European Securities and Markets Authority

EUROPEAN BANKING AUTHORITY

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

Response form for the Joint Consultation Paper concerning amendments to the PRIIPs KID

16 October 2019

Date: 16 October 2019
ESMA 30-201-535

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

Responding to this paper

The European Supervisory Authorities (ESAs) welcome comments on this consultation paper setting out proposed amendments to Commission Delegated Regulation (EU) 2017/653 of 8 March 20171 (hereinafter "PRIIPs Delegated Regulation").

The consultation package includes:
- The consultation paper
- Template for comments

The ESAs invite comments on any aspect of this paper. Comments are most helpful if they:
- contain a clear rationale; and
- describe any alternatives the ESAs should consider.

When describing alternative approaches the ESAs encourage stakeholders to consider how the approach would achieve the aims of Regulation (EU) No 1286/20142 (hereinafter "PRIIPs Regulation").

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

Q1 Insert your responses to the questions in the Consultation Paper in the present response form.

Q2 Please do not remove tags of the type <ESA_QUESTION_PKID_1>. Your response to each question has to be framed by the two tags corresponding to the question.

Q3 If you do not wish to respond to a given question, please do not delete it but simply leave the text "TYPE YOUR TEXT HERE" between the tags.

Q4 When you have drafted your response, name your response form according to the following convention: ESA_PKID_nameofrespondent_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESA_PKID_ABCD_RESPONSEFORM.

[1] COMMISSION DELEGATED REGULATION (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents

[2] Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), OJ L 352, 9.12.2014, p. 1.

Q5 The consultation paper is available on the websites of the three ESAs and the Joint Committee. Comments on this consultation paper can be sent using the response form, via the ESMA website under the heading 'Your input - Consultations' by **13 January 2020**.

Q6 Contributions not provided in the template for comments, or after the deadline will not be processed.

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise in the respective field in the template for comments. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESAs rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESAs Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the ESAs is based on Regulation (EU) 2018/1725[3]. Further information on data protection can be found under the Legal notice section of the EBA website and under the Legal notice section of the EIOPA website and under the Legal notice section of the ESMA website.

[3] Regulation (EU) 2018/1725 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39.

General information about respondent

Name of the company / organisation	French Insurance Federation
Activity	Insurance and Pension
Are you representing an association?	☒
Country/Region	France

Introduction

Please make your introductory comments below, if any:

<ESA_COMMENT_PKID_1>
The Packaged Retail and Insurance-based Investment Products (PRIIPs) key information document (KID) is intended meant to apply the same very prescriptive disclosure standards to a wide variety of very different products. However, in practice, it applies mainly to insurance products for the time being, as UCITS funds are still excluded from the scope of the PRIIPs Regulation. Indeed, based on Insurance Europe estimates (the European insurance and reinsurance federation), insurance-based investment products (IBIPs) represent around 80% of the current overall PRIIPs market.

After a thorough analysis of the concrete proposals included in the consultation paper, the French Insurance Federation (FFA) does not believe that the proposed changes improve the quality of information in the PRIIPs KID, since they predominantly:

- Increase the complexity of the methods and presentation of information, making it more difficult to understand
- Lead to misleading figures for consumers that are difficult to understand
- Overload consumers with information

If we welcome the opportunity to comment on the proposed changes to the regulatory technical standards (RTS), we have serious concerns with the “quick-fix” approach taken in the current European supervisory authorities’ (ESAs) public consultation. It is vital that any new measures address the underlying problems with the PRIIPs KID and do not attempt to find superficial and ineffective solutions. The ESAs need to conduct a more well-considered and better evidenced approach when proposing amendments which could lead to deterioration of information provided to consumers. It needs to be evidenced that the consumer will benefit from any regulatory changes, in order to justify the significant systems changes and compliance costs for industry.

Therefore, FFA requests that the fundamental changes required to address flaws in the PRIIPs KID are only considered as part of the official overall review foreseen by the Level 1 PRIIPs Regulation. Such amendments are central to the objective of the Regulation and as such require thorough impact assessment and proper, holistic consumer testing of all aspects of the KID, to ensure that consumers are provided with meaningful information.

On the contrary, the introduction of interim measures which would incur additional compliance cost without achieving any added value for consumers is an entirely unsatisfactory approach. There is minimal value to consumers in repeatedly changing the presentation and the contents of the PRIIPs KID. This would increase confusion and also risks devaluing the KID as repeated changes will cause consumers to question the value of the information presented to them. The proposed changes to the RTS would mean insurers face significant costs in altering PRIIPs KIDs by 2021 – with possible additional adaptations linked to spill over effects on the Level 3 Q&As - and will face costs again implementing changes that result from the official PRIIPs review. It is also not clear how the official review could fully consider the impact of any interim changes, as these would have only just been implemented when work on the review began.

In addition, the changes currently being considered by the ESAs integrate more features from the UCITS key investor information document (KIID) into the PRIIPs KID, making the PRIIPs KID even less suitable for

IBIPs and even more confusing for consumers. For example, the ESAs propose to add a table on past performance scenarios in addition to the table on future performance scenarios, as well as further narratives on costs. This will confuse consumers and exceed the three-page limit. Conversely, the ESAs are considering changing elements of the KID, such as the reduction-in-yield cost indicator (RIY), in order to improve the compatibility with MiFID disclosures. It is not clear why PRIIPs has to be adjusted to MiFID in the first place instead of other way round and in any case the consultation paper clearly states that “RIY figures could be used to comply with the requirements in MiFID”.

Moreover, we have serious concerns regarding the proposed changes for multi-option products (MOPs), which would be particularly burdensome for insurers to implement, with no evidence of the added value for consumers. On the contrary, the introduction of additional layers of information, including cross-references, and complex costs tables for MOPs would have the unintended consequence of confusing consumers and exposing product manufacturers to significant liability risks. In addition, the proposed added complexity for the most commonly selected options would prevent any comparability between providers, which is contrary to the objectives of the PRIIPs Regulation.
<ESA_COMMENT_PKID_1>

- **: Are there provisions in the PRIIPs Regulation or Delegated Regulation that hinder the use of digital solutions for the KID?**

<ESA_QUESTION_PKID_1>
The PRIIPs Regulation obliges insurers to provide pre-contractual information on paper, as a default requirement. It may only be provided in another medium "by way of derogation" or exception from this paper requirement. This requirement inhibits digitalisation and prevents further development of the internet as a distribution channel. It fails to recognise increasing consumer demand for, and use of, online services and is not conducive to ensuring future-proof regulation. Several requirements on the form and content of the PRIIPs KID including on front-size and pages length are inherently paper based and will need to be revised to allow for the use of digital distribution channels.

In contrast, the PEPP Regulation takes a more digital-friendly approach. It rightly allows for the electronic distribution of PEPP information from the outset, while still permitting consumers to request this information on another durable medium, such as paper.

However, without the necessary changes on Level 1 Regulation, this issue cannot be solved on Level 2 alone. As to other approaches to the use of digital solutions for the PRIIPs KID, any new proposal should be properly tested with consumers. Therefore, FFA believes that:

- More time is needed to assess, test and define possible new approaches as part of the review foreseen in the PRIIPs Level 1 Regulation.
- Given the multiple implications on consumers and product manufacturers, any change should not be rushed nor introduced in different batches.

<ESA_QUESTION_PKID_1>

- **: Do you agree that it would be helpful if KIDs were published in a form that would allow for the information to be readily extracted using an IT tool?**

<ESA_QUESTION_PKID_2>
The PRIIPs KIDs are already published on insurance companies' websites as pdf files. We are not aware of another standardised and widely used format that would allow for better machine readability.

Therefore, FFA believes there is no need to modify the format nor the level of standardisation of the PRIIPs KID.
<ESA_QUESTION_PKID_2>

- **: Do you think that the amendments proposed in the consultation paper should be implemented for existing PRIIPs as soon as possible before the end of 2021, or only at the beginning of 2022?**

<ESA_QUESTION_PKID_3>
After a thorough analysis of the concrete proposals included in the consultation paper, we do not believe that the proposals improve the quality of information in the PRIIPs KID, but rather mainly increase the complexity of the information and overload consumers with information.

