous performance scenarios. Does this mean that previous performance scenarios should not be published for MOPs with Category 2 options?**

    The information on previous performance scenarios is considered to be equally relevant for investment options in MOPs that are open-ended funds, or other PRIIPs open to subscription.

    Q&A concerns rules applicable on 1 January 2023

    (Published 14 November 2022)

19. **What is the relationship between point 11 of Annex IV and Article 15 of the Delegated Regulation?**

    Annex IV, point 11 of the Delegated Regulation specifically concerns the frequency with which the performance scenario should be calculated for Category 2 PRIIPs.

It does not require a review of the entire KID, which is governed by Article 15 of the Delegated Regulation. The recalculation of the performance scenarios also does not automatically mean that it will be necessary to revise and republish the KID. This depends on the degree to which the performance scenario results have changed and whether the information contained in the key information document remains accurate, fair, clear, and non-misleading.

In accordance with second sub-paragraph of Article 8(3) of the Delegated Regulation, for certain types of PRIIPs ('open-ended funds, or other PRIIPs open to subscription'), previous performance scenario calculations shall be published on a monthly basis. This monthly publication also does not require an update to the KID itself.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

Past performance (Annex VIII) [Last update 14 November 2022]

1. **If a UCITS, AIF or unit-linked insurance-based investment product does not yet have past performance data for one complete calendar year (and is not a UCITS or AIF which may provide simulated data for past performance), how should this position be disclosed?**

   In accordance with point 8 of Annex VIII of the Delegated Regulation a statement that there is insufficient data to provide a useful indication of past performance should be included. There is no need to accompany that statement with a blank past performance chart. This Statement should be included in the 'Other relevant information' section.

   Q&A concerns rules applicable on 1 January 2023

   (Published 14 November 2022)

2. **Where a UCITS, AIF or unit-linked insurance-based investment product refers to an index in its investment objectives and policy as a benchmark and will measure the performance against that index, but does not intend to track it, is it necessary to show the past performance of the benchmark index?**

   Yes, in accordance with point 11 of Annex VIII of the Delegated Regulation, a bar showing the performance of the benchmark index must be included in the bar chart alongside each bar showing the past performance of the PRIIP. It should be made clear that the performance is not tracking the index.

   For additional clarity, point 11 of Annex VIII applies to all UCITS, AIFs and unit-linked insurance-based investment products, including total return/absolute return UCITS. For example, the requirement also applies to cases where:

   - The comparator is not named a 'benchmark', but the PRIIP's objectives and investment policy make it clear that it is a comparator the UCITS, AIF or unit-linked insurance-based investment product aims to outperform. For example, if the fund's objectives and investment policy state it will seek to:
     - outperform cash (for example, 3-month EURIBOR), the performance of the PRIIP against the full target should be shown
     - outperform a target 'plus X%', the performance of the PRIIP against the enhanced target should be shown.
   - The UCITS, AIF or unit-linked insurance-based investment product targets outperformance of the benchmark index over a period of time, for example 'X% per annum over four years'. In this case, annualised past performance of the benchmark index should be shown alongside that of the UCITS, or AIF or unit-linked insurance-based investment product, even if the target is to beat it over four years.

   To ensure fair, clear and not misleading communications, the information disclosed in the UCITS or AIF KID should be consistent with the UCITS' or AIF Investment Objective in the legal and regulatory fund documents, such as the Prospectus or the offering memorandum.

   Q&A concerns rules applicable on 1 January 2023

   (Published 14 November 2022)

3. **Does the requirements in Articles 6(1) and 9 of the PRIIPs Regulation mean that past performance disclosed regarding a benchmark index should be consistent with past performance disclosure in other investor communications, including marketing communications?**

Yes. PRIIP manufacturers should ensure that disclosure of past performance is not misleading by way of being inconsistent, including by ensuring consistency:

- Across legal and regulatory documents (including the prospectus) and marketing communications. It may be unclear to investors if the PRIIP names and measures performance against a benchmark index mentioned e.g. in the prospectus, or in marketing communications, but not in the disclosure of past performance in accordance with Annex VIII of the PRIIPs Delegated Regulation. The disclosure of past performance should be consistent with other product documents. This also applies to ensuring that the benchmark index used is consistent.
- Across distribution channels. It may be inconsistent if a PRIIP arranges for, or permits, an index to be referred to as a benchmark in certain media, such as online platforms or financial data providers, but it does not make the same comparison in the disclosure of past performance in accordance with Annex VIII. This also applies to ensuring that the benchmark index used is consistent.
- Across investor types. It should be ensured that all types of investors receive consistent and not misleading information regarding whether or not the PRIIP has a benchmark index. For example, it may be inconsistent if a PRIIP suggests performance should be measured against a benchmark index to only a cohort of investors (such as in communications to professional investors only) but does not provide the equivalent performance comparison to all investors through the disclosure of past performance in accordance with Annex VIII. This also applies to ensuring the version of the benchmark index used is consistent.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

4. **What should be displayed in the bar chart for years when there is no data?**

Pursuant to point 7 of Annex VIII of the Delegated Regulation, when there is no data available, the year shall be shown as blank with no annotation other than the date.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

5. **If the benchmark is changed, how should the chart of past performance be displayed for the period preceding the change?**

Pursuant to points 15 and 16 of Annex VIII of the Delegated Regulation, where a material change occurs to a UCITS or AIF' objectives and investment policy or to the objectives of a unit-linked insurance-based during the period displayed in the bar chart, the past performance prior to that material change shall continue to be shown. Therefore, if the benchmark is modified, the bar chart should display the performance of the previous benchmark for the period preceding the change labelled with a clear warning that the performance was achieved under circumstances that no longer apply.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

6. When several versions of a benchmark are available which differ in the approach taken to reinvestment of revenues, which version should be used in the past performance chart?

Pursuant to point 2 of Annex VIII of the Delegated Regulation, past performance figures shall be calculated on the basis that any distributable income has been reinvested.

Therefore, where available the performance of the benchmark with reinvestment of revenues should be used in the bar chart alongside the past performance of the PRIIP. Where such a benchmark does not exist, an appropriate disclosure highlighting that the benchmark does not take into account the reinvestment of revenues should be included.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

7. Point 19 of Annex VIII of the Delegated Regulation states that "In the case of mergers referred to in Article 2(1)(p)(i) and (iii) of Directive 2009/65/EC, only the past performance of the receiving UCITS shall be maintained." Point 19 (and 20) of Annex VIII apply in cases where a receiving UCITS or AIF has a performance history. How should points 19 and 20 of Annex VIII be interpreted in cases where the receiving UCITS or AIF is a newly established UCITS or AIF with no performance history and is in effect a continuation of the merging UCITS or AIF?

In the case of a merger where the receiving UCITS or AIF is a newly established UCITS or AIF with no performance history, UCITS or AIFs should use the past performance of the merging UCITS or AIF in the disclosure of past performance of the receiving UCITS or AIF if the competent authority of the receiving UCITS or AIF reasonably assesses that the merger does not impact the UCITS or AIF' performance. It is expected that the performance of the UCITS or AIF would be impacted if there is, inter alia, a change to the investment policy or to the entities involved in the investment management. It should also be made clear in the disclosure of past performance of the receiving UCITS or AIF that the past performance is that of the merging UCITS or AIF.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

PRIIPs with a RHP of less than one year [Last update 21 December 2022]

1. **If the recommended holding period (RHP) of the PRIIP is less than one year, how should performance and cost figures be presented in the KID?**

   Point 45 of Annex IV and point 76a of Annex VI of the Delegated Regulation specify how the performance and cost figures should be calculated for PRIIPs with a RHP of less than one year.

   In this case, the RHP (e.g. in terms of the information on performance in the heading of the Templates in Part 2, Annex V) should be stated in terms of days or months. For the performance scenario Template it is also relevant to replace the term "average return each year" with the term "percentage return", and to delete the references to "annual" "per year" or "each year" in the cost Tables 1 and 2 as indicated in Annex VII.

