European Securities and Markets Authority

Reply form for the Consultation Paper on PRIIPs Key Information Documents

10 November 2015

European Securities and Markets Authority

Date: 10 November 2015

Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the ESMA Consultation Paper on PRIIPs Key Information Documents, published on the ESMA website.

Instructions

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

- use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
- do not remove the tags of type <ESMA_QUESTION_PRIIPS_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
- if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

- if they respond to the question stated;
- contain a clear rationale, including on any related costs and benefits; and
- describe any alternatives that ESMA should consider

Naming protocol

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESMA_ PRIIPS _NAMEOFCOMPANY_NAMEOFDOCUMENT.

E.g. if the respondent were XXXX, the name of the reply form would be:

ESMA_ PRIIPS_XXXX_REPLYFORM or

ESMA_ PRIIPS_XXXX_ANNEX1

To help you navigate this document more easily, bookmarks are available in “Navigation Pane” for Word 2010 and in “Document Map” for Word 2007.

Deadline

Responses must reach us by **29 January 2016.**

All contributions should be submitted online at www.esma.europa.eu under the heading ‘Your input/Consultations’.

Publication of responses

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the headings 'Legal notice' and 'Data protection'.

Introduction

Please make your introductory comments below, if any:

<ESMA_COMMENT_PRIIPS_1>
The European Investors´ Association (`**European Investors**`) was founded in July 2015. It is a unique association with individual membership that aims to strengthen the representation of retail investors and their interests in the European Union (EU), both in and out of court.

Since retail investors are greatly affected by EU legislation but are often not in the position to exercise any influence on its making, we always welcome the opportunity to comment on EU regulatory initiatives on their behalf, including the Level 2 work that is being prepared by the European Supervisory Authorities (ESAs).

European Investors is very supportive of the introduction of a concise and standardized document for all Packaged Retail and Insurance-based Investment Products (PRIIPS). Before answering the specific questions in the consultation paper, European Investors would like to list its most important suggestions regarding the contents and presentation of the main sections of the Key Information Document (KID):

- *Comprehension alert:* European Investors would welcome Guidelines of the ESAs clarifying recital 18 to ensure the comprehension alert is applied adequately and consistently across the EU (see Question 1)

- *Risk:* We supports the introduction of a Summary Risk Indicator (SRI) that covers both market and credit risk. However, as the SRI does not allow for much differentiation between products of the same category, we believe products that score relatively high on credit, market or liquidity risk (i.e. compared to other products within the same category) should be earmarked (see Question 8).

- *Performance section:* European Investors believes the information on performance disclosed in the KID should not be based on forecasts of future returns under different market conditions, but on historical performance figures. However, assuming the ESAs will opt for a forward looking approach, European Investors would support a more graphic presentation of the different performance scenario's which also provides information on the probability of each scenario. In addition to the three scenario´s (unfavourable, moderate and favourable), there should be a fourth scenario: the so-called ´worst-case´ scenario (see Question 15).

- *Costs:* European Investors supports a more graphic representation of the 'composition of costs' table (see Question 22). Also, we believe retail investors should be aware of the compounding effects of costs through a graph that shows the return over time in a 'cost-free' scenario compared to the return in a 'cost-included' scenario. Finally, benchmarking of costs would have added value (Question 26)

<ESMA_COMMENT_ PRIIPS_1>

Question 1
Would you see merit in the ESAs clarifying further the criteria set out in Recital 18 mentioned above by way of guidelines?

<ESMA_QUESTION_PRIIPS_1>
Yes. The comprehension alert is crucial for the mitigation of misselling risks. European Investors therefore thinks a pro-active approach is required to ensure this alert is applied adequately and consistently across the EU. ESA guidelines clarifying the criteria set out in recital 18 would definitely be helpful in this regard, especially because the wording in recital 18 is rather vague:

"A product should be regarded as not being simple and as being difficult to understand in particular if it invests in underlying assets in which retail investors do not commonly invest, if it uses a number of different mechanisms to calculate the final return of the investment, creating a greater risk of misunderstanding on the part of the retail investor or if the investment's pay-off takes advantage of retail investor's behavioural biases, such as a teaser rate followed by a much higher floating conditional rate, or an iterative formula".
<ESMA_QUESTION_PRIIPS_1>

Question 2
(i) Would you agree with the assumptions used for the proposed default amounts? Are you of the opinion that these prescribed amounts should be amended? If yes, how and why?
(ii) Would you favour an approach in which the prescribed standardised amount is the default option, unless the PRIIP has a known required investment amount and price which can be used instead?

