JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

JC 2015 073

11 November 2015

Joint Consultation Paper

PRIIPs Key Information Documents

Draft regulatory technical standards

with regard to presentation, content, review and provision of the key information document, including the methodologies underpinning the risk, reward and costs information in accordance with Regulation (EU) No 1286/2014 of the European Parliament and of the Council

Contents

1. Responding to this Consultation

The ESAs welcome comments on the Regulatory Technical Standards on the presentation and content of the key information document (KID), including methodologies for the calculation and presentation of risks, rewards and costs within the document, under Article 8(5) of Regulation (EU) No 1286/2014; on the review, revision, and republication of KIDs, under Article 10 of Regulation (EU) No 1286/2014; and on the conditions for fulfilling the requirement to provide the KID in good time under Article 13 of Regulation (EU) No 1286/2014.

The consultation package includes:

- The Consultation Paper
- Template for comments

The ESAs invite comments on any aspect of this paper. Comments are most helpful if they:

- contain a clear rationale; and
- describe any alternatives the ESAs should consider.

The ESAs also invite specific comments on the questions set out in section 2.2 on the draft RTS, and any input on the draft impact assessment.

Submission of responses

The consultation paper is available on the websites of the three ESAs. Comments on this consultation paper can be sent using the response form, via the ESMA website under the heading 'Your input/Consultations' by 29 January 2016.

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

Publication of responses

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

Data protection

Information on protection of individuals with regard to the processing of personal data can be found under the heading 'Legal framework' of the EIOPA, and under the heading `Legal notice` of the EBA and ESMA website (https://eiopa.europa.eu/About-EIOPA/Legal-framework, http://www.eba.europa.eu/legal-notice, http://www.esma.europa.eu/legal-notice).

2. Overview, Questions and Next Steps

2.1 Overview of Consultation Paper

Purpose of Consultation Paper and process followed

This Consultation Paper provides stakeholders with an opportunity to comment on the draft Regulatory Technical Standards (RTS) developed by the European Supervisory Authorities (ESAs: EBA, EIOPA and ESMA) pursuant to the Regulation (EU) No 1286/2014 on Key Information Documents for Packaged Retail and Insurance-based Investment Products (hereafter, PRIIPs Regulation).

The draft RTS relate to three Articles under the PRIIPs Regulation:

- the presentation and content of the Key Information Document (KID), including methodologies for the calculation and presentation of risks, rewards and costs within the document, under Article 8 (5);
- the review, revision, and republication of KIDs, under Article 10 (2); and,
- the conditions for fulfilling the requirement to provide the KID in good time, under Article 13 (5).

The draft RTS text and accompanying Annexes (which contain a template for the KID, and the proposed methodologies underpinning the presentation of risks, rewards and costs) form the core of this Consultation Paper: **section 3**.

Some additional explanatory text relevant to understanding the methodology in the Annexes can be found in **section 4**.

This Consultation Paper follows a general Discussion Paper (JC/DP/2014/02) published on 17 November 2014, and a Technical Discussion Paper (JC/DP/2015/01) published on 23 June 2015. Provisional feedback on these two Discussion Papers is given in **section 5**.

Preliminary analyses of the expected impacts of the proposed RTS are also included (in **section 6**), in order to gather stakeholder feedback on possible costs and benefits of the proposals and the relative scale of these costs and benefits for different stakeholders.

The draft RTS have been developed in view of responses to the Discussion Papers, and the results from a Consumer Testing study conducted by the European Commission.[1] In view of the technical difficulties in developing comparable and comprehensive risk, performance and cost disclosures, the ESAs have also drawn on technical input from a Consultative Expert Group.[2]

[1] http://ec.europa.eu/finance/finservices-retail/investment_products/index_en.htm.

[2] https://eiopa.europa.eu/Publications/Consultations/Consultative_Expert_Group_on_Key_Information_Document_for_PRIIPs.pdf

Summary of the contents of the draft RTS

Article 8 (5)

The draft RTS under Article 8 (5) provides a specification of the presentation and content of the KID. It addresses measures for the different elements of the document set out in Article 8 (3), and the underlying methodologies necessary for obtaining the information for the KID.

- It includes a **mandatory template** to be used for each KID, including mandatory texts to be used. The template includes details of the layout that must be followed. Permitted adaptations to the template are set out in the draft RTS.
- For the risk and reward section of the KID, the draft RTS requires a **summary risk indicator** that comprises seven classes, the format of which is to follow the template contained in the RTS.
- The draft RTS also contains a methodology for the assignment of each PRIIP to one of the seven classes contained in the summary risk indicator, and for the inclusion of narrative explanations, and for certain PRIIPs, additional warnings.
- The draft RTS includes requirements on **performance scenarios** and a format that must be followed for the presentation of these scenarios. These are to be presented in tables, showing possible performance for different time periods and at least three scenarios. There are also requirements on the selection of these scenarios by the PRIIP manufacturer.
- The draft RTS also covers requirements on the presentation of **costs**, including the figures that must be calculated and the format to be used for these. Detailed methods are included for the measurements and calculations needed for completing the prescribed format for each PRIIP. The cost figures include a standardised summary breakdown of the different cost components, aggregated cost figures, and a presentation of the accumulation of the costs in monetary and percentage terms for standardised period(s).
- Finally, the draft RTS sets out the specific layouts and contents for the KID for products offering multiple options that cannot be effectively covered in three pages, as foreseen under Article 6 (3) of Regulation (EU) No 1286/2014.

KID for products offering multiple options

For products offering multiple investment options (MOP), PRIIP manufacturers may follow either of two approaches, according to what would work best for the retail investor.

In the first approach, the PRIIP manufacturer would produce separate KIDs for each option, containing information about the PRIIP in general and about the option in particular.

In the second approach, the PRIIP manufacturer would separate the information that would normally be in a single KID. The PRIIP manufacturer would instead produce a generic KID for the

PRIIP in general, and then provide specific information about the options (including on their description, their risks and rewards, and their specific costs) within a separate document or documents. Since the level one Regulation only provides a derogation from including the KID information in a single document, the information provided in total under this second approach needs nonetheless to be consistent with Article 8 (3) of the PRIIPs Regulation.

In any case, the MOP KID and underlying information is the sole responsibility of the PRIIP manufacturer, and the PRIIP manufacturer cannot, partially or in total, transfer such responsibility. While the PRIIP manufacturer may use information from third parties (for instance the providers of investments used by the PRIIP manufacturer) in the preparation of the information for the retail investor, the information remains the responsibility of the PRIIP manufacturer.

The investment options offered in a multi-option product may be standardised portfolios (for instance, an 'adventurous' option, or a 'moderate' option, or may be individual investment assets or products (for instance, a specific fund tracking a specific equity index), depending on the multi-option product in question. The information provided would not address combinations of investment options, given that the KID is designed as a generic pre-contractual document.

Article 10

The draft RTS for Article 10 sets out requirements for the revision and republication of the KID at least each year, and an obligation to conduct ad hoc revisions, when necessary under the detailed methodologies for calculating the summary risk indicator, the performance scenarios and the costs, and when necessary for products offering multiple options.

Article 13

The draft RTS for Article 13 sets out requirements for the KID to be provided sufficiently early for a retail investor to be able to take its contents into account when making an investment decision. The timing of the delivery of the KID can vary depending on the PRIIP in question and the needs of the retail investor.

2.2 Specific questions to stakeholders

There are a number of measures within the draft RTS where the ESAs are seeking specific feedback from stakeholders.

The following specific questions and accompanying explanatory text highlight these measures. All references are to the draft RTS within this Consultation Paper.

Comprehension alert

With regard to the comprehension alert (article 8(3)(b) of the PRIIPs Regulation), recital 18 of the PRIIPS Regulation includes criteria to be used for assessing whether to include the alert or not. The ESAs are not mandated to provide RTS on this specific topic. Article 33 of the PRIIPs Regulation requires that the Commission includes in the review due by 31/12/2018 a general survey on the operation of the comprehension alert, taking into account any guidance developed by competent authorities in this respect. However, there might be merit in the ESAs developing a common approach on the use of the comprehension alert before the deadline for the Commission review. Indeed, in the absence of such an approach, there could be a risk of divergence in national practice, leading to a lack of comparability.

The three elements set out in the PRIIPs Discussion Paper published 17 November 2014 (JC/DP/2014/02, p74-76) could usefully form the basis for the development of more detailed criteria in this regard. Guidelines would seem to be the most appropriate regulatory tool to set up this common approach.

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

Standardised amounts used as a basis for calculations

The calculation and presentation of figures both in the Risk and Reward and the Costs sections of the KID entails the use of standardised example investment amounts. In the Consultation Paper a standardised amount is prescribed for different types of PRIIPs (1000 euro for investment funds and PRIIPs other than insurance-based investment products, 15000 euro for single premium insurance-based investment products or 1000 euro yearly for regular premium insurance based investment products). This is set out in Annex IV paragraph 18.

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?

Risk and Reward

The Risk and Reward section of the RTS describe how the risks and the possible rewards of a PRIIP are to be determined, aggregated as appropriate and presented in the KID. The methodologies to underpin this are set out in the Annexes II to V to the RTS.

Application of methodology

In the current drafting a distinction is made for some categories of products, which should apply a Cornish Fisher methodology, and for some other categories of products, which should apply a bootstrapping approach, with the aim that no category of products benefits from any better treatment as a consequence. For those products for which the Cornish Fisher methodology is applied, it would also be possible to apply a bootstrapping approach, so that the same basic method is used for all PRIIPs for which a VaR equivalent volatility needs to be calculated. This would provide similar results as the Cornish Fisher approach under the SRI, but would imply higher implementation and on-going costs.

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?

Confidence level

The VaR is calculated at a 2.5% confidence interval in the Consultation Paper. However, every specific confidence interval will have certain advantages and disadvantages.

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.

Guarantee schemes

The current Credit Risk Measure (CRM) does not take into account any schemes at national level which compensate investors for possible losses on their PRIIPs as a result of default by an obligor. The main reason was to separate the risk of the PRIIP from the external compensation facilities that are present. Furthermore, guarantee schemes often limit the amount repayable per person, so it would not be clear whether a guarantee scheme would fully cover the loss in case of default. Finally, the section '**What happens if [the name of the PRIIP manufacturer] is unable to pay out?'** is dedicated to the situation of default, so information about compensation schemes is already part of the KID. However, it may be that due to these guarantee schemes the actual risk of loss to a consumer is less since compensations will be granted.

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?

Summary Risk Indicator (SRI) risk class

The current approach does not allow manufacturers to assign a higher risk class to their PRIIP than would be a result from the methodology.

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?

Aggregated scale of the SRI

The scale of risk classes of the Market Risk Measure (MRM) is aligned with the UCITS scale, in terms of assignments of products based on annualised volatility ranges. The SRI differs though from the UCITS scale as it is a combination of credit and market risk.

Products issued or guaranteed or in relation to which a credit risk applies could eventually be discriminated further, with an adjustment of the credit risk to take into account the applicable tenor (the longer the tenor, the higher the credit risk).

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?

Another question with respect to the scale of the SRI is the weighting of credit risk and the aggregation of the MRM and CRM into the SRI.

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.

An example of an alternative scale is depicted below:

credit quality steps	credit risk class
0	1
1	1
2	1
3	2
4	3
5	4
6	5

	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	6	6	6	6	6	6	7

Capital protection and tenor

The current methodology for the MRM allows a qualitative assessment for PRIIPs with capital protection as long as their tenor is up to 5 years. The main reason is that due to inflation products with a longer tenor could indeed, if they have capital protection, return the initial investment, but with respect to purchasing power this could represent a loss. Another reason for this limitation is that certain other PRIIPs (those in category II and III) are compared against the risk free rate.

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?

Credit risk mitigating circumstances

In the current methodology, the credit risk assessment is mitigated under the circumstances described in Annex II, paragraph 65a. There may be other situations in which it could be argued that credit risk of the PRIIP, the manufacturer or the obligor could be considered sufficiently mitigated.

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?

Examples of mitigating factors for credit risk include:

- a credit risk exposure where the investor benefits from arrangements of an insurance undertaking as defined in Article 13 (1) in compliance with Article 275 of the Solvency II Directive and/or equivalent national arrangements, which could warrant allocation to credit risk class 1;
- a credit risk exposure where the investor benefits from priority ranking in case of insolvency as defined in Article 108 of the Bank Recovery and Resolution Directive (2014/59/EU), which could also warrant allocation to credit risk class 1.

Credit risk look through approach

The current methodology assesses credit risk on a look through basis, as set out in Annex II, paragraph 55.

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?

Currency Risk

The SRI does not take into account currency risk where this is not intrinsic to the PRIIP itself, such risk being taken on by the investor in conjunction with buying a PRIIP in a currency different than his own, where the investor must first enter into a foreign exchange transaction.

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?

Products with higher risk during the life of the product than at maturity

The SRI in the current methodology shows the risk of the product assuming the investor keep it until maturity. The risk of market prices fluctuating during the life of the product and exposing investor to losses if he exits before maturity, is not reflected in the indicator. This is recognized as a limitation of the indicator and explained in a warning just below it.

According to this methodology, for example, a 100% bond guaranteed only at maturity with a term of 30 years could be classified in class 1 or 2 of risk (low risk); however, if the interest rates go up in ensuing years, the value of the bond in the market will fall, and the investor would face losses (even significant losses) if he needed to exit before maturity.

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?*

Performance fees in the performance scenarios

The performance scenarios are shown net of all costs, so should take performance fees into account. The methodology proposes an approach to be taken to this.

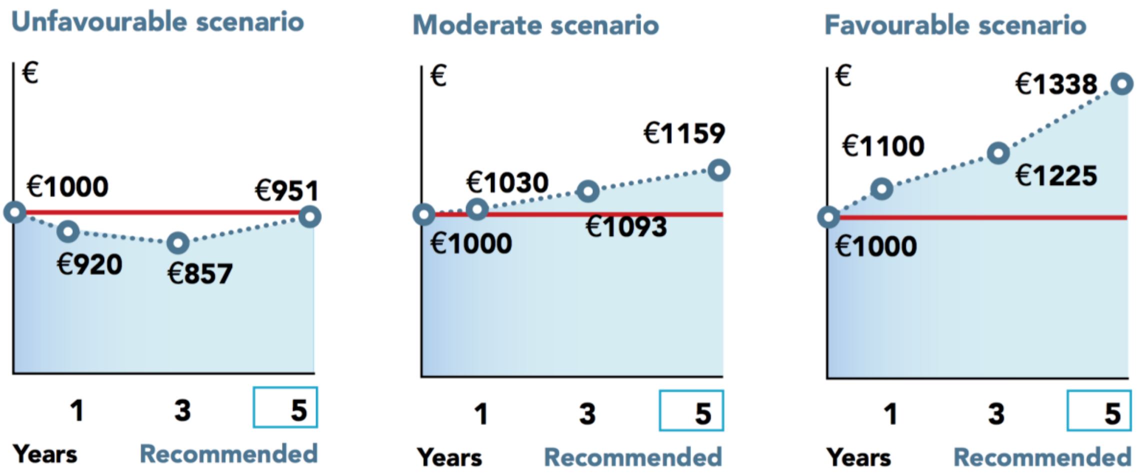
Question 14 *Do you agree to use the performance fee, as prescribed in the cost section, as a basis for the calculations in the performance section (i.e. calculate the return of the benchmark for the moderate scenario in such a way that the return generates the performance fee as prescribed in the cost 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.*

Presentation of performance scenarios

The proposed presentation uses tables for the information on performance scenarios.

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?*

Here is an example of a presentation of performance scenarios as graphs:



Costs

The Cost section of the KID aims to aid consumers in understanding what the costs of a PRIIP will or could be and what effect they may have on the possible return. As with Risks and Rewards, the methodologies on the handling and presentation of Costs are set out in Annexes to the RTS. The Annexes for the cost methodology are VI and VII.

Transaction costs

The following questions relate to the calculation of transaction costs, as referred to in the paragraphs 8 to 28 of Annex VI "Methodology for the calculation of costs". More especially, these questions relate to the table included in paragraph 25 of Annex VI, which shows standardised percentage fees for different asset classes.

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?

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)

Monetary amounts

The following question relate to the first table on the presentation of costs in the KID shown in the Annex VII "Format of Presentation of Costs". More especially, this question relate the meaning of the figures on costs shown for different time horizons.

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)?

Biometric risk premiums

The following questions relate to the calculation of the cost part of biometric risk premiums, as referred to in the paragraphs 55 of Annex VI “Methodology for the calculation of costs”. More especially, these questions relate to the calculation of the fair value of biometric risk premiums and the correct understanding of the investor on the corresponding amounts shown in the cost section of the KID.

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?

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?

Amounts to show in table 2 (breakdown of costs)

The following question relates to the second table on the presentation of costs in the KID shown in the Annex VII “Format of Presentation of Costs”. More especially, this question relate to the meaning of the figures on costs shown in this table.

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?

Alternative presentation of cost breakdown

The following questions relate to the tables on the presentation of costs in the KID shown in the Annex VII “Format of Presentation of Costs”. More especially, these questions relate to the understanding of investors on the format of presentation suggested in this Annex VII, and the format of presentation of performance fees.

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?

Here is an example of a more graphical breakdown presentation:

Further graphics of a similar form could be added, for instance to show a more detailed breakdown, or to include the amount invested and the biometric risk premium level to aid retail investors in seeing the full picture. Other graphic techniques can also be envisaged.

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?*

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?*

Reduction in Yield (RIY)

The following question relates to the calculation of the reduction in yield cost indicator, as referred to in the paragraphs 68 a) of Annex VI "Methodology for the calculation of costs". More especially, this question relate to the calculation of this indicator in the case of structured products.

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?*

Presentation format

The following questions relate to the tables on the presentation of costs in the KID shown in the Annex VII "Format of Presentation of Costs". More especially, these questions relate to the understanding of the investor on the meaning of the figures shown.

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?*

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.?

Impact assessment

Included in this Consultation Paper are preliminary Impact Assessments for the three separate empowerments in the PRIIPs Regulation. With the questions below the ESAs are specifically seeking for feedback from stakeholders.

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.

2.3 Next steps

The ESAs will consider the feedback received on this consultation paper.

The Regulatory Technical Standards and accompanying impact assessment will be submitted for endorsement by the European Commission by 31 March 2016. The ESAs shall also publish final feedback on the consultation at this time.

By 1st January 2017, PRIIP manufacturers must prepare and publish KIDs for each PRIIP they manufacture, and from that date those selling or advising on these PRIIPs must provide KIDs to retail investors.

3. Draft RTS

EUROPEAN
COMMISSION

Brussels, XXX
[…](2015) XXX draft

COMMISSION IMPLEMENTING REGULATION (EU) No …/..

of XXX

on […]

COMMISSION DELEGATED REGULATION (EU) No …/..

of XXX

laying down the regulatory technical standards with regard to the presentation, content, revision and provision of the key information document, specific underlying methodologies and information review in accordance with Regulation (EU) No 1286/2014 of the European Parliament and of the Council

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)[3], and in particular Article 8(5), Article 10(2) and Article 13(5) thereof.

Whereas:

1. Regulation (EU) No 1286/2014 establishes a new standardised key information document to improve the information available to retail investors across the Union and its comparability between different packaged retail and insurance-based investment products (PRIIPs). The specific format and details of information presented in the key information document, and the methodologies for some of its aspects are laid down in this Regulation.
2. The structure, format and content of the key information document is designed to ensure that it is easy for retail investors to read, understand and compare it with other key information documents. To this end, the key information document is standardised, as appropriate for different PRIIPs, by means of establishing a common template, setting out, among other things, the graphics and arrangement of information.
3. Information on the identity of the PRIIP and its manufacturer, on the competent authority, and on the date of publication of the key information document, should be always disclosed. Where a common identifier exists for the PRIIP this should be included, to aid the retail investor in finding other information about that PRIIP. Contact details for the retail investor to find out more should also be always included. A website address or a phone number should be sufficient for this purpose, but the website address should be specific.
4. The key information document makes consistent the provision of information on the type of the PRIIP, its investment objectives and how they will be achieved, and on certain key features or aspects of the product, including where a PRIIP includes insurance coverage, so as to ensure that the retail investors understand the economic and legal features of the PRIIP being offered.
5. Understanding and comparing the risks associated with investments in PRIIPs is important if retail investors are to make informed investment decisions. The risks of any particular PRIIP can relate to different factors, such as the risks associated with investment markets in general and specific assets on those markets in particular, the credit risks linked to whether or not a financial counterparty will be able to meet its obligations in the future, and liquidity risks, for instance with finding a buyer at a fair price for some types of PRIIPs. However, consumer testing has shown that it can be difficult for retail investors to combine information about

[3] OJ L352, 9.12.2014, p.1.

these different kinds of risks in a sound manner. Given this, information on risks should be aggregated as far as possible and presented in a simple graphical fashion through a single summary risk indicator. This will enable retail investors to more easily compare PRIIPs. However, so that retail investors can grasp the differences between the risks of different PRIIPs, this summary risk indicator should be accompanied by sufficient narrative explanations of the risks of the PRIIP to allow for an informed decision.

6. The returns for a retail investor from a PRIIP can be difficult for the retail investor to understand. Retail investors have difficulties understanding or assessing the impact of risk and as a result difficulties assessing the uncertainty of their possible returns. Although forecasting the returns can never be done with complete certainty. However, it is essential that forecasts are included in the KID on the possible outcomes for two reasons. First the information on possible returns is preferred by retail investors. This is the first aspect of information they look for. Secondly the KID provides the possibility to make sure that the forecasts are based on fair and comparable assumptions. Currently marketing material is presenting information forecasts without setting standards about the model used or assumptions made to get to these forecasts. No standards on this subject create the risk the retail investor overly relies on such forecasts and does not sufficiently take into account the shortcomings of such forecasts, and retail investors compare models that are not comparable to each other. The retail investor therefore should be provided with clear information that is consistent with realistic assumptions about possible outcomes, presented in such a way as to make clear the uncertainty of this information and the fact that better or worse outcomes could still happen than shown.

