Discussion Paper on Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs) [JC/DP/2014/02]

1.7 Interaction with other EU legislation [p. 15]

1. Do you have any views on how draft RTS for the KID might be integrated in practice with disclosures pursuant to other provisions?

The work on draft RTS is an important opportunity to align the PRIIPs Regulation with MiFID II, IMD I and II and UCITS so that disclosure requirements are coherent and consistent across different legislative frameworks. A good example of how this might work in reality is presented in MiFID II, where the Directive envisages the disclosure of costs and charges information in the KID as a sufficient measure of product costs for inclusion in the calculation of an aggregated costs and charges figure covering the whole investment service. The worst possible result would be RTS that contradict or fail to take into account disclosure requirements in other Directives and Regulations, or which lead to different disclosures having to be presented to the client at the point of sale.

3 What are the risks and what could I get in return? [p. 21]

3.3 Definition of risk and reward [p. 23]

2: Do you agree with the description of the consumer´s perspective on risk expressed in the Key Questions?

We agree with the description of the consumer´s perspective on risk expressed in the Key Questions.

3: Do your agree that market, credit and liquidity risk are the main risks for PRIIPs? Do you agree with the definitions the ESA's propose for these?

We agree with the ESAs' proposal to classify market, credit and liquidity risk as the three main risks for a PRIIP. In terms of market risk, we encourage the ESAs to build on the experience of the UCITS SRRI which has been in place since 2011.

It is essential to enable off-balance sheet products such as funds to highlight that they provide little or no credit risk as the investor is not exposed to the product provider itself.

When considering liquidity risk, the ESAs should also consider the following factors:

- the surrender value of a PRIIP during different stages of its life cycle (eg. a life insurance policy's surrender value is most likely negative in the first couple of years);

- any time delay between a request to redeem the investment and its effective execution (in some cases it might take several months between requesting an early pay-out for products with a fixed or long-term product horizon and the consumer receiving the proceeds);
- we do not agree with the ESAs' assessment that not being listed necessarily implies any relevance to a PRIIP's liquidity.

From a fund perspective, the terminology used in this Discussion Paper differs considerably from the notion of market and liquidity risk applied for the purpose of risk management and described in the fund prospectus in accordance with the UCITS Directive. It is vital that this does not lead to information disclosed in UCITS prospectuses contradicting statements in the PRIIPs KID, as this would be very confusing for investors.

Some of the language in the table on page 23, which uses wording like "How much can I win?", is completely inappropriate for an investment product. We would suggest that something like "How much am I likely to get back?" would be more appropriate.

3.4 Measuring risks [p. 27]

4: Do you have a view on the most appropriate measure(s) or combinations of these to be used to evaluate each type of risk? Do you consider some risk measures not appropriate in the PRIIPs context? Why? Please take into account access to data.

We have doubts that market, credit and liquidity risk can be integrated into a meaningful single risk indicator and therefore believe separate risk indicators would be more helpful to investors.

Liquidity risk should be based on the specific characteristics of the exit arrangements for the PRIIP. The absence of a secondary market for a PRIIP does not automatically result in a high liquidity risk. Most investment funds offer daily redemptions at a price calculated on the basis of the fund's NAV. Such redemption opportunities should qualify as "organised liquidity facilities", but cannot be assessed on the basis of the proposed quantitative criteria, which reflect characteristics of secondary market trading.

3.5 Aggregation of risk [p. 29]

5: How do you think market, credit and liquidity risk could be integrated? If you believe they cannot be integrated, what should be shown on each in the KID?

Market, credit and liquidity risks should not be integrated into a single risk indicator. Such an approach would lead to an oversimplified risk measure and provide unhelpful information, disguising (through aggregation) risks which might be especially relevant to any particular investor. If it is decided to use a single risk indicator, the ESAs should address these problems caused by aggregation so as to allow for retail investors to be informed of the underlying differences in the risk characteristics of different products. Also, if there must be a single indicator, equal weighting should be given to each of the three risk components in any aggregation, as any other approach would appear to be arbitrary.

As regards presentation, we urge the ESAs to take account of consumer testing of the UCITS KIID, which clearly demonstrated consumer preference for a scale-based indicator.

3.6 Performance scenarios [p. 30]

3.6.1 General approach and methodology [p. 31]

6: Do you think that performance scenarios should include or be based on probabilistic modelling, or instead show possible outcomes relevant for the payouts feasible under the PRIIP but without any implications as to their likelihood?

A clear distinction needs to be made between risk indicators and performance scenarios. For investor comprehension, it is essential not to overlay too many pieces of information, each serving a different purpose, into a single section of the KID. Secondly, there is a need to be clear about what these performance scenarios aim to show. These can be either the cumulative effect of costs on a reduction in yield basis or the effects of market volatility using historical/statistical data, or even a combination of the two. The answer to this question will greatly influence the conclusions drawn in the upcoming technical work.

7: How would you ensure a consistent approach across both firms and products were a modelling approach to be adopted?

Due to varying cost structures across different types of PRIIPs, it is essential that the performance scenarios should be portrayed net of cost, in order to allow retail investors to assess the impact of costs on their returns.

3.6.2 Time frame and holding period [p. 32]

8: What time frames do you think would be appropriate for the performance scenarios?