FFA calls the ESAs and the European Commission not to rush the PRIIPs review. It is vital that the ESAs take the necessary time to develop sound, meaningful and workable solutions and methodologies that are proven to improve consumer understanding effectively and to fit the diverse range PRIIPs available.

We do not support interim solutions that would impact insurers. Introducing piecemeal changes would increase legal uncertainty for companies and create additional compliance costs, without giving consumers a substantially better understanding of products. Furthermore, successive changes to the KID risk further significantly undermining consumer trust in the PRIIPs KID and causing confusion where KIDs repeatedly change, but the fundamental features of the product do not.

Instead, we ask for a pragmatic, realistic timeline that takes into account the manifold impact of regulatory changes to the PRIIPs KID and the significant compliance and operational effort required by the industry (i.e. cross-functional work to interpret the new requirements, new data to be gathered, actuarial and financial calculations, IT software changes, re-design of the PRIIPs KID template, test of calculations and design, legal assessment of the texts and numbers, potential translation into different languages, new documents to be drafted and distributed to agents and customers, new training for distributors, new data exchange with funds on MOPs update of the website, etc.).

For all these reasons, FFA calls for one single set of changes ideally at the time of the official review foreseen by the Level 1 Regulation and following a holistic consumer testing of all the different contents.

The deadline for the implementation by the industry should be dynamic, as in the PEPP Regulation. This means that the deadline for the implementation by the industry should be at least 12 months from the publication of the targeted changes in the Official Journal and should be the same for all products and product manufacturers.
<ESA_QUESTION_PKID_3>

- **: Do you think that a graduated approach should be considered, whereby some of the requirements would be applied in a first step, followed by a second step at the beginning of 2022?**

<ESA_QUESTION_PKID_4>
To avoid further consumer confusion, loss of trust and unnecessary compliance costs, interim solutions and continual changes must be avoided. Continuous regulatory changes do not allow consumers to familiarise themselves with the documentation.

In order to address the complexity and initial shortcomings of the KID, the PRIIPs framework has already needed a series of adjustments and clarifications — European Commission guidelines, five successive batches of Q&As from the European supervisory authorities (ESAs) and two supervisory statements — resulting in serious compliance fatigue.

In addition to these continual changes, further successive, fragmented regulatory changes are already planned.

In terms of impact assessment, disjunctive changes lead to multiple compliance costs, as each time:
- A new legal assessment is required.
- New data, calculations or updates of the systems are necessary.
- The PRIIPs KID layout needs to be changed.
- New training has to be performed for distributors.
- The new versions need to be delivered to distributors and uploaded on the website, etc.

Based on the lessons learnt previously, fixes to the PRIIPs KID must be developed with sufficient time and introduced in one single set.
<ESA_QUESTION_PKID_4>

- **: Are there material issues that are not addressed in this consultation paper that you think should be part of this review of the PRIIPs Delegated Regulation? If so, please explain the issue and how it should be addressed.**

<ESA_QUESTION_PKID_5>
In France, there are certain products such as funeral insurance products for which the PRIIPs KID is wholly unsuitable. These products provide biometric cover and are not intended to be investment products. The changes proposed in this consultation fall far short of making the adaptations necessary to provide consumers with meaningful information on these products. It is vital that the treatment of these products is assessed fully as part of the full review of the PRIIPs Regulation.

In addition, making multiple versions of the PRIIPs KID available based on different costs and performance methodologies would confuse consumers and would raise concerns among those clients trying to compare or read PRIIPs KIDs issued before the review(s) in conjunction with those issued after the review(s). This might have unintended negative consequences on the trust and level of satisfaction of customers and affect the customer retention.

We would also like to reiterate that insurers are currently a main provider of products in the scope of PRIIPs, as UCITS manufacturers are still exempted. Indeed, based on Insurance Europe estimates, IBIPs represent around 80% of the current overall PRIIPs market. As such, insurers are key stakeholders in this consultation and need rules fit for their products. Throughout the consultation paper it is not clear that the specific features of insurance products (as opposed to funds) have been fully considered. However, it is clear the proposals put forward are not suited to the specificities of all IBIPs and do not cover main types of PRIIPs. Indeed, as stated on page 33 of the consultation paper: "For other types of insurance-based investment products, in particular products which distribute a portion of the PRIIP manufacturer's profits to retail investors (e.g. "profit-participation"), the ESAs are of the view that increased transparency regarding past performance should be aimed for, but a sound methodology is not available at this stage. Therefore, the proposals in this consultation paper do not cover these types of PRIIP."

Therefore, it is essential that the ESAs consider the impacts on products from all PRIIPs manufacturers across diverse markets when assessing the effectiveness of their proposals.
<ESA_QUESTION_PKID_5>

- **: Do you have comments on the modifications to the presentation of future performance scenarios being considered? Should other factors or changes be considered?**

<ESA_QUESTION_PKID_6>
FFA supports changes to the PRIIPs KID only where there is solid evidence that they improve consumer understanding and are workable for all IBIPs across all markets. However, we understand that the EC consumer testing on the presentation of performance scenarios will cover only one type of insurance-based investment product (IBIP) in five markets, so is not representative of the diversity of IBIPs across the EU. FFA also understands that the IBIP that has been selected is a with profit, but does not know any further details about the concrete structure and features of the product type subject to testing: this raises the concern that consumers might be tested on a product type they not familiar with, as it might not be popular or available with the same features in their market. This would undermine the robustness of the exercise and the validity of the outcomes. Furthermore, if consumers in different Member States will have a different understanding of the product, the results will be not comparable.

On the contrary, the EC consumer testing of 2015 was run on more products and in 10 plus 6 markets, and still resulted in today's flawed features in the KID as an insufficient range of products were considered. Consumers should be tested on a wider variety of IBIPs (unit-linked, with-profits, hybrid products, guaranteed products, annuities and funeral insurance) and in more than just five markets, in order to capture all products in scope of the Regulation and national differences in product offering.

Also in terms of timing, the fact that the EC consumer testing is running in parallel to the ESAs public consultation has not allowed the ESAs to factor-in the outcomes of the consumer testing in the proposals included in the public consultation. Stakeholders are being consulted on options and methodologies that are still incomplete or work-in-progress. Moreover, the ESAs will have very limited time to analyse all the responses to the public consultation, the findings of the EC consumer testing, and then develop appropriate new rules accordingly.

Moreover, it seems that, in the consumer testing exercise, the performance scenario presentation will be subject to stand-alone testing and not within the overall PRIIPs KID. We believe that the performance scenario presentation should be tested in the context of the whole KID document, where the consumer already receives information on the overall features of the product. This would enable the ESAs to fully assess the potential impact of the proposed changes on consumers in a context that better reflects a real-life sales environment, including measuring the impact of potential information overload on consumer understanding.

As to the specific proposals contained in the consultation paper:

1. **Intermediate scenarios:** It should be recognized that consumers investing in a long term IBIP have different needs and objectives compared to consumers investing in short term funds and given their long investment time horizon they do not need to receive nor compare the information on performance after one year or at other intermediate time horizons. In fact, providing this information can inadvertently create the impression that early redemption is advised. As a result, we believe that consumers will misunderstand the intermediate time periods in the performance scenarios table.

For the sake of consistency, the costs tables and MOPs tables should be amended accordingly, by removing references to intermediate time periods and showing costs only at the end of the recommended holding period (RHP). This would ensure more coherence within the overall PRIIPs KID, as the risk indicator is also based on the expected total duration of the investment.

Indeed, we believe that it is sufficient and more meaningful to provide illustrations of performance and costs at the end of the RHP for any category of PRIIPs. This would represent an important simplification of the PRIIPs KID and would not affect the quality of the information received by consumers.

In any case, consumers are informed about options and impacts of early redemption in the "How long should I hold it and can I take money out early" section of the PRIIPs KID. In this section, consumers receive appropriate explanations of the features of the early redemption procedure and when early redemption is possible, including information on the impact of cashing-in early on the risk or performance profile of the PRIIP, or on the applicability of capital guarantees. Moreover, consumers are informed about any fees and penalties which are incurred for redemption prior to maturity or at any other specified date other than the RHP, including a cross reference to the information on costs to be included in the key information document pursuant to Article 5 and a clarification of the impact of such fees and penalties for different holding periods.