   It is important to underline the importance of the other narrative explanations in the KID. The narrative included in the 'What is this product' section should clearly explain, for example, the financial structure of the product (i.e. avoiding jargon or formulae) and its economic rationale so as to inform retail investors on how the RHP is linked with the product features, including its objectives, risks and costs. For PRIIPs with a RHP of less than one year, it should also explain the implications of the figures being presented over the RHP rather than per year on the comparability with other PRIIPs of different RHP.

   In addition, Article 3(2) of the Delegated Regulation, explicitly requires retail investors to be informed about the potential higher risks if the PRIIP is not held to maturity or for the RHP in the section 'What are the risks and what could I get in return'. In the case of open-ended PRIIPs with an extremely short RHP (e.g. only one day) holding them for longer is expected to significantly affect their risk.

   (Revised 21 December 2022)

Derivatives [Last update 21 December 2022]

1. **Should KIDs for ETDs be produced per individual series or can a KID with a lower level of granularity be provided?**

   In the case of futures, call options or put options traded on a regulated market an appropriate level of granularity could be a grouping according to the type of derivative and underlying (e.g. securities, currencies, interest rates, commodities, indices, etc.), as long as the relevant product characteristics, such as exercise style, that determine the presentation of risks and costs in the KID are the same within that group. This level of granularity could for example result in different KIDs for long call options on shares, short put options on indices or futures long.

   (Published 4 July 2017)

2. **Can non-ETDs use the same treatment as ETDs?**

   Call options, put options or futures traded on certain trading venues, including MTF may have similar features to those traded on a regulated market, such as high levels of standardisation. However, these products may also differ considerably in terms of risk or reward and costs structure as a result of the characteristics of the trading venue. The use of a pay-off structure graph and an equivalent level of granularity to that described in question 1 of this section [Derivatives] should only be possible for call options, put options or futures that have the same characteristics relevant for the KID, for example in terms of risk and reward, as call options, put options or futures traded on a regulated market.

   This condition is not considered to be fulfilled unless at least the following conditions are met:

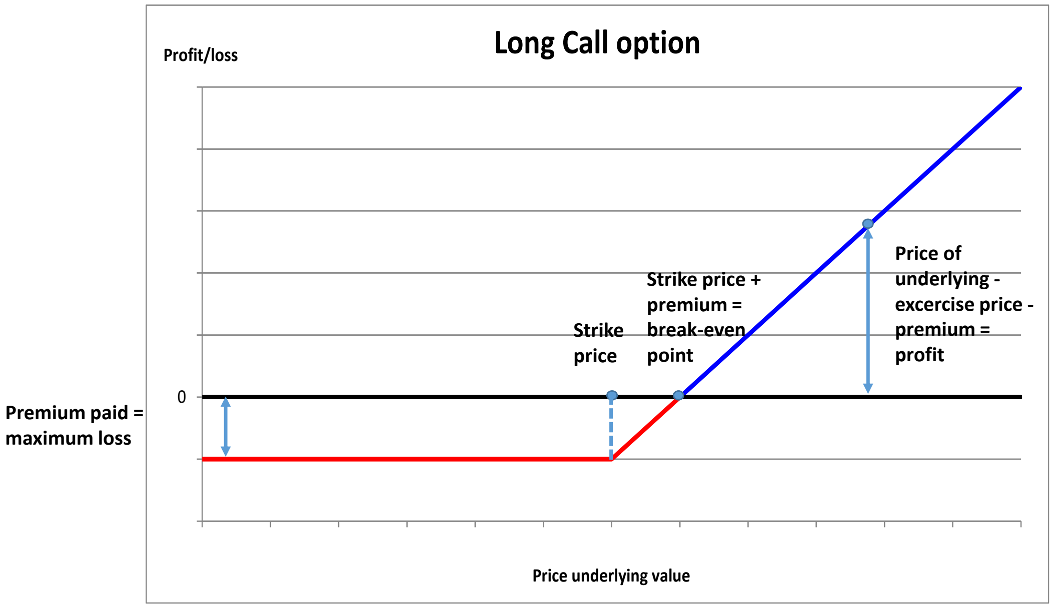
   - The trading venue has non-discretionary rules;
   - The definition of the contract is fixed by the trading venue;
   - The costs of trading are fixed by the trading venue;
   - The structure of the trading venue allows for an efficient price formation process: this is considered to be facilitated when at least one market maker is available and the quotation rules are as stringent as those in place on a regulated market in term of bid-ask spread, size and presence;
   - The contract is cleared through a CCP;
   - The policy the trading venue follows in cases of corporate actions (such as dividend payments, stock splits, etc.) ensures the retail investor will not have a worse outcome as a result of a corporate action than for the same derivative on a regulated market.

   (Published 4 July 2017)

3. **Can a PRIIP manufacturer supplement the information described in Annex IV, point 30, of the Commission Delegated Regulation for the pay-off graph to ensure that it is comprehensible and meaningful for retail investors?**

Whilst the information described in Point 30 of Annex IV must be included in the pay-off graph, in order to help a retail investor to understand the product and what it means for his / her return, a good practice would be to provide the retail investor with some additional information in the pay-off graph to help him / her interpret the graph.

An example would be to label some elements of the pay-off graph that show the retail investors how they can calculate their loss or profit at expiration date. A graphical example is provided below:



(Revised 21 December 2022)

4. **Can OTC derivatives use the same approach as options and futures traded on an exchange in terms of the level of granularity and the display of risks and performance scenarios?**

It is not possible to use the same approach as for call and put options and futures traded on a regulated market. The KID for an OTC derivative contract should be drawn up indicating the relationship with the underlying asset, the type of underlying asset, the currency of the notional amount, the underlying value of the contract, a representative term, price or interest rate, and any other relevant features such as a strike, barrier or guarantee.

The content of the KID, including the performance scenarios and the cost information, should be based on market data that are representative for the market conditions applicable as long as the OTC derivative contract is made available to retail investors. This means that the KID should not be based on purely hypothetical data nor that it has to contain specific contractual data. In turn, this means that it could be acceptable, to draw up a single KID for a class or group of OTC derivatives that share the same relevant product characteristics, including those outlined in the first paragraph. Equally, a separate KID can be drawn up for each OTC derivative contract reflecting the bespoke offer to the retail investor.

Where the KID does not reflect a bespoke offer, the guiding principle would be that there should be limitations on any differences between the information in the KID and the actual OTC derivative contract purchased such that the requirement for the KID to be accurate, fair, clear and not misleading and consistent with the binding contractual documentation can be satisfied. Regarding the possibility to draw up a KID for an entire class or group of OTC derivatives this would be acceptable only if the data used would be such that the difference between the figures (e.g. on costs) in the KID for the group and the corresponding figures that would have been included in the KIDs of each OTC derivative within that group would be less than the reasonably expected margin of uncertainty on these figures in general.

For example, regarding the representative term, it could be acceptable to draw up KIDs representing different ranges of maturities for a derivative contract (e.g. one KID for the OTC derivative contract with a maturity up to 3 months, one KID for the OTC derivative contract with a maturity from 3 to 6 months, etc.). Regarding the applicable price or interest rate in this case this would need to be accurate within the margin of uncertainty referred to above for all of the OTC derivative contracts within the range of maturities for which the KID is prepared. In order to be fair and not misleading, it may be appropriate to present the information in the KID, such as the performance scenarios and the cost information, reflecting the worst outcome for the investor within the maturity range.

In case of a material change of the market conditions such that the data on which the KID is based are no longer representative for the market conditions, the KID should be reviewed, if that OTC derivative contract is still made available to retail investors. If a KID is drawn up for a bespoke offer, the review requirements do not apply as that PRIIP is by definition no longer available to other retail investors.

(Published 4 July 2017)

5. Is it possible to alter the prescribed wording in the KID template for OTC derivatives?

It is recognised in point 6a of Annex III and point 12 of Annex V of the Delegated Regulation that some of the specific prescribed texts should be adjusted when applied to certain types of Category 1 PRIIPs, such as swaps and similar OTC derivative products which do not require initial payments.