Given the wide range of PRIIPs available on the market, we would suggest to consumer test five time frames that should allow for a consistent approach across products:

(1) 1 year
(2) 3 years
(3) 5 years
(4) 10 years
(5) Product lifetime/recommended (minimum) holding period

These time frames should be consistent with the time frames used in the cost disclosure section of the KID. In terms of presentation, we prefer a graph covering a rolling period, similar to the example on the left top of page 43.

3.6.3 Other aspects of performance to be considered [p. 33]

9: Do you think that performance scenarios should include absolute figures, monetary amounts or percentages or a combination of these?

We suggest following the existing UCITS standards (percentages based on net valuation at the beginning and the end of the period), wherever this is sensible for the PRIIP in question.

10: Are you aware of any practical issues that might arise with performance scenarios presented net of costs?

Performance scenarios must be presented net of all costs. Not doing so would make it impossible for retail investors to compare expected returns. Investors should be able to see information regarding the PRIIP's prospects without being forced to make their own calculations by referring to other sections of the KID. Moreover, gross scenarios could lead investors to underestimate the effect of costs on performance.

Past performance (though far from perfect) is the best available indicator of how a product behaves under certain market conditions. Product costs depend on many factors which cannot all be established in advance, eg. fund volume, performance, trading activities etc., so we support the use of historical data for the purpose of performance presentation.

11: Do you have any preferences in terms of the number or range of scenarios presented? Please explain.

No, this is best established during consumer testing, but this section should always carry a warning (similar to the UCITS KIID) to inform investors that these scenarios are based on historic data and/or assumptions about the future and that they cannot be a certain guide to future performance.

3.7 Options for presentation [p. 35]

12: Do you have any views, positive or negative, on the different examples for presentation of a summary risk indicator? Please outline advantages and disadvantages, and provide any other examples that you are aware of that you think would be useful.

The summary risk indicator as shown on the top of page 37 of the Discussion Paper will be recognised by many consumers, as it stems from the UCITS KIID, which has been in operation for two years. It is a tested method to present risks to consumers, who are generally positive about this form of presentation.

We are in favour of a multi-risk scale where all three risk areas (market, credit and liquidity) are shown by an indicator. If it is decided to integrate the respective individual risks into an overall risk indicator, then all risk elements should be equally weighted for the purposes of the aggregation. In line with the UCITS SRRI, which was consumer tested, we recommend that the indicator be on a scale of seven (ie. 1-7). Since some risks are more relevant than others for certain PRIIP types, showing indicators for all risks ensures a balanced presentation.

In order to describe the risk-reward profile meaningfully, it is important to make clear to retail investors the link between risk and reward.

3.7.2 Abstract presentations of performance [p. 40]

13: Do you have any views, positive or negative, on the different examples for presentation of performance scenarios? Please outline advantages and disadvantages, and provide any other examples that you are aware of that you think would be useful.

Although past performance per se is not a feature of the KID (as compared to the UCITS KIID), it should nonetheless form a basis for the performance scenarios. Standardised scenarios should allow for enough flexibility in terms of adapting to changing market conditions (after sufficient time for market players to adapt their KIDs). Furthermore, it has to be made sufficiently clear to the retail investor that these conditions are prescribed and based on assumptions about possible future outcomes, along the lines of the current UCITS KIID warning.

Among the examples contained in the discussion paper, we prefer the graph displayed on the top of page 43, left-hand side, provided that it is based on a reliable and robust methodology.

Performance presentation should be net of costs, in order to present credible outcomes to investors. In this regard, performance scenarios currently required for structured UCITS, which are also presented net of costs, should be considered as a model for further work by the ESAs.

3.7.3 Combinations [p. 44]

14: Do you have any views on possible combinations of a summary risk indicator with performance scenarios?

We have a preference for the combination option 3B as presented in table 9 on page 44. This means that risks and performance should be depicted separately, but within one section of the PRIIPs KID, as foreseen by the Level 1 Regulation.

Given the importance of the information on risk and reward, we recommend using the necessary space to show separate risk indicators for market, credit and liquidity risk, as well as multiple performance scenarios. However, it may be appropriate to display multiple performance scenarios in one visual element, as in the example at the top left of page 43.

4 What are the costs? [p. 48]

4.3 Key Questions [p. 51]

15: Do you agree with the description of the consumer´s perspective on costs expressed in the Key Questions?

Yes, broadly we agree that the key questions in table 10 describe the consumer perspective and reflect the purpose of the PRIIPs Regulation, which is “to enable retail investors to understand and compare PRIIPs” (Article 1). We note that one key question is about knowing the cost, one is about comparing the costs and the other six are about understanding the costs. This demonstrates that understanding is more than simply knowing the overall cost and is significant in that it is indicative of the importance of providing sufficient granularity about the different types of cost of each PRIIP. This is consistent with ESMA’s view (ESMA advice p115 pp15) that one of the core objectives of the review of MiFID, strengthening investor protection, means providing clients with a more detailed and granular picture of costs and charges. This underpins our recommendations regarding the specification of the summary indicators.

However, we would add one further key question: "Who am I paying?" Question eight is about comparing the costs with other products. Additionally, we think it is important that consumers know who they are paying in order that they can compare the costs with similar products offered by other providers.