From a purely technical perspective, information on intermediate time periods (e.g. 1 year, half RHP) for products with a RHP of 30 years would not be comparable with the corresponding figures of a product with a RHP of 15 years, as their overall structure and duration is different. Even if fixed intermediate time periods (e.g. 5, 8 years) are used instead of half the RHP, the information provided would not be meaningful: as the fixed intermediate time periods do not represent the stage of the product life cycle where consumers are supposed or advised to redeem their capital, the information might be totally useless or even misleading for different products with different RHPs.

2. **Probability of a scenario:** We believe that including a column on the "estimated chance that [the] scenario occurs" would highly confuse consumers. The performance scenarios are developed to give consumers an indication of returns using some assumed model (e.g. Cornish Fisher with modified drift). They do not provide exact outcomes since these are unknown. By attaching probabilities to the scenarios, a misleading semblance of precision is created. Furthermore, consumers are not familiar with the underlying models since these are background tools used by providers. Therefore, they cannot assess the meaning of these probabilities. Finally, it is also not clear how a consumer is expected to act on this information, as they will in practice experience only one realisation of the product. In addition, it leads to a high level of legal risk for product manufacturers.

3. **Stress scenario:** We do not see any benefit in including a stress scenario in the performance scenarios table, as it is already sufficient to provide consumers with an illustration of possible unfavourable, moderate and favourable scenarios. The stress scenario uses an artificial methodology which could lead to distorted results. E.g. if a product performed below zero percent in the last five years, setting the drift to zero would not decrease its performance (as desired) but on the contrary improve it.

In terms of appropriateness of the information provided, the stress scenario would not be counter balanced by an extremely positive scenario and thus it would be misleading.

Also, in terms of number of figures provided to consumers, the carve out of the stress scenario would represent a simplification and would reduce the overall complexity.

Instead of a stress scenario, we see benefits in including a row on the "minimum guaranteed return", as proposed in the performance scenarios table at page 67 of the consultation paper. This would be meaningful information for consumers and would help them understand the benefits of products that offer a guarantee.

4. **Past performance in addition to forward looking scenarios:** If FFA strongly supports the substitution of performance scenarios with past performances (see comments Q26), we are concerned that including two performance scenarios tables in the PRIIPs KID would not help consumers understand the product features. In contrast, it will overload consumers with information. Such an overload of figures, obtained through different methodologies, would only confuse consumers and not solve the current issues in the PRIIPs KID.

5. **Illustrative approach to future performance scenarios:** We believe that more time is needed to properly develop and test new methodologies and their underlying assumptions, and assess all possible options including for example illustrative scenarios for IBIPs.

<ESA_QUESTION_PKID_6>

- **: If intermediate scenarios are to be included, how should they be calculated for Category 3 PRIIPs (e.g. structured products)? If intermediate scenarios are not shown in the performance section, which performance assumption should be used for the 'What are the costs?' section?**

<ESA_QUESTION_PKID_7>
FFA believes that consumers will misunderstand the intermediate time periods in the performance scenarios table. It should be recognized that consumers investing in a long term IBIP have different needs and objectives compared to consumers investing in short term funds and given their long investment time horizon they do not need to receive nor compare the information on performance after one year or at other intermediate time horizon. In fact, providing this information can inadvertently create the impression that early redemption is advised.

For the sake of consistency, the costs tables and MOPs tables should be amended accordingly, by removing references to intermediate time periods and showing costs only at the end of the RHP. This would ensure more consistency within the overall PRIIPs KID, as the risk indicator is also based on the expected total duration of the investment.

Indeed, we believe that it is sufficient and more meaningful to provide illustrations of performance and costs at the end of the RHP for any category of PRIIPs. This would represent an important simplification of the PRIIPs KID and would not affect the quality of the information received by consumers.

In any case, consumers are informed about options and impacts of early redemption in the "How long should I hold it and can I take money out early" section of the PRIIPs KID. In this section, consumers receive appropriate explanations of the features of the early redemption procedure and when early redemption is possible, including an indication of the impact of cashing-in early on the risk or performance profile of the PRIIP, or on the applicability of capital guarantees. Moreover, consumers are informed about any fees and penalties which are incurred for redemption prior to maturity or any other specified date other than the recommended holding period, including a cross reference to the information on costs to be included in the key information document pursuant to Article 5 and a clarification of the impact of such fees and penalties for different holding periods.

Also from a purely technical perspective, information on intermediate time periods (e.g. 1 year, half RHP) for products with a RHP of 30 years would not be comparable with the corresponding figures of a product with a RHP of 15 years, as their overall structure and duration is different. Even if fixed intermediate time periods (e.g. 5, 8 years) are used instead of half the RHP, the information provided would not be meaningful: as the fixed intermediate time periods do not represent the stage of the product life cycle where consumers

are supposed or advised to redeem their capital, they would not fully benefit from the long-term dynamics of an IBIP.

Regarding the additional columns in the proposed performance scenarios table on page 67 of the consultation paper, we believe that the inclusion of a column on the "estimated chance that [the] scenario occurs" would highly confuse consumers. The performance scenarios are developed to give consumers an indication of returns using some assumed model (e.g. Cornish Fisher with modified drift). They do not provide exact outcomes since these are unknown. By attaching probabilities to the scenarios, a misleading semblance of precision is created. Furthermore, consumers are not familiar with the underlying models since these are background tools used by providers. Therefore, they cannot assess the meaning of these probabilities. Finally, it is also not clear how a consumer is expected to act on this information, as they will in practice experience only one realisation of the product.

As to the overall dividend yield methodology that is proposed in the consultation paper, this approach is considerably more complex than the current PRIIPs methodology and is not straightforward to implement for all PRIIPs. With respect to the appropriateness of the results obtained through the new methodology, we do not see the benefit of merely providing consumers with "more moderate" figures with no concrete and proof-based evidence about the level of correctness of such figures.
<ESA_QUESTION_PKID_7>

- **: If a stress scenario is included in the presentation of future performance scenarios, should the methodology be modified? If so, how?**

<ESA_QUESTION_PKID_8>
FFA does not see any benefit in including a stress scenario in the performance scenarios table, as it is already sufficient to provide consumers with an illustration of possible unfavourable, moderate and favourable scenarios. The stress scenario uses an artificial methodology which could lead to distorted results.
E.g. if a product performed below zero percent in the last five years, setting the drift to zero would not decrease its performance (as desired) but on the contrary improve it.

In terms of appropriateness of the information provided, the stress scenario would not be counter balanced by an extremely positive scenario and thus it would be misleading.

Also, in terms of the number of figures provided to consumers, the carve out of the stress scenario would represent a simplification and would reduce the overall complexity.

Instead of a stress scenario, we see benefits in including a row on the "minimum guaranteed return", as proposed in the performance scenarios table at page 67 of the consultation paper. This would be meaningful information for consumers and would help them understand the benefits of products that offer a guarantee.

As to the overall dividend yield methodology that is proposed in the consultation paper, this approach is considerably more complex than the current one and is not straightforward to implement for all PRIIPs. With respect to the appropriateness of the results obtained through the new methodology, we do not see the benefit in providing consumers with "more moderate" figures with no concrete and proof-based evidence about the level of correctness of such figures.
<ESA_QUESTION_PKID_8>

- **: Do you agree with how the reference rate is specified? If not, how should it be specified?**

<ESA_QUESTION_PKID_9>
The details of this methodology are not clear and need to be clarified. We believe that more time is needed to properly assess, develop and test with consumers any change to the performance scenario methodology and their underlying assumptions, and assess all possible options including for example illustrative scenarios.

In any case, we would like to stress that the introduction of interim changes that are not properly defined nor fully tested is not beneficial for consumers and will create legal risks for product manufacturers.

As to the overall dividend yield methodology that is proposed in the consultation paper, this approach is considerably more complex than the current one and is not straightforward to implement for all PRIIPs. Furthermore, we do not see any benefit in calculating 50,000 paths for products with ongoing premiums: this will not add much precision to the simulation but will result in higher burden for the providers.