<ESMA_QUESTION_PRIIPS_2>
European Investors supports the use of standardized investment amounts, in order to allow consumers to easily compare monetary values provided in the PRIIP. An important question is whether the standardized investment amount for investment funds should be based on (i) the average amount that is invested in a single investment fund per transaction, or (ii) the average total amount invested in a single investment fund (one or more transactions).

We believe it should be based on (i). We therefore think €1.000,- as the standardized investment amount for investment funds seems appropriate.

For the sake of comparability of information provided on costs and performance, European Investors believes it is of great importance that the standardized investment amount also applies to PRIIPs which have a known required investment amount, provided that the consumer is clearly informed that the information on costs and performance is not based on the investment amount required.
<ESMA_QUESTION_PRIIPS_2>

Question 3
For PRIIPs that fall into category II and for which the Cornish Fisher expansion is used as a methodology to compute the VaR equivalent Volatility do you think a bootstrapping approach should be used instead? Please explain the reasons for your opinion?

<ESMA_QUESTION_PRIIPS_3>
Ideally, the same methodology should be used for all PRIIPS. However, if for categories II PRIIPs, the Corner Fisher expansion is easier to implement as the bootstrapping approach, we do not object to its use, provided that it yields the same VaR equivalent volatility. The method used should of course not have any impact of the MRM class the PRIIP is assigned to. We believe it is important to emphasize that the choice of methodology should not be left to the manufacturer.
<ESMA_QUESTION_PRIIPS_3>

Question 4
Would you favour a different confidence interval to compute the VaR? If so, please explain which confidence interval you would use and state your reasons why.

<ESMA_QUESTION_PRIIPS_4>
We would prefer a lower confidence interval than 2,5% to compute the VaR. We believe a 1% confidence interval would be appropriate. The lower the confidence interval, the smaller the probability that the investor might lose more than the VaR over a certain specified period, so the more reliable the VaR.
<ESMA_QUESTION_PRIIPS_4>

Question 5
Are you of the view that the existence of a compensation or guarantee scheme should be taken into account in the credit risk assessment of a PRIIP? And if you agree, how would you propose to do so?

<ESMA_QUESTION_PRIIPS_5>
No, the existence of a compensation or guarantee scheme is not intrinsic to the PRIIP. However, the consumer should be informed on the existence of a compensation or guarantee scheme in the narrative.
<ESMA_QUESTION_PRIIPS_5>

Question 6
Would you favour PRIIP manufacturers having the option to voluntarily increase the disclosed SRI? In which circumstances? Would such an approach entail unintended consequences?

<ESMA_QUESTION_PRIIPS_6>
European Investors finds it difficult to imagine why a PRIIP manufacturer would voluntarily increase the disclosed SRI. However, it would be good practice that if a product has a high liquidity risk, or another risk which is not included in the SRI, the manufacturer would decide to disclose a higher SRI than prescribed by the RTS. As long as it is clearly disclosed and explained why the manufacturer discloses a higher SRI than required in the narrative, European Investors would support such an approach.
<ESMA_QUESTION_PRIIPS_6>

Question 7
Do you agree with an adjustment of the credit risk for the tenor, and how would you propose to make such an adjustment?

<ESMA_QUESTION_PRIIPS_7>
European Investors thinks an adjustment of the credit risk to take into account the tenor would be appropriate. The longer the tenor, the higher the credit risk.
<ESMA_QUESTION_PRIIPS_7>

Question 8
Do you agree with the scales of the classes MRM, CRM and SRI? If not, please specify your alternative proposal and include your reasoning.

<ESMA_QUESTION_PRIIPS_8>
Credit risk (CRM)
Regarding the credit risk assessment of PRIIPs, European Investors would like to express its concerns about the reliance on credit rating agencies (CRAs). While this method is clearly preferable over internal assessments, it conflicts with the work done by the EU to actually reduce reliance of financial institutions on CRAs in EU law. We would have preferred an assessment based on quantitative standardized measures, which are then applied by an independent party (which does not have to be a CRA).