In respect of offering some form of benchmark for considering costs we do not think this should be done within the PRIIP KID. The UCITS experience is that there a numerous KIIDs produced and many are frequently revised in response to changes in factors specific to each UCITS. Introducing a benchmark, which is subject to changes not related to the PRIIP in question will serve only to increase the frequency of revisions. We think benchmarking or peer comparison is better addressed by data vendors.

The Investment Association has done a lot of work on cost and charges disclosure and a copy of our discussion paper, ‘Meaningful disclosure of costs and charges’, February 2015, is attached. This paper includes our views on the necessary granularity of cost disclosure to provide information that is useful in helping investors make informed decisions.

4.4.1 Examples of observed cost structures [p. 53]

16: What are the main challenges you see in achieving a level-playing field in cost disclosures, and how would you address them?

We see the diversity of product charging structures as being the main challenge. Achieving a level-playing field is fundamental to the purpose of the PRIIPs Regulation, which is “to enable retail investors to understand and compare PRIIPs” (Article 1).

The ESA’s have highlighted the key difficulties in respect of insurance PRIIPs, structured products and derivatives. It is essential that simpler products or products with different organisational arrangements are not made to look artificially more expensive simply because they have greater transparency of costs. We believe the potential to level the playing field is the greatest benefit that the PRIIP KID can deliver and we would encourage the ESA’s to continue to aim for this goal.

Also fundamental to the level-playing field is the ability to compare similar products offered by different providers. To achieve this it is essential that consumers can compare the service costs of manufacturing, operating and managing the products of different providers without distorting these figures by combining them with the volatile costs of implementing the investment strategy in the market.

To address the challenges we suggest building on the level 1 requirements which provide two specific and separate elements; "summary indicators" and "total aggregate costs to ensure comparability and show the compound effect of costs on the investment." These two elements should have distinct characteristics.

- The summary indicators should be simple (but not overly simplistic) and factual in nature and could be based on the structure of the costs section of the UCITS KIID. We note that the cost categories identified by the ESAs (p58-59), notwithstanding the potential difficulties in quantifying these items, can be classified as "one-off", "recurring" (or ongoing), or "contingent" in nature.

  We think presenting the summary indicators in this way is essential to helping investors to understand the costs and to answer some of the key questions in table 10 about the uncertainty of costs.

- The compound effect of costs necessarily rely on assumptions and estimates. Ideally assumptions should be minimised and used only when unavoidable in order to avoid giving false expectations and misleading consumers.

In our answer to question 26 we set out what we believe to be the benefits of characterising the level 1 requirements in this way.

17: Do you agree with the outline of the main features of the cost structures for insurance-based investment products, structured products, CfDs and derivatives? Please describe any other costs or charges that should be included.

Yes, we agree with the ESAs assessment of the various cost structures.

18: Do you have any views on how implicit costs, for instance costs embedded within the price of a structured product, might be best estimated or calculated?

No.

19: Do you agree with the costs and charges to be disclosed to investors as listed in table 12? If not please state your reasons, including describing any other cost or charges that should be included and the method of calculation.

Our answer is organised according to the cost categories on table 12.

Look-through costs

It is essential that look-through costs are properly captured and disclosed in order to prevent opportunities to structure products to hide costs. This issue is tackled in the UCITS ongoing charges figure by requiring a synthetic element to be added representing the costs in underlying funds. The approach used in set out in the UCITS guidelines (CESR/10-674) and is triggered by a fund holding a "substantial proportion" in underlying funds. This term has been interpreted differently in a number of Member States and we would recommend something more robust is developed for the PRIIP KID. In the UK we recommend that UCITS managers consider the potential effect of the underlying funds' charges on the overall ongoing charges figure because this captures both the magnitude of the underlying charges and the significance of the underlying fund as part of the portfolio.

Portfolio transaction costs

The ESAs have produced a list of possible types of portfolio transaction costs in table 12. The ESAs have considered the cost disclosures required of UCITS (p106-107) and in particular the list of exclusions from the ongoing charges figure in paragraph 5 of CESR's guidelines (CESR/10-674). We comment more generally on this material in our answer to question 1, but in relation to portfolio transaction costs we have made specific comments here.

We note that the CESR guidelines exclude transaction costs from the ongoing charges figure and the ESAs take the view that these costs should be included in the PRIIPs KID disclosures. However, we do not think that CESR considered whether all items mentioned in the exclusion were valid transaction costs or just valid exclusions. In consulting (CESR/09-047 p50 question 61) CESR asked respondents whether they agreed with the proposed methodology for identifying which items should be included in the ongoing charges figure. We think that respondents would have considered whether the methodology defined the exclusions appropriately and not whether it defined transaction costs. Therefore, we would encourage the ESAs to explore the nature of the UCITS exclusions that have come to be listed as portfolio transaction costs in table 12, in particular, bid-ask spread and market impact costs.

Broker commissions

We note that in developing the UCITS KIID, CESR expressed a desire for greater transparency of transaction costs in certain asset types, such as debt securities, but noted that it could not be achieved easily without the involvement of the sell-side (brokers and other execution venues). The ESAs will need to address this in order to extract transactions costs that are embedded in the bid-ask spread.