The availability and the access to the data that are necessary to implement the new methodology also represent a significant burden that should not be underestimated. There is little competition on the market as the number of data providers is extremely limited, as well as their geographic diversification. As reported by some stakeholders at the ESAs public hearing on 29 November, the cost of market data is subject to increases and the licensing conditions might be restrictive and change over time. Product manufacturers, especially smaller entities, may not have the access and the right to process all necessary data, even if they already have a subscription with a data provider for other internal purposes. Thus, they would be confronted with additional costs, in a market that is highly dominated by few providers where conditions can be very unfavourable to the end users. Manufacturers would also be entirely reliant on private providers continuing to produce this information in a usable format.

Besides, with respect to the appropriateness of the results obtained through the new methodology, we do not see the benefit in providing consumers with “more moderate” figures with no concrete evidence about the level of correctness of such figures.
<ESA_QUESTION_PKID_9>

- **: The revised methodology specifies that the risk premium is determined by future expected yields. The methodology further specifies that future expected yields should be determined by the composition of the PRIIP decomposed by asset class, country and sector or rating. Do you agree with this approach? If not, what approach would you favour?**

<ESA_QUESTION_PKID_10>
Key information to consumers is one of the main objectives pursued by the PRIIPs Regulation. Even if retail investors may understand, through this information, the importance to have an investment strategy that can protect them (e.g. defining investment objectives and horizons, diversifying assets, regular investments, adjustment of the overall investment strategy if necessary, etc.), we should not make them believe a mathematical methodology could predict the return on their investment. Therefore, before any discussion on the proposed approach, we would like to stress that the use of any mathematical methodology can only lead to hypotheses which must be adapted to the underlying investment and realistic, but not to scientific results. Further sophistication of the current methodology will not change this fundamental statement.

Having said that, the dividend yield methodology as proposed in the consultation paper is considerably more complex than the current one and is not straightforward to implement for all PRIIPs. As stated on page 26 of the consultation paper, the “ESAs also acknowledge that such a methodology is relatively complex and may present challenges, both in terms of implementation by the industry, and explanation to consumers. This would be particularly relevant for multi-asset portfolios, where the underlying investments are based in several different countries”. FFA does not believe that the ESAs provide enough evidence that this more complex methodology necessarily brings more realistic results.

Indeed, the new proposed methodology will add additional burdens to product manufacturers, who would need to look through and model each single underling asset of their products (e.g. insurers could have hundreds of thousands of underlying assets); product manufacturers would also the need to keep monitoring the developments of government bonds and underlying assets and possibly update the KID accordingly more frequently. This could be particularly burdensome for the complete information to be provided on MOPs’ most commonly selected options, which would need to include performance scenarios.

As to the specific elements of the new methodology, the dividend yield might not be the best basis to project the return of a product.

The availability and the access to the data that are necessary to implement the new methodology also represent a significant burden that should not be underestimated. There is little competition on the market as the number of data providers is extremely limited, as well as their geographic diversification. As reported by some stakeholders at the ESAs public hearing on 29 November, the cost of market data is subject to increases and the licensing conditions might be restrictive and change over time. Product manufacturers, especially smaller entities, may not have the access and the right to process all necessary data, even if they already have a subscription with a data provider for other internal purposes. Thus, they would be confronted with additional costs, in a market that is highly dominated by few providers and where conditions can be very unfavourable to the end users. Manufacturers would also be entirely reliant on private providers continuing to produce this information in a usable format.

Moreover, the ESAs are already considering the need for additional caps, which means that the new methodology as it is does not provide sufficient safeguards.

As to the appropriateness of the results obtained through the new methodology, we do not see the benefit in providing consumers with “more moderate” figures with no concrete and proof-based evidence about the level of correctness of such figures. In this respect, we are concerned that “it has not been possible to test the approach on the full range of different types of PRIIPs” (page 17) and that “without comprehensive testing of all product types in all possible market conditions, [the ESAs] cannot conclude definitively that issues will not arise with the proposed methodology” (page 25). There is no solid evidence that the new methodology provides correct and meaningful results for all the different products that are included in the wide scope of the Regulation.

Unfortunately, it is not possible to perform such testing at market level as many details are still missing in the consultation paper. Indeed, the ESAs proposals are not fully clear nor comprehensive. For example:

- How should guaranteed products that fall in category three be treated?
- Which reference rates should be used (e.g. historical or forward looking)? From which source?
- Illustrative scenarios are proposed as an alternative approach only for non-IBIPs structured products on page 30 of the consultation paper, but this is not specified in the proposed amendments at pages 70-71. How should this be interpreted? And why are inconsistent approaches permitted?

It would be imperative that a more detailed and comprehensively drafted proposal is provided for consultation on such technical contents. Issuing Level 3 clarifications after the introduction of changes to the Level 2 would not be a solution, as it would create legal uncertainty and challenge the implementation of the new requirements by product manufacturers within the prescribed time limits.

However, regardless of the current omissions and inconsistencies in the current drafting, the insurance industry believe that proposed methodology is fundamentally flawed.

FFA believes that more time is needed to properly develop and test new methodologies and their underlying assumptions and assess all possible options including, for example, illustrative scenarios.

The introduction of interim changes that are not properly defined nor fully tested is not beneficial for consumers and will create legal risks for product manufacturers.
<ESA_QUESTION_PKID_10>

- **: The ESAs are aware that historical dividend rates can be averaged over different time spans or that expected dividend rates can be read from market data providers or obtained from analyst reports. How should the expected dividend rates be determined?**

<ESA_QUESTION_PKID_11>

With reference to the use of dividend rates as the only estimator for the asset-specific risk premium, we are not confident that the paper by John Cochrane quoted by ESAs provides enough evidence and would appreciate if the ESAs could explain this approach in more detail.

Besides, there are different options for calculating dividend yields (e.g. based on historical trends, on trailing dividends or leading dividends, etc.), so a clear approach should be properly assessed and developed by the ESAs.
<ESA_QUESTION_PKID_11>

- **: How should share buyback rates be estimated?**

<ESA_QUESTION_PKID_12>
FFA believes that share buybacks cannot be reliably estimated along very long-time horizons such as those of IBIPs.
<ESA_QUESTION_PKID_12>

- **: Do you agree with the approach for money-market funds? Are there other assets which may require a similar specific provisions?**

<ESA_QUESTION_PKID_13>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_13>

- **: The methodology proposes that the future variance be estimated from the 5-year history of daily returns. Should the volatility implied by option prices be used instead? If so, what estimate should be used if option prices are not available for a particular asset (equities namely)?**

<ESA_QUESTION_PKID_14>
Option implied volatility tends to be quite volatile. Hence, the same money market fund (MMF) could have very different scenarios based on the reference date used to calculate the performance scenarios. We think that the low availability of reliable figures for option implied volatility makes it an unideal measure for the purpose of calculating performance scenarios. In addition, the most liquid options might be traded OTC and the relevant data not be publicly available.
<ESA_QUESTION_PKID_14>

- **: Do you think compensatory mechanisms for unforeseen methodological faults are needed? If yes, please explain why.**

<ESA_QUESTION_PKID_15>
The reference to possible compensatory mechanisms and additional caps shows that the new methodology as it is does not provide sufficient safeguards and that more time is needed to properly develop and test a new approach to performance scenarios.

A number of the mechanisms proposed are not coherent with the overall new methodology: the dividend yield methodology is designed to avoid historical data but would then be complemented by a safeguard mechanism that relies on historical data. This inconsistency is concerning.
<ESA_QUESTION_PKID_15>

- **: Do you favour any of the options above? If so, which ones? How would you ensure that the information in the KID remains comparable for all products?**

<ESA_QUESTION_PKID_16>

Based on the public consultation paper, it is not clear which compensatory mechanism should be used and how. Furthermore, it is not possible to ensure that the information in the KID would remain comparable for all products if product manufacturers were able to choose among different compensatory mechanisms options or apply them in different ways.

FFA believes that more time is needed to properly develop and test any change to the performance scenarios methodology and their underlying assumptions, and assess all possible options including for example illustrative scenarios.
<ESA_QUESTION_PKID_16>

- **: Are there any other compensatory mechanisms that could address unforeseen methodological faults? If yes, please explain the mechanism; explain how it ensures that scenario information in the KID allows investors to compare PRIIPs, and explain how the information for similar products from different manufacturers remains sufficiently consistent.**

<ESA_QUESTION_PKID_17>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_17>

- **: What are your views on the use of a simplified approach such as the one detailed above, instead of the use of probabilistic methodologies with more granular asset specific requirements?**

<ESA_QUESTION_PKID_18>
Based on the information provided in the consultation paper, we do not have sufficient details of the method to be able to comment on this proposal.