In this specific case, the use of the following texts is considered appropriate (changes shown in strikethrough and bold).

Presentation of the SRI (Annex III)

1. Text below the presentation of the SRI based on Annex III, point 3(b):
Prescribed language [When considered illiquid]:
You cannot/may not be able to cash in early. You will/may have to pay significant extra costs to cash in early

Specific adjustments:
*You cannot/may not be able to ~~cash in~~ **end your product** early. You will/may have to pay significant extra costs to ~~cash in~~ **end your product** early*

Prescribed language [When considered to have a materially relevant liquidity risk]
"*You may not be able to sell (end) your product easily or you may have to sell (end) at a price that significantly impacts on how much you get back*."

Specific adjustments:
"*You may not be able to ~~sell~~ end your product easily or you may have to ~~sell~~ end your product at a price that significantly impacts on **the performance of your product** ~~on how much you get back~~*."

2. Narrative explanation - Element D
Prescribed language:
"*In some circumstances you may be required to make further payments to pay for losses. (in bold) The total loss you may incur may significantly exceed the amount invested.*"

Specific adjustment:
"*In some circumstances you may be required to make ~~further~~ payments to pay for losses. (in bold) The total loss you may incur may be significant.*

3. Narrative explanation - Element H
Prescribed language:
"*This product does not include any protection from future market performance so you could lose some or all of your investment*."

Specific adjustment:
"*This product does not include any protection from future market performance so you could ~~lose some or all of your investment.~~ **incur significant losses**.*"

4. Narrative explanation – Element I:
Prescribed language:
"If (we) (are) not able to pay you what is owed, you could lose your entire investment"

Specific adjustment:
*"If (we) (are) not able to pay you what is owed, you could ~~lose your entire investment~~ **incur significant losses**"*

Presentation of performance scenarios (Annex V)

1. Templates

Prescribed language:
"Investment"

Specific adjustment:
"Notional amount"

2. Templates – Table rows
Prescribed language:
"What you might get back after costs"
"Average return each year"

Specific adjustment for certain OTC derivatives where the amounts shown will represent the overall value of the product over time, which could result in amounts due to, or owed by, the retail investor:
"*What you might get back* ***or pay*** *after costs*".
*"Average return/****loss over notional amount*** *each year"*

3. Narratives - Element F
Prescribed language:
"*This product cannot be [easily] cashed in. This means it is difficult to estimate how much you would get back if you cash in before [the end of the recommended holding period/maturity]. You will either be unable to cash in early or you will have to pay high costs or make a large loss if you do so.*"

Specific adjustment:
"*This product cannot be [easily] ~~cashed in~~* ***ended****. This means it is difficult to estimate how much you would get ~~back~~ if you ~~cash in~~* ***end*** *before [the end of the recommended holding period/maturity]. You will either be unable to ~~cash in~~* ***end*** *early or you will have to pay high costs or make a large loss if you do so.*"

Presentation of costs (Annex VII)

1. Description of the costs shown in the section "What are the costs?"
Prescribed language:
"The tables show the amounts that are taken from your investment to cover different types of costs. These amounts depend on how much you invest, how long you hold the product [and how well the product does (where applicable)]. The amounts shown here are illustrations based on an example investment amount and different possible investment periods.
We have assumed:
- *[In the first year] you would get back the amount that you invested (0 % annual return). [For the other holding periods we have assumed the product performs as shown in the moderate scenario]*
- *[EUR 10 000/1 000 per year] is invested"*

Specific adjustment:
"The tables show the amounts that ~~are taken from your investment~~ ***have to be paid*** *to cover different types of costs. These amounts depend on* ***the notional value*** *~~how much you invest~~, how long you hold the product [and how well the product does (where applicable)]. The amounts shown here are illustrations based on an example* ***notional value*** *~~investment amount~~ and different possible investment periods.*
We have assumed:

- *[In the first year] you have no profit or loss ~~would get back the amount that you invested~~ (0 % annual return). [For the other holding periods we have assumed the product performs as shown in the moderate scenario]*
- ***<u>A notional value of</u>*** *[EUR 10 000/1 000 per year] ~~is invested~~"*

<u>2. Narrative after Table 2 "Composition of costs"</u>

Prescribed language:
(Where applicable): "Different costs apply depending on the investment amount [explain circumstances or use an example in maximum 150 characters]"

Specific adjustment:
(Where applicable): "Different costs apply depending on the ***<u>notional value</u>*** *~~investment amount~~ [explain circumstances or use an example in maximum 150 characters]"*

(Revised 21 December 2022)

6. **For CFDs or other leveraged products should the €10,000 amount in the KID be the amount of deposit paid of the gross notional of the trade? For example, to buy €10,000 of a stock index only requires a payment of €500 under the ESMA leverage guidelines. Accordingly, should the RIY calculation be done off the deposit amount to clearly show the impact of leverage on overnight funding costs and other costs? Alternatively, a €10,000 payment would buy someone €200,000 of a stock index under ESMA's 5% leverage rule for CFDs so should the RIY and performance calculations be done off that amount? Also, in the performance scenarios should it be the performance on the total notional of the product or on the total deposit? Total deposit would be clearer as it would show the impact of the leverage.**

For CFDs, following point 41 of Annex IV of the Delegated Regulation, performance figures in monetary units shall be calculated for a notional amount of 10,000€ (or where the currency of the PRIIP is not in Euros, the amount specified in point 91 of Annex VI of the Delegated Regulation). According to point 43 of Annex IV, the figures to show shall be the profit or loss obtained in the holding period in each scenario.

In addition, following point 46 of Annex IV, the percentage return shall be calculated considering the notional amount of the contract and a footnote shall be added to explain that the potential return is calculated as a percentage over the notional amount.

Point 12 of Annex V of the Delegated Regulation regarding the presentation of performance scenarios states that for Category 1 PRIIPs, as defined in point 4(b) of Annex II of the Delegated Regulation, the terminology used should be adjusted to reflect the specific features of the PRIIP, such as to refer to the notional amount of the PRIIP. For CFDs, the ESAs consider it appropriate to replace the term "example investment" in Template A of Annex V to clarify the difference between the notional amount referred to for the calculation of the performance scenarios and the initial guarantee of x € required to be deposited by the retail investor.

Regarding the cost figures, following point 76b of Annex VI and Annex VII of the Delegated Regulation, the cost indicators in percentage terms shall also be calculated considering the notional amount and the following footnote to be added below the table: "This illustrates costs in relation to the notional value of the PRIIP".

An example of the performance scenario table for a CFD with a recommended holding period of 1 day could be as follows:

Recommended holding period:	1 day
Notional amount:	10,000€
	500€ (initial guarantee to deposit)

Scenarios		If you exit after 1 day
Minimum	**There is no minimum guaranteed return. You could lose some or all of your investment**	
Stress	***Profit or loss after costs***	- 450 EUR
	Percentage return	- 4.5% (*)
Unfavourable	***Profit or loss after costs***	- 150 EUR
	Percentage return	- 1.5% (*)
Moderate	***Profit or loss after costs***	50 EUR
	Percentage return	+0.5% (*)
Favourable	***Profit or loss after costs***	180 EUR
	Percentage return	+1.8% (*)

(*) The return is calculated as a percentage over the notional amount

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

Multi-option products (MOPs) [Last update 21 December 2022]

1. How does the information on the underlying options of a MOP need to be provided?

The rules for the provision of the KID are set out in Articles 13 and 14 of the Regulation. For MOPs, in accordance with Article 10 of the Delegated Regulation, information can be provided in two different ways.

The provision of the KID – in a face to face distribution - is on paper unless the investor requests the KID through a durable medium other than paper or by means of a website. In the latter cases, the person advising on, or selling, the PRIIP would need to evidence that the conditions in paragraph 4 or 5 of Article 14 of the Regulation were met. This also applies in the case of an “open architecture” product design, i.e. where a contract allows for retail investors to invest in a wide range of investment options.