Market risk (MRM)
Regarding the automatic assignment of certain PRIIPS to MRM classes, it is important that the qualitative characteristics of a PRIIP are actually an adequate proxy of the actual market risk of the PRIIP. We trust the ESAs to have run tests to ensure this is the case.

Summary risk indicator (SRI)

A single SRI makes it easier for retail investors to understand the overall risk and to compare products. However, weighing the different types of risk is of course a very complex task. European Investors notes that, according to PART 3 of Annex II, (see Figure 1): if the MRM is very high, the CRM score does not have an impact on the SRI and vice versa (e.g. if the MRM is 5, the SRI is also 5, regardless of the CRM class of the PRIIP). European Investors believes that, although this means that information gets lost, it is the right approach. We would however not support to include more risks in the SRI (liquidity or currency risk).

We do have one serious concern, however, regarding the use of the SRI. The PRIIPs Regulation covers a wide array of products. The SRI does not allow for much differentiation between products of the same category. Introducing a separate SRI for each category of PRIIPs would solve this, but might also cause confusion among investors. We therefore would like to suggest that PRIIPs with a relatively high (i.e. compared to PRIIPS of the same category) credit, market or liquidity risk need to be earmarked to indicate to the investor that there are less risky options available in the same category.

	MRM class						
CRM class	MR1	MR2	MR3	MR4	MR5	MR6	MR7
CR1	1	2	3	4	5	6	7
CR2	1	2	3	4	5	6	7
CR3	3	3	3	4	5	6	7
CR4	5	5	5	5	5	6	7
CR5	5	5	5	5	5	6	7
CR6	6	6	6	6	6	6	7

Figure 1
<ESMA_QUESTION_PRIIPS_8>

Question 9
Are you of the opinion that for PRIIPs that offer a capital protection during their whole lifespan and can be redeemed against their initial investment at any time over the life of the PRIIP a qualitatively assessment and automatic allocation to MRM class 1 should be permitted?
Are you of the opinion that the criteria of the 5 year tenor is relevant, irrespective of the redemption characteristics?

<ESMA_QUESTION_PRIIPS_9>

Yes, we believe if it is appropriate to automatically allocate such PRIIPs to MRM class 1, provided that the five year tenor criteria is maintained (due to inflation risk).
<ESMA_QUESTION_PRIIPS_9>

Question 10
Are you aware of other circumstances in which the credit risk assessment should be assumed to be mitigated? If so, please explain why and to what degree it should be assumed to be mitigated?

<ESMA_QUESTION_PRIIPS_10>
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<ESMA_QUESTION_PRIIPS_10>

Question 11
Do you think that the look through approach to the assessment of credit risk for a PRIIP packaged into another PRIIP is appropriate?

<ESMA_QUESTION_PRIIPS_11>
Yes, for a PRIIP manufacturer who offers a PRIIP that invests in other PRIIPs (whether in the form of a MOP, or otherwise, as in the case for instance of a fund-of-funds), the credit risk should be calculated as the weighted average of the creditworthiness of the underlying investments.
<ESMA_QUESTION_PRIIPS_11>

Question 12
Do you think the risk indicator should take into account currency risk when there is a difference between the currency of the PRIIP and the national currency of the investor targeted by the PRIIP manufacturer, even though this risk is not intrinsic to the PRIIP itself, but relates to the typical situation of the targeted investor?

<ESMA_QUESTION_PRIIPS_12>
No, since currency risk is not intrinsic to the PRIIP. It is a risk that comes with all investments in products expressed in different currency than the one of the investor. Moreover, European Investors does not see how the currency risk could be included adequately in the SRI. It is already a complex task to combine two types of risk (credit and market risk) in one SRI with only seven classes.

The currency risk should however be disclosed in the narrative. It is important for the investor to know whether the investment fund applies currency hedging strategies.

<ESMA_QUESTION_PRIIPS_12>

Question 13
Are you of the opinion that the current Consultation Paper sufficiently addresses this issue? Do you it is made sufficiently clear that the value of a PRIIP could be significantly less compared to the guaranteed value during the life of the PRIIP? Several alternatives are analysed in the Impact Assessment under policy option 5: do you see any additional analysis for these assessment?