7. The information to be contained in the key information document as to what may happen in case the retail investor is not able to exercise his rights in relation to the PRIIP by virtue of the default of the entity who bears the commitment to pay the investor should be clearly presented, so that the retail investor has a clear view on the degree of protection he has in all such cases, for instance under investment, insurance or deposit guarantee schemes. The information should be clear as to the identity of the entity whose default would so impact the ability of the retail investor to exercise his rights.

8. Information on costs is important for retail investors when comparing between PRIIPs, which can have different cost structures, and when understanding how the cost structure of a particular PRIIP might apply to them, depending on how long they stay invested, how much they invest, and how well the PRIIP does. For this reason, the KID should contain information so the retail investor can compare the overall total cost levels between different PRIIPs when held for their recommended holding periods, and the KID should also contain some more detailed information so the retail investor can understand how these costs might vary, and how they build up over time.

9. Consumer testing research has shown that retail investors can understand monetary figures more readily than percentages. Small differences in costs expressed in percentages may correlate with large differences in the costs borne by the retail investor when expressed in monetary terms. For this reason it is important to also show the total costs in monetary terms.

10. Retail investors may encounter changing personal circumstances whereby investments made for the longer term unexpectedly need to be disinvested. These situations can be difficult to anticipate. Disinvestments due to market developments can also be necessary. Given the difficulties retail investors may face in anticipating the degree of liquidity they may need in their investment portfolios as a whole, information on recommended holding periods and required minimum holding periods, and the possibility of partial or complete early exit is therefore particularly important for retail investors. The availability and consequences of such early disinvestment should be made clear. Specifically, it should be clear whether these consequences are due to explicit fees or penalties or limitations on disinvestment rights, or

are due to the significant sensitivity of the value of the particular PRIIP to be disinvested to the timing of the disinvestment.

11. Given that the key information document can be expected to be also used as a summary of the main features of the PRIIP by retail investors, it should contain clear information on how a complaint might be lodged about the product or the conduct of the PRIIP manufacturer or a person advising on, or selling, the product. As the process and steps involved may be explained more clearly on the PRIIP manufacturer's website, the use of a website for providing the details of how to lodge a complaint should be permitted.

12. Some retail investors may wish to obtain further information on specific aspects of the PRIIP. The key information document should therefore include a clear and specific cross-reference to where further specific information can be found, where the cross-reference is related to the information required to be included in the key information document by the (EU) No 1286/2014 Regulation. Where other regulatory disclosures are required, whether precontractually or postcontractually, the retail investor should be made aware of this fact and on how to obtain these other documents even if they are only provided on request. In view of ensuring the key information document is as concise as possible, links to these other documents may be provided by means of a website also providing other detailed information, so long as their existence and access to them by means of this website is made clear.

13. A key information document cannot be provided in the same format for PRIIPs that offer many underlying investment options as for other PRIIPs, since each underlying investment option will have a specific risk, performance and cost profile, such that all the necessary information cannot be provided in a single, concise stand-alone document. Depending on the nature and number of underlying investment options and if appropriate, PRIIP manufacturers should be able to prepare individual key information documents for each option. Where this is not appropriate for retail investors, PRIIP manufacturers should, in accordance with Article 6(3) of Regulation (EU) No 1286/2014, provide generic information about the PRIIP in its key information document, and disclose where and how more detailed pre-contractual information about each underlying investment option offered can be found. In these cases, where information on the different underlying investment options is provided separately, retail investors may face difficulties in understanding the combination of the information about the underlying investment options and the generic information about the PRIIP. For this reason, retail investors should be provided with an indication in the information provided on the PRIIP in general of the range of risks, performance and costs they can expect across the different options offered. In addition, the information provided on the underlying investment options should always reflect the features of the PRIIP in question. The information prepared for the investments used by the PRIIP manufacturer to back the underlying investment options may not always be accurate or appropriate in respect of these underlying investment options, for instance where the PRIIP manufacturer modifies the risk, reward and cost profile of the investments. PRIIP manufacturers may ensure the accuracy and appropriateness of the information provided on the underlying investment options by preparing their own information documents on these underlying investment options, but these documents should be consistent with the information required to be in a key information document, such as on the risks, performance and costs of each underlying investment option.

14. In the context of PRIIPs that offer many underlying investment options, these investment options may consist in investments in specific funds, or they may be standardised portfolios or investment profiles, combining a number of underlying investments in a standardised way, as a prepackaged investment option in its own right.

15. PRIIP manufacturers must prepare key information documents that are accurate, fair, clear and not misleading. The information contained in the document should be capable of being relied on by a retail investor when making an investment decision, even in the months and

years following the initial preparation of the key information document, for those PRIIPs that remain available to retail investors. In order to ensure the reliability of the information, standards should therefore be laid down to ensure timely and appropriate review, revision and republication of key information documents.

16. Data that is used for preparing the information contained in the key information document, such as data on costs, risks and performance scenarios, may change over time. Changing data can lead to changes in the information to be included, such as a change in the risk or costs indicators. For this reason, PRIIP manufacturers should put in place periodic processes to review the information contained in the key information document. These processes should take into account the extent to which changes could lead to changes in the information included in the document that may imply the need for a revision and republication of the document.
17. Periodic reviews may not be sufficient in cases where the PRIIP manufacturer becomes aware of changes outside the periodic review process that may significantly impact the information contained in the key information document, such as changes to a previously disclosed PRIIP investment policy or strategy that would be significant for investors; or of significant changes to the cost structure or risk profile. Given this, PRIIP manufacturers should put in place processes to be able to identify reliably situations where the information contained in the key information document should be reviewed on an ad hoc basis.
18. Where a periodic or ad hoc review of a key information document identifies changes to the information that is required to be included in the document, or the review identifies that information contained in the key information document is no longer accurate, fair, clear and not misleading, the PRIIP manufacturer should be required to reissue the key information document to take into account the changed information.
19. Given that changes may be important for retail investors and their future allocation of investment assets, existing retail investors should reliably be able to locate the new key information document, which should therefore be published on the website of the PRIIP manufacturer and clearly identifiable. Tools, such as mailing lists or email alerts, might be implemented to inform existing retail investors when key investor documents are revised.
20. Where a PRIIP is not currently available for retail investors, the continued review and revision of the key information document for that PRIIP would be disproportionate, however a review and revision of the key information document should be undertaken if such a PRIIP is to become available to retail investors again. The trading of a PRIIP on a secondary market however would not exempt the PRIIP manufacturer from the obligation to continue to review and revise the key information document for that PRIIP.
21. In order to ensure the timing of the delivery of key information documents to retail investors is approached in a consistent way across the Union, this Regulation lays down conditions for fulfilling the requirement to provide the key information document to retail investors in good time.
22. It is important that the key information document is made available to retail investors sufficiently prior to their decision, such that the retail investors are able to understand and take into account the relevant PRIIP information when making an investment decision. Since the investment decision would be taken prior to the commencement of any mandatory cooling off period that applies, the key information document should also be provided prior to such a cooling off period.
23. While in all cases retail investors should receive the key information document in good time before they are bound by any contract or offer related to the PRIIP, what might be good time for the retail investor to understand and take into account the information may vary, because different retail investors have different needs, experience and knowledge. The person

advising on, or selling, a PRIIP should therefore take into account these factors to determine the extent of the good time criterion in relation to individual retail investors.

24. Where a person is advising on, or selling, a complex PRIIP or a PRIIP that is unknown to a retail investor, more time may need to be provided for the retail investor to familiarise itself with the PRIIP in question.

25. The urgency of the situation, for instance where it is important for a retail investor to buy a PRIIP at a given price where the price is sensitive to the timing of the transaction, should also be considered.

26. This Regulation is based on the draft regulatory technical standards submitted by the European Supervisory Authorities (European Banking Authority, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority) to the Commission.

27. The European Supervisory Authorities have conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council[4], the Insurance and Reinsurance Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council[5], and of the Securities and Markets Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council[6],

HAS ADOPTED THIS REGULATION:

4 Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

5 Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

6 Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

CHAPTER I

General provisions

Article 1

Subject-matter

This Regulation lays down rules specifying:

(a) the details of the presentation and the content of each of the elements of information contained in the key information document, and of the methodologies underpinning the risk, reward and costs information contained therein;
(b) the conditions for reviewing the information contained in the key information document and for revising the key information document, as well as specific review and revision conditions where a PRIIP is made available in a non-continuous manner;
(c) the circumstances and means for informing retail investors of a revised key information document; and
(d) the conditions on providing retail investors with the key information document in good time before retail investors are bound by a PRIIP contract or offer.

Article 2

Template of the key information document and methodologies

1. For the purposes of Regulation (EU) No 1286/2014, PRIIP manufacturers shall complete the template of a key information document laid down in Annex I, in accordance with the rules laid down in Regulation (EU) No 1286/2014 and in this Regulation.

2. In completing the key information document, PRIIP manufacturers shall comply with the methodology underpinning the presentation of risk laid down in Annex II, the methodology for the presentation of the summary risk indicator laid down in Annex III, the technical rules on the performance scenarios laid down in Annex IV, the methodology for the presentation of performance scenarios laid down in Annex V, the methodology for the calculation of costs laid down in Annex VI and the presentation format for costs laid down in Annex VII.

CHAPTER II

Sections of the key information document

Article 3

Identity section

The information about the PRIIP manufacturer and its competent authority referred to in Article 8(3)(a) of Regulation (EU) No 1286/2014 shall include:

a) the name of the PRIIP assigned by the PRIIP manufacturer;

b) the PRIIP´s International Securities Identification Number (ISIN) or any other universal identifier, where available;

c) the legal name of the PRIIP manufacturer;

d) the PRIIP manufacturer's specific website address providing retail investors with information on how to get in contact with the PRIIP manufacturer, or a telephone number;

e) the name and the Member State of the competent authority responsible for the supervision of the compliance with the requirements laid down in Regulation (EU) No 1286/2014; and

f) the date of production and of any subsequent revision of the key information document.

Article 4

'What is this product?' section

1. The type of the PRIIP referred to in sub-paragraph (i) of Article 8(3)(c) of Regulation (EU) No 1286/2014 shall be described by reference to the legal form taken by the PRIIP, and, as appropriate, may be supplemented by the classification of the PRIIP as may be commonly used by PRIIP manufacturers to group specific products.

2. The information about the objectives of the PRIIP as well as the means of achieving them referred to in sub-paragraph 2 of Article 8(3)(c) of Regulation (EU) No 1286/2014 shall contain a brief, clear and easy to understand summary of those objectives and the means for achieving them, providing the retail investor with an appropriate overview of the investment policy and strategy of the PRIIP.

3. In particular, the information under paragraph 2:

   a. shall identify the main factors upon which return depends, the underlying investment assets or reference values, and how the return is determined, as appropriate, and the relationship between the PRIIP's return and that of the underlying investment assets or reference values, and

   b. on underlying investment assets or reference values may only refer to market segments or instrument types where the number of specific investments is large.

4. The description referred to in sub-paragraph (iii) of Article 8(3)(c) of Regulation (EU) No 1286/2014 shall reflect the target market identified by the PRIIP manufacturer's product oversight and governance processes, taking into account the financial interests, knowledge, objectives and characteristics of the types of retail investors for whom the PRIIP has been designed, including their ability to bear investment loss and their investment horizon.

5. The details of insurance benefits referred to in sub-paragraph (IV) of Article 8(3)(c) of Regulation (EU) No 1286/2014 shall include on a generic basis a summary of information on the definition of each benefit, on the proportion of the overall PRIIP´s premium to be used for these benefits, and on the duration of these premiums where they are to be paid on a regular basis.

6. The information about the term of the PRIIP as referred to in sub-paragraph (v) of Article 8(3)(c) of Regulation (EU) No 1286/2014 shall include, where applicable:

   a) the maturity date of the PRIIP, or an indication that there is none;

b) whether the PRIIP manufacturer is entitled to terminate the PRIIP unilaterally; and

c) an explanation under which circumstances the PRIIP can be automatically terminated, and the corresponding dates, if known.

Article 5

'What are the risks and what could I get in return?' section

1. This section shall include a summary risk indicator, as referred to in sub-paragraph (i) of Article 8(3)(d) of Regulation (EU) No 1286/2014, ranking the PRIIP on a numerical scale from 1 to 7, where 1 indicates the lowest risk class and 7 indicates the highest risk class. The summary risk indicator shall be presented using the format as set out in Annex III Appendix 1.

2. The summary risk indicator shall rank a PRIIP on the basis of an assessment of its aggregated level of market and credit risk in accordance with the criteria laid down in Part 3 of Annex II.

3. Where a PRIIP is considered illiquid or to have a materially relevant liquidity risk in accordance with the conditions set out in Part 5 of Annex II, the PRIIP manufacturer shall clearly explain this in the narrative explanation and a warning to this effect shall be added in the presentation of the summary risk indicator, as set out in Annex III.

4. The computation of the summary risk indicator referred to in paragraph 1, as well as any of its subsequent revisions, shall be adequately documented. The summary risk indicator shall be reviewed and revised regularly and always revised in case of a material change in accordance with the requirements laid down in Part 4 of Annex II.

5. The brief description of the PRIIP´s risk and reward profile pursuant to sub-paragraphs (i) and (ii) of Article 8(3)(d) of Regulation (EU) No 1286/2014 shall comply with the requirements laid down in Annex III.

6. The brief description referred to in paragraph 5 shall clearly mention that risks are assessed on the basis that products are kept up to maturity or recommended holding period. In case the risk of the product if not held to maturity or the recommended holding period is significantly higher than the one represented in the summary risk indicator, the PRIIP manufacturer shall insert a warning about this fact in the presentation of the summary risk indicator, as set out in Annex III.

7. For PRIIPs with contractually agreed-upon early exit penalties or long disinvestment notice periods, the PRIIP manufacturer shall refer to the relevant underlying conditions in the section 'How long should I hold it and can I take money out early?' under Article 9.

Article 6

Performance scenarios

1. The 'What are the risks and what could I get in return?' section of the key information document shall contain appropriate performance scenarios, as referred to in sub-paragraph (iii) of Article 8(3)(d) of Regulation (EU) No 1286/2014.

2. The performance scenarios shall be defined for the recommended holding period and for certain holding periods in between, when appropriate.

3. The key information document shall include three performance scenarios defined to represent an unfavourable scenario, a moderate scenario and a favourable scenario in accordance with the criteria laid down in paragraph 1 of Annex IV. An additional performance scenario shall be added in the circumstances equally set out in Annex IV.

4. For insurance-based investment products, an additional performance scenario shall be included, reflecting the return the retail investor receives if a covered insurance event occurs.

5. The performance scenarios shall be presented in the format laid down in Annex V .

6. The brief description of the PRIIP´s risk and reward profile pursuant to sub-paragraphs (iii) to (v) of Article 8(3)(d) of Regulation (EU) No 1286/2014 shall comply with the requirements laid down in Annex V.

7. The ESAs shall establish guidelines setting out detailed requirements on the assumptions that PRIIP manufacturers can use when selecting unfavourable, moderate and favourable scenarios as required under paragraph 3.

Article 7

'What happens if [the name of the PRIIP manufacturer] is unable to pay out?' section

1. In the description pursuant to Article 8(3)(e) of Regulation (EU) No 1286/2014 the PRIIP manufacturer shall clearly state whether the retail investor is directly exposed to the default of an entity, whether the retail investor may face a financial loss with only partial or no capital reimbursement, and the identity of the entity where the entity is not the PRIIP manufacturer.

2. The section shall also contain information explaining clearly whether or not the default or loss under paragraph 1 is covered by an investor compensation or guarantee scheme and whether there are any limitations or conditions to this cover.

Article 8

'What are the costs?' section

1. This section shall present information on costs using two tables entitled 'Costs over time' and 'Composition of costs', as laid down in Annex VII.

2. In the 'Costs over time' table, a single figure shall be shown as the summary cost indicator of the total aggregated costs of the PRIIP and shall be calculated as referred to in Annex VI. This figure shall be expressed in monetary and percentage terms. Where relevant, the 'Costs over time' table shall provide a narrative explanation that the table takes into account exit penalties.

3. The one-off costs presented in the 'Cost over time' table shall be calculated in accordance with the methodology laid down in Annex VI, and expressed in monetary terms. In the 'Composition of costs' table showing the breakdown of costs, one-off costs shall be split between entry and exit costs, as referred to in Annex VI. Entry and exit costs ratios shall be expressed in percentage terms, calculated in accordance with the methodology laid down in Annex VI and included in this same second table.

4. Recurring costs shall be calculated in accordance with the methodology laid down in Annex VI, expressed in monetary terms and included in the 'Costs over time' table. In the

‘Composition of costs’ table showing the breakdown of costs, recurring costs shall be split between portfolio transaction costs and other recurring costs, as referred to in Annex VI. The portfolio transaction costs and other recurring costs ratios shall be expressed in percentage terms, calculated in accordance with the methodology laid down in Annex VI.

5. Incidental costs shall be calculated in accordance with the methodology laid down in Annex VI. This figure shall be expressed in monetary terms and included in the ‘Costs over time’ table. An incidental cost ratio shall be expressed in percentage terms, calculated in accordance with the methodology laid down in Annex VI and included in the ‘Composition of costs’ table.

6. This section shall contain a narrative explanation of each of the different costs specified in the ‘Composition of costs’ table, as set out in Annex VII. This narrative explanation shall specify that the costs presented in the key information document may differ from the actual costs the retail investor would pay, including where additional costs may arise where the investor chooses options throughout the lifetime of the investment.

Article 9

‘How long should I hold it and can I take my money out early?’ section

1. For PRIIPs without a fixed maturity date, PRIIP manufacturers shall include in this section a brief explanation of the reasons for the selection of the recommended, and, where applicable, the required minimum holding period.
2. The information pursuant to sub-paragraphs (iii) and (iv) of Article 8(3)(g) of Regulation (EU) No 1286/2014 shall include a description of the main features of the disinvestment procedure and when it is possible. It shall include an indication of the impact of cashing-in early on the risk or performance profile of the PRIIP, namely in regards to capital guarantees, if applicable.
3. Where fees and penalties are charged for disinvestments prior to maturity, the information shall set out these fees and penalties, and include a cross reference to the information on costs included under Article 8(3)(f) of Regulation (EU) No 1286/2014 stating that that information shows the impact these fees and penalties would have for different holding periods.

Article 10

‘How can I complain?’ section

1. The information set out in this section, as provided for in sub-paragraph (h) of Article 8(3) of Regulation (EU) No 1286/2014, may be provided by the PRIIP manufacturer in a summary format, and shall give detailed directions on how and where to lodge a complaint about the PRIIP or the conduct of the PRIIP manufacturer or the person advising on, or selling, the PRIIP on the relevant website.

2. The information may refer to the relevant website in respect of complaints related to the person advising on, or selling, the PRIIP where that person is not the same as the PRIIP manufacturer.

3. The information shall also include an up-to-date postal address and/or email address to which complaints can be submitted.

Article 11

'Other relevant information' section

1. In this section, the PRIIP manufacturer shall pursuant to sub-paragraph (i) of Article 8(3) of Regulation (EU) No 1286/2014 indicate any additional documentation to be provided in relation to the PRIIP, and whether this documentation is only available on the request of the retail investor.

2. The information may be provided in a summary format, including a reference to a website where further details and links to documents are provided.

3. For PRIIPs that are available to retail investors in a continuous manner, the following statement shall be included in this section: 'Without prejudice to *ad hoc* reviews, this key information document is updated at least every 12 months'.

CHAPTER III

Specific provisions on the key information document

Article 12

Key information document in relation to multi-investment options PRIIPs

1. Where a PRIIP offers different underlying investment options, such that the necessary information in relation to all underlying investment options cannot be presented in a single, stand-alone key information document, the PRIIP manufacturer shall either:

   a) produce, pursuant to Article 13, a single individual key information document combining generic and specific information in relation to each underlying investment option within the PRIIP; or

   b) produce, pursuant to Article 14, a single generic key information document about the overall PRIIP, and disclose, pursuant to Article 15, specific pre-contractual information about each underlying investment option.

2. The PRIIP manufacturer shall be responsible for the provision of the information pursuant to paragraph 1 and may not fully or partially transfer this responsibility.

3. For the purposes of Articles 13, 14 and 15, the PRIIP manufacturer may use information provided by third parties, in particular manufacturers of investment products that are used to offer underlying investment options within the PRIIP, where this is necessary for the PRIIP manufacturer to produce the required information on risks, performance and costs.

4. The PRIIP manufacturer shall present the information on each underlying investment option as a single investment option offered within the PRIIP, irrespective of its choice to apply sub-paragraph 1(a) or sub-paragraph 1(b).

Article 13

Individual key information document combining generic and specific information in relation to each underlying investment option

Where a PRIIP manufacturer chooses to produce individual key information documents pursuant to sub-paragraph (a) of Article 12(1), it shall:

a) comply with the requirements of Article 8(3) of Regulation (EU) No 1286/2014 and Chapter II of this Regulation; and

b) take into account the combination of the features of the underlying investment option, including its risk and performance profile and its costs, and the PRIIP in general.