The person selling the PRIIP is not precluded from providing information to the retail investor in addition to the provision of information necessary for the satisfaction of the requirements in Article 14 of the Regulation, for instance if the retail investor requests certain documents on paper in addition to those provided through a durable medium other than paper or by means of a website, (such as the generic KID or specific information on certain underlying investment options where the approach in Article 10(b) of the Delegated Regulation is used).

Furthermore, taking into account the sales process followed, for example if advice is given, it is not necessary to provide the retail investor with information on every possible underlying investment option available, but only those options that the retail investor is considering. In this case, the person advising on, or selling, the PRIIP would need to be able to evidence that the retail investor is considering a limited number of the underlying investment options and agrees to be provided with information on those options only.

In all cases, the person advising on, or selling, the PRIIP would need to evidence how it was determined that the conditions for the provision of the KID in good time were met, or alternatively that the conditions in Article 13(3) of the Regulation were satisfied.

(Published 20 November 2017)

2. [Question deleted]

(Revised 21 December 2022)

3. **Which form and name should the 'specific information on each underlying investment option', referred to in Article 14 of the Delegated Regulation, take?**

The information on each underlying investment option should be specific. This implies that the document should be drawn up specifically to comply with Article 14 Delegated Regulation, that the document should only contain the information items listed in Article 14 Delegated Regulation, and that these information items should not be included in a document drawn up for another purpose. PRIIP manufacturers have the choice to draw up a single document containing the specific information for all underlying options of the MOP or to draw up a separate document for each underlying option of the MOP. For the information prescribed by Article 14 of the Delegated Regulation, this needs to follow the structure of the relevant parts of the template for the Key Information Document as set out in the Annexes to the Delegated Regulation, e.g. headings, tables and narratives descriptions.

The name of the document should not be misleading and a name that is already assigned by law to another document should in particular be avoided. It is a good practice to use the name 'specific information document'.

(Revised 21 December 2022)

4. **Will a MOP be able to rely on the PRIIPs KID published for a fund as the specific information document, as required in Article 10(b) of the Delegated Regulation? "Open architecture" products permit investment in any suitable investment vehicle and it would be impossible for a manufacturer of these products to produce a SID for every investment option.**

Also, as it would be impossible for the MOP manufacturer to post a SID for every fund on its website alongside the MOP KID, will it be possible to direct a retail investor to find the KID for the selected fund, as also indicated in Article 10(b) – "including a description of where the specific information on each underlying investment option can be found"?

For a MOP offering a fund as an underlying investment option, the specific information on that fund needs to comply with Article 14 of the Delegated Regulation. This includes "a statement on whether or not those costs include all of the costs of the PRIIP in the case that the retail investor invests in that specific investment option only" (point (d) of the first subparagraph of Article 14).

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

Investment funds [Last update 14 November 2022]

1. Do the rules concerning the UCITS key investor information document (KIID) still apply?

The rules concerning the UCITS KIID still apply in certain specific situations. In particular, where a UCITS is not made available to retail investors in the EU in accordance with Article 5(1) of the PRIIPs Regulation, the UCITS management company is required to draw up a key investor information document in compliance with the rules in Directive 2009/65/EC (UCITS Directive)[2], unless it has decided to draw up a KID as out in the PRIIPs Regulation.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

2. Should existing retail investors within a UCITS umbrella fund, who switch or exchange units in one sub-fund for units in another, be provided with the KID for the sub-fund in which they are going into?

Yes. Retail investors must receive the KID for the sub-fund they are going into including where this investment arises from switching from another sub-fund within the umbrella.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

3. Should individual KIDs be prepared for each class of units or shares within a UCITS or AIF?

In accordance with Article 14b of the Delegated Regulation a separate KID shall be produced for each individual share class. However, information relevant to two or more share classes may be combined into a single KID provided the resulting KID complies in full with all KID requirements (including the limit on length). Also, a UCITS or AIF may select a class to represent one or more other classes of the UCITS or AIF provided the information in the KID is fair, clear and not misleading to prospective investors in those other classes. Where charging structures differ between classes, the share class with the highest total costs is the most appropriate representative share class to avoid the risk of understating costs. However, it is the responsibility of the UCITS or AIF to select the most appropriate representative share class having regard to the characteristics of the UCITS or AIF, the nature of the differences between share classes in the UCITS or AIF and the range of choices on offer to each investor.

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

[2] And further detailed in particular in the Commission Regulation (EU) 583/2010 and corresponding ESMA Q&As

Autocallable products [Last update 14 November 2022]

1. **For autocallables, for an early call scenario, what time periods should be used when calculating the performance scenarios and cost figures?**

   For autocallables, for scenarios involving an early call, first the figures for performance scenarios should be calculated based on the exact holding period in that scenario namely the time period until the call, without assuming reinvestment until maturity (neither for the amount in euros nor the percentage return - these figures will reflect only the time until the call date). The figures shall be displayed in the last column under the heading "If you exit at call or maturity" and an indication of the length of the holding period shall be included under the name of the scenario ("product ends after []").

   In addition, performance figures for intermediate periods (1 year and half the maturity, if applicable) shall also be shown, but only in case the product is still outstanding at that time under that scenario; otherwise, the columns for those periods shall be left empty.

   So, for example, for an autocallable with a RHP (and maturity) of 3 years and possible autocall every 6 months, the performance scenario table will include two columns for "if you exit after 1 year" and "if you exit at call or maturity".).

   If one of the performance scenarios is consistent with an early call at 6 months with a total payout of 10,200 EUR, (10,000 invested capital plus a 2% coupon), that amount shall be shown in the last column of the table, as well as a percentage return of 2% (following point 45 of Annex IV and point 76a of Annex VI of the Delegated Regulation where the early call scenario is less than one year, the percentage figures should not be annualised; the term "average return each year" should be replaced by the term "percentage return" accordingly). An indication that the product will end in 6 months will be included under the name of the scenario. The 1 year column shall be left empty in this scenario as the product will not exist at the end of year 1.

   Differently, if in another scenario the early call occurs at year 2, with a total payout of 10,800 EUR, other than this outcome being shown in the last column, as well as the corresponding 4% average annual return, with the indication that the product will end after 2 years under the name of the scenario, a figure must also be displayed for the 1 year time period showing the estimated performance at the end of year 1, net of exit costs if applicable.

   Regarding costs, and irrespective of the performance scenarios displayed, in accordance with point 76c of Annex VI of the Delegated Regulation, the figures to be shown in Table 1 ("Costs over time") shall assume two different scenarios for autocallable products: (a) the PRIIP is called at the first possible date; (b) the PRIIP reaches maturity. In the example above, the time periods shown in Table 1 will be 6 months and 3 years.

   Q&A concerns rules applicable on 1 January 2023

   (Published 14 November 2022)

Methodology for the calculation of costs

I. List of costs of investment funds (except transaction cost related questions) (Annex VI, Part 1) [Last update 21 December 2022]

1. **Point 3 (d) of Annex VI indicates that subscription fee includes taxes. Would this include the following types of taxes: VATs, FTTs, stamp duties?**

   Yes, these are notably the types of taxes that are referred to in this point.

   (Published 4 July 2017)

2. **How would the benefits from securities lending (compared to the costs as mentioned in Point 5 (b) (v) of Annex VI) be presented in the KID?**

   The benefits from securities lending would be taken into account in the performance scenarios section of the KID if these are passed to the investor. If these benefits are not passed to the investor, they should be accounted for as costs, according to Point 5(p) of Annex VI.

   (Published 4 July 2017)

3. **Is a look-through only required for underlying investments above a certain threshold within the portfolio of the fund of fund? When dealing with fund of fund or other multi-layer instruments, does the cost look-through need to be done through all layers or only through the first layer of underlying? Private equity feeder funds invested in a master fund: do we have to apply a look through basis?**

   The calculation should take into account the costs incurred in the underlying funds or other underlying PRIIPs. Where the underlying investments are PRIIPs producing KIDs, it will only be necessary to obtain cost information from the KIDs. Where the underlying investments do not have KIDs, it will be necessary to obtain KID equivalent information for the direct underlyings. This is because this information includes costs incurred in any further layer of the underlying. This calculation applies to private equity feeder funds as well.