<ESMA_QUESTION_PRIIPS_13>
Many retail investors do not hold the PRIIP for the recommended holding period. To ensure the PRIIP provides valuable and adequate information on risk both for investors with a buy-and-hold strategy as well as for investors who restructure their portfolio according to market evolution, European Investors thinks the risk should be calculated over multiple time frames.
<ESMA_QUESTION_PRIIPS_13>

Question 14

Do you agree to use the performance fee, as prescribed in the cost section, as a basis for the calculations in the performance section (i.e. calculate the return of the benchmark for the moderate scenario in such a way that the return generates the performance fee as prescribed in the cost section)? Do you agree the same benchmark return should be used for calculating performance fees for the unfavourable and favourable scenarios, or would you propose another approach, for instance automatically setting the performance fees to zero for the unfavourable scenario? Please justify your proposal.

<ESMA_QUESTION_PRIIPS_14>
Ideally, we believe information on performance should be based on historical performance figures (average performance of PRIIPs sold in the last ten years), not on 'shaky' forecasts of future returns.

When using such a historical approach, the performance fee disclosed in the cost section should be the average performance fee in the period over which the historical performance figures are calculated.

However, assuming the ESAs (as now in the draft RTS) nevertheless stick with forecasts of future returns. European Investors believes the performance fee disclosed in the cost section should be an ex ante estimation of the performance fee that would be taken in a moderate scenario according to the performance fee formula used by the PRIIP manufacturer. It should be mentioned explicitly in narrative of composition of costs table that the performance fee could be higher or lower depending on the performance of the PRIIP (and, ideally, what the performance fee would be in the favorable and non-favorable scenario).

The performance fee used for the calculation of the net return in both the favorable and non-favorable scenario should be based on an ex-ante estimation of the performance fee in these scenarios according to the performance fee formula of the PRIIP manufacturer.
<ESMA_QUESTION_PRIIPS_14>

Question 15

Given the number of tables displayed in the KID and the to a degree mixed consumer testing results on whether presentation of performance scenarios as a table or a graph would be most effective, do you think a presentation of the performance scenarios in the form of a graph should be preferred, or both a table and a graph?

<ESMA_QUESTION_PRIIPS_15>
We have some serious concerns with the approach adopted towards performance in the draft RTS. The construction of the different performance scenarios is almost left entirely to the choice of the manufacturer which clearly facilitates 'window-dressing'.

As stated in our answer to question 14, we believe information on performance should be based on historical performance figures (e.g. average performance of PRIIPs sold in the last ten years).

However, assuming the ESAs (as now in the draft RTS) nevertheless stick with forecasts of future returns, it should be clearly prescribed how the different scenarios are constructed, by prescribing:

i. the percentiles in case of a probabilistic approach
ii. the exact market conditions in case of a what-if approach.

We would clearly favour a probabilistic approach. We believe there is clear added value for investors from the information about the likelihood of different scenario's. If that information is not provided, there is the risk that investors will draw (mostly incorrect) inferences themselves. Moreover, we believe one extra scenario, the so-called worst-case scenario should be included.

Regarding the presentation of the performance scenario's, European Investors' view is that there should indeed be a more graphic presentation along the lines of the graph presented in the CP (figure 2). We think it gives the consumer a much better understanding of what happens to their money in the different scenario's (than the table provided in the RTS, see figure 3). However, it should be clearly indicated next to the graphs what the chances are of getting less, and what are the chances of getting more (both in a probabilistic approach, in which this would be standardized, as in a what-if approach, in which this information will of course differ per PRIIP). Also, we believe the average return (net of costs) that applies to each scenario should be disclosed.