Article 14

Single generic key information document on the overall PRIIP

1. Without prejudice to the requirements in Chapter II, where a PRIIP manufacturer chooses to prepare a generic key information document pursuant to sub-paragraph (b) of Article 12(1), it shall:

a) in the 'What is this product' section, explain that the PRIIP offers a range of underlying investment options, including a short overview of the underlying investment options, and that the PRIIP target market varies depending on the choice of underlying investment options, and, where relevant, that the choice of an underlying investment option can be changed, in particular by switching between options on the initiative of the retail investor or the initiative of a third party, and set out the choices available to the retail investor;

b) in the 'What are the risks and what could I get in return?' section, explain that the risks and returns of a retail investor depend on its choice of underlying investment options, invite the retail investor to familiarise themselves with the specific information on these options and to compare the risks and returns of the options, and indicate where the relevant specific information is to be found;

c) in the 'What are the costs?' section, explain that the costs that the retail investor is due to pay, including, where relevant, costs associated with future variations to the underlying investment options made within the PRIIP, depend on the choice of the retail investor in relation to underlying investment options, and invite the retail investor to familiarise themselves with the specific information on these options, and indicate where the relevant specific information is to be found.

2. In completing the generic key information document, the PRIIP manufacturer shall:

a) include a comprehension alert with the text specified in sub-paragraph (b) of Article 8(3) of Regulation (EU) No 1286/2014, where an underlying investment option would be subject to the comprehension alert itself;

b) show the range of the lowest and highest risk classifications of the underlying investment options offered within the PRIIP instead of the summary risk indicator referred to in Article 5;

c) explain how the performance of the PRIIP as a whole depends on the underlying investment options and indicate where relevant further information is to be found, instead of showing the performance scenarios referred to in Article 6;

d) show the range of the recurring and incidental costs for the PRIIP and its underlying investment options, and where necessary, the range of one-off costs if these differ between the underlying options; and show the range of the total aggregated cost figures, instead of complying with the requirements on the cost figures under Article 8.

3. The range of risk classifications included pursuant to paragraph 2(b), and the range of cost figures included pursuant to paragraph 2(d) shall be calculated by applying the relevant methodologies referred to in Chapter II to each underlying investment option.

Article 15

Additional specific information about underlying investment options within a PRIIPs

1. Where a PRIIP manufacturer chooses to produce a generic key information document in accordance with sub-paragraph (b) of Article 12(1), it shall additionally provide specific pre-contractual information on underlying investment options by combining this information into a single document, or by providing it through separate documents for each underlying investment option, or by a combination of these.

2. The additional information under paragraph 1 shall outline the specific characteristics of each underlying investment option offered by the PRIIP, and include – for each investment option – all of the following:

a) a comprehension alert, where relevant;

b) the investment objectives, the means for achieving them, and the intended target market, as required in Article 4 paragraphs 2 to 5;

c) a summary risk indicator and narrative, as required in Article 5;

d) performance scenarios, as required in Article 6;

e) a presentation of the costs as required in Article 8.

CHAPTER IV

Review, revision and republication of the key information document

Article 16

Periodic review of the information in the key information document

1. The PRIIP manufacturer shall review the information contained in the key information document by:

a. the twelfth month following the date of the initial publication of the key information document; and thereafter

b. every twelfth month following the latest review of the key information document.

2. The review shall encompass a verification of whether the information contained in the key information document continues to be accurate, fair, clear and not-misleading, and that it remains compliant with the requirements within Article 8(3) of Regulation (EU) No 1286/2014.

Article 17

Ad hoc review of the key information document

1. Where the PRIIP manufacturer becomes aware of a change that affects or is likely to affect the information contained in the key information document, the PRIIP manufacturer shall review without undue delay the information contained in the key information document.

2. The PRIIP manufacturer shall maintain adequate processes throughout the life of the PRIIP to identify without undue delay any circumstances which might necessitate an *ad hoc* review.

Article 18

Revision of the key information document

1. The PRIIP manufacturer shall without undue delay revise the key information document following a review under Article 16.

2. The PRIIP manufacturer shall without undue delay revise the key information document following a review under Article 17, where the PRIIP manufacturer concludes that the document is no longer accurate, fair, clear or not-misleading, or that it is no longer compliant with the requirements laid down in Article 8(3) of Regulation (EU) No 1286/2014 and in this Regulation.

3. Where the PRIIP manufacturer revises a key information document, the PRIIP manufacturer shall update all information in the key information document as may be necessary, so that the revised document is up to date as a whole.

Article 19

Publication of revised key information document

1. The PRIIP manufacturer shall publish the revised key information document on its website.

2. The publication shall occur without undue delay and, at the latest five business days after the key information document has been revised.

Article 20

PRIIPs made available in a non-continuous manner

Where a PRIIP is made available to retail investors in a non-continuous manner:

1. the requirements under Articles 16 to 19 shall not apply during those periods where the PRIIP is not available to retail investors; and

2. the PRIIP manufacturer shall review and republish the key information document immediately prior to any period in which the PRIIP shall be made available to retail investors.

CHAPTER V

Timing of delivery of the key information document

Article 20

Conditions on good time

1. The person advising on, or selling, a PRIIP shall be considered to have provided the key information document in good time where they have provided the document sufficiently early for the retail investor to read and consider the document before being bound by any contract or offer relating to that PRIIP.

2. The person advising on, or selling, a PRIIP shall, as appropriate, take into account:

   a. the knowledge and experience of the retail investor with the PRIIP or PRIIPs of a similar nature;

   b. the complexity of the PRIIP;

   c. the urgency for the retail investor of concluding the proposed contract or offer.

Article 21

Final Provision

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

It shall apply from 31 December 2016.

This Regulation shall be binding in its entirety and directly applicable in all Member States

Done at Brussels …

For the Commission

ANNEX I

TEMPLATE OF THE KEY INFORMATION DOCUMENT

PRIIP manufacturers shall use the following template for the purposes of drawing up the key information document under Regulation (EU) No 1286/2014. In completing the template sections, PRIIP manufacturers shall follow the specific guidance set out below.

Key Information Document

Purpose

This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

Product

[Name of Product] [Name of PRIIP manufacturer] [website for PRIIP manufacturer]
[Call [telephone number] for more information] [Regulator, Member State] [date of publication]

What is this product?

Type [Text pursuant to Article 8(3)(c)]

Purpose

Intended Market

What are the risks and what could I get in return?

Risk Indicator [Summary Risk Indicator and Narrative Text pursuant to Article 8(3)(d)]

Performance Scenarios [Performance scenario presentation and text pursuant to Article 8(3)(d)]

What happens if XYZ Asset Management is unable to pay out?

[Text pursuant to Article 8(3)(e)]

What are the costs?

Costs over time ['Costs over time' table and narrative text pursuant to Article 8(3)(f)]

Composition of Costs ['Composition of Costs' table and narrative text pursuant to Article 8(3)(f)]

How long should I hold it and can I take money out early?

Recommended minimum holding period: [x] years

[Text pursuant to Article 8(3)(g)]

How can I complain?

[Text pursuant to Article 8(3)(h)]

Other relevant information

[Text pursuant to Article 8(3)(i)]

PRIIP manufacturers shall comply with the section order and titles set out in the template, which however does not fix parameters regarding the length of individual sections and the placing of page breaks.

ANNEX II

METHODOLOGY UNDERPINNING THE PRESENTATION OF RISK

PART 1

Methodology underpinning the market risk assessment

I. Definition of PRIIP categories

1. For the purposes of determining market risk, PRIIPs are divided into 5 categories:
   a) Category I: PRIIPs that are assigned directly to the Market Risk Measure (hereafter MRM) class 1, or to MRM class 7, based on qualitative criteria.
   b) Category II: PRIIPs, excluding Category I PRIIPs, assigned to class 1 to 7 of the MRM, based on a 2,5% VaR, approximated by the Cornish Fisher expansion, calibrated using 5 years' historical performance data for the PRIIP. When insufficient data are available but natural benchmarks or proxies exist, their data shall be used to perform the expansion instead.
   c) Category III: PRIIPs, excluding Category I PRIIPs, assigned to class 1 to 7 of the MRM, based on a statistical approach, using forward simulation of the PRIIP's performance calibrated on historical data. When insufficient data are available but natural benchmarks or proxies exist, their data be used to perform the simulation instead.
   d) Category IV: PRIIPs, excluding Category I PRIIPs, assigned to class 1 to 7 of the MRM, which, due to absence of factors observed in the market, impacting in turn their value, may not fall under Category II or Category III PRIIPs. The MRM shall be based on an alternative methodology, set to capture on an equal basis compared to Categories II and III the risk of loss, but adjusted to the specificities of the PRIIP, so as to assess the risk on a relevant basis.
   e) Category V: PRIIPs, excluding Category I PRIIPs, in relation to which insufficient data are available so as to accurately estimate the market risk based on the methodology implemented for Category II or Category III PRIIPs. If this is the case, the PRIIP shall be assigned to a class of the MRM based on qualitative criteria.

2. The different Categories of PRIIPs as set out in paragraph 1, and the PRIIPs that would typically fall under each such Category, are as further detailed under paragraphs 9 to 19.
3. The methodology to be implemented with regards to Category II PRIIPs is as detailed in paragraphs 20 to 29.
4. The methodology to be implemented with regards to Category III PRIIPs is as detailed in paragraphs 30 to 48.
5. The methodology to be implemented with regards to Category IV PRIIPs is as detailed in paragraphs 49 to 52.

II. General principles for MRM

6. The basis for the MRM for Category II, III, IV and V(a)(i) PRIIPs is the 2,5% Value-at-Risk. This is defined as the total return at the 2,5% quantile discounted to the present using the risk free

rate divided by the capital investment minus one. This represents the return per invested monetary unit at the 2,5% quantile.

7. The class of the MRM for Category II and III PRIIPs shall be based on the annualized VaR-equivalent volatility.
8. The expected return of any market observable is the risk-free rate of return, from the date of production of the key information document up to the end of the recommended holding period ("RHP"), being such RHP set as of the time of the production of the key information document, in the denominated currency of the PRIIP. The expected return must be adjusted downwards, by any further payments, impacting the price of the PRIIP or, when relevant, any of its underlying securities, which are not received by the retail investor (e.g. equity dividends).

Details on PRIIP categories and where relevant the qualitative assignment of PRIIPs to a Class of the MRM

9. Category I PRIIPs includes:

   a) All PRIIPs where investors shall receive, at the end of the RHP, at least the respective amount they invested in the PRIIPs, provided that such period has a maturity of up to five years and based on an unconditional protection of capital. These shall be qualitatively assigned to MRM class 1;
   b) all PRIIPs where investors could lose more than the amount they invested. These shall be qualitatively assigned to MRM class 7;
   c) derivatives that qualify as PRIIPs. These shall be qualitatively assigned to MRM class 7. Derivatives are to be understood in this context as financial instruments that fall within one of the categories referred to in items 4 to 10 of part C of Annex 1 to the Directive 2014/65/EU.

10. Category II PRIIPs includes:

    a) Alternative Investment Funds ("AIFs" as defined under Directive 2011/61/EU on Alternative Investment Fund Managers, hereafter AIFMD, as amended from time to time);
    b) undertakings for collective investment in transferable securities ("UCITS", as defined under Directive 2014/91/EU on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (hereafter UCITS Directive, as amended from time to time), and
    c) other PRIIPs, acting in a similar capacity as AIFs or UCITs and investing into the same type of underlying assets, either directly, or indirectly by investing into AIFs or UCITS, such as, but not limited to, securities issued by Special Purpose Vehicles (hereafter SPVs) or units offered within unit-linked insurance products, where applicable,

    where these PRIIPs have, either directly or on a synthetic basis, a delta one or a leveraged exposure on underlying asset(s) that pays a constant multiple of a market price or index; and

    where at least 2 years of historical daily prices or 4 years of historical weekly prices are available, or, in the case where such minimum data are not available, where a natural benchmark or proxy exists (e.g. recently created ETF on a liquid market index), such that the data of this benchmark or proxy shall be used, on a complementary basis, in the calculation of the market risk.

11. For these PRIIPs the MRM class is determined in accordance with the methodology detailed in Paragraphs 20 to 29.
12. Category V PRIIPs includes any PRIIPs that would otherwise have fallen under either Category II or Category III, but due to an insufficient amount of data or the illiquid nature of the underlying assets, do not meet Category II or III requirements.
13. For these Category V PRIIPs the MRM class is determined as follows:
    (a) Insufficient Data
        i. When historical data is lacking but a natural benchmark or a proxy exists, such benchmark or proxy shall be used, subject to relevant documentation;
        ii. otherwise, the PRIIP shall be assigned to the following market risk class, based on the typology of PRIIP to which it belongs:

Product/ PRIIP Type	**MRM class**
Money market funds	2
Government bond funds	3
Corporate bond funds	4
Broad based equity funds	5
All other funds, structured PRIIPs (which do not fall into category I))	6

Table 1: Assignment of PRIIPs with insufficient historical performance data and where no adequate benchmark or proxy exists

    (b) Illiquid asset classes for the following:
        (i) closed-ended investment funds that invest at least 30% in illiquid assets,
        (ii) long-term investment funds that invest at least 30% in illiquid assets, providing liquidity on a monthly basis or on a less frequent basis, as applicable according to their respective articles of incorporation or similar legal documents, and whose investment policy or strategy is limited to specific illiquid asset classes (such as, but not limited to, real estate),
        (iii) PRIIPs acting in a similar capacity to investment funds under the first two indents, such as securities issued by SPVs or units offered within unit-Linked insurance products,
14. For Category V PRIIPs under paragraph 18 (b), the MRM shall be as follows:
    i. where the PRIIP is a private equity fund, in accordance with the AIFM Directive, or is a PRIIP acting in a similar capacity to such a private equity fund, where relevant, such as securities issued by SPVs or unit-linked insurance products, the MRM shall be class 6;
    ii. where such PRIIPs invest at least 30% and up to 50% of their assets in illiquid asset classes, the market risk shall be assessed on the remaining portion of the assets of such PRIIPs using the relevant methodology and the classification obtained shall be increased by 1 MRM class, so as to take into consideration the illiquid assets' portion;
    iii. where such PRIIPs invest at least 50% of their assets in illiquid asset classes, such PRIIPs shall be assigned to MRM class 4 e if they hold a sufficiently liquid portion of assets in their portfolio allowing them to offer a [monthly] liquidity, provided further that their loan to total net value (either on-balance sheet or on a synthetic basis) is less than 30%;

iv. PRIIPs shall be assigned to MRM class 5 if they do not meet the requirements of paragraphs (i) (ii) or (iii).

15. Category III PRIIPs include:
    a) Any AIFs and UCITS not falling under Category II,
    b) any guaranteed PRIIP not falling into Category I or Category IV.
16. These include structured products and/or structured funds, and/or insurance-based investment products. These are referred to in this context as “Structured PRIIPs”.
17. The MRM of Structured PRIIPs shall be assessed based on the methodology detailed in Paragraphs 30 to 48, provided that at least 500 historical daily prices of such Structured PRIIPs’ underlyings are available in relation to the last 5 years. Where such data is not available, the Structured PRIIP shall be assigned to Category V.
18. Category IV PRIIPs includes products whose value depends in part on factors not observed in the market. This class includes products such as with-profit insurance products which may pay a portion of the manufacturer’s profits over and above the return of an equity index.
19. The MRM risk class is determined following Paragraphs 49 to 52.

Details on MRM for category II PRIIPs

20. The VaR shall be calculated based on the moments of the return distribution measured from the past 5 years of observed daily equidistant prices of the PRIIP where available, or such minimum period of time as further detailed under Category II PRIIPs otherwise.
21. The daily return is defined as the natural logarithm of the ratio of the price at the market close on one day to the preceding market close price.
22. Where:

The zeroth moment, M_0, is the count of the number of days.

The first moment, M_1, is the sum of all the returns in the sample.

The mean is M_1/ M_0.

23. The second (M_2), third (M_3) and fourth (M_4) moments are defined in the standard manner:

$M_n = \sum_\iota (r_i - \text{mean})^n / M_0$,

where r_i is the return measured on the i^{th} day in the history of returns.

24. The volatility, σ, is given by $\sqrt{M_2}$.
25. The skew, μ_1, is equal to M_3 / σ^3.
26. The excess kurtosis, μ_2, is equal to $M_4 / \sigma^4 - 3$.
27. The VaR is given by the equation:

$$VaR_{\text{Return Space}} = \sigma\sqrt{M_0} * (-1.96 + 0.474 * \mu_1 / \sqrt{M_0} - 0.0687 * \mu_2 / M_0 + 0.146 * \mu_1^2 / M_0^2)$$

$$VaR_{\text{Price Space}} = \text{Exp}(VaR_{\text{Return Space}} - 0.5 * M_0 * \sigma^2).$$

28. The VaR-equivalent volatility (VEV) is given by:

$$VEV = \{\sqrt{(3.842 - 2 * VaR_{\text{Price Space}})} - 1.96\} / \sqrt{T},$$

where T is the length of the recommended holding period in years.

29. The PRIIP will be assigned a market risk class according to the following table:

MRM class	Annualised volatility
1	< 0.5%
2	0,5% - 2.0%
3	2.0%-5%
4	5%-10%
5	10%-15%
6	15%-25%
7	>25%

Details on MRM for Category III PRIIPs

30. The VaR shall be calculated from a simulation of the evolution of the PRIIPs value up to the end of the recommended holding period. The simulation is to be based on a bootstrap methodology.
31. The minimum number of simulations is 10000. The number of simulations should be chosen such that the resulting VaR is stable.
32. For each simulation, randomly select one log return or set of log returns for each day in the recommended holding period from the five year history. Calculate the exponential of the sum of the returns, remove the impact of the mean and variance of the observed returns on the expected mean of the simulation and multiply by the expected return over the recommended holding period. The price of each asset is its current price multiplied by its simulated return. The price of the PRIIP on the relevant payment date is calculated using the formula that describes the payoff in terms of the prices of the contributing asset or assets. This price should then be discounted back to the present day using the risk-free rate.
33. Select the simulated value at the 2,5% quantile. The resultant value is the VaR in the price space.
34. The expected return of all assets that contribute to the PRIIPs value is their current risk-free expected value as observed in the market, with possible adjustments as described in paragraph 8.
35. For equities and equity indexes, the expected forward value, at the end of the recommended holding period, is calculated by growing the price at the expected risk-free rate over the recommended holding period and adjusting the price on each observation date by the expected dividends and borrow cost paid between that date and the previous observation date.
36. The expected value of an interest rate between two dates is the current expected forward rate between these two dates.
37. The expected value of a commodity price is set by the current expectations observed in the market using the risk free growth rate and the other factors which impact the price (storage costs and other factors dependent on the commodity).
38. For the purposes of the simulation, there are two types of market observables that may contribute to a PRIIP's value: spot prices and curves. Both types of observables are simulated using a bootstrap methodology, but curves require additional steps.

39. For curves, it is necessary to perform a principal component analysis (PCA) to ensure that the simulation of the movements of each point on the curve over a long period results in a consistent curve.
40. The PCA is performed by:
    (a) Collecting the historical record of tenor points that define the curve on each trading day over the past 5 years. M denotes the number of tenor points, N_H defines the number of days in the historical period
    (b) Calculating the series of returns for each tenor point. This defines a matrix r_H which is an NxM matrix.
    (c) Calculate the covariance matrix over r_H. This is an MxM matrix.
    (d) Execute a singular valuation decomposition of the covariance matrix of the returns at each tenor point on the curve over the entire history of returns. The singular value decomposition results in an MxM matrix V where each column represents an eigenvector of the covariance matrix. The leftmost column is the eigenvector corresponding to the largest eigenvalue, the rightmost column is the eigenvector corresponding to the smallest eigenvalue. Create a second matrix, V', where only the first 3 columns of V are kept and the remaining columns are 0.
41. The curve simulation is performed as follows.
    (a) The time step in the simulation is one day. For each time step, a random row is selected from the matrix rH.. Create a matrix of returns, rS, by assembling an NTSxM matrix where NTS is the number of time steps in the recommended holding period.
    (b) Project the sampled returns onto the first 3 eigenvectors by calculating the matrix product x = rS V'
    (c) Project back into return space by calculating the product $y = [V x^T]^T$. The element yij of this NxM matrix is the ith return of the j^{th} Tenor point. We write x^T to denote the transpose of the matrix x.
    (d) The simulated rate for each tenor point, T, is the current rate at tenor point, T, multiplied by the exponential of the sum of the column in y corresponding to tenor point T, adjusted so that the expected mean matches current expectations for the rate at tenor point, T, at the end of the recommended holding period.
42. [deleted].
43. [deleted].
44. [deleted].
45. The PRIIP's value is calculated by applying the payoff formula for the PRIIP to the simulated prices and curves and discounted to the present using the risk free rate.
46. The VaR is calculated as the observed value at the 2,5% quantile less the expected value of the PRIIP.
47. The VaR is converted into a VaR-equivalent volatility using the formula:

$VEV = \{\sqrt{(3,842 – 2*VaR)} - 1,96\} / \sqrt{T}$,

where T is the length of the recommended holding period in years.

48. The PRIIP will be assigned a MRM class according to the table in paragraphs 20 to 29.

Adjustments for factors not observed in the market

49. Certain PRIIPs, such as with-profit insurance contracts, include legally or contractually defined future profit participation. Where the PRIIP performance depends on a factor unobserved in the market or to some extent under the control of the manufacturer, the manufacturer will include a contribution in the model to account for this factor.

50. Where the factor depends, in part, on market factors, this part of the contribution shall use a bootstrap methodology to account for the market factors.
51. The methodology describing the contribution of non-market factors shall follow industry standards and shall be available for inspection to all supervisory authorities.
52. Where applicable, other product components shall be calculated in line with Paragraphs 20 to 29 or H, as appropriate depending on the product. The VaR-equivalent volatility of both components shall be weighted proportionally in order to arrive at an overall VaR-equivalent volatility of the PRIIP.

