Amundi
ASSET MANAGEMENT

ESMA's call for evidence on the impact of the inducements and costs and charges disclosure requirements under MiFID II

Amundi Response

Amundi is the European largest asset manager by assets under management and ranks in the top 10 globally. It manages 1,487 billion euros (end of Q2) of assets across six main investment hubs in Boston, Dublin, London, Milan, Paris and Tokyo. Amundi offers its clients in Europe, Asia-Pacific, the Middle East and the Americas a wealth of market expertise and a full range of capabilities across the active, passive and real assets investment universes. Clients also have access to a complete set of services and tools. Headquartered in Paris, Amundi was listed in November 2015.

Thanks to its unique research capabilities and the skills of close to 4,500 team members and market experts based in 37 countries, Amundi provides retail, institutional and corporate clients with innovative investment strategies and solutions tailored to their needs, targeted outcomes and risk profiles.

While welcoming this present Call for Evidence, we regret the decision to publish a crucial call for evidence on MiFID II cost and charges disclosures over the summer period with only six weeks to provide feedback. We would therefore encourage ESMA to confirm any decisions made out of this Call for Evidence through a subsequent public consultation that should run over a three-month period.

1 MiFID II disclosure requirements for inducements permitted under Article 24(9) of MiFID II (questions A to H)

As a product manufacturer which is not subject to MIFID II, Amundi does not have any particular comments to make on the current operation of the MIFID II inducements regime. In our business model this regime is primarily applicable to our global distribution network.

As a manufacturer we have very limited, if any, visibility on the disclosures made by our distribution network related to inducements received by them. Other than the requirement to produce clean share classes for certain jurisdictions/investor types, our product development and design processes have not been impacted by these processes to date. We have also had very limited feedback from clients on the operation of the MIFID II inducements regime in their Member States.

This being said we consider that the disclosure rule specified in ESMA's Q&A on investor protection, question 13 (page 84) updated on 6th of June 2017 is misleading for investors due to the split of on-going charges. If the investor want to check what is in the KIID or KID with the MiFID II information, we can guess he will not understand that the line "Third party payments received by the investment firm" must be added to the line "Financial instruments" in order to recoup with on-going charges.
From the beginning, we have advocated for a separate information on inducement – which was possible under MiFID I – in order to avoid this problem. Once more we note that the best is enemy of good.

Amundi
ASSET MANAGEMENT

2. Costs and charges disclosures requirements under Article 24(4) of MiFID II (questions I to R)

I: What are the issues that you are encountering when applying the MiFID II costs disclosure requirements to professional clients and eligible counterparties, if any? Please explain why. Please describe and explain any one-off or ongoing costs or benefits.

There are number of issues, notably look-through on underlying fund is rather complex and burdensome (even though we have implemented it) as we rely on third parties data. For this look-through, the capture of month-end positions in underlying funds should be the maximum required frequency. Costs calculation are even more burdensome for distributors as some regulators request the disclosure of costs in euro based on a daily average amount. Proportionality has to apply in this regard: the disclosure should only be based on a quarterly average of invested amounts.

We are also facing an issue on the performance fees of the underlying funds when their accountancy calendar is different than the one of the feeder fund or portfolio. Another issue is the disclosure and treatment of the research fees charged by non EU brokers. Finally, we have certain difficulty in obtaining data on non EU financial instruments. In order to alleviate this reporting a floor expressed as a percentage of the fund's AUM should be set up under which this look-through approach would not apply.

J: What would you change to the cost disclosure requirements applicable to professional clients and eligible counterparties? For instance, would you allow more flexibility to disapply certain of the costs and charges requirements to such categories of clients? Would you give investment firms' clients the option to switch off the cost disclosure requirements completely or apply a different regime? Would you distinguish between per se professional clients and those treated as professional clients under Section II of Annex II of MiFID II? Would you rather align the costs and charges disclosure regime for professional clients and eligible counterparties to the one for retails? Please give detailed answers.

More flexibility would definitely be welcomed and the opt-out should be extended to other services (advisory, portfolio management are currently not in the scope). As professional investors are generally fully aware of these costs, it's not useful to have additional report. Professional investors usually have their own format of reporting and it would make sense to have an exemption for any dedicated fund or mandate offered to a professional client.