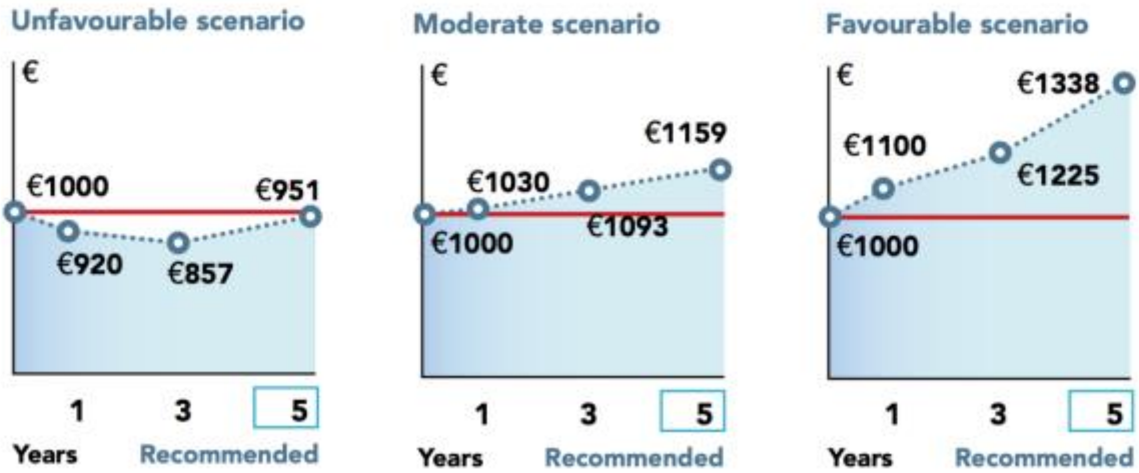

Figure 2

Investment ▯				
Scenarios		**1 years**	**[3] years**	**[5] years** (Recommended holding period)
Unfavourable scenario	**What you might get back after costs**	▯	▯	▯
	Average return each year	▯	▯	▯
Moderate scenario	**What you might get back after costs**	▯	▯	▯
	Average return each year	▯	▯	▯
Favourable scenario	**What you might get back after costs**	▯	▯	▯
	Average return each year	▯	▯	▯
Accumulated invested amount		▯	▯	▯

Figure 3
<ESMA_QUESTION_PRIIPS_15>

Question 16 *Do you agree with the scope of the assets mentioned in paragraph 25 of Annex VI on transaction costs for which this methodology is prescribed? If not, what alternative scope would you recommend?*

<ESMA_QUESTION_PRIIPS_16>
We note convertibles are not mentioned in the list of liquid asset classes.
<ESMA_QUESTION_PRIIPS_16>

Question 17 *Do you agree with the values of the figures included in this table? If not, which values would you suggest? (please note that this table could as well be included in guidelines, to allow for more flexibility in the revision of the figures)*

<ESMA_QUESTION_PRIIPS_17>
Yes. It is important that these figures are frequently updated on the basis of historical figures. Guidelines would provide such flexibility to the ESAs, but would not be binding (if we understand it correctly) on PRIIPs providers. If that is the case, the table should be included in the RTS.

We have one further comment regarding transaction costs. The transaction costs expressed in the KID are the average of the annual transaction costs in the previous three years. European Investors´ view is that the KID therefore needs to be revised every year in order to make sure the costs disclosed as well as the performance net-of-costs is accurate.
<ESMA_QUESTION_PRIIPS_17>

Question 18 *Do you agree that the monetary values indicated in the first table are a sum of costs over the respective holding periods? Or should the values reflect annualized amounts? If you prefer annualized amounts, which method for annualisation should be used (e.g. arithmetic average or methods that consider discounting effects)?*

<ESMA_QUESTION_PRIIPS_18>
Indicating the sum of costs over the respective holding periods allows consumers to immediately see the total costs (*or* total one-off costs *or* total recurring costs *or* total incidental costs) they will have incurred if they will cash out after a certain holding period. However, European Investors would not object to also show the total costs in annualized amounts € per year (in addition the sum of costs), based on the arithmetic average. This would mean a row should be added in the table below (figure 4), in between the “Total costs” row and the “RIY” row. The one-off costs/recurring costs/incidental costs in the table would not need to be annualized.

Investment [€1000]	If you cash in after [1] year	If you cash in after [3] years	If you cash in after [5] years (recommended)
One-off costs	[]	[]	[]
+ Recurring costs	[]	[]	[]
+ Incidental costs	[]	[]	[]
= Total costs	[]	[]	[]
RIY	[]%	[]%	[]%

Figure 4
<ESMA_QUESTION_PRIIPS_18>

Question 19
Do you think that estimating the fair value of biometric risk premiums as stated in paragraph 55(b) of Annex VI would raise any technical or practical difficulties?