FFA believes that more time is needed to properly develop and test any change to the performance scenarios methodology and their underlying assumptions, and assess all possible options like for example illustrative scenarios.
<ESA_QUESTION_PKID_18>

- **: Do you consider the use of a single table of growth rates appropriate? If no, how should the methodology be amended?**

<ESA_QUESTION_PKID_19>
Based on the information provided in the consultation paper, we do not have sufficient details of the method to be able to comment on this proposal.

FFA believes that more time is needed to properly develop and test any change to the performance scenarios methodology and their underlying assumptions, and assess all possible options like for example illustrative scenarios.
<ESA_QUESTION_PKID_19>

- **: More generally, do your views about the use of a probabilistic methodology vary depending on the type of product (e.g. structured products vs non-structured products, short-term vs long-term products)? For which type of products do you see more challenges to define a probabilistic methodology and to present the results to investors?**

<ESA_QUESTION_PKID_20>
Based on the information provided in the consultation paper, we do not have sufficient details of the method to be able to comment on this proposal. In any case, it should be clear that the same methodology should apply to comparable products, even if they fall under different categories.

FFA believes that more time is needed to properly develop and test any change to the performance scenarios methodology and their underlying assumptions, and assess all possible options like for example illustrative scenarios.
<ESA_QUESTION_PKID_20>

- **: Do you think these alternative approaches should be further assessed? If yes, what evidence can you provide to support these approaches or aspects of them?**

<ESA_QUESTION_PKID_21>
FFA is not in the position to provide an answer, as the consultation paper does not contain sufficient details on these alternative approaches.

As already mentioned, FFA believes that more time is needed to properly develop and test new methodologies and their underlying assumptions, and assess all possible options like for example illustrative scenarios.
<ESA_QUESTION_PKID_21>

- **: Are there any other approaches that should be considered? What evidence are you able to provide to support these other approaches?**

<ESA_QUESTION_PKID_22>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_22>

- **: Do you think illustrative scenarios should be included in the KID as well as probabilistic scenarios for structured products?**

<ESA_QUESTION_PKID_23>
The consultation paper is not clear as illustrative scenarios are proposed only for non-IBIPs structured products on page 30, but then this is not specified in the proposed amendments at pages 70-71.

It is also not clear how guaranteed products that fall in category three would be treated and how this approach would apply to this kind of products.

Furthermore, we do not understand the merit of showing both, probabilistic and illustrative scenarios. These scenarios are based on completely different ideas and consumers will not understand how they relate to each other (or rather do not relate). Consumers will not only be overloaded with too many scenarios but also confused about their respective informative value.
<ESA_QUESTION_PKID_23>

- **: If not, do you think illustrative scenarios should replace probabilistic scenarios for structured products?**

<ESA_QUESTION_PKID_24>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_24>

- **: Do you agree with this approach to define PRIIPs which would show illustrative performance scenarios using the existing definition of Category 3 PRIIPs? If not, why not? Where relevant, please explain why this approach would not be appropriate for certain types of Category 3 PRIIPs?**

<ESA_QUESTION_PKID_25>
The approach proposed by the ESAs is not clear and it would not allow full comparability. This is the case for IBIPs structured products, unit linked with structured underlying options and guaranteed products.
<ESA_QUESTION_PKID_25>

- **: Would you be in favour of including information on past performance in the KID?**

<ESA_QUESTION_PKID_26>
FFA is concerned that including two performance scenarios tables in the PRIIPs KID would not help consumers understand the product features. In contrast, it will result in overloading consumers with further information. Such an overload of figures, obtained through different methodologies, would only confuse consumers and not solve the current issues in the PRIIPs KID.

As noted by the ESAs, it is also not clear how this will fit with the requirement that PRIIPs KIDs do not exceed 3 pages in length. In practice, it would make it even more challenging, and at times impossible, to include all the required information within the 3-pages mandatory limit imposed by the Level 1 Regulation in a readable font, in particular for insurers who already have to include more information than other providers (e.g. insurance benefits and covers, insurance scenarios like the death scenario).

In general, simply adding information is not a solution, it leads to complexity and may drive consumers to poor decision-making. It is important to keep the PRIIPs KID as simple as possible for consumers, especially since it is pre-contractual information. FFA believes that more time is needed to properly develop and test the performance scenarios methodologies and their underlying assumptions, and to assess all possible options.

We believe it is also unlikely that a single methodology or standard presentation will work for all IBIPs. We also believe that the Regulation does not prohibit the use of past performance, as it calls only for “appropriate” scenarios to be provided to consumers. While information on past performance is fact-based, clear and not misleading for consumers, forward-looking scenarios belong to the realm of hypothesis. Any forward-looking methodologies do not provide factual information to consumers, as it is impossible to predict future performances in a relevant way. Any forward-looking methodology used, whatever changes are made to the current one, will not solve the issue of providing consumers with potential misleading information with regard to the performance of products.

As already mentioned, the page 33 of the consultation paper states: “For other types of insurance-based investment products, in particular products which distribute a portion of the PRIIP manufacturer's profits to retail investors (e.g. “profit-participation”), the ESAs are of the view that increased transparency regarding past performance should be aimed for, but a sound methodology is not available at this stage. Therefore, the proposals in this consultation paper do not cover these types of PRIIP”. Thus, we recommend that the ESAs conduct consumer testing on all options, including the display of past performances only, when available, and on all types of IBIPs. It would allow to establish which model best fulfils the comparative requirement of the PRIIPs KID and is most useful to aiding consumer understanding of the risk presented by the relevant products.
<ESA_QUESTION_PKID_26>

- **: Would your answer to the previous question be different if it were possible to amend Article 6(4) of the PRIIPs Regulation?**

<ESA_QUESTION_PKID_27>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_27>

- **: Do you think that it can be more appropriate to show past performance in the form of an average (as shown in the ESA proposal for consumer testing) for certain types of PRIIPs? If so, for exactly which types of PRIIPs?**

<ESA_QUESTION_PKID_28>
FFA strongly believes that average past performance has even less informative value for consumers. For example, it is possible that a product that has fluctuated severely over the last 10 years shows relatively stable average past performance. In this case, consumers would receive a wrong impression about the volatility of the product.

Furthermore, average past performance is not intuitive. If a consumer buys an IBIP with RHP of 30 years, the averages over 1, 3, 5 and 10 years are irrelevant or even misleading for them.
<ESA_QUESTION_PKID_28>

- **: Do you have any comments on the statement that would supplement the display of past performance (e.g. with regard to the presentation of costs which are not included in the net asset value (NAV))?**

<ESA_QUESTION_PKID_29>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_29>

- **: Are you of the opinion that an additional narrative is required to explain the relationship between past performance and future performance scenarios?**

<ESA_QUESTION_PKID_30>
FFA believes that additional narratives would not reduce consumer confusion. Consumers' attention would be distorted by the huge amount of quantitative figures, as highlighted in the response to Q26. Nevertheless, more flexibility with regard to the narratives introduced and required by the PRIIPs Regulation should be considered. A specific vocabulary defines insurance products which is significantly different from the financial vocabulary used in the current KID PRIIPs.
<ESA_QUESTION_PKID_30>

- **: Do you see merit in further specifying the cases where the UCITS/AIF should be considered as being managed in reference to a benchmark, taking into account the provisions of the ESMA Questions and Answers on the application of the UCITS Directive[4]?**

<ESA_QUESTION_PKID_31>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_31>

- **: Do you see the need to add additional provisions for linear unit-linked insurance-based investment products or linear internal funds?**

<ESA_QUESTION_PKID_32>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_32>

[4] See "Section II – Key Investor Information Document (KIID) for UCITS" (in particular, Q&A 8) of the Q&A document available at: https://www.esma.europa.eu/sites/default/files/library/esma34-43-392_qa_ucits_directive.pdf

- **: Do you agree that a fixed intermediate time period / exit point should be used instead of the current half the recommended holding period to better facilitate comparability?**

<ESA_QUESTION_PKID_33>
FFA does not see any benefit in including intermediate time periods for presenting costs. We commend the ESA's efforts to introduce much needed simplicity by removing the intermediate time periods from the section on performance. This simplicity should also be reflected in the costs section to ensure consistency across the KID (including in relation to the risk indicator).