Entry and exit charges paid by the fund

The ESAs describe these charges as the amounts deducted from incoming or outgoing investors in order to protect existing and continuing investors from dilution caused by the costs of buying and selling investments. These charges are fundamentally different to other costs and charges because the amount charged to incoming or outgoing investors is paid into the PRIIP for the mutual benefit of existing or continuing investors. The parties operating and managing the PRIIP do not receive or benefit from the charge. Moreover, many investors will experience a negative charge in this respect because usually there will be incoming and outgoing investors at the same time. Where inflows exceed outflows, incoming investors will be charged to protect the existing PRIIP from the dilutive effect of buying more investments. However, outgoing investors will receive a higher proceeds than if they were selling the underlying investment of the PRIIP directly. These charges are a part of the client dealing mechanisms of the PRIIP and should be disclosed as such, not as costs and charges.

Transaction Tax and Stamp Duty

We agree that these taxes are related to portfolio transactions. However, we think it is inconsistent to treat these taxes as costs and charges whereas other types of tax are excluded and this distorts the relative "costs" of investing in different markets. Other taxes include irrecoverable tax withheld on dividends paid to a PRIIP and tax on profits passed on to insurance products (where the insurer may suffer tax on income and/or gains on investments backing the product and passes these tax charges on to their policyholders as a deduction from their investment value). In principle, tax should either be included or excluded but the DP proposes an approach whereby transaction tax is included and other tax is excluded.

Bid-Ask spread

We note that ESMA acknowledges that in some markets transaction costs are embedded in the bid-ask spread which makes these costs difficult to quantify but this should not prevent clients from receiving full disclosure in respect of these embedded costs (p119 pp24). This suggests that ESMA does not regard the bid-ask spread as a transaction cost, but that a part of the spread represents embedded transaction costs equivalent to the broker commissions observed in equity markets.

The ESAs identify that spread depends largely on the liquidity of a particular security (p59) and propose that spread is a potential measure of liquidity risk (p114). In discussing liquidity risk (p26), the ESAs identify the link between liquidity and market price. We agree that liquidity and market price are inextricably linked. In the case of real estate, for example, determination of the fair market price relies on an assumption of an appropriate marketing period. Owners of real estate (including individuals that own their own home) understand that they will most likely realise a lower price if they want to sell within a week than if they market the property for three to six months. However, it is doubtful that sellers seeking a quick sale would regard the discount to the price as a transaction cost along with their agent's fees. As with real estate, other asset classes experience the trade-off between liquidity and market price to a greater or lesser degree.

The ESAs also observe (p25) that credit risk of the underlying assets of a PRIIP may end up being reflected in market risk. This would be the case where, for example, the credit spread on a corporate bond widens due to a deterioration in the credit rating of the bond and, as a result, the market price falls.

The interrelationship between the market price and the liquidity and credit profiles of an asset mean that the bid-ask spread, being the difference between the market prices for buying and selling the asset, is inherently a function of underlying market risk. Therefore, notwithstanding that they may be some transaction costs embedded within it, the bid-ask spread should be excluded from the cost and charges disclosures required by MiFID II. It follows that it also should be excluded from PRIIPs' costs and charges disclosures.

Market impact costs

The ESAs describe market impact as being the cost incurred because the transaction itself changed the price of the asset. ESMA notes that underlying market risk relates only to movements in the value of capital invested caused directly by movements in the value of underlying assets (ESMA advice p119 pp25). Market impact depends on the size of the transaction, its urgency and the market's ability to absorb the transaction in the timeframe required, in other words, it is a function of the market in general and not the counterparties involved in the transaction. Just as the performance of an investment product is a function of the skill of the product's manager in selecting the right investments at the right time, so the effect of market impact is a function of the skill in executing the necessary deals in the market. A lack of skill in either discipline will result in a larger transfer of value to another counterparty and hence a lower investment return. But neither represent a cost in the context of consumer disclosures under MiFID and PRIIPs.

4.4.2 Aggregating Costs [p. 59]

20: Do you agree that a RIY or similar calculation method might be used for preparing 'total aggregate cost' figures?

Yes, we agree with using a RIY methodology to calculate "total aggregate costs" figures. We note that the PRIIPs Regulation requires such figures in order "to show the compound effects of the total costs on the investment." Of the three basic methodologies identified by the ESAs, RIY is the only one that shows the compound effects of costs.

We do not think it appropriate to use an adjusted ongoing charges methodology. The UCITS ongoing charges figure is now widely understood and is a reliable indicator of the charges taken by the various parties involved in managing and operating a fund. It is worth noting that the ongoing charges figure used in the UCITS KIID is required to be a reliable indicator of likely future charges (Article 24 of the KII Regulation). We think that combining ongoing charges with volatile costs (such as transaction costs and performance fees) would reduce the effectiveness of the figure as a reliable indicator and would reduce the PRIIP KID's effectiveness as a means of comparing the costs with similar products offered by other providers. It would also make it very difficult to target the disclosures recommended by ESMA to warn consumers of the potential for estimates to deviate from actual costs (ESMA advice p121 pp35). Targeting warnings in this way is essential to address the key questions in table 10 about the accuracy and variability of the information on costs.

21: Are you aware of any other calculation methodologies for costs that should be considered by the ESAs?

No.

22: Do you agree that implicit or explicit growth rates should be assumed for the purpose of estimating 'total aggregate costs'? How might these be set, and should these assumptions be adjusted so as to be consistent with information included on the performance scenarios?