<ESMA_QUESTION_PRIIPS_19>
Generally speaking, we do not fully understand why the cost of providing life insurance cover should not be fully disclosed. The presented calculation of a "fair value" seems to deduct benefits and to understate costs. If a guarantee, external to a fund, is provided to a client, then that "benefit" is a cost and should have to be fully disclosed and taken into account in the cost calculation.

As estimating the fair value of biometric risk premiums will raise some technical difficulties, especially linked to underlying asset projection (stochastic modelling, profit-sharing, etc.), we suggest that the ESAs develop Level-3 guidelines on the assumption to be used when calculating the fair value of biometric risk premiums in order to allow a common methodology not only among insurance PRIIPs, but also among other PRIIP types. In any case, we agree with the ESAs that if the insurance undertaking is not able to establish the fair value of a biometric risk premium based on sound estimations of future benefit payments, it should be obliged to include the full biometric risk premium in the cost calculations.

Para. 55(b) allows for profit-sharing mechanisms to be deducted from the costs of an insurance PRIIP. As profit-sharing mechanisms are already part of the performance calculation (see page 52, para. 11(c) in the performance scenarios section), this would allow insurance PRIIPs to add them to the PRIIP's performance and also deduct them from its costs. Profit-sharing mechanisms should be used either to reduce costs or to increase performance, but not both.
<ESMA_QUESTION_PRIIPS_19>

Question 20
Knowing that the cost element of the biometric risk premium is included in the total costs calculation, how do you think the investor might be most efficiently informed about the other part of the biometric risk premium (i.e. the fair value), and/or the size of biometric risk premium overall? Do you consider it useful to include the fair value in a separate line in the first table, potentially below the RIY? Or should information on the fair value be disclosed in another part of the KID (for instance, the "What is this product?" section, where the draft RTS currently disclose biometric risk premiums in total, and/or in the performance section)?

What accompanying narrative text do you think is needed, and where should this be placed, including specifically narrative text in the cost section?

<ESMA_QUESTION_PRIIPS_20>
We suggest it would be useful to include the biometric risk premium in the presentation of costs (Annex VII) in the second cost table as "Insurance costs" of a PRIIP. Please see the presentation of costs below, as proposed by the European Fund and Asset Management Association (EFAMA).

What are the costs?

This section tells you the effect that costs might have on what you get back from your investment and explains the different types of costs. The amounts shown are the costs of this product. Your adviser or the person selling you this product will tell you about any additional costs of distribution not included in these amounts.

Estimate of costs over time If you invest €1,000	**Over a year**	**Over 3 years**	**Over 5 years (recommended)**
Total impact of costs over each time period	€ 53	€ 85	**€ 125**
Equivalent annual percentage rate (N.B. "RIY")	5,3%	2,6%	**2,2%**

The table above shows you the estimated impact of costs on what you might get back from your investment. To see what you might get back after these costs you should read the performance scenarios section of this document. The table above is based on the moderate performance scenario and assumes you invest €1,000 and leave it invested for the time periods shown. The costs used are estimated based on data from the past and therefore are likely to be different in the future.

The costs explained		
One-off costs taken before or after your money is invested		
Entry costs	**3,00%**	This is the maximum that might be taken out of your money before it is invested. In some cases you might pay less.
Exit costs		This is the maximum that might be taken out of your money before the proceeds of your investment are paid to you. In some cases you might pay less.
Costs taken from the product over a year		
Recurring costs	**0,80%**	This is taken from your investment each year to cover the costs of managing and operating the product. The figure shown is based on actual costs for the year ending xx/xx/xx.
Insurance costs		This is taken from your investment each year to cover the cost of your insurance cover. The figure shown is based on actual costs for the year ending xx/xx/xx.
Transaction costs	**0,50%**	This is incurred each time the fund's underlying investments are bought and sold. The figure shown is the yearly average for the last three years. These costs vary depending on the frequency of buying and selling and the nature of the investments involved.
Costs taken from the product under certain specific conditions		