PART 2

Methodology underpinning the credit risk assessment

I. Credit risk – scope

53. Credit risk shall be assessed when the return of the investment depends on the creditworthiness of the manufacturer or such party bound to make, directly or indirectly, the relevant payment to the investor (the "Credit Risk").
54. For the avoidance of doubt credit risk shall not be assessed on AIFs or UCITS except as specifically otherwise.
55. The Credit Risk shall be assessed for the following types of PRIIPs:
    (a) a PRIIP whereby an entity directly engages to make a payment to the investor. In such case, the creditworthiness of the entity that is the direct obligor shall be assessed. If this PRIIP or a financial product, with a similar payment obligation, is packaged into another PRIIP, the credit risk attached to the underlying PRIIP or the underlying investment product shall be assessed on a look-through basis, in addition to the assessment of the credit risk that may be attached to the latter PRIIP.

    (b) A PRIIP entering into a financial derivative instrument (other than a listed derivative or a cleared OTC), or an efficient portfolio management technique ("EPMT"), thereby materially exposing the retail investor to the credit risk of such counterparty.

    "Materially" shall refer to a non-collateralised exposure on a counterparty, which shall account for 10% or more of the total assets/value of the PRIIP, for the purpose of Part 2.

    In such case, the creditworthiness of the counterparty of the financial derivative or of the EPMT shall be assessed on a look-through basis, in accordance with the section "credit risk - assessment".

    (c) A PRIIP which provides investors, at predetermined dates, with algorithm based payoffs that are linked to the performance, or to the realisation of price changes or other conditions of financial assets, indices or reference portfolios or has similar features ("structured PRIIP").

    In such case, the creditworthiness of each issuer or counterparty of the underlying assets or transaction(s) of the PRIIP, when material, shall be assessed on a look-through basis in accordance with the section titled "credit risk - assessment". If however (one of) the underlying asset(s) or transaction(s) is a derivative or an EPMT, the credit risk attached to such instrument shall be assessed in accordance with paragraph (b).

(d) A PRIIP investing in underlying PRIIP(s) or other underlying instrument(s) with a similar payment obligation or mechanism (the "Underlying Investment(s)"), where a credit risk shall be assessed:

(i) In relation to both the PRIIP itself and the Underlying Investment (s) on a look-through basis. In such case, the creditworthiness of the PRIIPs and the Underlying Investment(s) shall be assessed in accordance with the section "Credit risk assessment"

(ii) In relation to the Underling Investment(s) only on a look-through basis, the credit risk assessment shall be performed in accordance with paragraph (a) and/or (b) above or on the basis of the credit risk assessment of the underlying instrument(s) with a similar payment obligation or mechanisms.

(e) If all payment obligations of an obligor are unconditionally and irrevocably guaranteed by another entity (the guarantor), the credit risk assessment of such guarantor can be taken into account if it is more favourable than the credit assessment of the first obligor.

II. Credit risk assessment

Selection of external credit rating agencies

56. The PRIIP manufacturer shall define ex-ante one or more external credit rating agencies certified or registered with ESMA whose credit assessments will consistently be referred to for the purpose of the credit risk assessment ("the Rating Agencies"). Where multiple credit assessments are available according to that policy, the median rating shall be used, defaulting to the lower of the two middle values for an even number of assessments.
57. The level of credit risk of each relevant obligor shall be assessed on the basis of:
    i. The credit assessment assigned to the PRIIP by the relevant Rating Agencies, or in the absence of such assessment,
    ii. The credit assessment assigned to the relevant obligor by the relevant Rating Agencies, whereby the long term assessment shall be used unless justified otherwise on the basis of the term of the PRIIP, or in the absence of such assessment,
    iii. The default credit assessment as defined in the section title "credit quality step"
58. Any assessment assigned to a PRIIP or its obligor(s) as per the above, shall be referred to as the "Credit Assessment".

Multiple obligors

59. In the case of credit risks assessed on a look-through basis in accordance with paragraph 55 of the section "Credit risk – scope", the Credit Assessment assigned to the PRIIP shall correspond to a notation equal to the weighted average ratings of each relevant party on which a credit risk applies, in proportion of the total assets of the PRIIP they respectively represent.

60. In the case of credit risks assessed at different layers, as per section 55, all credit risk exposures shall be separately assessed, per layer , and the credit risk assessment assigned to the PRIIP shall be the highest credit risk assessment, being understood that between a credit risk assessment set at 1 and a credit risk assessment set at 3, the highest of the two is 3.

Credit quality steps

61. The credit assessment as determined following paragraphs 56 to 58 and paragraphs 59 to 60 shall be allocated to a credit quality step according to the Commission implementing Regulation (EU) nº… of … laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions in accordance with Directive 2009/138/EC of the European Parliament and of the Council [see Paragraphs 67 to 68]

62. The default credit assessment referred to in paragraph 57(c) shall

    a) correspond to credit quality step 3 if the PRIIP obligor is regulated as a credit institution or an insurance undertaking under the applicable European regulation or equivalent international regulation and if the State where the PRIIP obligor is domiciled would be allocated according to these articles to credit quality step 3 or a more favourable credit quality step;

    b) correspond to credit quality step 5 for any other obligor.

III. Credit risk classes

63. A PRIIP shall be allocated to a credit risk class on a scale ranging from 1 to 6 according to its increasing credit risk, assessed on the basis of the table included paragraph 64, the credit risk mitigating factors referred to in paragraph 65 and the credit risk escalating factors referred to in paragraph 66.

64. Table of correspondence between credit quality steps and credit risk classes

credit quality steps	**credit risk class**
0	1
1	1
2	2
3	3
4	4
5	5
6	6

65. Credit risk mitigating factors shall apply to the following credit risk exposures or assessments:

    (a) a credit risk exposure that is appropriately collateralized shall be deemed immaterial, where appropriate collateralization is being understood as an arrangement where assets deemed to be collateral, are held with a third party on a segregated account in compliance with equivalent terms and conditions as those applicable under the AIFM Directive or UCITS Directive and where, as per the waterfall arrangement applicable to all creditors of the PRIIP and/or the relevant obligor(s), there are no preferred creditors over the PRIIP's investors in relation to such assets held in such segregated accounts(s), and where a value equivalent to the payment obligation of the relevant counterparty(ies) to the PRIIP, or when applicable, the relevant issuer(s) of bond(s) invested into by the PRIIP, shall be maintained under such segregated account until maturity.

66. Credit risk escalating factors shall apply to the following credit risk exposures:
    (a) In case of a credit risk exposure where the claim of a retail investor is subordinated to the claims of senior creditors, the credit assessment shall be increased by 2 credit risk classes
    (b) If the PRIIP is part of the own funds of the PRIIP obligor, in which case the credit risk assessment shall be increased by 3 credit risk classes.

Allocation of credit assessments to credit quality steps

67. For the purposes of the Credit Risk assessment methodology set out in Section II of Part 2, Credit Rating shall be converted in the credit quality steps according to this table.

Default probability Matrix (Fitch)		Agency ratings	Credit Assessment ranges reflecting credit quality steps
1 year	5 years		
0,04%	0.28%	AAA Y AA	0 or 1
0.08%	0.69%	A	2
0.22%	1.96%	BBB	3
1.15%	8.10%	BB	4
2.22%	15.37%	B	5
28.07%	58.70%	CCC or less	6

68. The following table shows the various credit rating scales used by a number of Credit Rating Agencies.

#	ECAI	0	1	2	3	4	5	6
1	**AMBEST**	aaa	aa	a	bbb	bb	b	< b
2	**ARC**	-	-	AAA, AA, A	-	BBB	BB	B, < B
3	**Assekurata**	-	-	AAA, AA	A	BBB	BB	B, < B
4	**Axesor**	-	-	AAA, AA, A	BBB	BB	B	B, < B
5	**BCRA**	-	-	AAA, AA, A	BBB	BB	-	< B
6	**BdF**	-	3++	3+	3, 4+	4,5+	5,6	B, < B
7	**CapInt**	-	-	AAA, AA, A	BBB		B	< 7
8	**CERVED**	-	-	A1, A2	A3, B1	B2	C1.1	C1.2, C2.1
9	**Creditreform**	-	-	AAA, AA, A	BBB	BB	B	< B
10	**Crif**	-	-	AAA, AA, A	BBB	BB	B	< B
11	**Dagong**	-	-	AAA, AA, A	BBB	BB	B	< B
12	**DBRS**	AAA	AA	A	BBB	BB	B	< B
13	**EIU**	AAA	AA	A	BBB	BB	B	< B
14	**ERA**	-	-	AAA, AA	A	BBB	BB	B, < B
15	**Euler Hermes**	-	-	AAA, AA, A	-	BBB, BB	B	< B
16	**EuroRating**	-	-	AAA, AA, A	BBB	-	BB	B, < B
17	**Feri**	AAA	AA	A	-	BBB, BB	B	< B
18	**Fitch**	AAA	AA	A	BBB	BB	B	< B
19	**GBB**	-	-	AAA, AA	A, BBB	BB	B	< B
20	**ICAP**	-	-	AA, A	BB, B	C, D	E, F	< F
21	**JCRA**	AAA	AA	A	BBB	BB	B	< B
22	**Kroll**	-	-	AAA, AA, A	Baa	-	BB	B, < B
23	**Moody's**	Aaa	Aa	A	BBB	Ba	B	< B
24	**S&P's**	AAA	AA	A	BBB	BB	B	< B
25	**Scope**	-	-	AAA, AA, A	BBB	BB	B	< B

26	**Spread Research**	-	-	AAA, AA	A	BBB	BB	B, < B

PART 3

Aggregation of market and credit risk into the summary risk indicator

69. Under Part 1, the MRM class is established for each PRIIP. Similarly, the CRM class is established pursuant to Part 2. The overall summary risk indicator is assigned according to the combination of the CRM and the MRM classes, in accordance with this table.

	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

PART 4

Review of the summary risk indicator

70. For those PRIIPs that are offered in a continuous manner, PRIIPs manufacturers shall without undue delay revise the key information document if the combined effect of a change in the PRIIP´s market risk and/or credit risk measures, following a review of the key information document, entails the PRIIP´s move to a summary risk indicator (SRI) class different from the one attributed as of the most recent version of the key information document, the key information document´s lastly revised version or the initially published one.

71. The PRIIP manufacturer shall monitor market data relevant to the calculation of the MRM and, should that measure have moved so as to correspond to a different MRM class, the PRIIP shall be attributed the new MRM class corresponding to the MRM class which the PRIIP has matched for the majority of the reference points over the preceding four months.

72. A review of the MRM shall always be carried out following a decision by the PRIIP manufacturer in respect of the PRIIP´s investment policy and/or strategy. In those circumstances, any changes to the MRM shall be intended as new classifications of the PRIIP´s MRM category, and consequently, be carried out according to the general rules concerning the classification of the PRIIP by MRM category.

73. The PRIIP manufacturer shall also monitor credit risk criteria relevant to the calculation of the CRM and, should that measure have moved so as to correspond to a different CRM class, the PRIIP shall be attributed to the new CRM class.

PART 5

Liquidity risk

74. For products that can be traded over the life of the product but for which no regulated liquid market exists, a warning shall be included within the SRI, indicating that selling the PRIIP before the recommended holding period may not be possible and may imply significant costs or losses. The presentation of this warning shall comply with the requirements laid down in Appendix 1.

75. PRIIP manufacturers shall warn investors about the risks linked to the need of early disinvestment, when relevant. For this purpose, a narrative shall be included to explain this risk as set out in paragraph 8(a) of Annex III when the PRIIP is illiquid or liquidity risk is materially relevant.

76. A product shall be considered illiquid or having a materially relevant liquidity risk for the purposes of paragraph 74 according to the following criteria:

    a) The product is referenced on a secondary market or alternative liquidity facility that cannot be considered liquid and there is no committed liquidity offered by market makers and/or the PRIIP manufacturer, and the liquidity depends on the availability of buyers and sellers on the secondary market, taking into account that regular trading of a product at one point in time does not guarantee the regular trading of the same product at any other point in time;

    b) The product is referenced on a secondary market or alternative liquidity facility with committed liquidity offered by the manufacturerat a price which significantly impacts the market value of the disinvested amount;

    c) There is no alternative liquidity facility promoted by the manufacturer or a third party, or the alternative liquidity facility is subject to significant limiting conditions, as where there is an asbence of liquidity arrangements;

    d) There are significant early exit penalties or long disinvestment notice periods or discretionary redemption prices;

    e) The average liquidity profile of the underlying investments is significantly lower than the regular reimbursement frequency for the PRIIP, when and to the extent liquidity offered by the PRIIP is conditional to the liquidation of its underlying assets;

    f) The manufacturer estimates that the investor may face significant difficulties in terms of time and/or costs for disinvesting during the life of the product, subject to specific market conditions.

PART 6

Currency Risk Assessment

77. Where a product is denominated in a currency other than the legal tender in the Member State where the product is being marketed, the manufacturer shall ensure that a narrative below the summary risk indicator is included, pointing out to the retail investor the fact that the return the retail investor gets, may be higher or lower as a result of currency fluctuations Appendix 1 [c] of Annex III.

ANNEX III

METHODOLOGY FOR THE PRESENTATION OF SUMMARY RISK INDICATOR

1. Based upon the assessment of the product under Annex II, the summary risk indicator (SRI) shall be presented in a numerical scale ranging from 1 to 7, where 1 indicates the lowest risk class and 7 indicates the highest risk class.

2. The SRI shall be presented in the format as set out in the template in Appendix 1

3. Based upon the assessment of liquidity risk under paragraphs 74 and 75 set out in Annex II, a liquidity warning will be added to the SRI. The liquidity risk warning shall be presented in the format as set out in the template in Appendix 1.

4. The SRI shall be accompanied by a narrative explanation immediately after the risk indicator, briefly explaining the purpose of the indicator and the underlying risks following Appendix 1 [element a + b].

5. The narrative explanation accompanying the SRI will also state its time frame following Appendix 1 [element d].

6. Where the risk of the product if not held to maturity or the recommended holding period is significantly higher, meaning the SRI deviates with at least one risk class from the class represented in the SRI, a warning shall be added, as set out in Appendix 1 [element A]containing a warning within the SRI presentation format].

7. The narrative explanation accompanying the SRI will also state its main limitations following Appendix 1 [element e].
8. The narrative explanation accompanying the SRI will also give an explanation of risks materially relevant to the PRIIP but not adequately captured by the SRI where applicable.

    a. For liquidity risk a narrative explanation/ an element will be included, following Appendix 1 [element e].
        i. where a product is considered illiquid or to have a materially relevant liquidity risk, as set out under paragraph 77 of Annex II, this should be clearly explained in the, as set out in Appendix 1 [element g], directly after Appendix 1[element e]
        ii. Where a product is considered liquid, as set out in Part 5 of Annex II, this should be clearly explained, as set out in Appendix 1 [element f], directly after Appendix 1[element e].
    b. Where a product is considered to have currency risk as set out in Part 6 of Annex II, there should be a clear warning in the narrative explanation, as set out in Appendix 1 **[element c]** in bold.
    c. Where the risk of the product is considered to be significantly higher, meaning the integer deviates with at least one from the one represented in the SRI, due not only to higher market risk assessment, but also to other risks not included in the SRI, such as risks under a and b, these other risks ought to be further explained in the narrative explanation, following Appendix 1[element h] with a maximum of 200 characters.

9. If the product holds a (partial) capital protection against market risk, this should be explained within the narrative explanation, following Appendix 1[element i] including a specification of the percentage of the invested capital that is protected.

    a. Where the (partial) capital protection against market risk is limited, this should be explained within the narrative explanation stating the specific conditions of the limitations, following Appendix 1[element k]

10. If the product holds no capital protection against market risk, this should be explained within the narrative explanation, following Appendix 1[element j].

11. If the capital protection against credit risk is limited, this should be explained within the narrative explanation stating the specific conditions of the limitations, following Appendix 1[element k]

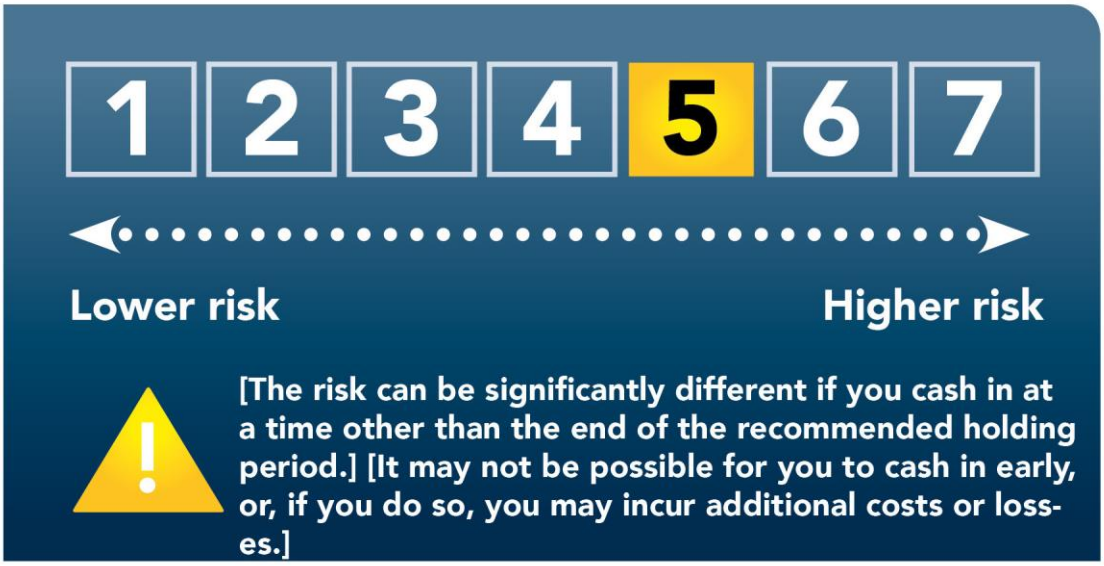
12. If the product holds no capital protection against credit risk, this should be explained within the narrative explanation, following Appendix 1[element m]

13. If the product holds a possible obligation to add to the initial investment, this should be explained within the narrative explanation, following Appendix 1 [element o]

Appendix 1

Format of Presentation of the Summary Risk Indicator

The format for the presentation of the SRI is presented below. Dependent on the corresponding integer as a result from the risk assessment a different integer should be highlighted.



Summary Risk indicator.
[element a]The summary risk indicator is a guide to the level of risk of this product. It helps you to assess it and compare it with other products. It takes into account how likely it is that you might lose money and whether the money you have invested has some form of protection.

[element b] [*insert a brief explanation of the classification of the product with a maximum of 300 characters in plain language*]
For example a product with 100% protection against market risk but high credit risk, overall score 4; 'The product has been classified as class 5 out of 7 considering that although the product has low risk of losses linked to the evolution of the underlying value, the issuer has high credit risk, as adverse conditions will likely impact the firms' capacity to meet its financial commitments. Or for example a product with no capital protection and medium summary risk indicator; 'This product has been classified 3 out of 7, considering that potential losses linked to the evolution of the underlying value are of a medium level and the issuer has adequate capacity to meet its financial commitments.

[Where applicable: c] The money you get back is in [insert currency], which means that the value of this product to you also depends on the exchange rate between [currency of product] and [currency of the country in which the product is offered].

[element d]The summary risk indicator shown assumes that you keep the product for the recommended holding period.

[element e]The risk score does NOT take into account whether you can take your money out early or the costs you might incur for doing so. [where applicable: element f]Be aware that, if you cash in early, you may incur additional costs or losses. [where applicable: element g]Additionally, be aware that it may not be possible for you to cash in early, or, if you do so, you may incur additional costs and losses.

[Where applicable: element h] [Other risks materially relevant to the PRIIP not included in the summary risk indicator to be explained with a maximum of 200 characters]

[Where applicable: element i] The value of your original investment is [insert%] protected against losses due to market events at maturity, though the returns are not guaranteed. [Where applicable: element k] However, this protection does not apply [..]

- Where applicable early exit; [should you cash-in before [… years/months/days]]
- Where applicable default payments; should you fail to make your payments in time.
- Where applicable other limitations as mentioned above: explain with a maximum of […] characters in plain language.

[Where applicable: element j] The amount that you have invested is not protected so in some unfavourable circumstances you could lose all of your investment.

[Where applicable: element m] In the event the manufacturer (we) is (are) not able to pay you what is owed, you could lose your entire investment.

[Where applicable; element o]You may be obliged to add to your initial investment and the total loss you incur may significantly exceed your total investment.

ANNEX IV

PERFORMANCE SCENARIOS

Number of scenarios

1. Three scenarios shall be included in the key information document, portraying the varying circumstances of return, including where applicable, a negative return for the retail investor. The scenarios shall be defined as follows:

    a) An unfavourable scenario: highlights the features of the product and the economic conditions which could give rise to an unfavourable outcome for the retail investor.
    b) A moderate scenario: highlights the features of the product and the economic conditions which could give rise to a moderate outcome for the retail investor.
    c) A favourable scenario: highlights the features of the product and the economic conditions which could give rise to a favourable outcome for the retail investor.

2. An additional scenario shall be added to illustrate significant downward impact features of the product if these features are not adequately covered in the three scenarios under paragraph 1 above.
3. For insurance-based investment products an additional scenario shall be included, presenting the return in case an insured event occurs. This insurance-based additional scenario shall be based on the moderate scenario under paragraph (1)(b) above, where the performance would be relevant in respect of the return.