No, we do not agree with using assumed growth rates because it is not necessary. Although RIY does require assumptions to be made, in order to enhance the reliability of the figures produced, the use of assumptions should be minimised and should only occur when absolutely necessary. The purpose of the "total aggregate costs" figure is "to show the compound effects of the total costs on the investment" which is different to the effect on investment returns. Therefore the RIY calculation should be constructed to illustrate the effect of costs on the amount invested in the absence of returns. A variant of this approach might be to set the growth rate to be the rate required in order that returns exactly cover costs, in other words, the rate required so that the investor gets back exactly the amount originally invested. Our answer to question 24 provides more detail on of views regarding the use of assumptions.

23: How do you think implicit portfolio transaction costs should be taken into account, bearing in mind also possible methods for assessing implicit costs for structured products?

In our answers to questions 22 and 24 we advocate assuming zero return or a return sufficient only to preserve the capital invested. In effect, this approach takes the view that all variables are held constant except costs and charges. If it is assumed that returns are nil, or that capital remains constant, it is appropriate also to assume there is no portfolio trading activity and therefore there will be no portfolio transaction costs. The basis for disregarding returns from the calculation of the compound effect of costs is that past returns are not necessarily a guide to future returns. On the same basis we recommend disregarding portfolio trading activity, because we can demonstrate (Meaningful disclosure of costs and charges (February 2015) Annex 4) that past portfolio trading activity is not necessarily a guide to future activity.

The nature of portfolio transaction costs is very different to implicit costs for structured products so we do not see a problem in disregarding the former whilst including the latter. Portfolio transaction costs are contingent in that they arise only when the portfolio is traded in order to implement the investment objective. The investment manager earns a fee (part of the ongoing charge) regardless of whether the investment decision is to hold, not hold, buy or sell a particular stock. The return from implementing the decision accrues to the portfolio. In contrast, the manager of a structured product creates the product in conjunction with, for example, an investment bank. The product manager takes a fee from the product offered whilst the investment bank earns its profit from the initial set up and the ongoing pricing parameters of the instruments, typically derivatives, created in order to deliver the structured return. The investment bank's profit is not contingent on future activity.

4.4.3 Parameters and assumptions [p. 61]

24: Do you have any views on possible assumptions that should be made, and how these might be calibrated or set?

Our view is that, in order to avoid giving false expectations and misleading consumers, assumptions should be minimised and used only when unavoidable. During the consumer testing of the UCITS KIID it was identified that consumers have a tendency to view any figures shown as "facts‟ rather than indications or guidelines despite the fact that the text accompanying the figures state that they rely on a number of assumptions (UCITS Disclosure Testing Research Report (June 2009) p129 pp7.50). Therefore it is essential to separate factual and illustrative disclosures and that sufficient factual and reliable information is given in the "summary indicators" to enable advisers and distributors to fulfil their obligations under MiFID II. Assumptions should be used only in calculating the compound effect of charges.

ESMA has emphasised (ESMA advice p120 pp32) that, for the purposes of MIFID II cost disclosure, the only information that can be provided on a generic basis is the assumed investment amount. Moreover, ESMA has clarified (ESMA advice p121 pp35) that volatile costs (such as transaction costs and performance fees) should be estimated on a best effort basis and accompanied by a warning that assumptions have been used and the costs may not be indicative of likely future costs. These observations are relevant to our comments about each of the key areas for further work identified by the ESAs that follow.

Ex-post vs ex-ante

The ESAs observe that, in general, the UCITS ongoing charges figure is calculated on an ex-post basis and raise the concern that past costs are not necessarily relevant to what might happen in the future. However, the KII Regulation (Article 24) requires that the ongoing charges figure should remain reliable as an indicator of the amount likely to be charged in the future. We think this was a key improvement to the TER metric and ensures the ongoing charges figure is a reliable ex-ante indicator. We recommend that the ESA should take the same approach for ongoing charges in the PRIIP KID.

The ESAs also note that it may be misleading in some cases to use ex-post data when providing details of the cumulative impact of costs over time. We think that the UCITS approach of ensuring that the summary indicators are a reliable indicator of future costs would help to address this issue. It follows that volatile costs (such as transaction costs and performance fees) should not be incorporated into aggregated costs figures. We expand on this point in our answers to question 23 in respect of the trading activity that determines transaction costs and question 28 in respect of performance fees.

Holding period

It is necessary to assume holding periods in order to calculate the compound effect of costs. We do not agree with using a recommended holding period because this could potentially be manipulated to show periods for which costs are artificially low. We agree with the ESAs suggestion of using certain standardised time horizons and we recommend using 1, 3, 5 and 10 years plus, where relevant, the full term of a fixed-life product. We think this gives sufficient granularity in the early years to illustrate clearly the potential effect of high entry or exit charges.

Rate of return / growth rates

We do not agree that it is necessary or appropriate to assume a rate of return. The PRIIPs Regulation requires the compound effect of costs on the investment to be shown and this does not need to include a rate of return. If an assumed rate were to be used, comparability would be enhanced if the ESAs specified a rate that all PRIIPs should use. However, the diversity of PRIIPs means it is unlikely that a single rate would be appropriate for all PRIIPs and would lead to comparisons based on unrepresentative scenarios and potentially misleading expectations. Therefore, we recommend disregarding this factor, either by assuming zero growth or by assuming the consumer will get back exactly the amount they put in. In effect, this assumes a growth rate exactly sufficient to cover the costs, and is our preferred option because zero growth is prone to portray an overly pessimistic view of the effect of costs.