Performance fees	**1,00%**	We charge a performance fee of 20% of any outperformance only when the product outperforms its benchmark, the [name of benchmark]. The figure shown is the yearly average for the last five years. The performance fee varies depending on the performance of both the product and the benchmark and may not arise at all.
Carried interest		Our carried interest in the product is 20% of the profits generated each year. The figure shown is the yearly average for the last five years.
Exit penalty/Exit cost		An exit penalty will apply if you leave early. The figure shown is the maximum which applies if you leave in the first year. The exit penalty does not apply if you hold the product for at least five years. (N.B. The intention is to cover any penalties/costs that are not included in the one-off "exit costs")

<ESMA_QUESTION_PRIIPS_20>

Question 21

Given evidence as to the difficulties consumers may have using percentage figures, would you prefer an alternative presentation of the second table, solely using monetary values instead? As with the first table, please also explain what difficulties you think might arise from calculating monetary values, and whether this should be on an annualized basis, and if so, how?

<ESMA_QUESTION_PRIIPS_21>
No, we do not support solely using monetary values instead of percentage figures. The monetary values in the KID are calculated on the basis of the standardized investment amount. While this allows consumers to easily compare costs, they will need percentage figures to understand the different costs they incur when investing an amount higher (which is very likely) or lower than €1.000 (for a 5 year period).
<ESMA_QUESTION_PRIIPS_21>

Question 22

Given the number of tables shown in the KID, do you think a more graphic presentation of the breakout table should be preferred?

<ESMA_QUESTION_PRIIPS_22>
Yes, we do prefer a more graphic presentation of the 'composition of costs' table along the lines of the example provided in the Consultation Paper (figure 5). However, the breakdown provided in this graphic representation should have the same level of detail as the table in the draft RTS (figure 6), percentage figures should be used (instead of monetary values) and the explanation of the different types of costs in column 4 of the table in the draft RTS should be provided in a narrative below the presentation. The RIY should be part of the presentation.

Figure 5

One-off costs	Entry costs	[]%	Impact of entry costs taken before investment. [This is the maximum, you could pay less].
	Exit costs	[]%	Impact of exit costs taken when you exit the investment upon maturity.
Recurring costs	Portfolio transaction costs per year	[]%	Impact of recurring costs taken from your investment each year. [The figures shown are based on our costs for last year.][The figures shown are an estimate of what the costs could be.] The figures cover all recurring costs, including annual management costs, operating expenses, and portfolio transaction costs.
	Other recurring costs per year	[]%	
Incidental costs	Performance fees	[]%	Impact of performance fees taken where the performance...[]

Figure 6 <ESMA_QUESTION_PRIIPS_22>

Question 23

The example presented above includes a possible way of showing the variability of performance fees, by showing the level for all three performance scenarios in the KID, highlighting the 'moderate' scenario, which would be used for the calculation of the total costs. Do you believe that this additional information should be included in the KID?

<ESMA_QUESTION_PRIIPS_23>
Yes, it is important that investors are informed about the variability in performance fees depending on the performance of the PRIIP and the implications it has on the costs they incur. However, European Investors believes such information should be provided in the narrative of the composition of costs table. Providing such information in the graphic presentation would make it overly complex and cause confusion.

We would like to stress again that European Investors believes a fourth scenario, a so-called worst case scenario, should be provided. We assume the performance fee in the non-favorable scenario and the worst-case scenario is €0.- Ideally, performance fees should be negative if the fund underperforms.
<ESMA_QUESTION_PRIIPS_23>

Question 24
To reduce the volume of information, should the first and the second table of Annex VII be combined in one table? Should this be supplemented with a breakdown of costs as suggested in the graphic above?

<ESMA_QUESTION_PRIIPS_24>
No, European Investors does not see how the two tables could be combined without making the table too complex (or alternatively, without losing valuable information by simplifying it).

The two tables have different purposes. The first table should shows the development of the different types of costs (one-off costs, recurring costs, incidental costs) and the total costs over time, allowing the investor to understand why the RIY generally declines the longer you hold the period. The second shows the composition of costs at more detail at a specific point in time (namely after the recommended holding period), allowing the investor to see what how much he pays for what.
<ESMA_QUESTION_PRIIPS_24>

Question 25
In relation to paragraph 68 a) of Annex VI: Shall the RTS specify that for structured products calculations for the cost free scenario have always to be based on an adjustment of the payments by the investor?