The structure and the long-term nature of IBIPs makes it inappropriate to present costs after one year, 5 years or at any other fixed time period. An estimation of costs early in the lifetime of a product will never allow for a meaningful comparison between products with a different recommended holding period as it captures the costs at a different point in the evolution of the product in relation to the RHP. The only useful point of comparison are the costs at the RHP.

As with performance, there is a risk that presenting information on costs before the RHP of a product will create the impression that earlier redemption is advisable. Information on the risks of early redemption is already included in the separate section on "How long should I hold it and can I take money out early?". This enables PRIIPs manufacturers to give fuller details of any fees or penalties incurred for divestments prior to maturity of the product.

Notwithstanding the above, if it is deemed necessary to include an intermediate period for costs, we believe that displaying costs at half RHP is more meaningful than a fixed duration. This allows for a degree of consistency within the information provided for a product. We do not believe it is possible to define a fixed duration that is meaningful for all products in scope of PRIIPs. Specifically, the 8-year period proposed by the ESAs captures a very different stage in the life cycle of a product with a 15-year RHP than for a product with a 30-year RHP. We question whether making a comparison at any fixed point for products with different RHPs would ever be useful to consumers.
<ESA_QUESTION_PKID_33>

- **: In this case (of a fixed intermediate time period), do you agree to show costs if the investor would exit after 5 years for all PRIIPs with a recommended holding period of at least 8 years? Or do you prefer a different approach such as:**

<ESA_QUESTION_PKID_34>
As noted in our response to Q33, FFA does not see any benefit in including intermediate time periods for costs. There is no set time period which would be appropriate for longer term products or allow for comparability between different products.

As already stated, if it is deemed necessary to include an intermediate period for costs, we believe that displaying costs at half RHP is more meaningful than at a fixed duration. This allows for a degree of consistency within the information provided for a product. We do not believe it is possible to define a fixed duration that is meaningful for all products in scope of PRIIPs. Specifically, the 8-year period proposed by the ESAs captures a very different stage in the life cycle of a product with a 15-year RHP than a product with a 30-year RHP. We question whether making a comparison at any fixed point for products with different RHPs would ever be useful to consumers.
<ESA_QUESTION_PKID_34>

- **: Do you think it would be relevant to either (i) use an annual average cost figure at the recommended holding period, or (ii) to present both an annual average cost figure and a total (accumulated) costs figure?**

<ESA_QUESTION_PKID_35>

FFA supports the use of annual cost figures. In terms of comparability of products, this is the most useful figure as the annual average cost allows for a degree of comparison between products with different RHPs. Introducing an additional disclosure on the accumulated costs does not allow for a level playing field between products, as costs will appear higher for longer term products. For example, if the total costs are compared for two products with the same level of costs, but with RHPs of 1 year and 10 years, the product with a 10-year RHP will simply appear ten times more expensive than the shorter-term product.

Introducing additional figures on the total accumulated costs would also add unnecessary complexity to the PRIIPs KID with no additional benefit for consumers.
<ESA_QUESTION_PKID_35>

- **: Do you think that it would be helpful, in particular for MiFID products, to also include the total costs as a percentage of the investment amount?**

<ESA_QUESTION_PKID_36>
FFA does not fully understand what is being proposed by the ESAs, in particular which products and which costs are referred to. It would be nonsensical to attempt to include this information for regular premium products. We also question the usefulness of expressing all costs in this manner for single premium products.

The RIY already presents costs as percentages, to include further 'percentage costs', but as a percentage of something else would be incredibly confusing for consumers who are unlikely to understand the different basis of these additional figures. The inclusion of these values will only serve to overload consumers with additional, incomparable information.

Insurance contracts provide for set monetary costs which do not change throughout the life of the contract. To express these as a percentage of the initial investment amount would produce a misleading cost figure as costs charged much later in the life of the product are expressed in relation to the initial investment.

The initial investment amount itself is also artificial as PRIIPs KIDs do not provide personalised information. There is no benefit to consumers in expressing costs as a percentage of these figures and to do so would be misleading for longer term products. Where costs are taken annually, to present these as a percentage of the initial amount completely disregards the evolution and growth of a product. For example, if a consumer invested 10,000EUR in a product with an RHP of 40 years and was charged 1% annual costs even with a yield of 6% the total costs would be larger than the initial investment. This gives the impression that the product is unreasonably expensive, when in fact 1% costs are very low.

Given the difficulties in presenting costs this way for certain PRIIPs we do not see the value in including this information for any products. A consistent approach will ensure that consumers can compare different products well, especially if cost structures differ.
<ESA_QUESTION_PKID_36>

- **: In this context, are there PRIIPs for which both performance fees and carried interests are applied?**

<ESA_QUESTION_PKID_37>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_37>

- **: Do you agree with this analysis from the ESAs? If yes, what are your views on the extent to which fees related to the management of the underlying real estate assets, i.e. the properties themselves, should be taken into account in the calculation of the cost indicators?**

<ESA_QUESTION_PKID_38>

We do not believe that there is value to consumers in including this information in the cost indicators. This would create unnecessary complexity and would create a significant compliance burden for insurers offering products with underlying real estate assets. It is not clear how costs related to the management of the underlying asset could be carried through to the product level and presented in a meaningful way for consumers.
<ESA_QUESTION_PKID_38>

- **: Do you agree with the ESAs' preferred option 3 to revise the cost tables?**

<ESA_QUESTION_PKID_39>
FFA does not believe that option 3 is an improvement on the current presentation of costs in the PRIIPs KID.

We do not see the need to introduce substantive changes to the presentation of costs in the PRIIPs KID within this review. As already mentioned, there is minimal value to consumers in repeatedly changing the presentation and the contents of the PRIIPs KID. This would increase confusion and also risks devaluing the KID as repeated changes will cause consumers to question the value of the information presented to them.

It would not make sense to use RIY in KID table 1 and a different cost indicator in KID table 2 as proposed, as there would be no correspondence between the 2 tables. The costs will not add up to the total costs in table 1 potentially confusing consumers as they would not understand the relation between the aggregated cost and the breakdown.

In the new version of table 2 on composition of costs proposed by the ESAs every cost figure has a different calculation basis. Insurance products usually guarantee costs. Therefore, the costs are fixed and each cost depends on the relevant underlying basis. This means the description of costs as a percentage does not work for IBIPs. It can only work in an artificial way, which is meaningless.

Furthermore, consumers will not understand the cost load if different products have different calculation basis. If the ESAs were still to use the table it would need to be clarified that if a product uses a different calculation basis for a certain cost that is not listed by the ESAs, then the manufacturer is allowed to apply the right calculation basis.

We also have concerns regarding the level of granularity in the proposed second table. To present costs as a percentage, but in this level of detail, is potentially confusing to consumers who would expect the levels of costs reported in the PRIIPs KID to reflect what they have been charged. This presentation also distorts the relative levels of costs over time as the percentage costs a 1 year will appear artificially low. This approach will also overload consumers with information as they will receive 18 values in monetary terms and six percentage values.