   (Published 4 July 2017)

4. **Some fees are paid from the fund/investors to the manager based on the narrowing of the share price to NAV discount on a closed-ended listed fund. Should this type of fee be classed as a performance fee?**

   The methodology specified in Point 24 of Annex VI applies to all performance related fees defined in Point 6 as "performance–related fee payable to the management company or any investment adviser".

   (Published 4 July 2017)

5. **In the case of private Equity, infrastructure and other similar funds where the investments to be made by those funds are unknown at the date of creation/investment in the fund, how to anticipate costs that should be calculated for the purpose of the cost section of the KID?**

   In this case, the section "Calculation methodology for new PRIIPs" of the annex VI shall apply (Points 85 and followings) that includes in particular the use of best estimates adopting as proxies either a comparable PRIIP or a peer group. With respect to performance fees and carried interest, there are specific requirements for new PRIIPs, included in Point 24 (b) and 25 (b) of Annex VI.

   (Published 4 July 2017)

6. **Could you provide an example of the provisioned fees for specific treatment of gain and losses, which are referred to in Point 5 (d) of Annex VI?**

   For example, such fees are related to the treatment of gains and losses (withholding tax) in some non-EU countries, and the corresponding potential fees taken by asset managers on an ex-ante basis.

   (Published 4 July 2017)

7. **While financing costs related to borrowing (provided by related parties)" are recognised as a recurring cost in Point 5(h) of Annex VI, could you confirm that overdraft charges on a bank account operated by an external custodian are in the scope of such cost calculation and disclosure?**

   Yes, overdraft charges on a bank account operated by an external custodian are in the scope of such cost calculation.

8. Could you specify which types of costs of capital guarantee provided by a third party guarantor are those mentioned in Point 5 (i) of Annex VI?

Costs of capital guarantee are in particular related to the instruments (and associated costs) aimed to provide for the capital guarantee.

(Published 4 July 2017)

9. Could you provide an example of the 'dividends served by the shares held in the portfolio of the funds, shall the dividends not accrue to the fund' mentioned in Point 5 (r) of Annex VI?

An example would be the following unit link contract. The unit link is based on the performance of a single stock. The insurer owns the stock and is receiving the dividends. The client has initially purchased the unit link at the market value of the stock. The claim of the client is subsequently valued as the current value of the stock (without reinvestment of the dividends).

(Published 4 July 2017)

10. For new funds with performance fees, is it possible to refer to an appropriate benchmark for estimating the relevant returns of a peer group as foreseen in Point 24(b)(ii) second subparagraph of Annex VI?

When computing performance fees for new funds, the relevant fund return shall be estimated using the return of a" comparable fund or a peer group". The use of an "appropriate benchmark" as set out in Point 16 of Annex IV could indeed be considered as a "peer group" under the requirements of Point 24(b)(ii) of Annex VI. If this "appropriate benchmark" is composed of other investment funds the respective returns of which are calculated on the basis of net fund performance, the adjustment of returns in terms of costs referred to in Point 24(b)(ii) second subparagraph of Annex VI is not needed.

(Revised 21 December 2022)

11. According to Point 5(l)(i) the most recently available summary cost indicator shall be used. What is meant by most recently available summary cost indicator?

The most recently available summary cost indicator is the one that has been calculated according to Points 61 to 89 of Annex VI of the Delegated Regulation. Point 79 indicates that the cost figures shall be calculated at least once a year.

(Published 4 July 2017)

II. Transaction costs (Points 7-23 of Annex VI, Part 1)

Methodology set out in Point 21 of the Annex VI of the Commission Delegated Regulation (standardized costs) [Last update 21 December 2022]

- *Guidance on the methodology described in point 21(c)(i) to estimate transaction costs:*

1. **What could be the 'reference indexes' mentioned in Point 21(c)(i) of the Annex VI of the Commission Delegated Regulation?**

   The 'reference indexes' mentioned in Point 21(c)(i) could be the following:

Asset Classes	Sub Asset Classes	Indice
Government bonds	Government bonds and similar instruments developed market rating AAA-A	*JPMorgan EMU AAA-A + JPMorgan US* *Barclays Euro Sovereign High Quality Index*
	Government bonds and similar instruments developed market different rating below A	*filtering on JPMEMU or iBoxx € Overall*
Government bonds emerging markets (hard and soft currency)	Government bonds emerging markets (hard and soft currency)	*JPMorgan EMBIG Diversified* *Barclays EM Local Currency Liquid Government Index*
Investment grade corporate bonds	Investment grade corporate bonds	*Barclays Euro Corporate IG + Barclays US Corporate IG* *EURO STOXX 50® Corporate Bond*
Other corporate bonds	High yield corporate bonds	*Markit iBoxx EUR High Yield Liquid + Markit iBoxx USD High Yield Liquid*
Liquidity	Money market instruments (for the sake of clarity, money markets funds not included)	*Barclays Euro Treasury Bill*
Shares developed markets	Large-cap shares (developed markets)	*MSCI World Large Cap* *STOXX® Europe 50* *STOXX® Developed Markets 150*
	Mid-cap shares (developed markets)	*MSCI World Mid Cap* *EURO STOXX® Mid*
	Small-cap shares (developed markets)	*MSCI World Small Cap*

		EURO STOXX® Small
Shares emerging markets	Large-cap shares (emerging markets)	*MSCI Emerging Markets Large Cap* *STOXX® Emerging Markets 50*
	Mid-cap shares (emerging markets)	*MSCI Emerging Markets Mid Cap* *STOXX® Emerging Markets 500 Mid*
	Small-cap shares (emerging markets)	*MSCI Emerging Markets Small Cap* *STOXX® Emerging Markets 500 Small*

(Published 4 July 2017)

2. **Using the 'reference indexes' mentioned in the question above, how should the 'average bid-ask spreads' mentioned in Point 21(c)(i) of the Annex VI of the Commission Delegated Regulation be estimated?**

   Please refer to the Appendix I to this Q&A

   (Published 4 July 2017)

- *Guidance on the methodology described in Point 21(c)(ii) to estimate transaction costs:*

3. **What could be the 'comparable information' mentioned in Point 21 (c) (ii) of the Annex VI of the Commission Delegated Regulation?**

   The "comparable information' could be for example i) the transaction costs of a comparable fund or peer group (as an example of source: fund annual reporting); ii) information about transaction costs used to calculate the bid and ask prices of the fund

   (Revised 21 December 2022)

Other Q&A on transaction cost related issues [Last update 21 December 2022]

1. **According to Point 8 of the Annex VI of the Commission Delegated Regulation aggregate transactions shall be calculated as the sum of all transaction costs for all individual transactions undertaken by the PRIIP in the specified period. What is meant by specified period?**

   The term specified period refers to the period of three years, as outlined in Point 7.

   (Published 4 July 2017)

2. **According to Point 21 of the Annex VI of the Commission Delegated Regulation for PRIIPs that have been operating less than 3 years transaction costs may be calculated as an average of the actual transaction costs incurred during the period of operation and a standardised estimate. When and how should the costs be calculated?**

   Using the example of a new product and where the KID is revised annually: At the occasion of the first annual review the product manufacturer can use data about the actual transaction costs for the first six months of the PRIIPs existence and for the remaining 30 months (to give an average over 3 years), would use the estimate of portfolio turnover in each asset class according to the methodology referred to in Point 21(c). Accordingly, at the second annual review the product manufacturer may use 18 months of actual data and for the remaining 18 months the standardised estimate.

   (Revised 21 December 2022)

3. **Transaction costs are based on the average of the previous three years, but some managers have not been collecting these in the detail required (with the "arrival price") by Annex VI. How to calculate transaction costs in this case?**

   In this case, Point 15 of Annex VI may apply: "When calculating transaction costs using data prior to 31 December 2017, intra-day prices may be considered as not available" (therefore it is permissible to use as the arrival price the opening price of the investment on the day of the transaction or, where the opening price is not available, the previous closing price").