<ESMA_QUESTION_PRIIPS_25>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPS_25>

Question 26
Regarding the first table of the cost section presented in Annex VII, would you favour a detailed presentation of the different types of costs, as suggested in the Annex, including a split between one-off, recurring and incidental costs? Alternatively, would you favour a shorter presentation of costs showing only the total costs and the RIY?

<ESMA_QUESTION_PRIIPS_26>
No, while the 'costs over time' table of course does not have to provide the same level of detail on costs as the composition of costs table, European Investors believes a split between one-off, recurring and incidental costs does have added value for consumers. It provides them with an understanding how the different types of costs develop over time and why the RIY (or annualized total costs per year) generally declines the longer you hold the product.

European Investors would furthermore support a graphic presentation to show the compounding effect of costs on the return for investors after a certain holding period. This could be done by providing a graph which shows the value of one's investment (in monetary values) in the moderate scenario (net of costs) and in the moderate scenario (cost-free) over the recommended holding period and show the aggregate reduction in net investment returns as a monetary value as well as percentage figure.

We think this has added value because the compound effect of costs is higher than the total costs expressed in the costs over time table, as the reduction in return resulting from not being able to invest the costs incurred are not taken into account in the costs over time table. Further, expressing costs in an annualized percentage rate (RIY) might cause consumers to underestimate the total reduction in investment return in percentage terms after the recommended holding period.

The draft RTS do not foresee benchmarking of costs, as was included in the consumer testing (figure 7). We think this would also have much added value for consumers. It is in the ESAs mandate to collect, analyse and report on consumer trends. The ESAs could decide to monitor the RIY of PRIIPs in the EU and, on that basis, develop a costs benchmark.

Figure 7

<ESMA_QUESTION_PRIIPS_26>

Question 27
Regarding the second table of the cost section presented in Annex VII, would you favour a presentation of the different types of costs showing RIY figures, as suggested in the Annex, or would you favour a presentation of costs under which each type of costs line would be expressed differently, and not as a RIY figure - expressed as a percentage of the initial invested amount, NAV, etc.?

<ESMA_QUESTION_PRIIPS_27>
European Investors believes it is important that the same indicator is used for all PRIIPs. We therefore support the use of RIY for all PRIIPS, incl. funds which normally use TCR, since TCR is difficult to use for insurance-based PRIIPs. We moreover believe that RIY is easier to understand for consumers, provided it is explained clearly in the narrative what it entails.

In the KIDs tested with consumers, it is said in the narrative: “For this product, if you held it 5 years it would be 2,2%; this means for a £1.000 investment, the costs are equivalent to a reduction in what you get back by £22 per year”. Strictly speaking this is not true. The reduction in what you get back per year becomes higher the longer you hold the product. As an example:

Assume the average annual return in the cost-free scenario is 5% and in the scenario incl. costs 2,8%. The RIY is 2,2%. The amount invested is €1.000,-. The reduction in what you get back as a consumer in year 1 is indeed €22,- ((€1.000,-*1,05)-(€1,000,-*1,028). However, in year 2, the reduction in what you get back is more than €22,- (compounding effect of costs).

Return Year 2 (cost-free scenario):	€1.000,-*1.05*0,05 = €52,50
Return Year 2 (scenario including costs):	€1.000,-*1,028*-0,028 = €28,78
Reduction in what you get back is	€52,50 - €28,78 = €23,72

<ESMA_QUESTION_PRIIPS_27>

Question 28
Do you have any comments on the problem definition provided in the Impact Assessment?

Are the policy issues that have been highlighted, in your view, the correct ones? If not, what issues would you highlight?

Do you have any views on the identified benefits and costs associated with each policy option?

Is there data or evidence on the highlighted impacts that you believe needs to be taken into account?

Do you have any views on the possible impacts for providers of underlying investments for multi-option products, and in particular indirect impacts for manufacturers of underlying investments used by these products, including where these manufacturers benefit from the arrangements foreseen until the end of 2019 under Article 32 of the PRIIPs Regulation?

Are there significant impacts you are aware of that have not been addressed in the Impact Assessment? Please provide data on their scale and extent as far as possible.

<ESMA_QUESTION_PRIIPS_28>
The exemption for UCITS (which we do not support) entails that UCITS funds that are part of a PRIIPS with multiple investment options in practice will have to provide both a KIID as well as a KID
<ESMA_QUESTION_PRIIPS_28>