That said, some enhanced explanations of the RIY could improve consumer understanding (subject to full consumer testing). See our responses to questions 40 and 41 below.
<ESA_QUESTION_PKID_39>

- **: If not, which option do you prefer, and why?**

<ESA_QUESTION_PKID_40>
All other options proposed by the ESAs introduce added complexity without adding any value for consumers.
<ESA_QUESTION_PKID_40>

- **: In particular, do you think that the proposed changes to the presentation of the impact of costs on the return in percentage terms (i.e. including reduction in return before and after costs) is an improvement on the current presentation?**

<ESA_QUESTION_PKID_41>
We agree that the ESAs' proposal would enhance consumer understanding. The presentation of RIY together with the yield before and after the costs will make clearer that costs are related to performance (cost-performance ratio). We believe that this presentation will create clear integration of performance into the presentation of costs and that this is beneficial to consumers. Coupled with the introduction of narrative explanations that are suited to IBIPs this could potentially significantly improve the comprehensibility of RIY for some consumers.
<ESA_QUESTION_PKID_41>

- **: Do you have other comments on the proposed changes to the cost tables?**

<ESA_QUESTION_PKID_42>
While there may be some merit in enhanced presentation of the RIY figures, FFA would strongly suggest that any changes to the presentation of costs are subject to consumer testing before any alterations are made to the current KID. we believe that this testing should take place in the context of the whole KID document, where the consumer already receives information on the overall features of the product. This would enable the ESAs to fully assess the potential impact of the proposed changes on consumers in a context that better reflects a real-life sales environment, including measuring the impact of potential information overload on consumer understanding. The current proposals are a significant change from the existing KID and it is vital that they are only introduced if there is a solid evidence base that they improve consumer understanding.

In addition, some of the proposed changes, including the introduction of additional narratives on how costs are calculated, would lengthen the PRIIPs KID and make it even more challenging to include all the required information within the 3-pages mandatory limit imposed by the Level 1 PRIIPs Regulation in a readable font.
<ESA_QUESTION_PKID_42>

- **: What are your views on the appropriate levels of these thresholds? Please provide a justification for your response.**

<ESA_QUESTION_PKID_43>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_43>

- **: If UCITS would fall in the scope of the PRIIPs Regulation, do you agree that the coexistence of the UCITS KII (provided to professional investors under the UCITS Directive) and the PRIIPs KID (provided to retail investors under the PRIIPs Regulation) would be a negative outcome in terms of overall clarity and understandability of the EU disclosure requirements? Are you of the view that the co-legislators should therefore reconsider the need for professional investors to receive a UCITS KII, as the coexistence of a PRIIPs KID together with a UCITS KII (even if not targeted to the same types of investors) would indeed be confusing, given the differences in the way information on costs, risks and performance are presented in the documents? Alternatively, are you of the view that professional investors under the UCITS Directive should receive a PRIIPs KID (if UCITS would fall in the scope of the PRIIPs Regulation)?**

<ESA_QUESTION_PKID_44>
FFA agrees that the use of the UCITS KII alongside the PRIIPs KID would potentially be confusing as it would result in two information documents being available for the same product, with significant differences between the information included within them.

That said, where the intended end investor of an insurance product is a retail investor, insurers are required to produce a PRIIPs KID and rely on the information provided by UCITS managers to do so. Without a

requirement for UCITS managers to provide a either KII or a PRIIPs KID to the insurer, there is no legal requirement that insurers can rely on to ensure they have access to the data they need. It is vital that a requirement to provide an information document to the professional investor where the intended end customer is a retail investor is maintained. In order to avoid confusion, we would suggest that this is simply a requirement for UCITS managers to provide a PRIIPs KID in these situations.

We also note a potential issue with the timeline for any changes to the current framework. We understand that the current proposals are intended to be implemented prior to the end of the UCITS exemption. If this is the case, it is crucial that any changes related to the UCITS KII are postponed until the end of the UCITS exemption to avoid any gaps between the old and new regime.
<ESA_QUESTION_PKID_44>

- **: What are your views on the issue mentioned above for regular savings plans and the potential ways to address this issue?**

<ESA_QUESTION_PKID_45>
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<ESA_QUESTION_PKID_45>

- **: Do you agree that these requirements from Article 4 should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIFs?**

<ESA_QUESTION_PKID_46>
FFA believes that the PRIIPs framework was drafted with a view to including UCITS in the scope and therefore changes to accommodate them should be minimal. It is not necessary to carry over all additional disclosure requirements simply because they are not identical to those included in PRIIPs. Instead, UCITS requirements and guidance should only be introduced to PRIIPs where absolutely necessary and should be applicable to as few providers as possible. Most of all, the inclusion of UCITS in the PRIIPs framework should not result in additional requirements for other PRIIPs manufacturers.

At this stage we are not able to provide more detailed comments on the specific proposals as insufficient detail is provided in the consultation paper regarding the substance of the requirements to be carried over from UCITS and their legal form under the PRIIPs framework.
<ESA_QUESTION_PKID_46>

- **: Do you agree that this requirement should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIF?**

<ESA_QUESTION_PKID_47>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_47>

- **: Do you agree that these requirements should be extended to all types of PRIIPs, or would you consider that they should be restricted to the Management Company of the UCITS or AIF?**

<ESA_QUESTION_PKID_48>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_48>

- **: Do you have any comments on the proposed approaches in relation to the analysis and proposals in this Section, and in particular on the extent to which some of the abovementioned requirements should be extended to other types of PRIIPs?**

<ESA_QUESTION_PKID_49>
TYPE YOUR TEXT HERE
<ESA_QUESTION_PKID_49>

- **: Do you think this proposal would be an improvement on the current approach?**

<ESA_QUESTION_PKID_50>
FFA strongly believes that the ESAs' proposal to provide more complete or "total" information for at least the four most commonly selected MOPs options would overload consumers with information and simply confuse them. The proposal would at the same time be burdensome and complex to implement - especially for open architecture MOPs, while contradicting the Level 1 Regulation requirement to provide standardised information in a short and concise manner as well as some aspects of the Level 1 Regulation's treatment of MOPs.

As to the impact on consumers:

- Consumers would be overloaded with documents and figures: instead of one document (plus the information on the specific options), consumers would need to read at least five documents. In any case, consumers would not understand how to read the generic KID in conjunction with the documents providing more complete or "total" information for the most commonly selected options or with the specific information documents for the other options.

- This will not help nor facilitate consumers' choice: consumers would not be able to understand the differences between the different more complete or "total" information documents, nor to compare the more complete or "total" information documents produced by different providers as each provider would follow their own assumptions.

- It must be clarified that the PRIIPs KID is a pre-contractual document and does not provide any recommendations on different investment. If consumers are presented with the most commonly selected options, there is an obvious risk of confusing them. Consumers would perceive those options as a recommendation, even if those options are not the most suitable to their specific needs and objectives based on the suitability test and the advice consumers may receive under IDD. In this respect, it is not clear how to avoid conflicts between the requirement to provide more complete or "total" information on most commonly selected MOPs options and the suitability test provisions.

- The proposal has not been tested on consumers, so there is not a solid basis to argue that adding information on MOPs could effectively help consumers' understanding.

As to the complexity of the implementation:

- The proposal is not easy to understand and the assumptions to be used to identify the most commonly selected options are not clear. The most commonly selected options may vary from one distribution channel to another, depending on consumers' profiles and based on the evolution of the market (e.g. shifts in consumers' preferences, economic cycles and new trends).

- It is also not clear how the most commonly selected options should at the same time reflect the diversity of investment objectives or risks exposure (or costs, as mentioned at the ESAs public hearing of 29 November) that the MOPs may offer. In our understanding, this could oblige product manufacturers to produce at least four more complete or "total" information documents for the most commonly selected options based on the type of investment objective, four more complete or "total" information documents for the most commonly selected options based on the risk range and four more complete or "total" information document for the most commonly selected options based on the cost range. Product manufacturers would be obliged to produce several different and incoherent sets of complete information documents.

- Where consumers' preferences are equally distributed among all different options of a MOP - or all options are relevant to reflect the diversity of the MOPs objectives, risk exposure or cost range – the product manufacturer would need to produce complete information for all of them. In the absence of legal certainty (and of a mandatory disclaimer on the purpose, scope and limitations of the complete information on the most commonly selected options), product manufacturers might also decide to produce complete information for all options only to avoid liability risks. This would mean that option 10b will in practice not be applicable or available to manufacturers, thus contradicting the Level 1 Regulation. It could also lead to manufacturers being forced to reduce the number of underlying options available to consumers because the costs for producing and administrating complete PRIIPs information for a large number of options is not justifiable.

- Considering the above, product manufacturers would be obliged to keep monitoring and updating the extensive information on the most commonly selected options, with an unclear frequency. This kind of market monitoring is not prescribed by the Level 1 Regulation and nor by the IDD POG requirements.