Selection of performance scenarios

4. The scenarios shall illustrate the functioning of the product under different market conditions (unfavourable, moderate and favourable) and shall enable the retail investor to understand possible outcomes of the product based on reasonable and conservative assumptions about future market conditions and price movements.
5. The reasonableness of each scenario shall be based on the analysis of the available market data of the financial variables which can influence the payoff of the product (i.e. underlying assets, or historical product performance where applicable, and forward looking inputs).
   When market data for the product or the financial variables which can influence the payoff is not available, it may be possible to refer to benchmarks or to peer groups, if available and reasonable. Hypotheses and market data used to generate scenarios shall depend on the recommended holding period.
6. The manufacturer shall consider for his analysis the information used in the internal product governance procedures and the information used to produce other items of the key information document as the scenarios shall represent information which is complementary to and consistent with the information in other sections of the key information document.
7. The scenarios to be shown shall be selected to give a balanced presentation of the favourable and unfavourable aspects of the functioning of the product, but only scenarios that can be reasonably expected shall be shown.

8. In particular, the favourable scenario shall illustrate the outcome of the product in positive market conditions, but it shall not be based on unreasonably optimistic assumptions that will overstate the likely potential of the PRIIP and shall not reflect market conditions that will only occur in extreme cases.
9. The moderate scenario shall be chosen such as to reflect the expected outcome of the PRIIP under normal market circumstances that can reasonably be expected for the term of the PRIIP, lying in between the ones that would lead to both a favourable and an unfavourable product outcome and shall not represent positive or negative market circumstances.
10. The unfavourable scenario shall illustrate performance under negative market conditions that can reasonably be expected for the term of the PRIIP and it shall be sufficiently pessimistic. For a product granting a full and unconditional capital protection at maturity, this scenario shall normally reflect the value of the guaranteed capital (net of all costs).
11. For an insurance based investment product the following shall apply when calculating the performance scenario in accordance with Article 6(4) of this Regulation:

    a. Future profit participation shall be taken into account.

    b. Assumptions on future profit participation shall be consistent with the assumption on the annual rates of return of the underlying assets.

    c. Assumptions on how future profits are shared between the manufacturer and the retail investor and other assumptions on future profit sharing shall be realistic and in line with the current business practice and business strategy of the manufacturer. Where there is sufficient evidence that the undertaking will change its practices or strategy, the assumptions on future profit sharing are consistent with the changed practices or strategy. For life insurers under the scope of Solvency II these assumptions shall be consistent with the assumptions on future management actions used for the valuation of technical provisions in the Solvency II-balance-sheet.

    d. The scenarios for an insurance based PRIIP shall be calculated under the assumption that no payments resulting from insurance coverage occur during the holding period, except in the insurance specific scenario mentioned in paragraph 3.

12. Discretionary benefits linked to the PRIIP shall not be presented in the performance scenarios but shall be mentioned in the narrative in accordance with the fourth indent of Article 8(3)(d) of the Regulation No 1286/2014.

13. The scenarios shall be calculated for the recommended holding period. In addition, performance at an early stage during the recommended holding period, and at the intermediate stage during the recommended holding period shall also be presented under each scenario, subject to the availability of market data and to the possible limits related to early redemptions. In particular, for the insurance-specific scenario under Article 6(4) of this Regulation appropriate interim periods shall be included.

    If the possibilities to disinvest during the life of the product are expected to be very limited the manufacturer shall present performance scenarios only at maturity to avoid creating false expectations for the investor.

14. The scenarios at an intermediate stage of the recommended holding period shall be defined to represent reasonable market circumstances at that point in time. The performance shown will reflect the estimated exit price of the instrument at that point in time.

15. The performance of the PRIIP shall be calculated net of total costs according to paragraph 57 of Annex VI of the Cost Section applicable to the scenario and holding period being presented.
16. [deleted].
17. Where the calculation of performance fees requires an assumption to be made about the return of a benchmark, the return of the benchmark for the moderate scenario shall be calculated in such a way that the return on the PRIIP generates the performance fee as prescribed in [cost section on performance fee]. This return of the benchmark shall also be used to calculate the performance fee (if any) for the unfavourable and favourable scenarios.
18. Performance shall be presented in monetary units. For that purpose, the manufacturer shall select 1 000 € for investment funds and PRIIPs other than insurance-based investment products, 15 000 € for single premium insurance-based investment products or 1 000 € yearly for regular premium insurance based investment products. Where the PRIIP is denominated in a currency other than the Euro, equivalent amounts should be chosen provided that they are cleanly divisible by 1,000.
19. Performance shall also be presented in percentage terms, as the average annual return. That figure will be calculated considering net performance as numerator and the initial investment amount or the price paid as denominator.

    For those products where there is no initial investment or price paid such as future contracts or swaps, the percentage will be calculated considering the nominal value of the contract and a foot note added to explain it.
20. The selection of scenarios shall follow an internally preapproved policy by the manufacturer designed to avoid conflicts of interest in the selection of scenarios and to ensure a consistent treatment for the different products of the manufacturer. In addition, the manufacturer shall demonstrate the reasonableness and appropriateness of their approach.

ANNEX V

METHODOLOGY FOR THE PRESENTATION OF PERFORMANCE SCENARIOS

1. Scenarios shall be presented in a way that is fair, accurate, clear and not misleading, and that is likely to be understood by the average retail investor.
2. The information on performance scenarios shall be presented in a table according to the template in Appendix 1 and should cover all the scenarios described in Annex Y, Part 1 and in line with the methodology under Annex Y, Part 2, while excluding information on cost. Where applicable, for the additional scenario under article [2 (2)] and for the insurance-specific scenario under article [2 (3)] an additional line should be inserted in the table.
3. The information on performance scenarios according to article 2 will be presented at the recommended holding period and for two interim periods preceding the recommended holding period. In particular, for the insurance-specific scenario under Article [2 (3)] appropriate interim periods shall be included. Only in cases where products are considered to be illiquid according to Annex II part 5 paragraph 76, no information on the performance scenarios for the interim periods is required. The scenarios shall be accompanied by a narrative under Appendix 1 [elements a, b and c].
4. Each scenario shall include a narrative text as set out in Appendix 1 [elements d, e and f] , including where applicable the information indicated on the conditions for returns to retail investors or built-in performance caps.
5. Where a product is considered to be illiquid as set out under paragraph 77 of Annex II the performance scenarios may be shown only at maturity or at the recommended holding period, this should be clearly explained in the narrative under Appendix 1[element g] shall be included.
6. In all cases, the narrative under Appendix 1[elements h and i] shall be included.

Appendix 1

Presentation of Performance Scenarios

The format for the presentation of the performance scenarios is presented below. Dependent on the recommended holding period the interim period differs.

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	▯	▯	▯

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		▯	▯	▯

Performance scenarios

[a] This [table/graph] shows the money you could get back over the next [recommended holding period] years, under different scenarios, assuming that you invest €[…] [per year].

[b] The scenarios shown are a simplified representation of possible outcomes. You can use these scenarios to compare with the scenarios of other products, because they are calculated under similar conditions.

[c]The scenarios presented are not an exact indicator of future performance, but an estimation to that effect. What you get will vary depending on how the market performs and how long you keep the investment/product. []

[d] For the **favourable scenario** a rise in the market of […]% is shown. So if the market goes up by […]% the money you may get back will [not rise /equally with the market/ not rise any longer/be cancelled].

[e] For the **moderate scenario** a [rise/drop] in the market of […%] is shown. So if the market goes up/down by […%] the money you get back will [not rise/ not rise equally with the market/ not rise any longer/ be cancelled].

[f] And –for the **unfavourable scenario** a fall in the market of […%] is shown. So if the market drops by […]% the money you get back will [not drop any further/ not drop equally with the

market price/is cancelled].
[g] This product cannot be [easily] cashed in, meaning it is very hard to estimate the money you would get back if you cash in before the recommended holding period/maturity. It may be that cashing in is not possible or, if possible, by incurring high costs or by making a large loss.
[h] The figures shown take into account all costs associated with the product, but may not include all the costs that you pay to your advisor or distributor, and do not take into account your personal tax situation, which may also impact on what you get back.
[i] For a more complete overview of the assumptions that were made in producing the performance scenarios, please see our [insert name of the document where this information can be found].

ANNEX VI
METHODOLOGY FOR THE CALCULATION OF COSTS

PART 1
List of costs of the different types of PRIIPs

I. List of Costs of investments funds (AIFs and UCITS[7])

Definition of costs to be disclosed
One-off costs

1. In the context of the key information document, entry and exit costs (one-off costs) are payments paid directly by the investor or another amount deducted from a payment received by or due to the investor.

2. The entry and exit costs figures shall include all types of costs borne by the fund, whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.

3. The following list is indicative but not exhaustive of the types of entry costs that shall be taken into account in the amount to be disclosed:

   Up-front initial costs, including:

   (a) Distribution fee, to the extent that the amount is known to the management company. If the actual amount is not known to the management company, the maximum of the possible known distribution costs for the specific PRIIP should be shown;
   (b) Loading costs including taxes;
   (c) Constitution costs (up-front part);
   (d) Marketing costs (up-front part);
   (e) Subscription fee.

Recurring Costs

4. In the context of the key information document, 'recurring costs' are payments deducted from the assets of a fund.

5. The recurring cost figure shall include all types of cost borne by the UCITS/ AIFs, whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it. These costs include transaction costs.

6. The following list is indicative but not exhaustive of the types of recurring charges that, if they are deducted from the assets of a fund, shall be taken into account in the amount to be disclosed:

   (a) all payments to the following persons, including any person to whom they have delegated any function:

      (i) the management company of the fund,
      (ii) directors of the fund if an investment company,
      (iii) the depositary,

[7] Without prejudice to articles 32 and 33 of the PRIIPs Regulation

(iv) the custodian(s),
(v) any investment adviser;

(b) all payments to any person providing outsourced services to any of the above, including:

(i) providers of valuation and fund accounting services,
(ii) shareholder service providers, such as the transfer agent and broker dealers that are record owners of the fund' shares and provide sub-accounting services to the beneficial owners of those shares,
(iii) providers of collateral management services,
(iv) providers of prime-brokerage services,
(v) securities lending agents; providers of property management services for real estate operating expenses and capital expenditure (if applicable);

(c) registration charges, listing fees, regulatory charges and similar charges, including passporting fees;

(d) provisioned fees for specific treatment of gain and losses;

(e) audit fees;

(f) payments to legal and professional advisers;

(g) any costs of distribution or marketing, to the extent that the amount is known to the management company. If the actual amount is not known to the management company, the maximum of the possible known distribution costs for the specific PRIIP should be shown;

(h) financing costs, related to borrowing (provided by related parties);

(i) costs of capital guarantee provided by a third party guarantor;

(j) payments to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset in the fund's portfolio (including transaction costs as referred to in paragraph 8-28);

(k) the value of goods or services received by the management company or any connected person in exchange for placing of dealing orders;

(l) the costs of acquiring or disposing of units in UCITS or AIFs shall be taken into account in accordance with the following steps:

(i) Where a fund invests its assets in UCITS or AIFs, its summary cost indicator and recurring ratio shall take account of the charges incurred in the underlying UCITS/AIFs. The following shall be included in the calculation:
(ii) if the underlying is a UCITS its most recently available recurring and entry/exit charges figure shall be used; this may be the figure published by the UCITS or its operator or management company, or a figure calculated by a reliable third-party source if more up-to-date than the published figure;
(iii) the summary cost indicator and recurring ratio may be reduced to the extent that there is any arrangement in place (and that is not already reflected in the fund's profit and loss account) for the investing fund to receive a rebate or retrocession of charges from the underlying AIF/UCITS;
(iv) in cases where subscription and / or redemption fees are payable by the fund in relation to the acquisition or disposal of units in an underlying UCITS/AIF, the monetary value of those fees shall be aggregated for the period under review and

taken into account in the calculation of the summary cost indicator and recurring ratio;

(v) in cases where the acquisition or disposal of units does not occur at the mid price of the UCITS/AIF, the value of the difference between the transaction price and the mid price shall be taken into account as transaction costs.

(m) the costs of acquiring or disposing of units in a PRIIP other than UCITS or AIFs shall be taken into account in accordance with the following steps:

(i) where a fund invests in a PRIIP other than UCITS or AIFs, its summary cost indicator and recurring ratios shall take account of the recurring charges incurred in the underlying PRIIP. Its most recently available (summary cost indicator and recurring ratio) shall be included in the calculation;

(ii) the summary cost indicator (and recurring ratio) may be reduced to the extent that there is any arrangement in place (and that is not already reflected in the fund's profit and loss account) for the investing fund to receive a rebate or retrocession of charges from the underlying PRIIP;

(iii) in cases where subscription and / or redemption fees are payable by the fund in relation to the acquisition or disposal of units in an underlying PRIIP, the monetary value of those fees shall be aggregated for the period under review and taken into account in the calculation of the summary cost indicator and recurring ratio.

(iv) in cases where the acquisition or disposal of units does not occur at the mid price of the underlying PRIIP, the value of the difference between the transaction price and the mid price shall be taken into account as transaction costs.

(n) the costs of acquiring or disposing of units in an investment product other than a PRIIP shall be taken into account in accordance with the following steps:

(i) the PRIIP manufacturer shall either use any published information that represents a reasonable substitute for summary cost indicator and recurring ratio or else shall make a best estimate of its maximum level based on scrutiny of the investment product's current prospectus and most recently published report and accounts;

(o) operating costs (or any remuneration) under a fee-sharing arrangement with a third party to the extent that they have not been already included in another type of cost mentioned above;

(p) earnings from efficient portfolio management techniques if they are not paid into the portfolio;

(q) implicit costs incurred by structured funds, as referred to in paragraphs 2 and following;

(r) dividends served by the shares held in the portfolio of the funds, should the dividends not accrue to the fund.

Incidental costs

7. The following list indicates the types of incidental costs that shall be taken into account in the amount to be disclosed:

(a) a performance–related fee payable to the management company or any investment adviser (including performance fees as referred to in paragraph 29);

(b) carried interests (as referred to in paragraph 30).

Calculation of specific types of costs of investments funds

Transaction costs

8. As per paragraph 6(j), transaction costs incurred as a result of the acquiring and disposing of investments shall be included in the cost disclosure in the key information document, including direct and indirect transaction costs.
9. Transaction costs shall be calculated on an annualised basis, based on an average of the transaction costs incurred by the PRIIP over the previous three years. Where the PRIIP has been operating for less than three years, see paragraph 25.
10. The aggregate transaction costs for a PRIIP shall be calculated as the sum of the transaction costs (calculated as set out below) in the base currency of the PRIIP for all individual transactions undertaken by the PRIIP in the specified period. The result is the aggregate value of transaction costs in the base currency of the PRIIP. It may be converted into a percentage by dividing by the average net assets of the PRIIP over the same period.
11. When calculating the transaction costs incurred by the PRIIP over the previous three years, actual transaction costs must be calculated using the methodology described below in paragraphs 14 to 20 for investments in the following instruments:
    (a) transferable securities as defined by Article 2 of Directive 2007/16/EC (implementing Directive 85/611/EEC);
    (b) other instruments that there are frequent opportunities to dispose of, redeem, or otherwise realise at prices that are publicly available to market participants and that are either market prices or prices made available, or validated, by valuation systems independent of the issuer.
12. Estimates of transaction costs using the methodology described below in paragraphs 21 to 24 must be used for investments in other instruments or assets.
13. Where a PRIIP has a pricing mechanism that offsets the impact of dilution from transactions in the PRIIP itself, the amount of benefit accruing to the ongoing holders of the PRIIP from anti-dilution mechanisms may be deducted from the transaction costs incurred within the PRIIP using the following methodology:
    (a) The monetary amount of any anti-dilution levy, or other payment in connection with a transaction in the PRIIP itself, that is paid to the PRIIP may be subtracted from the total transaction costs
    (b) The benefit to the PRIIP of issuing units (or otherwise enabling investment in the PRIIP) at a price other than the mid-price, or of cancelling units (or otherwise enabling redemption of funds from the PRIIP) at a price other than the mid-price, provided that the PRIIP itself receives the benefit, shall be calculated as follows and may be subtracted from the total transaction costs:
        (i) The difference between the price of units issued and the mid price, multiplied by the net number of units issued;
        (ii) The difference between the price of units cancelled and the mid price, multiplied by the net number of units cancelled.
14. The actual transaction costs for each transaction should be calculated on the following basis:

(a) For each purchase undertaken by the PRIIP, the price of the instrument at the time the order to purchase is initiated (the 'arrival price') shall be subtracted from the net realised execution price of the transaction. The resulting value shall be multiplied by the number of units purchased;

(b) For each sale undertaken by the PRIIP, the net realised execution price of the transaction shall be subtracted from the price of the instrument at the time the order to sell is initiated (the 'arrival price'). The resulting value shall be multiplied by the number of units sold.

15. The net realised execution price shall be calculated as the price at which the transaction is executed, including all charges, commissions, taxes and other payments [or disbursements] (for example anti-dilution levies) associated with the transaction, either directly or indirectly, where those payments are made from the assets of the PRIIP.

16. The arrival price shall be calculated as the mid-market price of the investment at the time when the order to transact is initiated. For orders that are transacted on any day that is not the day that the order was initiated, the arrival price shall be calculated as the opening price of the investment on the day of the transaction or, where the opening price is not available, the previous closing price. Where a price is not available at the time when the order to transact is initiated (for example because the order has been initiated outside market opening hours), the arrival price shall be calculated as the opening price on the day of the transaction or, where the opening price is not available, the previous closing price.

17. Where the information about the time when the order to transact is initiated is not available (or not available to a sufficient level of accuracy) it is permissible to use the opening price of the investment on the day of the transaction or, where the opening price is not available, the previous closing price.

18. Costs associated with derivatives shall be calculated in the following way:

(a) For derivatives that are standardised and where there is regular trading in the derivative itself (for example an index future on a major equity index), transaction costs shall be calculated with reference to the derivative itself. The arrival price shall be calculated as the mid price of the derivative;

(b) For derivatives that are customised, and where there is no price transparency or regular trading in the derivative itself, transaction costs shall be calculated with reference to the underlying asset(s). The arrival price shall be calculated based on the price(s) of the underlying assets, using appropriate weightings if there is more than one underlying asset. Where the cost of transacting in the derivative is materially higher than the cost of transacting in the underlying asset, this must be reflected in the transaction cost calculation;

(c) For options and other similar derivatives, it is permissible to calculate the transaction costs as the difference between the price paid or received for the option and the fair value of the option, on the basis described in paragraphs 37-47 below.

19. In calculating the costs associated with foreign exchange, the arrival price must reflect a reasonable estimate of the consolidated price, and must not simply be the price available from a single counterparty or foreign exchange platform, even if an agreement exists to undertake all foreign exchange transactions with a single counterparty.

20. In calculating the costs associated with orders that are initially entered into an auction, the arrival price shall be calculated as the mid price immediately prior to the auction.

21. The actual costs of transactions in other assets than those defined in paragraph 11 shall be calculated using the methodology defined in paragraph 14, with the definition of arrival price as follows:

22. For a sale, the arrival price shall be calculated as the previous independent valuation price of the asset, adjusted for market movements, where appropriate, using an appropriate

benchmark index. Where a previous independent valuation price is not available, the transaction costs must be estimated based on the difference between the transaction price and an appraisal of the fair value of the asset prior to sale

23. For a purchase, the arrival price shall be calculated as the previous independent valuation price of the asset, adjusted for market movements, where appropriate, using an appropriate benchmark index, where such a price is available. Where a previous independent valuation price is not available, the transaction costs must be estimated based on the difference between the transaction price and an appraisal of the fair value of the asset prior to purchase.
24. The cost estimate must not be less than the amount of actual identifiable costs directly associated with the transaction.
25. For new PRIIPs that invest in liquid assets transaction costs are computed using the standardised percentages in the table below.

Asset Classes	**Sub Asset Classes**	**Cost % (Bps) (***)**
Liquidity	Money market instruments (for the sake of clarity, money markets funds not included)	1
Government bonds	Government bonds and similar instruments developed market rating AAA-A	5
	Government bonds and similar instruments developed market different rating below A	8
Government bonds emerging markets (hard and soft currency)	Government bonds emerging markets (hard and soft currency)	50
Investment grade corporate bonds	Investment grade corporate bonds	25
High yield corporate bonds (worldwide)	High yield corporate bonds	50
Shares developed markets	Shares developed markets	Program trading: 4; no program trading: 15;
Shares emerging markets	Shares emerging markets	35
Listed derivatives	Listed derivatives	0,001 per agreement
OTC	OTC Exotic options	70
	OTC Plain vanilla options	20
	OTC IRS, CDS and similar	1
	OTC Swaps and similar instruments (different from IRS, CDS and similar)	20

	OTC FX Forwards developed markets	0,5
	OTC FX Forwards emerging markets	1

(***)The cost estimation reflect actual market conditions

26. The standardised costs in the table in paragraph 25 shall be revised by the ESAs at least every three years.
27. The transaction costs mentioned in paragraph 25 shall be calculated by multiplying Weighted Average Transaction Costs * Portfolio Turnover Rate (PTR) with PTR estimated on a consistent basis with the investment policy disclosed in the offering documents
28. For new PRIIPs that invest in illiquid assets the manufacturer shall estimate the transaction costs on the basis of the fair value method using comparable assets.