K: Do you rely on PRIIPS KIDs and/or UCITS KIIDs for your MiFID II costs disclosures? If not, why? Do you see more possible synergies between the MiFID II regime and the PRIIPS KID and UCITS KIID regimes? Please provide any qualitative and/or quantitative information you may have.

Currently we rely mainly on UCITS KIIDs for costs disclosures to institutional clients. We will soon release cost & charges reports to meet article 50 requirements (Delegated Regulation) on funds which will disclose additional information that is not shown in the actual UCITS KIID. This means that the Sales will have to give the clients two documents when suggesting a new fund.

In any case, what is important is to make sure that the current review of the PRIIPs level 2 framework will align the PRIPP KID with MiFID II to ensure the presentation of the same cost information to clients. In this regard we would stress on the need to change the present PRIIPs methodology for transaction costs since the inclusion of the market impact of orders contradicts MiFID II provision stating that "underlying market risks" should not be considered as a cost.

L: If you have experience of the MiFID II costs disclosure requirements across several jurisdictions, (e.g. a firm operating in different jurisdictions), do you see a difference in how the costs disclosure requirements are applied in different jurisdictions? In such case, do you see such differences as an obstacle to comparability between products and firms? Please explain your reasons.

Differences can be observed between NCAs, as some have given differing guidance on the correct methodology to use for calculating, for example, transaction costs. This could lead to a lack of comparability when products with different domiciles are sold cross border to the same client.

M: Do you think that MiFID II should provide more detailed rules governing the timing, format and presentation of the ex-ante and ex-post disclosures (including the illustration showing the cumulative impact of costs on return)? Please explain why. What would you change?

We are not asking for more detailed rules.

N: For ex-ante illustrations of the impact of costs on return, which methodology are you using to simulate returns? Or are you using assumptions (if so, how are you choosing the return figures displayed in the disclosures)? Do you provide an illustration without any return figure?

We consider that the inclusion of the *manque à gagner* linked to costs and fees should not be taken into account for the calculation of the RiY since it makes disclosure impossible to understand by retail investors. In addition such calculation disadvantages products that have better return.

O: For ex-post illustrations of the impact of costs on return, which methodology are you using to calculate returns on an ex-post basis (if you are making any calculations)? Do you use assumptions or do you provide an illustration without any return figure?

For the reason explained in question N, when compulsory (there is no such requirement in the UCITS KIID) we provide ex-post illustration of the impact of costs on return without taking on board the *manque à gagner* linked to taking costs.

P: Do you think that the application of MiFID II rules governing the timing of the ex-ante costs disclosure requirements should be further clarified in relation to telephone trading? What would you change?

No comments.

Q: Do you think that the application of Article 50(10) of the MiFID II Delegated Regulation (illustration showing the cumulative impact of costs on return) helps clients further understand the

overall costs and their effect on the return of their investment? Which format/presentation do you think the most appropriate to foster clients' understanding in this respect (graph/table, period covered by the illustration, assumed return (on an ex-ante basis), others)?

We don't think so. As illustration depends essentially on the very specific characteristics of the portfolio, comparison is not possible. In addition, for reasons expressed above, the calculation of the RiY as it is presently required in the PRIIPs KID cannot be understood by retail clients.

In line with our answer to the question N we consider that the simpler approach the better for showing this cumulative impact of costs. An ex-ante table seems more illustrative than a graph since a graph will never result as precise as a table.

R: Are there any other aspects of the MiFID II costs disclosure requirements that you believe would need to be amended or further clarified? How? Please explain why.

As mentioned in our response to question K, alignment of PRIIPs with MiFID is of utmost importance. In this respect, the PRIIPs methodology for transaction costs should of course be modified.

In addition, we stress on the fact that standard costs disclosure for many professional clients is not useful, in particular in case of dedicated funds or mandates where we always have contractual agreements including on costs. In such case an exemption should be provided by the regulation.

Contacts:
Bernard Agulhon
bernard.agulhon@amundi.com
Simon Janin
simon.janin@amundi.com