   Notwithstanding this, firms should consider whether using opening prices or previous closing prices will lead to a result that is contrary to the overall requirement to be accurate, fair, clear and not misleading. For example, where a PRIIP frequently buys and sells the same instrument on an intra-day basis, using the opening or previous closing price will not be accurate, since this would be the same for both the purchase and sale. In this instance, the firm should seek accurate intra-day arrival prices.

   (Published 4 July 2017)

4. Should transaction costs be calculated the same way in the 'Composition of costs' and the 'Cost over time' table?

Yes, in both cases, transaction costs should be calculated according to Point 66 and the following provisions of Annex VI.

(Revised 21 December 2022)

5. When comparing the arrival price and execution price of an instrument denominated in a foreign currency, should the manager apply the same FX conversion rate to base currency to both the arrival price and the execution price?

In this case, transaction costs should be calculated in the foreign currency and then converted to the base currency using the FX rate on the day of the transaction.

(Published 4 July 2017)

6. Could the 'reasonable estimate of the consolidated price' referred to in Point 17 of Annex VI be an average of observable quotes within a certain time frame?

Yes, an average of observable quotes could be a reasonable estimate of the consolidated price, provided that they are not all quotes from a 'single counterparty or foreign exchange platform'.

(Published 4 July 2017)

7. If the order is a limit order, should the arrival price be the limit order?

No, Points 15 and following provisions of Annex VI do not specify that limit orders should be treated differently to other orders.

(Published 4 July 2017)

8. [Question deleted]

(Revised 21 December 2022)

9. [Question deleted]

(Revised 21 December 2022)

10. How should I calculate the transaction costs associated with an IPO or other offering of primary securities?

The transaction costs of IPOs and other offerings of primary securities should use the offer price as the arrival price.

(Published 4 July 2017)

III. List of costs of PRIPs other than investment funds (Annex VI, Part 1) [Last update 21 December 2022]

1. **According to Point 33 (b) of Annex VI, the costs of the underlying shall be taken into account in the list of costs of PRIPs other than investment funds. How should this requirement be understood in the case of a structured product or derivative linked to the performance of a fund?**

   First, it should be noted that if these costs are already taken into account (e.g. through the estimate of costs embedded in the price), these costs should not be accounted twice in the summary cost indicators, according to Point 77 of Annex VI. In addition, the methodology set out in the case of investment funds in Points 5 (l), 5 (m) and 5 (n) should equally apply in the case of PRIPs other than investment funds (as well as in the case of insurance-based investment products which invest in funds).

   (Published 4 July 2017)

2. **Is it correct to say that for the purpose of the Points 36 and the following provisions, while the fair value of the product needs to be in line with accounting standards, it does not have to be necessarily equal to any accounting fair value (as accounting standards generally allow for provisions and adjustments to the fair value which are at book or portfolio level, rather at transaction level)?**

   Yes, as mentioned in Point 40 of Annex VI, the rules referred to in Point 39 of this Annex VI on fair value shall aim at outlining a valuation process that complies with the applicable accounting standards in relation to fair value and the principles outlined in Points 40 - 46 of the same Annex. This does not mean that the value should be necessarily equal to the accounting fair value.

   (Published 4 July 2017)

3. **What value should be input into portfolio transaction costs of PRIPs other than investment funds?**

   This will depend on the situation of each PRIP. All costs must be included but only once. When transaction costs are, for example, included in hedging costs, there should not be any double counting of such costs, as specified in Point 77 of Annex VI.

   (Published 4 July 2017)

4. **According to the Point 37 of Annex VI 'If the PRIIP manufacturer is unable to distinguish the relevant implicit costs to be disclosed as referred to in Point 29 of this Annex using the difference between the price and the fair value, it shall liaise with the issuer of the different components of the product, or the relevant body, in order to gather the relevant information on those costs'. Could you provide with an example of such a situation?**

   This situation in particular occurs when a contractual arrangement between two entities (e.g. one being the PRIIP manufacturer and the other the issuer of one or more derivative components used by the PRIIP manufacturer to structure its PRIIP) is such that the PRIIP manufacturer is not aware of the amount of hedging cost of a specific PRIIP.

   (Published 4 July 2017)

5. **The exchange as manufacturer may not know all the costs, since some costs are added by the broker. In this situation is it acceptable for the exchange only to report the costs which relate to the product as they create it?**

   The manufacturer should only need to include distribution costs to the extent that the costs are fixed (e.g. certain) and the manufacturer is aware of them. Therefore an exchange does not need to include costs that are added by the broker, where these are different between different brokers. With respect to extra costs, Annex VII (table 1) of the Delegated Regulation specifies that the following explanatory text should be included in the KID: "*The person advising on or selling you this product may charge you other costs. If so, this person will provide you with information about these costs, and how they affect your investment*".

   (Revised 21 December 2022)

6. **In the case of subscription products should manufacturer re-evaluate the fair value during the offering period and to modify the entry costs if a relevant change happened, regardless of whether his benefits do not increase/reduce, i.e. just because the market conditions changed the value of the PRIIPs?**

   Yes. According to Article 15 of the Delegated Regulation, PRIIP manufacturers shall review the information contained in the KID every time there is a change that significantly affects or is likely to significantly affect the information contained in the KID, to verify whether the information contained in the KID remains accurate, fair, clear, and not misleading.

   Regarding costs, if during the offering period the market conditions affect the fair value of the product, causing a relevant change in the implicit costs of the product the client will assume when he subscribes for the product, the manufacturer shall update the KID to ensure it remains accurate and inform the potential client before the subscription.

According to point 44 of Annex VI of the Delegated Regulation, in particular in the case of subscription products where long offering periods or high market volatility exists, a criterion to update cost information shall be defined by the manufacturer.

This is without prejudice of the obligations of distributors in these situations according to the applicable Regulations.

(Published 17 December 2021)

7. In the case of subscription products, should manufacturer also modify the entry costs, if the market conditions during the offering period increase the initial fair value and thus the entry costs are lower from the client's point of view?

According to Article 15 of the Delegated regulation, if there is a relevant change in the costs included in the KID, the manufacturer shall update the document to ensure the KID remains accurate.

8. In the case of subscription products, shall the manufacturer modify the cost figures each time the KID is revised even if the revision is caused by a change in another element and his percentage variation criterion for costs is not exceeded?

Yes. According to Article 16 of the Delegated Regulation, PRIIP manufacturers shall without undue delay revise the KID where changes to the KID need to be made and shall ensure that all sections of the KID affected by such changes are updated.

This is without prejudice of the obligations of distributors in these situations according to the applicable Regulations.

(Published 17 December 2021)

9. In the case of subscription products, could the manufacturer include a reference to the variation (+/- Costs) due to variation in market conditions during the offering period? So, the client always will have detailed costs and what is the real margin of the manufacturer.

No. A reference to potential variations in costs due to market conditions does not ensure accurate cost information for the client. According to Article 15 of the Delegated Regulation, if there is a relevant change in the costs of the product to be assumed by investors indicated in the KID, the manufacturer shall update the document to ensure the KID remains accurate. According to point 44 of Annex VI, in particular, where long offering periods or high market volatility exists, a criterion to update cost information shall be defined.

(Published 17 December 2021)

IV. List of costs of insurance-based investment products (Annex VI, Part 1) [Last update 21 December 2022]

1. **Are portfolio costs for traditional endowment insurances to be taken into account in the summary cost indicator of the KID?**

   Yes, Point 52 (g) of Annex VI indicates that "Any amount implicitly charged on the amount invested such as the costs incurred for the management of the investments of the insurance company (deposit fees, costs for new investments, etc.)" shall be taken into account in the summary cost indicator. And Point 52 (h) of Annex VI specifies that "payments to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset owned by the insurance-based investment product (including transaction costs as referred to in Points 7 to 23 of this Annex" shall also be taken into account in the summary cost indicators.