Assumed amount invested

Total aggregate costs are required to be expressed in monetary and percentage terms which means that it is necessary to assume a monetary amount invested. We agree with the ESAs that it may be appropriate to differentiate between single and regular contribution products but, in the interests of comparability, it is essential that the ESAs should specify the assumed amounts in each case. Inevitably there will be products where the specified amount is not appropriate but the PRIIP KID is designed for retail investors so most products are likely to be within the financial reach of the general public. If it is necessary to specify multiple assumed amounts they should at least be readily scaleable, for example, in multiples of 10 (€1,000, €10,000 or €100,000).

Rebates

The PRIIPs Regulation requires there to be a clear indication that distribution costs not included in the costs specified in the KID will be provided by other parties. We think it should be made clear that such parties also will identify separately their costs where these costs are included within the KID and subject to a rebate arrangement in accordance with ESMA's technical advice (ESMA advice p123 pp11).

4.5 Presentation of cost disclosure in the KID [p. 63]

4.5.1 Options for presenting costs [p. 63]

25: What do you think are the key challenges in standardising the format of cost information across different PRIIPs, e.g. funds, derivatives, life insurance contracts?

We think the key challenges in standardising the format of cost information relate to the conflict between the need for the KID to enable retail investors to "understand and compare" PRIIPs. Understanding requires granular and nuanced information whereas comparison is enhanced by standardisation and simplification. In ESMA's view, (ESMA advice p115 pp15), strengthening investor protection means providing clients with a more detailed and granular picture, but that this needs to be balanced with consumers' ability to process information. The challenge for the ESAs is to strike the appropriate balance between these factors.

In our opinion the cost section of the UCITS KIID provides an excellent starting point. The KIID was thoroughly tested on consumers during its evolution and it provides a fair, clear and not misleading view of charges taken from a UCITS. It contains "summary indicators" of sufficient granularity to understand the nature of the charges, sufficient reliability to ensure it is indicative of likely future charges and sufficient simplicity to ensure it remains salient. The PRIIP KID could replicate the UCITS summary indicators and add an additional indicator in respect of portfolio transaction costs. The advantages of this approach are that PRIIPs and UCITS would be reasonably comparable during the transitional exemption under article 32 and would preserve the meaning of terms that are now established and familiar to UCITS investors and beyond.

We agree with the ESAs that the information on costs should be coordinated to ensure it is considered complete and sufficient for the purposes of MiFID II disclosures. In this respect we note that in finalising the technical advice, ESMA removed reference to one single figure. In our view, this clarifies the definition of aggregation as being the adding together the costs of investment/ancillary services and the equivalent costs within the financial instrument; it does not require different cost items to be combined into a single figure. This is consistent with the illustrative examples included in ESMA's consultation paper. ESMA also modified the tables in annex 2.14.1 (ESMA advice p125-126) to make it clear that performance fees are not an example of ongoing charges. We think this is evidence that ESMA regard it as necessary to disclose an aggregated figure for each of the different cost items in the tables in the annex. Therefore we recommend that the PRIIP KID includes a separate summary indicator for each of the cost items listed in table 2 of the ESMA's annex and we illustrate such an approach in our answer to question 26.

26: Do you have a marked preference or any objection for any of the presentational examples? If so, why? Please provide any alternative examples which you believe could be useful.

Our preferred approach would be to present "summary indicators" that are factual and as free from assumptions as possible together "total aggregate costs" in the form of reduction in yield figures similar to option 6. Clearly it will be necessary to provide explanations of the figures to help consumers understand them.

We recommend the following set of summary indicators should be required to be presented, expressed in percentage terms:

Entry costs	[ ]% of the amount contributed before any costs are deducted
Exit costs	[ ]% of the proceeds realised before being paid to the client
Ongoing costs	[ ]% of the value of the client's interest in the PRIIP
Performance fees	[ ]% of the return above the [benchmark]
Portfolio transaction costs	[ ]% of the underlying transaction value

We recommend that total aggregate costs should be required to be presented for a number of specified holding periods, expressed in monetary and percentage terms, in the form of a table, as follows. The ESAs should specify the holding periods as being 1, 3, 5 and 10 years and should allow the full term of a fixed-life product to be given where relevant. However, we do not think a recommended holding period should be included as this could be manipulated to show periods for which costs are artificially low.

Holding period	Effect of costs	
Years	€	% per year
1	46	4.4%
3	77	2.5%
5	110	2.1%
10	196	1.8%
Term	610	1.6%

We think our approach is appropriate because:

- It aids understanding and comparability and is accurate, fair, clear and not misleading.
- It complies all of the relevant requirements of the PRIIPs Regulation.
- It helps to answer the key consumer perspective questions in table 10.
- Based on ESMA's technical advice, it provides all of the information necessary for aggregating costs in accordance with MiFID II.
- It facilitates the necessary warnings (ESMA advice p121 pp35) about estimates of volatile costs (transaction costs and performance fees) in a targeted manner.
- It maximises comparability with UCITS during the transitional exemption period.
- It preserves UCITS terminology that is now in common usage and is familiar to consumers.

We do not think any of the options presented achieve this. We expect that consumer testing is likely to reveal a preference for the simpler presentation options and a tendency to misinterpret the more detailed options. However, there needs to be sufficient information for advisers and distributors to fulfil their MiFID II obligations and to interpret the PRIIP KID in order to advise their clients.