Performance related fees

29. The calculation of performance related fees should be the following:
    a) The performance fees shall be computed on the basis of historical data covering the last 5 years. The average annual performance fees shall be computed in percentage terms;
    b) For funds/share classes where a full performance fees history, as required under indent a) is not available (i.e. because the fund/share classes is new or the fund's terms have changed due to the introduction of the performance fee or the change of one of its parameters), the abovementioned method, shall be adjusted according to the following steps:
        1) Take the relevant available history of the performance fees of the fund/share class;
        2) For any years for which data is not available:
            a) estimate the return of the fund/ share class; for new funds, their return should be estimated using the return of a comparable fund or of a peer group. The estimated return should be gross of all the costs charged to the new fund. Therefore peer groups´ returns need to be adjusted adding the average relevant costs charged according to the funds rules of the new fund. For instance, in case of a new class with a different fees structure, the returns of the existing class should be adjusted taking into account the costs of the new class;
            b) in case of relative performance fees model, take into account the historical series of the benchmark/hurdle rate.

        3) compute the fees from the beginning of the sample period, as required *sub a)*, until the date of availability of the actual performance fees data of the fund, applying the relevant algorithm to the abovementioned historical series;

        4) concatenate both performance fees series to one series over the full sample period as required sub a);
        5) compute the performance fees according *sub a* methodology (average of annual performance fees).

Carried interests

30. The calculation of carried interests should be the following:

    a) The carried interests_shall be computed on the basis of historical data covering the last 5 years. The average annual carried interests shall be computed in percentage terms;
    b) For funds/share classes where a full carried interests history, as required *sub a)*, is not available (i.e. because the fund/share classes is new or the fund's terms have changed due to the introduction of carried interests or the change of one of its parameters), the abovementioned method, shall be adjusted according to the following steps:
        1) take the relevant available history of the carried interests of the fund/ share class;
        2) for any years for which data is not available, estimate the return of the fund/ share class; for new funds, their return should be estimated using the return of a comparable fund or of a peer group. The estimated return should be gross of all the costs charged to the new fund. Therefore peer group's returns need to be adjusted adding the average relevant costs charged according to the funds rules of the new fund. For instance, in case of a new class with a different fees structure, the returns of the existing class should be adjusted taking into account the costs of the new class.
        3) compute the carried interests from the beginning of the sample period, as required *sub a)*, until the date of availability of the actual carried interests data of the fund, applying the relevant algorithm to the abovementioned historical series;
        4) concatenate both carried interests series to one series over the full sample period as required sub a);
        5) compute the carried interests according *sub a* methodology (average of annual carried interests).

II. List of costs of PRIPs[8] other than investment funds – including structured products, derivatives and contracts for difference (CFDs)

Definition of costs to be disclosed

One-off costs

31. In the context of the key information document the entry and exit costs include initial charges or commissions or any other amount paid directly by the retail investor or deducted from a payment received by or due to the retail investor. The one-off costs figures shall include all types of costs borne by PRIPs other than investment funds, whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.

32. The following list is indicative but not exhaustive of the types of entry costs and charges that shall be taken into account in the amount to be disclosed for PRIPs other than investment funds:

    (a) Sales commissions;
    (b) Structuring costs, including market-making costs (spread) and settlement costs;

[8] 'PRIPs' is used in this CP intentionally to distinguish the smaller collection of non-insurance based products. We follow the definition made in art 4 (1) of the PRIIPs Regulation.

(c) Hedging costs (to ensure that the manufacturer is able to replicate the performance of the derivative component of the structured product – these costs include transaction costs)
(d) Legal fees;
(e) Costs for capital guarantee;
(f) Implicit premium paid to the issuer.

33. The following list is indicative but not exhaustive of the types of exit costs and charges that shall be taken into account in the amount to be disclosed for PRIPs other than investment funds:

    (a) Proportional fees;

    (b) Bid-mid spread to sell the product and any explicit costs or penalties for early exit applicable. The estimation of the bid-mid spread shall be done in relation to the availability of a secondary market, to the market conditions and the type of product. In case the manufacturer (or a related third party) is the only available counterparty to buy the product on the secondary market, it shall consider an estimation of the exit costs to be added to the fair value of the product according to the internal policies.

34. In the case of a contract-for-difference (CFD), additional types of costs shall be taken into account. These costs include:

    (a) Commissions charged by CFD providers (general commission or a commission on each trade - i.e. on opening and closing a contract);

    (b) Costs related to CFD trading such as bid-ask spreads, daily and overnight financing costs, account management fees and taxes which are not already included in the fair value.

Recurring Costs

35. In the context of the key information document, 'recurring costs' are payments regularly deducted from all payments due to the retail investor or from the amount invested. The recurring costs figure shall include all types of cost borne by the PRIPs other than investment funds whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.
36. The following list is indicative but not exhaustive of the types of recurring charge that, if they are deducted or charged separately, shall be taken into account in the amount to be disclosed:

    (a) Costs related to coupon payments;

    (b) Costs of the underlying, if any.

Calculation of implicit costs of PRIPs other than investment funds

37. For the purposes of the calculation of the implicit costs embedded in PRIPs, the manufacturer shall refer to the issue price and, after the subscription period, to the price available to purchase the product on a secondary market .

38. The difference between the price and the fair value of the product is considered as an estimation of the total entry costs included in the price.

39. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

40. The fair value policy that governs the measurement of the fair value shall set a series of rules including in the following areas:

    (a) Governance;

    (b) Methodology for the calculation of the fair value.

41. Such rules shall aim at outlining a valuation process that:

    (a) complies with the applicable accounting standards, so that the fair value is the same as the value of the liability that the manufacturer records on its balance sheet when the product is sold;

    (b) makes sure that internal pricing models for PRIIPs are consistent with the methodologies, modelling and standards used by the manufacturer to value its own portfolio under the hypothesis that the product is available for sale or held for trading;

    (c) is consistent with the level of complexity of the product and the type of underlying;

    (d) takes into account the issuer credit risk and the uncertainty about the underlying;

    (e) sets the parameters to identify an active market in order to avoid risk mispricing that could lead in extreme cases to significantly inaccurate estimates;

    (f) maximizes the use of relevant observable market inputs and minimizes the use of unobservable inputs.

42. The fair value of a structured product shall be determined on the basis of:

    (a) Market prices, if available or efficiently formed;

    (b) Internal pricing models using as an input market values which are indirectly connected to the product, derived from products with similar characteristics (comparable approach);

    (c) Internal pricing models based on inputs which are not derived directly from market data for which estimations and assumptions must be formulated (market-to-model approach).

43. If the fair value cannot be derived from market prices, it shall be calculated using a valuation technique that is able to represent properly the different factors affecting the product payoff structure making maximum use of market data.

44. A valuation technique shall consider the following according to the complexity of the product:

    (a) the use of recent arm's length market transactions between knowledgeable, professional counterparties;

    (b) reference to the current market price of another instrument that is substantially the same;

    (c) use an appropriate discounted cash-flow model where the likelihood of each cash flow is determined using an appropriate model of asset price evolution.

45. In the case of subscription products, the fair value must be calculated on the date when the product terms are determined. This valuation date shall be close to the beginning of the subscription period and a criterion to update cost information, in case of long offering periods or in case of high volatility in the markets, has to be defined.
46. If preliminary terms are used, costs need to be calculated by using the minimum terms of the product.
47. If variable subscription prices are used, a procedure on how to incorporate and disclose the cost effect of the varying subscription price, has to be defined.

III. List of Costs of Insurance-based investment products

Definition of costs to be disclosed

One-off costs

48. In the context of the key information document the entry and exit costs (one-off costs) include initial charges or commissions or any other amount paid directly by the investor or deducted from the first payment or from a limited number of payments due to the investor or from a payment upon redemption or termination of the product.
49. The one-off costs figure shall include all types of cost borne by insurance-based investment products whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.
50. The following list is indicative but not exhaustive of the types of entry costs and charges that shall be taken into account in the amount to be disclosed for insurance-based investment products:
    (a) structuring or marketing costs;
    (b) acquisition, distribution, sales costs;
    (c) processing / operating costs (including costs for the management of the insurance cover);
    (d) cost part of biometric risk premiums referred to in paragraph 55(c);
    (e) cost of holding required capital (up front part);

Recurring costs

51. In the context of the key information document, ‘recurring costs’ are payments regularly deducted from all payments from the investor or from the amount invested or amounts that are not allocated to the policyholder according to a profit sharing mechanism.
52. The recurring cost figure shall include all types of costs borne by insurance-based investment products whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.
53. The following list is indicative but not exhaustive of the types of recurring charge that shall be taken into account in the amount to be disclosed:
    (a) structuring or marketing costs;
    (b) acquisition, distribution, sales costs;
    (c) processing / operating costs (including costs for the management of insurance cover);
    (d) cost part of biometric risk premiums referred to in paragraph 55(c);
    (e) other administrative costs;
    (f) cost of holding capital (recurring part);

(g) Any amount implicitly charged on the amount invested such as the costs incurred for the management of the investments of the insurance company (deposit fees, transaction costs, costs for new investments, etc.) that are deducted from the participation bonus (please see paragraph 8 to 28 on the calculation of transaction costs).

54. Where an insurance-based investment product invests a part of its assets in UCITS, AIFs, in a PRIIP other than UCITS of AIFs or in an investment product other than a PRIIP paragraphs 6(l), 6(m) and 6(n) shall be applied respectively.

Cost disclosure of the biometric risk premium of insurance based investment products

55. Definition of the costs part of biometric risk premiums
    (a) Biometric risk premiums are those premiums paid directly by the investor or deducted from the amounts credited to the mathematical provision or from the participation bonus of the insurance policy, that are intended to cover the statistical risk of benefit payments from insurance coverage;
    (b) The fair value of biometric risk premiums is the expected present value (according to the interest rates referred to in paragraph 67(a)) of the future benefit payments from insurance coverage taking into account best estimate assumptions on these benefit payments derived from the individual risk profile of the portfolio of the individual manufacturer and other payoffs related to insurance cover (rebates on biometric risk premiums paid back to the policy holders, increase of benefit payments, reduction of future premiums, etc.) resulting from profit sharing mechanisms (legal and/or contractual). Best estimate assumptions on future benefit payments from insurance coverage shall be set realistic. The estimated future benefit payments shall not include prudency margins or costs for the management of the insurance cover. For manufacturers under the scope of Solvency II these best estimate assumptions shall be consistent with the respective assumptions used for the calculation of the technical provisions in the Solvency II balance sheet;
    (c) The cost part of biometric risk premiums is the difference between biometric risk premiums charged to the investor referred to in sub-paragraph (a) and the fair value of the biometric risk premiums referred to in sub-paragraph (b);
    (d) Instead of the cost part of biometric risk premiums referred to in paragraphs 50(d) and 53(d) the manufacturer may include the full biometric risk premiums in the one-off, respective recurring costs.

PART 2

Summary indicators

I. Summary cost indicators

Summary cost indicator – reduction in yield

56. The summary cost indicator (Reduction in Yield) of the PRIIP shall be the reduction of the yield due to total costs calculated according to paragraphs 66 to 68.

57. For the calculation of the summary cost indicator the cost to be disclosed referred to in paragraph 68 shall be the total costs. This shall equal for investment funds the sum of the costs as referred to in paragraphs 1 and 2 plus the sum of the costs as referred to in paragraphs 4, 5 and 7; for PRIPs other than investment funds, the sum of the costs as referred to in paragraph 31 plus the sum of the costs as referred to in paragraph 35; and for insurance-based investment products, the sum of the costs as referred to in paragraphs 48 and 49 plus the sum of the costs as referred to in paragraphs 51 and 52. The total costs shall also include exit penalties, if relevant.

One-off costs and entry/ exit cost ratios

58. The entry and exit costs ratio of the PRIIP shall be the reduction of the annual yield due to entry and exit costs calculated according to paragraphs 66 to 68.

59. For the calculation of the one-off costs and of the entry and exit costs ratio the cost to be disclosed referred to in paragraph 68**Error! Reference source not found.** shall for investments funds be the one-off, entry and exit costs according to paragraphs 1 and 2; paragraph 31 for PRIPs other than investment funds; and paragraphs 48 and 49 for insurance-based investment products. Exit costs shall also include exit penalties, if relevant.

Recurring costs and portfolio transaction costs / other recurring costs ratios

60. For the calculation of the recurring costs, the costs to be disclosed shall be the sum of the recurring costs according to paragraphs 4 and 5 for investment funds; paragraph 35 for PRIPs other than investment funds; and paragraphs 51 and 52 for insurance based investment products.
61. The portfolio transaction costs and other recurring costs ratio of the PRIIP shall be the reduction of the annual yield due to portfolio transaction costs and other recurring costs calculated according to paragraphs 66 to 68.

62. For the calculation of the portfolio transaction costs ratio, the cost to be disclosed referred to in paragraph 68**Error! Reference source not found.** shall be the portfolio transaction costs according to paragraph 8 to 28 for investment funds, paragraph 36(b) for PRIPs other than investment funds, and paragraph 53(g) for insurance based investment products.
63. The other recurring costs ratio shall be the reduction of the annual yield due to other recurring costs that is calculated as the difference between the summary cost indicator according to paragraph 56 and the sum of the one-off costs ratio, according to paragraph 58, plus portfolio transaction costs ratio, according to paragraph 61, plus the incidental costs ratio, according to paragraph 65.

Incidental costs and incidental cost ratio

64. For the calculation of the incidental costs, the cost to be disclosed shall be the sum of the incidental costs according to paragraph 7 for investment funds.
65. For the calculation of the incidental costs ratio, the cost to be disclosed referred to in paragraph 68**Error! Reference source not found.** shall be the portfolio incidental costs according to paragraph 7 for investment funds.

Calculation of reduction in yield

66. The Reduction in Yield shall be calculated as the difference between two percentages i and r where r is the annual internal rate of return in relation to gross payments by the investor and estimated benefit payments to the investor during the recommended holding period and i is the annual internal rate of return for the respective cost free scenario.

67. The estimation of future benefit payments mentioned in the previous paragraph shall be based on the following assumptions:

    (a) The annual internal rate of return, i.e. the performance, of the PRIIP shall be calculated taking into account the methodology and the underlying hypothesis used for the estimation of the moderate scenario from the performance scenarios section of the key information document;
    (b) The benefit payments shall be estimated under the assumption that all costs included in the total costs according to paragraph 57 are deducted.

68. Calculations for the cost free scenario mentioned in the paragraph 66:

    (a) For the calculation of *i* either gross payments by the investor from the calculation of *r* shall be reduced by the costs to be disclosed or the projected benefit payments to the investor from the calculation of *r* shall be increased under the assumption that the amounts of the costs to be disclosed had additionally been invested. Then *i* is the annual internal rate of return in relation to these adjusted payments by and to the investor.
    (b) Where costs to be disclosed can be expressed as a constant percentage of the value of the assets they may be disregarded in the calculation described in paragraph 68 (a) and instead be added to *i* afterwards.

Specific requirements for insurance-based investment products:

69. For the purpose of the calculations described in the paragraphs 66 to 68 for insurance-based investment products it shall be assumed that no payments resulting from insurance coverage occur during the holding period i.e. the calculation of the reduction in yield shall be solely based on estimated endowment benefit payments.

70. To the extent recurring and one-off costs are covered by explicit cost that are a fixed part of the premium calculation of the product the calculation of recurring and one-off costs shall be based on these explicit costs.

71. Profit participation for insurance based investment products:

    (a) When calculating recurring and one-off costs for insurance-based investment products amounts retained from the investment return through profit sharing mechanisms shall be considered as costs;
    (b) Where a part of costs is returned to policy holders by separate cost bonuses this shall be considered as a cost rebate that reduces cost deductions provided:
        (i) The cost bonuses are declared separately from other parts of the participation bonus and are intended for refunding parts of the costs by the contractual terms of the product.
        (ii) The insurer can substantiate on the basis of sound actuarial methods that expected future cost bonuses are covered by expected future profits that result from prudent assumptions on future costs.

Specifications for the calculation of ratios

72. If one type of cost is covered by two or more types of costs as referred to in the present Annex, this type of cost shall only be accounted for once in the calculation of the indicators (ratios) which are based on it.

73. These ratios shall be expressed as a percentage to two decimal places.

74. These ratios shall be calculated at least once a year.

75. These ratios shall be based on the most recent cost calculations which the manufacturer has determined. Without prejudice to paragraph 72 above, the costs are assessed on an 'all taxes included' basis.

    As for investment funds:

    (a) A separate calculation shall be performed for each share class, but if the units of two or more classes rank *pari passu*, a single calculation may be performed for them;
    (b) In the case of a fund which is an umbrella, each constituent compartment or sub-fund shall be treated separately for the purpose of this Annex, but any charges attributable to the fund as a whole shall be apportioned among all of the sub-funds on a basis that is fair to all investors.

76. Apart from the first calculation for a new PRIIP, and if not stated otherwise, these ratios shall be calculated at least once a year, on an *ex-post* basis. Where it is considered unsuitable to use the *ex-post* figure because of a material change, an estimate may be used instead until reliable *ex-post* figures reflecting the impact of the material change become available.

77. The ex-post figures shall be based on recent cost calculations which the manufacturer has determined on reasonable grounds to be appropriate for that purpose. The figures may be based on the costs set out in the PRIIP' statement of operations published in its latest annual or half-yearly report, if this is sufficiently recent; if it is not, a comparable calculation based on the costs charged during a more recent 12-month period shall be used instead.

78. Information about these ratios that were applicable during previous years / periods should be published at the location which is specified in the key information document as the general source of further information for investors who require it.

79. Where the costs attributable to an underlying UCITS or AIF are to be taken into account:

    (a) the cost indicator of each underlying UCITS or AIF is pro-rated according to the proportion of the fund' net asset value which that UCITS or AIF represents at the relevant date (being the date at which the PRIIP figures are taken);
    (b) all the pro-rated figures are added to the total cost figure of the investing PRIIP itself, thus presenting a single total.

Calculation methodology for new PRIIPs

80. In place of *ex-post* data, estimates shall be used in the calculation of the different types of costs. Such estimates shall be carried out by adopting as proxies either a comparable PRIIP or a peer group.

81. For PRIIPs which charge a fixed all-inclusive fee, that figure shall be used (provided it includes all costs to be presented under the PRIIPs cost disclosure requirements).

82. For PRIIPs which set a cap or maximum on the amount that can be charged, (and provided it includes all costs to be presented under the PRIIPs cost disclosure requirements) where instead that figure shall be used so long as the manufacturer gives a commitment to respect the published figure and to absorb any costs that would otherwise cause it to be exceeded.

83. If, in the manufacturer's opinion, expressing a figure to two decimal places would be likely to suggest a spurious degree of accuracy to investors, it shall be sufficient to express that figure to one decimal place.

84. The manufacturer shall ensure that the accuracy of the estimated figure is kept under review. The manufacturer shall determine when it is appropriate to begin using *ex-post* figures rather than an estimate; but in any case it shall, no later than 12 months after the date on which the PRIIP was first offered for sale in any Member State, review the accuracy of the estimate by calculating a figure on an *ex-post* basis.

II. Compound effect of the costs

Common requirements to all types of PRIIPs

85. The table mentioned in Article 8(1) of this Regulation shall contain an indication of the total costs in monetary and percentage terms for the case that the investor invests, respectively 1 000 € (for investment funds and PRIPs other than investment funds), 15 000 € (for single premium insurance-based investment products) or 1 000 € yearly (for regular premium insurance-based investment products) during three different holding periods, including the recommended holding period.

86. Where the currency of the PRIIP is not in Euros, an amount of a similar magnitude to those set out in paragraph 85 and which is cleanly divisible by 1000 should be used.

87. [Deleted].

88. The total costs shall include one-off, recurring and incidental costs, and, if relevant, exit penalties.

89. Exit penalties are to be distinguished from other exit costs which have to be paid in any case and therefore always need to be included in the one-off costs.

90. The relevance of exit penalties depends on the holding period of the investment and the exact moment when the product is cashed in. Exit penalties are not relevant if the investment is kept for the recommended holding period.

ANNEX VII
FORMAT OF PRESENTATION OF COSTS

The RIY (Reduction in Yield) shows the impact total costs have on what you get back. The total costs take into account one-off, recurring and incidental costs.
The costs that are shown here are the costs of this product. There may be other costs charged to you by the person who is either selling this product to you or advising you on this product. They will provide you with information about these costs, and show you the impact that all costs will have on your investment over time.
The table shows what the costs, including potential exit penalties, could mean for different holding periods. The figures assume you invest €1 000 (or €15 000 for insurance PRIIPs). The figures shown are partially based on data from the past and therefore may change in the future .

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	[]%	[]%	[]%

The table shows how the impact the different types of costs have on what you get back at the recommended holding period and what the different cost categories mean.

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...[]

4. Explanatory Text in respect of the draft RTS

RTS, article 12-14:

The investment options offered in a multi-option product may be standardised portfolios (for instance, an 'adventurous' option, or a 'moderate' option, or may be individual investment assets or products (for instance, a specific fund tracking a specific equity index), depending on the multi-option product in question. The information provided would not address combinations of investment options, given that the KID is designed as a generic pre-contractual document.

Not only the different investment options can change the characteristics of a multi-option product, but also the more personal elements. The amount involved in covering the biometric risk premium will differ substantially with the age of the insured person. Manufacturers should be able to show these effects in the KID. One of the ways to do this is by defining a set of target groups (where variables as the age and probably the total premium differ) and prepare separate KIDs for these target groups to be able to show them more tailored information. This approach can be useful for with-profit insurance products as well.

Annex II, 7:

The value-at-risk is defined as the return at a given quantile of the distribution of returns minus the capital investment. Because the value of money can change over time, it is important to compare these two quantities at the same time horizon. In the computations of the VaR, money is valuated at the moment of investment. To account for the value of money over time, any return paid after the investment must be discounted to the present. In the bootstrap methodology, this is done using the risk free rate, since that is the return one could have received by not investing in the PRIIP. E.g. if the return from the bootstrap methodology results in a payment of 100 euros in 7 year and the risk-free rate is 2%, the present value of this payment is 100 / $(1.02)^7$ = 87,06 euros.