   (Published 4 July 2017)

2. **Does Point 53 of Annex VI apply inter alia to insurance-based investment products (unit-linked products as well as non-unit-linked products) in which the capital provided by investors is invested in UCITS, AIFs or other PRIIPs?**

   Yes, this Point applies to insurance-based investment products that invest a part of their assets in UCITS or AIFs in a PRIIP other than UCITS or AIFs or in an investment product other than a PRIIP. Points 5 (l), 5 (m) and 5 (n) of Annex VI shall then apply respectively.

   (Published 4 July 2017)

3. **Point 52(h) of Annex VI indicates that transaction costs are included in the 'other ongoing costs'. What does this mean in terms of where transaction costs should be included in table 2 'Composition of costs" of the Annex VII?**

   As indicated in Point 66 of the Annex VI and in the table 2 of the Annex VII itself, transaction costs should be shown separately in the section "ongoing costs" of the table 2 of the Annex VII.

   (Revised 21 December 2022)

V. Calculation of the summary cost indicators (Annex VI, Part 2) [Last update 21 December 2022]

1. **The Reduction in Yield (RIY) summary cost indicator may be based on the moderate scenario of the performance scenario section of the KID (according to Point 71 (b) of Annex VI), which is based on prices which are already net of charges. Is it therefore necessary to add the charges back into the returns and then deducting all costs to arrive at a net return when calculating the RIY indicator?**

   No, in this case, the estimation of the future benefits for the purpose of the calculation of the RIY indicator shall be calculated according to the methodology and hypothesis used for the calculation of the moderate scenario of the performance scenario section of the KID , without further deductions or calculations.

   (Revised 21 December 2022)

2. **For a product with tiered charging, is it possible to make an assumption on investment growth to reflect in the cost over time section given it is difficult to determine what the underlying assets are?**

   The assumptions to use are specified in Point 71 of Annex VI. Where point 71(a) does not apply, the estimation of the future benefits for the purpose of the calculation of the RIY indicator shall be calculated according to the methodology and hypothesis used for the estimation of the moderate scenario of the performance scenario section of the KID.

   (Revised 21 December 2022)

3. **In the case of unit-linked products the underlying of which are UCITS, is it possible to use a predetermined yield for the purpose of the estimation of the benefits to be used in the calculation of the RIY indicator?**

   The assumptions to use are specified in Point 71 of Annex VI. Where point 71(a) does not apply, the estimation of the future benefits for the purpose of the calculation of the RIY indicator shall be calculated according to the methodology and hypothesis used for the estimation of the moderate scenario of the performance scenario section of the KID. Please also refer to Points 74 to 76 of Annex VI which are specific to insurance-based investment products.

   (Revised 21 December 2022)

4. **If the moderate scenario shows a total loss of capital or even a negative return, should this be used to present the costs, in which case the Reduction-in-Yield would suggest no or very low costs?**

   Where the moderate scenario shows the total loss of capital invested or more (i.e. is less than or zero), point 71(a) of Annex VI should be applied in order to avoid potential errors in the calculation. That is a net performance of 0% is assumed for the purposes of determining the reduction in yield.

   (Revised 21 December 2022)

5. **Costs of the PRIIP after 1 year, first table on costs, Annex VII of the Delegated Regulation - performance after 1 year is to be calculated with net performance of 0%. For products with ongoing premiums this requires an artificially very high assumed gross performance due to one-off costs. Furthermore, the mandatory explanation sentence "In the first year you would get back the amount that you invested (0 % annual return)." could be misleading for consumers**

   In accordance with point 71 of Annex VI of the Delegated Regulation an assumption of 0% net performance applies for all PRIIPs for the cost indicators showing the case that the PRIIP is held for one year or less.

   Q&A concerns rules applicable on 1 January 2023

   (Published 14 November 2022)

VI. Presentation of costs (Annex VII) [Last update 21 December 2022]

1. **Should entry and exit costs under the table 'Composition of costs' of Annex VII be recalculated as an impact per year based on the recommended holding period instead of a RIY figure?**

   No, the calculation of all costs in the second table 'Composition of costs' is specified in Points 61 and the subsequent provisions of Annex VI. For insurance-based investment products, these are RIY indicators calculated at the recommended holding period, allowing these figures to be consistent with the RIY at the recommended holding period included in the line 'Annual cost impact' of the first table 'Costs over time', as specified in Annex VII.

   (Revised 21 December 2022)

2. **Should the line 'Incidental costs' (performance fees and carried interests) included in the table 'Composition of costs' of Annex VII be included in the case of insurance-based investment products and PRIPs other than investment funds?**

   No, according to Point 6 of Annex VI, incidental costs and incidental costs ratios apply to investment funds, not to the other types of PRIIPs.

   (Published 4 July 2017)

3. **Which annual cost impact is shown in table 2 (composition of costs)?**

   For insurance-based investment products, the table shows the impact of the different types of costs on the investment return the investor might get at the end of the recommended holding period. The values indicated are the impact on return per year, and more precisely the RIY at the recommended holding period.

   (Revised 21 December 2022)

4. **How should the information on costs mentioned in Article 2(4) of the delegated Regulation 2017/653 be presented?**

   Article 2(4) of the Delegated Regulation indicates that "*The details of insurance benefits in the section entitled 'What is this product?' of the key information document shall include (…) or the <u>impact of the cost part of the biometric risk premium taken into account in the recurring costs of the 'Costs over the time table' calculated in accordance with Annex VII</u>*".

So that this information on the cost part of the biometric risk premium is shown to retail investors in a comparable and consistent way, the cost part of the biometric risk premium could be presented using a cost ratio, as for the other types of costs presented in the KID. For the purpose of this question and answer, this ratio is called in the following parts of this answer the “insurance costs ratio”.

For the calculation of this insurance costs ratio, the costs to be disclosed should be the insurance costs according to Points 59 and 60 of Annex VI for insurance based investment products and the methodology to be used for the calculation of the ratio should be the methodology described in Points 70 to 76 of Annex VI.

This information on this cost part of the biometric risk premium could be accompanied with the following narratives:

“This is the impact of insurance costs.

[Where full biometric risk premium presented]. This is the impact of the amount you are paying to buy insurance protection.

[Where cost part of the biometric risk premium presented] This is the impact of the amount you are paying for insurance cover which exceeds the estimated value of insurance benefits

Insurance costs are included in the “total costs” and “Management fees and other administrative or operating costs” presented in the cost section.

(Revised 21 December 2022)

5. Is the biometric risk premium part of the investment of insurance-based investment products?

In order to be consistent with table 1 in Annex VII (Cost over time), where investment is 10 000 EUR (or 1 000 EUR regular premium), investment should be the total payment made by the retail investor and insurance premium should be part of it. Furthermore, since insurance costs are part of the total costs, the biometric risk premium is a part of the total investment.

(Published 18 August 2017)

6. When performance fees or exit costs are not applicable for a product - does the format of Table 2 Composition of costs allow that the manufacturer to mention ‘n.a.’ instead of ‘0%’ in the table?

Yes, in that specific case, the table 2 Composition of costs allows the manufacturer to mention ‘n.a.’ instead of ‘0%’ in the table."

(Published 18 August 2017)

7. ***[Question deleted]***

(Revised 21 December 2022)

8. **The paragraph which comes directly after the heading "Table 1" ("The person advising on or selling you this product …") is duplicate in view to Element A of Annex V and does not apply to all PRIIPs. Is this compulsory?**

Yes, because these statements apply to two different sections of the KIDs (costs and performance scenarios) in which this information is equally relevant.

(Revised 21 December 2022)

9. **What shall be shown as "Total costs" in Table 1?**

"Total costs" in Table 1 of Annex VII of the Delegated Regulation shall show in monetary terms the aggregated amount of costs associated with the investment for the case that the retail investor invests the amounts indicated in points 90 and 91 of the Delegated Regulation (10 000 EUR or 1 000 EUR yearly for regular premium or regular payment products or an amount of similar magnitude if not Euros).