27: In terms of a possible breakdown of costs, are you aware of cost structures for which a split between entry or exit costs, ongoing costs, and costs only paid in specific situations or under specific conditions, would not work?

We are not aware of any such cost structures.

28: How do you think contingent costs should be addressed when showing total aggregated costs?

In our answers to questions 22 and 24 we advocate assuming zero return or a return sufficient only to preserve the capital invested. In effect, this approach takes the view that all variables are held constant except costs and charges. If it is assumed that returns are nil, or that capital remains constant, it is appropriate also to assume that there is no return in excess of a benchmark or target and therefore there will be no performance fees. The basis for disregarding returns from the calculation of the compound effect of costs is that past performance is not necessarily a guide to the future. On the same basis past outperformance is not necessarily a guide to future outperformance.

An understanding of a performance fee can only be achieved by being aware of its terms – for example, the manager gets to keep 20% of any outperformance.

29: How do you think should cumulative costs be shown?

We think cumulative costs should not be shown in the PRIIP KID. Our recommended approach in our answer to question 26 satisfies the requirements of the PRIIPs Regulation. Our recommended summary indicators provide all the information necessary for advisers and distributors to aggregate with their own costs and charges data in order to meet their MiFID II obligation to show the cumulative effect of costs on the return of the investment.

5 Other Sections of the KID [p. 73]

5.2 Identity – Article 8(3)(a) [p. 73]

30: Do you have any views on the identity information that should be included?

Regarding relevant information about the competent authority, the format in CESR's template for the KIID is suitable, ie. '[Name of PRIIP manufacturer] is authorised in [name of Member State] and regulated by [name of NCI]'. The inclusion of market identifiers, such as ISINs, would be irrelevant or confusing for most retail investors.

5.3 Comprehension Alert [p. 74]

31: Do you consider that the criteria set out in recital 18 are sufficiently clear, or would you see some merit in ESAs clarifying them further?

We welcome the ESAs' initial suggestions on how to better capture which PRIIPs should be excluded from the comprehension alert, and the reference to Article 50 of the UCITS Directive as a basis for what could or could not be included in the comprehension alert. While this should serve as a basis for further discussion, there are other types of investments that retail investors may seek exposure to, such as real estate and precious metals, and the comprehension alert should also exclude these investment types.

5.4 What is this product? [p. 76]

5.4.2.1 Type of PRIIP [p. 77]

32: Do you agree that principles on how a PRIIP might be assigned a 'type' will be needed, and do you have views on how these might be set?

A PRIIP should be assigned a 'type' based on the underlying regulatory types. These are: (i) UCITS or AIFs (open-ended or closed-ended); (ii) insurance (unit-linked or with profits); (iii) structured bonds; (iv) structured deposits; and (v) derivatives (as defined on page 13 of the Discussion Paper).

We do not see any merit in using the classification of AIFs related to the reporting requirements under AIFMD as many are not available to retail investors. Moreover, the underlying assets of the PRIIP are covered in the risk section of the KID.

33: Are you aware of classifications other than by legal type that you think should be considered?

A PRIIP should be assigned a 'type' based on the underlying regulatory types. These are: (i) UCITS or AIFs (open-ended or closed-ended); (ii) insurance (unit-linked or with profits); (iii) structured bonds; (iv) structured deposits; and (v) derivatives (as defined on page 13 of the Discussion Paper).

5.4.2.2 Objectives and means of achieving them [p. 76]

34: Do you agree that general principles and as necessary prescribed statements might be needed for completing this section of the KID?

A combination of general principles and clear guidelines (Level 3) would be helpful. The objectives and investment policy section of CESR's template for the KIID is a good starting point. Generally, we agree that general principles and, as necessary, prescribed statements might be needed for completing this section of the KID.

35: Are you aware of other measures that might be taken to improve the quality of the section from the perspective of the retail investor?

We believe that the objectives and investment policy section of CESR's template for the KIID is a good starting point and that it is unnecessary to go further than this.

5.4.2.3 Consumer types [p. 89]

36: Do you have views on the information PRIIPs manufacturers should provide on consumer types?

The problem with identifying a consumer type at which any PRIIP is aimed is that it will have to be generic and high level because it cannot factor in what other investments the consumer already owns, nor other circumstances particular to the investor. A PRIIP with a focussed investment objective, eg. Asian emerging markets, could be suitable for any investor as long as it was part of a diversified portfolio which, overall, matched the investor's risk appetite.

5.4.2.4 Insurance benefits [p. 80]

37: What is the key information that needs to be given to the retail investor on insurance benefits, and how should this be presented?

5.4.2.5 Term [p. 81]

38: Are you aware of PRIIPs where the term may not be readily described, or where there are other issues?

Standard sentences should be specified for fixed length or open-ended investments.

5.5 What happens if [the name of the PRIIP manufacturer] is unable to pay out? [p. 81]

39: Are you aware of specific challenges arising for specific PRIIPs in completing this section?

There are PRIIPs where a bankruptcy of the manufacturer is largely irrelevant because the investment is insolvency remote (eg. funds with separate depositary arrangements are effectively ring-fenced from the financial position of the PRIIP manufacturer, so the question of whether the PRIIP manufacturer is able to pay out is not relevant). This is an important factor which should be mentioned in the KID.