In the Cornish-Fisher method, the value of money over time is taken into account by equating the expected return to zero instead of the risk free rate. This is equivalent to the method of setting the expected return to the risk free rate and discounting the returns to the present.

Annex II, 27, 28 and 47:

$$VaR_{Price\ Space} = e^{VaR_{Return\ Space} - 0.5\sigma^2 T}$$

The calculation of the VaR in return space is based in the distribution of log-returns because log-returns are additive. The Cornish-Fisher expansion uses the moments of the observed return distribution to correct the VaR for the observed deviations from a normal distribution. In return space, the price return is the expectation of e^x. The expectation of e^x in price space has to be 1 (or the amount invested).

If the mean of the distribution of log-returns is 0, as we have specified for the calculation of the VaR using the Cornish-Fisher expansion, then the mean in price space has to be compensated for the impact of the width (or volatility) of the distribution.

We note that the width of the distribution will shift the mean of the distribution in price space higher. This fact can be seen by calculating the Taylor expansion of the function e^x which gives $\left(1 + x + \frac{1}{2}x^2 + \cdots\right)$ where the x^2 term corresponds to the measure of the distribution's width.

Annex II, 28:

$$VEV = \frac{N^{-1}(2.5\%, 0,1) + \sqrt{N^{-1}(2.5\%, 0,1)^2 - 2VaR}}{\sqrt{T}}$$

PRIIPS products have a wide range of recommended holding periods will increase with the length of the holding period. To ensure that the risk measure does not unfairly discriminate against products with long holding periods, the risk measure used to determine the applicable SRI is the annualized volatility.

The above formula translates the product's VaR into the annualized volatility. The formula assumes a log-normal distribution of returns where the volatility is the measure of the width of the return distribution in return space and the expected return of the product is the amount invested as the VaR is measured in the nominal currency at the time of the investment.

Annex II, 49:
Normally, the profit participation is not fully under the control of the manufacturer and it cannot easily be determined on market values. For this reason these kinds of insurance products require an additional adjustment as described in the paragraphs above. If, however, the profit participation is a fully discretionary decision of the manufacturer, the profit participation shall not be taken into account.

Annex II, Part 1
An indication is given of what a typical product's MRM is for the particular risk class.

Market risk class	***Typical products for this class***
1	*Insurance products/capital guaranteed products/ some money markets*
2	*Money Markets*
3	*Government Bond Funds*
4	*Corporate Bonds*
5	*Equity Funds, some Structured products*
6	*Structured products, leveraged products*
7	*CFDs or margin products*

Annex II, 55 (a):
This is the case for example of a structured note where the payment of the pay-off depends on the creditworthiness of the PRIIP manufacturer, or of an insurance product offering protection of capital and where such protection is offered by the insurance company.
The packaging as another PRIIP is the case for example of a SPV, issuing a note purchased by holders which shall receive at maturity, full payment of the capital they invested in addition to regular coupons depending on the performance of a basket of securities. The capital is guaranteed by a bond purchased by the SPV and the coupons shall be received by the SPV from the counterparty to the swap the SPV entered into. Payment obligations of the SPV depend on the solvency of the issuer of the bond and on the solvency of the counterparty to the derivative transaction.

Annex II, 55 (b):
This is the case for example of an AIF or a security issued by an SPV, holding, in addition to cash, a total return swap providing the PRIIP with a synthetic exposure on a basket of underlying securities.

Annex II, 55 (c)
This is the case for example of a structured fund , where the payment of the pay-off depends on the creditworthiness of the issuers of the bonds, included in the basket of the structured fund.

Annex II, 55 (d) i:
This is the case for example of a unit-linked insurance contract investing into a structured note or into a bond.

Annex II, 55 (d) ii:
This is the case for example of a SPV investing into a bond.

Annex II, 55 (e):
This is the case for example when the obligor without an individual credit risk assessment is part of a larger group that has a credit risk assessment, whereas the larger group is legally or contractually bound to act as guarantor regarding the obligations of the obligor.
Insurance or deposit protection schemes are not considered to be guarantors for the purpose of (d) above and are not considered in the credit risk assessment.

Annex II, Part 2, 56 – 58
As a general principal according to CRA III Article 5a caution should be taken with regards to the over-reliance on credit ratings by financial institutions. At this point no suitable methodology other than the current external rating was found. Therefor the use of external credit ratings should be subject to the review of PRIIPs.

Annex II, Part 4:

As a general principle, any material change to the risk profile of the PRIIP should entail a prompt revision of the KID.

This requirement applies to those circumstances where the change of the risk profile of the PRIIP is linked to changes in the overall market conditions in the segments that are relevant for the investment policies and/or overall objectives and strategies adopted by the PRIIP. But it also applies to those circumstances potentially leading up to a new CRM class for the PRIIP.

Therefore, both the MRM and the CRM of the PRIIP should be monitored and controlled on an ongoing basis and, if any material change has occurred, an updated version of the KID should be produced, displaying the PRIIP´s new SRI.

However, there are several circumstances regarding the risk classification process that should also be taken into account when considering whether a change should be deemed as material.

Regarding the market risk classification, for instance, the underlying market risk measure (VaR-equivalent annualized volatility) is estimated from a data sample and is, therefore, subject to estimation errors. In this respect, the ESAs have considered it appropriate to establish rules that would prevent migrations between market risk classes to happen purely as a result of sampling errors.

As it happens, the PRIIP should be attributed the new risk grading corresponding to the risk class where its market risk measure has fallen for most of the time over the preceding 4 months´ period.

In addition, the situation where the VaR-equivalent annualized volatility of a particular PRIIP is stable over time but oscillates around the threshold between two volatility classes, potentially leading up to frequent changes to the risk grading in the KID, while the underlying market risk profile of the PRIIP is stable and does not change significantly over time, have also been pondered.

The boundaries of MRM classes 1 to 7 have therefore been set with a view to preserve the stability of the market risk classification over normal economic cycles, preventing unduly migrations of products across risk classes – bearing in mind the need to review the KID, anyway, at least once a year – something that could endanger its overall reliability. Against that, the need to envisage a risk classification map which would provide enough discriminatory power, avoiding the compression of products into too little a number of risk classes, was carefully weighted as well.

As for the credit risk classification, the events potentially leading up to the assignment of a new CRM class to the PRIIP, whether related to external credit ratings or not, such as actual credit ratings revision, or structural changes to the PRIIP such that the previously acknowledged credit risk mitigating factors no longer apply, or some escalating factors come into play, tend to happen less frequently than the events potentially leading up to the assignment of a different market risk class, requiring therefore not quite as much monitoring by the PRIIP manufacturer, even though the impact of such credit related events is generally bound to be big.

The ESAs have established that, when applicable, the SRI of a PRIIP should be revised whenever, following a review of the PRIIP´s MRM and CRM class, the combination of those risks is seen to have fallen outside the SRI class corresponding to its previous risk class.

Annex II, Part 6:

In circumstances where a PRIIP is offered in a currency which is different from the applicable currency of the country where the product is being offered, this additional currency risk is not captured in the quantitative assessment of the market risk. In such cases the retail investor needs to be aware that he faces additional currency risk on top of the risk disclosed in the summary risk indicator. It is important to distinguish the risk from the PRIIP from the risk from the offering. For this reason an additional narrative should be included in this specific section to warn the investor of this additional currency risk that he faces. The distributor will be then responsible of informing the client about this additional risk.

Annex III, 7:

This refers to products that may, for example, have significantly different risk profiles over time. The SRI is constructed only for one timeframe, the recommended holding period. When for other timeframes then the recommended holding period the difference in the risk profile is significantly different, it will be required to upgrade the risk profile, increasing an indent on the SRI. For example, when products only offer capital protection at the recommended holding period. This could refer to any bond where the issuer undertakes the obligation to repay the nominal amount at maturity, or structured products that offers a 100% capital protection.

Annex IV, 2:

Examples one could think of in the case of significant downward impact features include a knock-out event or the possibility of a residual loss which is assumed to only occur in an extreme negative scenario and because of small changes cannot be covered in the unfavourable scenario.

Annex IV, 11 (d):

1. For life insurances profit participation usually depends on the performance of underlying assets as well as on future management actions. Therefore assumptions on the performance of underlying assets and future management actions need to be set.

2. Future profit participation very much depends on the ratio how profits are shared between the manufacturer and the retail investors. As profit sharing mechanisms differ very much between the member states it would not be feasible to prescribe a detailed method for the estimation of this ratio and other parameters relevant for profit participation. Those life insurers that fall under the scope of Solvency II have already to set assumptions on future profit participation in their valuation models used for the calculation of technical provisions in the Solvency II balance sheet. Therefore these assumptions must be consistent with the respective assumptions set in the Solvency II-valuation-models.

Annex IV, 20:

1. All PRIIPs display comparable unfavourable, moderate and favourable scenarios. Performance information shall complement the information included in the SRI and the narratives below required (such as an indication of the maximum loss of invested capital and conditions for returns or built-in performance caps).
2. Taking into account that one of the main characteristics of PRIIPs is that they do not have a fixed return, and that the pay-out varies according to the fluctuation of the underlying prices or the reference values, the information about performance shall be provided considering different scenarios, defined as different market conditions (values of the underlying prices or the reference values). The scenarios to be selected shall illustrate the range of potential outcomes that can reasonably be expected for the product (unfavourable, moderate or favourable outcome) and describe the market circumstances which lead to each one. Given

the wide range of products in PRIIPs scope, what is an unfavourable, moderate or favourable outcome shall be defined for each product and cannot be standardized for all products or for all moments in time.

3. In addition to the three basic scenarios described above, certain products may require an additional scenario to illustrate some specific feature of the product that possibly has an important impact on the expected return, in so far as it has not been sufficiently described in the first three scenarios. That could be the case for example, for products with knock out features or conditional floors. A particular case is insurance-based products, where a scenario showing insurance benefits is needed to balance the presentation of insurance costs in the corresponding section of the KID.

<u>Annex V:</u>

1. The use of annualised figures facilitates the comparison of the performance scenarios of PRIIPs with different recommended holding periods. The use of monetary values is more understandable to retail investors rather than only mentioning the percentage annual returns.
2. Return over the investment is the amount of money invested after costs. However, in structured products, it may be clearer for investors to calculate performance/price (nominal); and not discount costs embedded in the price.
3. The appropriate displayed invested amount may differ between different PRIIPs. For instance, for investments in UCITS or with-profit insurance products an amount of several thousand Euros may be appropriate. For structured products or other products their nominal value may be appropriate.

<u>Annex VI, 6 (i):</u>

The guarantee might be granted to the investor through different types of contractual arrangements comprising up-front or recurring payments: a guarantee given by a bank or a financial instrument such as a financial option with premiums paid upfront or each year, under fixed or variable terms depending on market conditions (in some equity funds, the payment equals the dividend of the underlying assets).

In both cases, the cost to be disclosed might be computed as the total amount of premiums paid.

<u>Annex VI, 6 (o):</u>

Under a fee-sharing agreement, the management company or another party may be meeting, in whole or in part, operating costs that should normally be included in the summary cost indicator and recurring ratios.

- Any remuneration of the management company (or another person) that derives from such fee-sharing agreements shall be taken into account and added to the summary cost indicator and recurring ratios. Possible examples include the remuneration of a management company through a fee-sharing agreement with a broker on transaction costs, or with a custodian on stock-lending income;
- There is generally no need to take into account fee-sharing agreements on expenses that are already accounted for in the (total expense ratio) summary cost indicator and recurring ratios. However, in the specific case of a fund investing in other UCITS/AIFs, any fee-sharing agreement between the management company of the fund and the UCITS/AIFs or its operator or management company shall be taken into account if it is not already captured under another type of costs mentioned above.

Annex VI, 8:
The principle of the methodology for calculating transaction costs is that transaction costs represent the difference between the value of an asset when owned by a PRIIP, and the prices at which the PRIIP transacts in that asset.
Because transaction costs vary and are not necessarily predictable, disclosure of transaction costs should be based either on the actual costs incurred over prior periods or on standard costs as prescribed below.

Annex VI, 29:
A performance fee is a variable fee linked to the performance of a fund.
A performance fee can for example be based on a share of the capital gains or the capital appreciation of the fund's net asset value or any portion of the fund's net asset value as compared to an appropriate index of securities or other measure of investment performance.
The "performance" of a fund should be understood in a very wide scope to encompass any kind of variable fee. It includes capital appreciation as well as any income linked to the fund's assets (e.g., dividends). It should be assessed with reference to a 'target' performance.

Annex VI, 32:
Not all these costs are currently necessarily "unitized" by the manufacturer when pricing the product. Firms with wide retail outfits may have already determined models to account for legal costs at the transaction level, unitized hedging costs and settlement costs but it may not be the case of all issuers/dealers. Prices of exotic payoffs (such as Autocalls or Reverse Convertibles) will often be estimated by the dealer based on a portfolio hedging methodology and influenced by the size of the deal, the timing of the request, etc. This might specifically be the case for certain costs such as:
- Hedging costs: especially for products that may not be individually hedged by purchasing an option/an asset in the market but rather hedged on a portfolio basis by combining various risks on the books;
- Legal fees: platform costs such as Base prospectus, legal opinions, tax opinions that are conducted at the business level.
On a unitized basis, certain costs are easily seized such as: sales commission (if known) and certain hedging costs such as balance sheet/funding costs linked to holding the hedging asset on the balance sheet and product level legal costs (listing prospectus, supplements, legal and tax opinions).When products are delta-one and encompass rebalancing of underlying components over the life of the product, it might be the case that some of the hedging costs and spreads are on-going and must be disclosed on running basis rather than upfront. However, even in that case, they could be estimated as upfront costs.

Annex VI, 33:
When there is only one available counterparty to buy the product on the secondary market the bid price might not reflect the fair value of the product. If the price is not reflecting the fair value of the product the difference shall be considered as a cost borne by the retail investor and it shall be disclosed.

Annex VI, 36:

The KID of a structured product, derivative and CFD should enable retail investors to identify, within the issue price of a PRIIP, (i) the amount that will be captured by the manufacturer, and (ii) the amount that will be used to provide / generate a return to the retail investor (invested capital). The amount that will be captured by the manufacturer should be disclosed in the entry costs.

Since some costs are usually embedded in the issue price, to give a complete disclosure of such costs as entry costs the PRIIP manufacturer has to determine the fair value of the product in order to calculate the invested capital and the implicit cost embedded in the issue price.

After the subscription period, some structured products/derivatives may be purchased in secondary markets by retail investors. In these cases, the difference between the effective price the retail investor pays and the then fair value, will represent the costs of entry to the investor.

Annex VI, 50:

For insurance-based investment products regular premium payments are widespread in some/most Member States. In these cases initial charges or commissions often cannot be fully deducted from the first premium as it is not high enough. Instead initial charges or commissions may be deducted from a limited number of premium payments (e.g. from the premium payments in the first five out of thirty years). Although such deductions are not solely deducted from the first premium the one-off character prevails and they should be accounted for as one-off costs and not as recurring costs.

Annex VI, 53:

For investment-based insurance products the timing of costs often differs from the timing of the costs at the company level that are covered by the costs. E.g. initial commissions in some cases are covered by costs that are distributed evenly over the full holding period. In such cases the classification as one-off or recurring-charge should primarily depend on how the costs are charged to the investor. Therefore a cost charge that is distributed evenly over the full holding period should be classified as recurring cost.

Annex VI, 55 (d):

The fair value of biometric risk premium doesn't constitute a cost as it is the financial equivalent of benefit payments paid by the insurer to the investors because of the insurance cover. Therefore principally only the difference between the full biometric risk premium paid by the investor and the fair value of the biometric risk premiums should be taken into account as cost.

But the scale of insurance cover varies tremendously between different insurance based investment products. In those cases where only a marginal insurance cover is included in an insurance based investment product the requirement to calculate the fair value of biometric risk premiums could be an undue burden for the insurer. Therefore the insurers shall have the option to include the full biometric risk premiums in costs instead. As this leads to an overestimation of costs there is a strong incentive for insurers only to use this option for products with marginal insurance cover.

Annex VI, 68:

Paragraph 68 describes the option either to adjust payments by the investor or payments to the investor for the cost free scenario. These options yield essentially the same results for investment

funds and insurance based investment products. However for structured products it might not be clear how to adjust future benefits for a cost free scenario possibly leading to substantially different results. Therefore for structured products the calculations for the cost free scenario should be based on an adjustment of the payments of the retail investor.
Example:

Let us assume that an investor pays 100 Euro and under the moderate scenario he gets back 121.67 Euro five years later. This would equal an yearly return of 4% with regard to the full investment of 100 Euro and the payment of 121.67 Euro the investor receives at the end. Now let us assume that costs embedded in the initial investment of 100 Euro calculated based on the fair value approach are 5 Euro and no other costs apply. The internal rate of return with regard to the same benefit payment (121.67 Euro) and a reduced payment by the investor of 95 Euro would be 5.07%. Thus the RIY would be 5.07% - 4% = 1.07%. If instead the benefit payment of 121.67 Euro should be adjusted under the assumption that 5 Euro would be invested additionally in the cost free scenario, due to the non-linearity of structured products, it might not be clear how to do that.

5. Provisional Feedback on Discussion Papers

5.1 First Discussion Paper

1. Background

A Discussion Paper (JC/DP/2014/02) was published for consultation on 17 November 2014, which closed on the 17 February 2015..

In total 87 stakeholders responded to one or more of these specific questions.

The stakeholders included industry participants and associations from all sectors, including intermediaries, consumer representative organisations, the ESAs stakeholder groups, and public sector authorities and bodies.

2. Summary of responses

Preliminary feedback on those questions related to the summary risk indicator, performance scenarios and costs has already been included in the second ('technical') discussion paper (JC/DP/2015/01).

Review, revision and republication of the KID

Chapter 7 of the Discussion Paper, and questions 49 to 52, related to the empowerment for the ESAs to draft RTS under Article 10. In total 56 stakeholders responded to one or more of these specific questions.

Almost all respondents agreed on building on the existing rules for the UCITS KIID, although most of them see the need for some adaptation to accommodate the broader range of products covered by the PRIIPs Regulation.

Some manufacturers producing PRIIPs that might be placed on secondary markets were concerned that review, revision and republication requirements could be disproportionate, or raised the question as to whether the originating manufacturer of the PRIIP should be responsible.

Statements from a wide range of types of stakeholders also highlighted challenges in specifying 'materiality' triggers for republication. Leaving these too open to interpretation could lead to different approaches, reducing comparability, while being too prescriptive could raise costs unnecessarily.

None of the industry stakeholders was in favour of an active communication model regarding updates and existing retail investors. Consumer organizations viewed active communication as useful in some cases, for instance where there is a change to the cost structure or objectives of the PRIIP, or where its risk class changes.

It was noted that the manufacturer may well not be aware of who end investors are, for instance where units or shares of a PRIIP are held by distributors or other third parties, or are held through nominee accounts on systems where the end investor does not or cannot directly participate.

The potential need for adaptation of the UCITS requirements has been taken into account by the ESAs when preparing the draft RTS contained in this Consultation Paper.

The ESAs note the difficulties with requiring an active communication model in respect of existing investors, also in view of the primary purpose of the KID as a pre-contractual rather than post-contractual communication document. Current developments of web-based publication and investment aggregation tools may, in the view of the ESAs, offer practical solutions for efficiently informing retail investors, and for keeping those retail investors up to date in regards to their existing investments.

Timing of delivery

Chapter 8 of the Discussion Paper, containing questions 53 and 54, related to the empowerment for the ESAs to draft RTS under Article 13. In total 54 stakeholders responded to at least one of these specific questions.

A majority of respondents of all types agreed on building on the standard set in MiFID II Recital 83 as a model for the technical standards.

Some mentioned that the standards should take into account that the complexity of a PRIIP might not in itself determine for all retail investors a necessity for additional time to understand that PRIIP – that is to say, the time needed should take into account the novelty for the retail investor.

A number of respondents mentioned the importance of coherence with requirements under the Distance Marketing in Financial Services Directive, for instance in relation to 'cooling off' periods.

Some mentioned the importance in their view of not impeding timely transactions where this is at the initiative of the retail investor.

Recital 83 to the MiFID II sets out criteria to be taken into account, but allows flexibility over the combination or weighting of these criteria. The criteria include both the familiarity of the specific investor with the product or products of a similar kind, and the complexity of the product. Under this approach, it would be up to the person advising on or selling the PRIIP to consider, for instance, whether the complexity of a PRIIP outweighs the familiarity of the retail investor with investments of that kind.

The requirements in the Distance Marketing in Financial Services Directive related to cooling off periods are not relevant in the context of the timing of delivery of pre-contractual information as set out in this empowerment, as these requirements relate to the time following the conclusion of a contract through distance means, where a KID will not have been provided 'in good time before' the retail investor is bound by the contract. This situation is covered separately in Article 13 (3), which provides for a derogation to the requirement on provision 'in good time before'. The empowerment that is the subject of this Consultation Paper does not relate to conditions in relation to the derogation set out in Article 13 (3).

5.2 Second ('Technical') Discussion Paper

1. Background

A Discussion Paper (JC/DP/2015/01) was published for consultation on 23 June 2015, which closed on the 17 August 2015.

In total 67 stakeholders responded to one or more of the questions.

The stakeholders included industry participants and associations from all sectors, including intermediaries, consumer representative organisations, the ESAs stakeholder groups, and public sector authorities and bodies.