This figure shall consider all the costs indicated in the list of costs and the calculation methodologies in Annex VI, Part 1 of the Delegated Regulation, as per point 61 and 62 of Annex VI.

The methodology "reduction in yield" described in Part 2 of Annex VI shall only be used to calculate the summary costs indicators in percentage terms ("annual cost impact") in Table 1.

(Revised 21 December 2022)

10. **What type of information on performance fees should be included in the line "performance fees" of the table "composition of the cost" of the cost section of the KID?**

This line should clearly set out the information necessary to explain the existence of the performance fee, the basis on which the fee is charged and when the fee applies. Where performance fees are calculated based on performance against a reference benchmark index, the KID should display the name of the benchmark and the information published on past performance should be shown against this benchmark. In case it is allowed for a performance fee to be paid also in times of negative performance (for example, a fund has overperformed its reference benchmark index but, overall, has a negative performance), there should be a prominent statement of this fact as part of the explanation.

(Published 14 November 2022)

11. Annex VII of the Delegated Regulation, Table 2 on composition of costs: Cost elements in the "composition of costs" table are to be presented assuming a 0% annual return which is consistent with the presentation of the cumulated costs for the 1 year holding period in the table "costs over time". What does this assumption mean for the presentation of performance fees. In most cases, performance fees in funds will not be accrued in case of net performance of 0%. Does this mean that a performance fee of zero will need to be presented in the "composition of costs" table and taken into account as such for the 1 year cumulated cost calculations, even if performance fees have been charged by the fund during the last five years?

The amendments to the Delegated Regulation do not intend to amend the method for calculating performance fees specified in point 24 of Annex VI. This is indicated in point 69 of Annex VI.

Therefore, the costs shown in both Table 1 and Table 2 in Annex VII (consistent with the EUR amount for performance fees used in the calculation of Total costs in the first column of Table 1) should reflect the average over the last 5 years.

As indicated in Annex VII, the narratives within Table 2, composition of costs, are examples. These might be adjusted, such as to the following:

"The actual amount will vary depending on how well your investment performs. The estimation in this document includes the average over the last 5 years".

Q&A concerns rules applicable on 1 January 2023

(Published 14 November 2022)

VII. Other topics on costs [Last update 4 July 2017]

1. **At what frequency must the Recurring costs and Incidental costs be calculated?**

   According to Point 79 of Annex VI all cost ratios shall be calculated at least once a year.

   (Published 4 July 2017)

2. **Point 80 of Annex VI specifies that "the costs are assessed on an 'all taxes included' basis. Which types of taxes are referred to in this point?**

   These taxes are not the taxes directly paid by the investor, but the taxes that are included in the product (such as transaction tax - duty stamp, financial transaction tax, etc.)

   (Published 4 July 2017)

Appendix I

Standardised transaction costs: examples of calculation [Last update 4 July 2017]

The procedure explained in Point (c) of Point 21 of Annex VI, Part I can be broken down as follows:

EXAMPLES OF CALCULATION

Step 1: Index selection

Identify the relevant index on the basis of table below.

Asset Classes	Sub Asset Classes	Indice
Government bonds	Government bonds and similar instruments developed market rating AAA-A	*JPMorgan EMU AAA-A +* *JPMorgan US* *Barclays Euro Sovereign High Quality Index*
	Government bonds and similar instruments developed market different rating below A	*filtering on JPMEMU or iBoxx € Overall*
Government bonds emerging markets (hard and soft currency)	Government bonds emerging markets (hard and soft currency)	*JPMorgan EMBIG Diversified* *Barclays EM Local Currency* *Liquid Government Index*
Investment grade corporate bonds	Investment grade corporate bonds	*Barclays Euro Corporate IG +* *Barclays US Corporate IG* *EURO STOXX 50® Corporate Bond*
Other corporate bonds	High yield corporate bonds	*Markit iBoxx EUR High Yield Liquid + Markit iBoxx USD High Yield Liquid*
Liquidity	Money market instruments (for the sake of clarity, money markets funds not included)	*Barclays Euro Treasury Bill*
Shares developed markets	Large-cap shares (developed markets)	*MSCI World Large Cap* *STOXX® Europe 50* *STOXX® Developed Markets 150*
	Mid-cap shares (developed markets)	*MSCI World Mid Cap* *EURO STOXX® Mid*

	Small-cap shares (developed markets)	*MSCI World Small Cap* *EURO STOXX® Cap*
Shares emerging markets	Large-cap shares (emerging markets)	*MSCI Emerging Markets Large Cap* *STOXX® Emerging Markets 50*
	Mid-cap shares (emerging markets)	*MSCI Emerging Markets Mid Cap* *STOXX® Emerging Markets 500 Mid*
	Small-cap shares (emerging markets)	*MSCI Emerging Markets Small Cap* *STOXX® Emerging Markets 500 Small*

Step 2: Time period

Identify the valuation day (the tenth business day of the month) and the time period (the 12 months before YYYY/MM).

Step 3: Collect the index/indexes constituents

Collect the index/indexes (Step 1) constituents and their weights for each day of valuation of each month during the time period (as defined in Step 2). (Following an example related to the government bond index).

Date	ISIN	Rating	Index Weight (%)
20160331	ISIN1	AA+	0,00269808
20160331	ISIN2	BB	0,00290327
20160331	ISIN3	AAA	0,00329052
20160331	ISIN4	AA-	0,00155998
20160331	ISIN5	BBB	0,00133706
…	…	…	…
TOTAL			100%

Step 4: Select the source of the closing bid-ask spread

Collect the closing bid-ask spread of the constituents identified in Step 4 for each day of valuation from the source of information identified.

There could be different sources of information for the closing bid-ask spreads of the underlying indexes, since this information may be not available from the index provider [and/or it could be costly]. The selection of the source should be based on reasonable grounds and resulting from an internal procedure. As an example, the potential data source for closing bid-ask spreads of the underlying indexes may be:

- the index provider;

- Multilateral Trading Facilities [as an example MarketAxess];
- Alternative trading system
- Data providers [as an example Bloomberg BVAL, Bloomberg BondTrade Composite (CBBT/BBT), Bloomberg Generic Number (BGN)].

To estimate the transaction cost twelve monthly observation should be taken.

Date	ISIN	Rating	Index/composite Weights (in %)	PX-BID	PX-ASK
20160331	ISIN1	AA+	0,303341	105,3984375	105,484375
20160331	ISIN3	AAA	0,326410	106,9296875	107
20160331	ISIN4	AA-	0,369948	108,46875	108,53125
…	…	…			
			100,00		

Step 5: Calculate the estimate cost of transaction of each point in time

For each day of valuation, the bid-ask spread collected for each constituent (step 5) is divided by two applying the following formula (please see column D in the next table)

$$\frac{P_{ask} - P_{bid}}{2{*}P_{mid}}$$

(Remark: in the denominator the multiplication *Pmid is intended to obtain a standardised data).

Then, calculate the estimated cost of transaction at each point in time (E) by multiplying (A) and (D) and adding the results.

Date	ISIN	Rating	Index/composite Weights (A)	PX-BID (B)	PX-ASK (C)	D = (C–B) / 2 x ((C+B)/2))	Estimate cost of transaction of each point in time (E): (A) X (D)
20160331	ISIN1	AA+	0,303341	105,3984375	105,484375	0,040750	0,00012362%
20160331	ISIN3	AAA	0,326410	106,9296875	107	0,032870	0,00010728%
20160331	ISIN4	AA-	0,369948	108,46875	108,53125	0,0288000	0,00010655%
…	…	…					…
TOTAL			100,00				**0,03149%**

Step 6: Calculate the estimate cost of transaction under normal market conditions

Calculate the average of the estimated cost of transaction of each point in time identified (E) in Step 6 for the last twelve months.

Time period	Estimate cost of transaction of each point in time (E)
January	**0,03149%**
February	0,03256%
March	0,03158%
…	
Estimated cost of transaction in normal market condition (Average)	0,031742%

(Published 4 July 2017)