5.6 How long should I hold it and can I take money out early? [p. 82]

40: Are you aware of specific challenges arising for specific PRIIPs in completing this section?

The answer to the first part of this question ("How long should I hold it?") will have to be generic and high level in nature because it cannot factor in circumstances particular to the investor, including other investments held. This section should include reference to factors know at the time of the investment, such as detrimental effects of an early exit due to front loading of charges in certain PRIIPs.

5.7 How can I complain? [p. 83]

41: Are you aware of specific challenges arising for specific PRIIPs in completing this section?

This information needs to be generic, otherwise manufacturers might need to create different KIDs for the same PRIIP in order to address different distribution channels, contrary to the concept of a single KID per PRIIP. This can be accomplished by including a reference to where further information may be found.

5.8 Other relevant information [p. 84]

42: Do you agree that this section should link to a webpage of the manufacturer?

We agree with the publication of additional information on the manufacturer's website.

6 Products offering many options [p. 85]

43: Do you agree with the assessment of when PRIIPs might be concerned by article 6(3)?

Beside a general KID, there should also be specific KIDs for each of the options provided.

6.3 Scale of market [p. 86]

44: In your market, taking into account the list of criteria in the above section, what products would be concerned by article 6(2a)? What market share do these represent?

45: Please provide sufficient information about these products to illustrate why they would be concerned?

6.4 Impact of article 6(3) [p. 86]

46: Do you have views on how you think the KID should be adapted for article 6(3) products, taking into account the options outlined by the ESAs?

Using examples of representative investment options for illustrating risks and rewards or costs of an investment could lead to poor consumer outcomes. If a product offers investors a choice between different investment strategies, use of a 'representative' investment could mislead investors. The use of ranges for the risk/reward information and cost data could be considered.

47: How do you consider that the product manufacturer should meet the requirements to describe and detail the investment options available?

Any description of the different investment options should correspond with the information required in the section "What is this product" for individual PRIIPs.

48: Are you aware of further challenges that should be taken into account?

In the case of products offering many options, it could be difficult for investors to relate the information about the product wrapper to the information about specific options. This may be particularly the case with any descriptions of overall risk profile and overall costs, as well as performance scenarios net of costs.

7 Review, Revision and Republication [p.89]

49: Do you agree with the measures outlined for periodic review, revision and republication of the KID where 'material' changes are found?

The UCITS KII Regulation should be used as a guide. It is important to remember that the KID has been designed as pre-contractual information and any attempt to extend this to inform existing investors of changes (other than through a broadcast or passive model) would create serious complications (including overlapping existing periodic disclosure requirements) and should be avoided. Further clarification on the meaning of 'material changes' would be helpful in this regard.

50: Where a PRIIP is being sold or traded on a secondary market, do you foresee particular challenges in keeping the KID up-to-date?

Closed-ended funds have signing periods during which the product is offered. If a product is no longer offered by the PRIIPs manufacturer, there should be no obligation to keep the KID up-to-date.

51: Where a PRIIP is offering a wide range of investment options, do you foresee any particular challenges in keeping the KID up-to-date?

52: Are there circumstances where an active communication model should be provided?

Publication of the revised KID on the manufacturer's website ("passive communication") should be sufficient. There should be no duty to actively communicate modifications of a PRIIPs KID to existing investors.

8 Timing of delivery [p. 93]

53: Do you agree that Recital 83 of the MiFID II might be used as a model for technical standards on the timing of the delivery of the KID?

While it is valid that technical standards address the issue of retail investors being given the time they need to consider the KID before making any decision, it is an equally valid investor protection concern that they should not be prevented from investing at the point they want to because of constraints imposed by overly prescriptive regulation. PRIIPs KID technical standards should align with the Distance Marketing Directive and MiFID II.

54: Are you aware of any other criteria or details that might be taken into account?

9 General aspects of the KID [p. 97]

9.2 Use of templates to establish consistent 'look and feel' or visual style [p. 97]

55: Do you think that the ESAs should aim to develop one or more overall templates for the KID?

The KIID template published by CESR (CESR/10-1321) has helped consumers by making sure all KIIDs are similar in format and it has helped firms by clearly indicating how to construct a compliant document. A similar approach for the KID would be welcome.

9.3 Single payment and regular payment products [p. 98]

56: Do you think the KID should be adjusted to reflect the impact of regular payment options (on costs, performance, risk) where these are offered? If so, how?

As the KID is designed to be a generic disclosure document, multiple versions reflecting different payment options should be avoided as such multiplication will just make it harder for the retail investor to locate the right version. One solution would be to produce the KID for any PRIIP on the basis of single payment in – single payment out, unless that payment option is not available in the specific PRIIP concerned, in which case the KID should reflect the reality of the payment profile.

10 Impact assessment [p. 101]

57: Are there other cost or benefit drivers that you are aware of that have not been mentioned? Please consider both one-off and ongoing costs.

58: Do you have any evidence on the specific costs or benefits that might be linked to the options already explored earlier in this Discussion Paper? Please provide specific information or references broken down by the specific options on which you wish to comment.

59: Are you aware of situations in which costs might be disproportionate for particular options, for instance borne by a specific group of manufacturers to a far greater degree in terms relative to the turnover of that group of manufacturers, compared to other manufacturers?