- In any case, the assumptions used to identify the most commonly selected options would be arbitrary and product manufacturers would be exposed to legal uncertainty and liability risks in case of Authorities' controls or consumers' litigations. The identification of the most commonly selected options and the production of adequate complete information pose significant compliance risks in relation to Article 6.1 of the Level 1 Regulation (the PRIIPs KID "shall be accurate, fair, clear and not misleading").

- The format to be used to provide the complete information is not defined by the ESAs and the methodologies for the calculations of combinations of options are not specified. As a result, it is not clear what should be included if the most commonly selected options are combinations of options.

- Furthermore, it should be noted that an investment option can be an integral part of the total investment of the PRIIP (e.g. for hybrid products). Therefore, it would be inconsistent to include the information on the overall product in the information document on a particular investment option.

From a distribution and product offering point of view, the new requirement could have the unintended negative consequence of creating a "nudging" effect: the most commonly selected options might artificially become the most frequently selected by consumers or the most easily recommended by distributors – just because they are described in new, readily available standard documents that are perceived as "default" investment solutions. Such distortion in the market could have pro-cyclical effects, reduce the number and types of options available in the market and ultimately inhibit the possibility to adapt the MOP to the different demands and needs of different consumers.

Importantly, the proposal to link this new requirement to the POG provisions is also not clear and would place an additional burden on insurers (e.g. in terms of continuous updates) and legal risks (e.g. when a new product is set up it is not possible to predict which four investment options will be the most commonly selected). We believe that if a product is considered to be appropriate for a certain target market when insurers apply the POG provisions, then all the underlying options have been selected accordingly.

In addition, the POG product approval process only applies to newly developed insurance products or significant adaptations to products offered in the market and not to those that existed before the POG provisions entered into force. The proposal to link this new requirement to the POG provisions is therefore not realistic.

In this context, we would also like to address the proposed addition in Article 14.1 (e) (and 14.2 (e)), requiring manufacturers to add a cross-reference to all the PRIIPs where the investment option is available. The introduction of this requirement is very concerning as it requires an adaptation of the specific information document in order to include a reference to every PRIIP through which the investment option is available, an indication where the generic key information document for those PRIIPs can be found and a statement that the retail investor should read the relevant generic key information document before investing in the underlying option. This is particularly burdensome to implement in case of funds that are used in more than

one MOP product, as product manufacturers would be required to produce multiple specific information documents for the same fund and make sure that the right versions are delivered to customers.

To give a concrete example of the possible practical implications, most of the IBIPs marketed in France are MOPs, in most cases the customer has a very large number (several hundreds and sometimes thousands) of investments options to choose from and can therefore make almost endless combinations. The proposed changes to Article 14.1 could for a market have severe impact on the possibilities for product manufacturers to continue to offer a wide variety of products to consumers.

This would also be challenging where UCITS KIIDs are provided as specific information documents for the underlying funds (until the end of the UCITS exemption), as the product manufacturer would be required to modify the UCITS KIIDs.

The Level 1 Regulation (Article 6(3)) does not require this type of adaptation of the specific information documents and the generic KID already includes a link to the specific information documents, so we do not see any added value in this provision.

In general, there is also no basis for requirements to fuse information regarding the underlying option with information regarding the product in the specific information documents. All information regarding the product should be included in the PRIIPs KID (along with generic information regarding the underlying options).
<ESA_QUESTION_PKID_50>

- **: Do you envisage significant practical challenges to apply this approach, for example for products which allow the investor to choose between a wide range or large number of options?**

<ESA_QUESTION_PKID_51>
See comments to Q50.
<ESA_QUESTION_PKID_51>

- **: Do you see any risks or issues arising from this approach in relation to consumer understanding, for instance whether the consumer will understand that other combinations of investment options are also possible?**

<ESA_QUESTION_PKID_52>
See comments to Q50.
<ESA_QUESTION_PKID_52>

- **: Do you think this proposal would be an improvement on the current approach?**

<ESA_QUESTION_PKID_53>
FFA does not believe that this proposal would improve the quality and understandability of the information provided for MOPs. On the contrary, as recognized by the ESAs at page 54 of the consultation paper, “it introduces significantly more figures in the generic KID, which may be an overload of information for certain types of retail investors.”

According to the illustration provided by the ESAs in the consultation paper, the new cost presentation format could include up to 84 figures, which means seven times more numbers than the current version. Such a display of different digits is not easy to read and would only confuse consumers, who would not be able to draw any conclusions. For many product manufacturers, it is already a challenge to fit all the information currently required in the generic KID in three pages, especially for products with large biometric components. Any amendment at Level 2 requiring the inclusion of additional information in the generic KID might conflict the length limits that are set in the Level 1 Regulation.

Moreover, the risk class of the assets is not necessarily linked to different costs, so the split by risk class would not represent a realistic or meaningful approach. At the same time, the classification of the funds per risk class from 1 to 7 might not be fully clear or easy to understand for consumers. We have the impression that where all the underlying funds of the MOP belong to 1 or 2 risk classes, the new cost table would not be more detailed or accurate than the current range of costs.
<ESA_QUESTION_PKID_53>

- **: Are there other approaches or revisions to the requirements for MOPs that should be considered?**

<ESA_QUESTION_PKID_54>
FFA believes that more time is needed to assess, develop and test with consumers appropriate solutions for MOPs.
<ESA_QUESTION_PKID_54>

- **: Do you have any comments on the preliminary assessment of costs and benefits?**

<ESA_QUESTION_PKID_55>
FFA welcomes the ESAs acknowledgement that any changes to the PRIIPs KID will result in significant costs for PRIIPs manufacturers. The changes would mean much more than the mere “update of IT systems or tools used”.

Indeed, the costs of implementation include:

- Cross-functional work to interpret the new requirements
- New data to be gathered
- Actuarial and financial calculations
- IT software changes
- Re-design of the PRIIPs KID template
- Test of calculations and design
- Legal assessment of the texts and numbers
- Potential translation into different languages
- Drafting of new documents and distribution to agents and customers
- New training for distributors, including training to explain the new requirements and changes compared to documents already distributed under previous applicable texts
- Update of the website, etc.

<ESA_QUESTION_PKID_55>

- **: Are you able to provide information on the implementation costs of the proposed changes, in particular regarding, (1) the proposed revised methodology for performance scenarios (using a reference rate and asset specific risk premia), and (2) the overall changes to the KID template?**

<ESA_QUESTION_PKID_56>
The introduction of the new dividend yield methodology and of past performances in the PRIIPs KID would have severe implications in terms of costs, as it would require to implement a new approach – that is more complex than the current one – and build past performances for products that do not have any (new products, structured products, etc.).

Also in light of this, changes to the performance scenarios should be considered only in the framework of the review foreseen in the Level 1 Regulation and not as interim changes.

Insurers would also need to address the impacts on other KID elements.

In the light of the considerable investment that is required to implement changes to the PRIIPs KID, it is of the upmost importance that the new methodologies and presentation formats are sound and meaningful, and properly tested in order to avoid successive fixes and adaptations.

As an example, in France, for a single large company, the cost of implementation could be up to 1,000,000EUR, given the amount of internal and external resources needed and other material expenses. Moreover, additional recurrent costs could be up to 300,000EUR per year.

We also assessed that there is no huge difference between the cost of the first implementation and the cost of a review, as the implementation stages are the same (with the exception of the legal costs which might be lower).
<ESA_QUESTION_PKID_56>

- **: Are there significant benefits or costs you are aware of that have not been addressed?**

<ESA_QUESTION_PKID_57>
If the PRIIPs methodology is changed too often, consumers may lose trust in the information contained in the PRIIPs KID. We urge the ESAs not to introduce any interim solutions and encourage the ESAs to conduct an in-depth review at a later stage that is preceded by consumer testing and thorough consultations with expert groups and stakeholders.

According to the PRIIPs Regulation, manufacturers must review the KID every year, in compliance with existing rules. However, the introduction of new legal provisions and methodologies at the EU level implies huge effort that cannot be compared with a standard internal review (see question 55).

Moreover, companies usually perform the periodic review of the KID every 12 months after the date of initial publication of the PRIIPs KID, so there can be a misalignment between the date of internal review and the date of application of the new requirements - with potentially 2 or more reviews in the same year and significant compliance costs for insurers.
<ESA_QUESTION_PKID_57>