2. Summary of responses on Costs

Cost disclosure issues in relation to investment funds (list of costs)

On the list of costs, most respondents addressed the question whether the list should be exhaustive or not. Diverging responses were given. The need to define further some types of costs was underlined by some respondents (acquisition costs, marketing and constitution costs, financing costs, including interest on borrowing).

Some stakeholders were of the view that performance fees should be included in the summary cost indicator while others, including the majority of players from the fund industry, objected to this, and preferred to show performance fees separately.

Some stakeholders advocate in favour of including carried interests in the ongoing costs figure, while others wish to present them separately. Some stakeholders are of the view that carried interests are not costs.

Other stakeholders suggested including other types of costs in the non-exhaustive list of costs to be disclosed, such as listing fees.

On transaction costs related issues, the majority of responses favoured the hybrid approach (between an actual costs based methodology and a standardized model). There was a lot of support for a standardised approach but more in the context of all of industry using the same methodology and approach to ensure consistency than having a set figure to use. Two responses stated explicit costs only should be taken into account. One response said that transaction costs should only be reported where they have a negative impact on the investment. Some respondents from the insurance industry indicated that implicit transaction costs are marginal and negligible for the investment-based insurance market.

Two respondents were of the view that the details of the calculation of transaction costs is too technical for a regulatory technical standard and should be left to level 3 guidelines in the event that changes are needed to the methodology once implemented. One response added that the standardised approach should be established by ESMA based on market data to be collected under the new MiFIR transaction reporting regime. In the view of this respondent, it should be updated in a regular way, probably annually, in order to fit into the regular revision cycle of the KID.

One respondent indicated that transaction costs for property are very different from other securities – there could be costs in some years and none in others which makes them difficult to estimate in advance and information provided for one given year may not reflect the overall transaction costs over the time frame of the investment of a retail investor.

Cost disclosure issues in relation to structured products (list of costs)

Several stakeholders recognized that all costs of structured products are known by the manufacturer because these costs are all embedded in the price. Some respondents underlined that it is important to make a distinction between the costs borne by the manufacturer (e.g. hedging costs, legal costs, capital requirement costs) that are not passed to the client and the costs directly borne by the investor (e.g. sales commission).

Several stakeholders stressed the need of having common and shared rules on the lists of costs in order to avoid arbitrariness and improve transparency and therefore that all costs should be described in details in the Regulatory Technical Standards.

The respondents to the Technical Discussion Paper did not identify relevant differences between the costs of structured deposits and the costs of structured products.

On the estimate of the fair value, almost all respondents agreed on the suggested principle-based approach, while all respondents objected to a very prescriptive approach.

Cost disclosure issues in relation to insurance-based investment products (list of costs)

On biometric risk premium (BRP) related issues, the majority of respondents from the insurance industry supported not including the full biometric risk premium in the summary cost indicator. Instead of giving information on biometric risk premium in the cost section of the KID, some stakeholders indicated they would prefer providing the related information only in the "What is this product?” section. These respondents considered that the BRP is a price and not a cost, and that including the full BRP in a cost summary indicator would not ensure a level playing field, having also in mind that in their view, BRP depends on the age of the investor and therefore cannot be disclosed accurately in a pre-contractual document.

Some respondents outside the insurance sector favoured showing the full biometric risk premium as cost, considering that the costs included in the summary cost indicator shall comprise all the deductions from the investment.

Overall the respondents did not elaborate further on the idea to split the BRP in a fair value and a cost part (part of BRP that exceeds the fair value).

Regarding the list of costs of insurance-based investment products, several respondents from the insurance industry stressed that for insurance companies costs at the level of the company do not automatically generate costs at the level of the contract. On optional costs depending on the behaviour of the investor, several respondents stressed that these costs should not be considered, because these costs can be avoided by the investor and can hardly be anticipated by the manufacturer.

On profit sharing, the feedback was quite inhomogeneous. Several respondents welcomed the fact that performance decreasing effects of profit participation shall be considered as costs. Some argued that a significant part of the return of assets are retained by insurers through profit participation mechanisms and therefore should be considered as cost. Others expressed the view that profits that are not distributed cannot be seen as costs and should be seen as a premium for the insurer for taking on risks. In the same vein, views on cost decreasing effects were split. Some stakeholders indicated that life insurers should not be allowed to consider parts of the profit sharing as deduction from costs, because in their views, future profit sharing is not guaranteed.

Other respondents expressed the view that it is very difficult or even impossible to estimate the effect of future profit sharing on costs. One reason mentioned is that in several Member States there are profit sharing mechanisms at the level of the company that do not automatically translate into a certain profit sharing at the level of the contract. The effects on the single contract are therefore difficult to estimate.

Cost disclosure issues in relation to the choice of the summary cost indicator

A majority of the responses to the TDP expressed support for the Reduction in Yield (RIY) approach, as compared to the Total cost ratio (TCR) approach. The stakeholders that supported this approach were representing all types of sectors (fund and insurance industries, and to a less extent, the banking industry).

Some stakeholders from the banking industry objected that the RIY approach implemented to structured products would raise technical issues. In that respect, some respondents were of the view that the assumptions on the future performances / returns should be consistent with the ones used in the performance scenarios section of the KID.

3. Summary of the feedback on Risk and Reward

I. Distribution of returns

On the general issue regarding the distribution of returns, most respondents do not actually make a distinction concerning how a distribution of returns should be established for the risk indicator or the performance scenarios. Some respondents point out that the approach followed for both indicators does not necessarily have to be identical, given the different intentions of both.

Most respondents, especially those representing the investment fund or banking industries, prefer that estimates of return distributions should be based upon the distribution of returns directly obtained from historical data. Mostly respondents from the insurance industry would favour the application of stochastic modelling based on parameters estimated from historical data.

Concerning the time value of money and the potential use of benchmarks, most respondents believe that performance should be measured against the amount invested without any adjustment of the real term value of the investment in the future. Some respondents suggest that, in particular for longer term products, a disclaimer could be included, pointing out to the effect of inflation.

For those respondents who favour the use of probabilistic performance scenarios, a majority prefers applying the assumption that the assets grow at the risk free rate adjusted by an asset specific risk premium for the calculation of the performance scenarios. A minority of respondents view that risk premiums should not be used, neither for the purpose of performance scenarios, nor for the purposes of the risk indicator, given a potential bias of such estimates.

Concerning the time frame that the Summary Risk Indicator and Performance Scenarios should be based on, most respondents prefer showing the risk indicator for the recommended holding period, but to include a warning or narrative text that explains the possible variation in risk over time. Still, a few respondents would favour showing the risk indicator and performance scenarios also for several intermediate times as well as the recommended holding period.

II. Risk indicator

Regarding the discussion of the risk indicators, the Technical Discussion Paper was focused on a number of specific issues. In particular, on the issue of the use of external credit ratings for the assessment of credit risk, most of the respondents are in favour of a qualitative approach (i.e. the use of credit ratings). A minority, mainly representing the structured products industry, would prefer a quantitative approach.

The general preference may be due to the non-availability or volatility of quantitative data such as credit or CDS spreads. Proponents of the use of credit ratings underscore the importance of comparability and consistency of credit ratings with reference to the CRR and Solvency II since it would ensure a proper assignment of the various ratings to different credit quality steps.

For cases where no external credit ratings are available, views are less clear. Some favour the application of the credit rating of comparable or peer companies, while others would also take into account whether the undertaking is prudentially supervised. Representatives from the insurance industry noted that prudential requirements under Solvency II, as well as the existence of insurance guarantee schemes (or deposit insurance), should be considered.

Regarding the assessment of liquidity in the risk indicator, most respondents view that liquidity matters mostly for trading clients and less for retail investors that follow a buy-and-hold strategy, as such it depends on the individual retail investor's time horizon, preferences and circumstances. Thus, respondents would prefer a narrative or warning below the summary risk indicator. Some respondents note that the liquidity profile should be described under the sections "What is this product?" and "How long should I hold it and can I take money out early?".

Furthermore, concerning the qualitatively based risk indicator combining credit and market risk, most respondents do not prefer such an approach. In particular, many respondents are concerned that a quantitative rationale for the risk assessment would be missing. In addition, it may be arbitrary or not sufficiently able to differentiate between particular products. Few respondents note, however, that such an approach could be easier to implement and to monitor.

The proposed indicator based on a quantitative volatility measure for market risk and a qualitative measure for credit risk is favoured by some respondents, mostly representing UCITS. Such respondents feel that it would be the closest approach to the current Synthetic Risk and Reward Indicator and could be easier to implement by manufacturers. Other respondents note that this option may not be suitable for long-term products, especially with a view to the insurance industry. One respondent proposes the combination of options 2 and 3.

More than half of the respondents is not in favour of option 3, an indicator on quantitative market and credit risk measures calculated using forward looking simulation models. In particular, many respondents feel that the methodology of approach 3 is (unnecessarily) complex for both manufacturers and retail investors. Complexity of calculations may lead to the lower usability. In addition, option 3 may imply high implementation costs both for manufacturers and for regulators to supervise. More than one third of the respondents favour option 3. Such respondents feel that implementation effort is manageable due to the fact that it is already in place and most of the PRIIP manufacturers are calculating risk figures like VaR for their products.

The responses to the proposed amendments to option 3 were mixed, a majority of respondents however do not favour the amendments suggested. Such respondents fear the amendments would lead to higher implementation costs and would need increased supervision. There is no consensus amongst respondents regarding the level of prescriptiveness of parameters and model.

Most of the respondents do not support option 4, the two-level indicator, either noting its complexity or lack of clarity, as it is described in the Technical Discussion Paper.

In addition, the majority of respondents believe that the definition of the scale of the risk indicator should remain consistent with UCITS approach, which uses a scale of 1–7. Some respondents view that a continuous numeric scale resulting from converting each feature into points and then summing those points would be appropriate. In general, respondents urge the need that the indicator gives a fair comparison of the different PRIIPs, is easily understood by retail investors and efficiently implemented by PRIIP manufacturers.

III. **Performance**

Concerning performance scenarios, the Technical Discussion Paper discusses three possible approaches. Most respondents favour a deterministic, “what if” approach, over a probabilistic approach. Further, most would prefer a “what if” manufacturer choice approach. Respondents argue that illustrative scenarios are simpler and easier to understand for retail investors. Respondents also reject the use of combinations between “what if” and probabilistic performance scenarios.

Regarding the issue how prescribed “what if” scenarios should be standardised, some respondents support the use of historic scenarios, especially for unit-linked products. However, others are firmly against the use of historical scenarios, as these may not be appropriate for other products. Predefined scenarios may limit manufacturers’ discretion and enhance comparability. However, at the same time, they may be difficult and too complex to standardise across the scope of all PRIIPs.

Only a minority of respondents favours the consistent use of probabilistic scenarios. Regarding the possible determination of percentiles under a probabilistic approach, many respondents support the proposed 10/50/90 approach, to the extent that they also support such an approach at all.

Some of the proponents of a “what if” approach allowing for manufacturer choices would support further Guidelines by the Joint Committee. Others would prefer a more prescribed “what if” approach already in the draft RTS, especially those representing the insurance industry. However, it became apparent from the consultation that different types of PRIIPs might warrant different treatment in the performance scenarios.

Almost all respondents are against the inclusion of credit events in the performance scenarios, irrespective of the approach. Only a few respondents representing consumer organisations would favour their inclusion. It should be highlighted that the inclusion of credit events would only be appropriate for products such as credit linked notes where it is considered that credit events are a core characteristic of such products. Respondents from the insurance industry referred to the importance of insurance guarantee schemes, as well as prudential regulation under Solvency II in this regard.

Divided views are given by respondents as to whether redemption events should be considered. A number of respondents, especially from the structured products industry, would only favour the inclusion of automatic early redemptions, while voluntary early redemption should be explained in the KID section "How long should I hold it and can I take money out early?”.

Also regarding the question whether the performance in case of an early exit should be shown, views are divided. Respondents from the insurance industry as well as from some banks note that the consequences of an exit before the recommended holding period should also be indicated in the KID section "How long should I hold it and can I take money out early?”.

Some respondents view that the fair value is an adequate measure relative to future performances but may be difficult to compute for some scenarios. For future periods, the starting point of the scenario is uncertain and the retail investor may misinterpret the conditional expectation of the shown intermediate performance.

6. Preliminary Impact Assessments

An assessment of impacts of the proposals in this Consultation Paper has been prepared separately for each empowerment in the PRIIPs Regulation .

i. Impact Assessment for Article 8

1. Procedural issues and consultation of interested parties

According to ESAs' Regulation, the ESAs conduct analysis of costs and benefits when drafting regulatory technical standards. The analysis of costs and benefits is undertaken according to an Impact Assessment methodology.

The draft RTS and its impact assessment are subject to public consultation.

In preparing these draft RTS, the ESAs have conducted two separate public consultations by means of Discussion Papers.

2. Description of market

The PRIIPs market is broad and diverse, both at the EU level and between different national markets.

Globally, the larger part of the market in terms of assets under management is investment funds, mostly in the form of UCITS; insurance-based investment products (either unit-linked, or 'traditional' or 'with profits' in type); and structured products. Estimates from 2009 put the UCITS market at around 9 trillion EUR, and insurers assets at around 6 trillion EUR, and retail structured products at around 0.5 trillion EUR (it is unclear whether these figures included structured deposits).[9]

There is some difficulty assessing the end proportions of retail assets under management under these different vehicles: UCITS will often be underlying investments for insurance-based investment products, irrespective of whether these latter are directly unit-linked or traditional in form, so there will be some double counting, while the insurance figures are not broken down according to assets under management earmarked for retail investors. In addition EFAMA estimates show perhaps only 33% of UCITS sales can be directly classified as retail. Overall the market might be considered to be around 10 trillion EUR in size.

While there can be expected to be some evolution of this picture over time, for instance an increased allocation of assets to innovative instruments, such as structured products, in a 'low yield' environment, the broad rankings of vehicles according to assets under management are

[9] http://ec.europa.eu/internal_market/finservices-retail/docs/investment_products/20120703-impact-assessment_en.pdf, p.

unlikely to have changed significantly since 2009 given the relatively large scale of the UCITS and insurance sectors compared to others.

Having said this, national markets have developed in different ways, such that the balance between investment vehicles can vary according to local markets: in some, retail structured products may be more prevalent, or direct sales of UCITS, or unit-linked contracts as opposed to traditional insurance investment vehicles. This heterogeneity also reflects the balance of features offered in vehicles: for instance, guarantees, whether third party or not, are more commonly offered in some markets than others, irrespective of the investment vehicle.

PRIIPs are also heterogeneous in regards their features, though, as PRIIPs, they of course share many features too, and by definition all target accumulation and investment aims. This heterogeneity reflects such factors as the different time horizons they are designed for (from some instruments that can be suitable for very short period investments, for weeks or months, to products designed for accumulating savings over decades), the different degrees of diversification and risk spreading they seek to offer, and differences in terms of the nature and extent of capital protection provided. For PRIIPs that are insurance based, biometric risk cover is also included.

The heterogeneity is important when considering the impacts of different options for standardised KIDs.

3. Problem definition

According to Article 8(5), the ESAs shall develop draft RTS specifying:

A. Details of **presentation** and **content** of information contained in a key information document (KID) (following the sections set out in Article 8 (3));
B. the **methodology** to be used for the summary risk indicator and performance scenarios; and
C. the **methodology** to be used for the summary cost indicators.

The scope of these draft RTS is therefore broad, but not without significant limits: specific rules already apply in the Regulation on the length of the document, the use of plain language, the headings to use in the document and the sequence that these need to follow, and the substantial information elements to be included in the different sections.

The general purpose of the draft RTS is to standardise the KID to the greatest degree, to aid consumers in comprehending and comparing different PRIIPs. This general purpose is determined by the level one Regulation and so to a great extent impacts that are related to such standardisation in general are not relevant for the assessment of different options for such standardisation. By contrast, the assessment of different options in regards the draft RTS should focus on the differential impacts of these options.

The level one Regulation was accompanied already by an impact assessment, focused on the specific problems and possible solutions arising in relation to product information ('disclosure').[10]

The key **problem drivers** identified were:

- the emergence of retail investment products of similar economic nature but different legal forms;
- a patchwork of regulation applying to retail investment products; and
- unmitigated asymmetries of information.

These drivers led to disclosures that were insufficient or difficult to comprehend and compare, and an uneven level playing field between product manufacturers. The impact assessment set out evidence that these in turn caused or contributed to individual consumer detriment through mis-sales, a decline in confidence in the investment markets more generally, and thereby reduced capital-market efficiency. The impact assessment recognised however that there could be multiple determinants of mis-sales, not solely poor product disclosure. These include inadequate or misleading advice, and issues related to unmitigated conflicts of interest.

The specific problems drivers and problems that are to be considered in respect of the level two draft RTS are in the context of this broader picture, as explored in the level one impact assessment.

The ESAs have assessed the areas where there is significant discretion at level two as the areas of risk disclosure (notably, the summary risk indicator), the treatment of rewards (performance scenarios), and the information on costs and summary cost indicators. The ESAs have identified the problems that specifically need to be addressed in these areas as follows:

Problem driver	Problem	Detail
Complexity/diversity of **risks**	Reduced capacity to understand and compare risks	• Risks opaque • Synthesising risks difficult • Risks difficult to compare
Uncertainty of **rewards**	Reduced capacity to understand and compare rewards	• Rewards unclear • Lack of balanced perspective on rewards, including potential downside as well as upside • Possible rewards difficult to compare between PRIIPs
Complexity / diversity of **costs**	Reduced capacity to understand and compare costs	• Overall impact/scale of costs difficult to understand • Unclear impact of costs over time • Difficult to compare costs

[10] http://ec.europa.eu/internal_market/finservices-retail/docs/investment_products/20120703-impact-assessment_en.pdf.

		for PRIIPs, especially where these have different cost structures

Baseline scenario

When analysing the impact from proposed policies, the impact assessment methodology foresees that a baseline scenario is applied as the basis for comparing policy options. This helps to identify the incremental impact of each policy option considered. The aim of the baseline scenario is to explain how the current situation would evolve without additional regulatory intervention.

The baseline scenario is based on the situation where the PRIIPs Regulation applies, but where there is no RTS to further specify Article 8(3).

Individual PRIIP manufacturers would each be liable to develop risk, reward and cost disclosures. Some coordination amongst manufacturers, for instance through trade bodies, to develop possible 'soft law' approaches might be expected, but cross-sectoral and to a degree cross-market consistency, would not be likely.

The specific liability for each PRIIP manufacturer to develop a risk indicator, performance scenarios and cost indicators could be expected to drive considerable costs in the aggregate across markets, sectors and manufacturers. The costs could be disproportionate in application on different PRIIP manufacturers. Trade body ('soft law') activities would not fully mitigate these costs.

The lack of consistency in content – even where there is to a degree strong consistency in format – of the KID could lead to detriment amongst retail investors where they rely on the document to make comparisons between PRIIPs unaware of or not taking sufficient notice of differences in the methodologies used for the risk, performance and cost indicators. This could in turn lead to reduced reliance and trust in the KID amongst retail investors and distributors, significantly undermining its ability to achieve benefits for retail investors.

4. Objectives

The objectives identified by the ESAs follow from the problems set out above:

Problem driver	Objective	Detail
Complexity/diversity of **risks**	Improve comparability and comprehensibility of **risks**	• Comparable risk indicator • Indicator makes overall impact of risks clear • Risk indicator and accompanying narrative
Uncertainty of **rewards**	Improve comparability and comprehensibility of **rewards**	• Balanced perception of upside and downside

		• Understanding of nature/shape of reward profile • Comparability between very different payoff structures
Complexity/diversity of **costs**	Improve comparability and comprehensibility of **costs**	• Understanding of combined impact of costs • Clarification of the costs evolution through time • Comparability of costs between very different cost structures • Awareness of how cost structure could apply for particular circumstances of retail investor

In assessing options for tackling these broad objectives, the ESAs have identified a number of criteria that are important. These relate both to questions of 'presentation,' and to questions, where figures are involved, of methodologies to be used. These criteria were already set out in the first Discussion Paper (JC/DP/2014/02):

Criteria for assessing options for presentation	
Engaging	The presentation of the elements in the KID should be as simple as possible, to be easily understood by retail investors and to engage them more, motivate them to use the KID and increase attention for the KID
Understandable	This criterion refers to the level of *complexity* of the information as whether consumers can *interpret* the information. The information in the KID should be understood by the retail investors with the assumption that the consumer may not have an adviser, distributor or seller on hand to explain the information.
Comparable	One of the main purposes of the KID is to enable investors to compare investment opportunities with each other. This can be done by an investor by comparing several KIDs but it is also possible to include reference points within the KID that make the information more comparable, for example through the use of benchmarks.
Compatible	This criterion refers to the compatibility of the proposals for presentation of information with the requirements formulated in the PRIIPs Regulation. All options will need to be strictly compliant with the PRIIPs Regulation.
Balanced presentation	This criterion holds that we should look for a balanced presentation of the different aspects within sections of the KID but also a balanced presentation of the sections of the KID. By this criterion we try to make sure that the upsides and downsides of certain products are balanced in an objective fashion.
Coverage of types of PRIIPs	The goal is to develop presentational forms that are suitable and applicable to all different types of products that fall into the scope of the PRIIPs Regulation. Given the heterogeneity of PRIIPs in scope, this will be an important challenge.
Criteria for assessing underlying methodologies	
Reliable	The information within the KID is reliable where it provides a fair estimate of the actual risks and costs involved.
Robust	The measurement of risk, reward and costs should not be easy to manipulate. It should be an objective representation of the risk, reward and costs that are being measured.
Stable	The output of the measurements needs to be relatively stable. It is important that risk or cost indicators are reliable forecasts, and that they are not overly sensitive to relatively minor changes in conditions.
Applicable	The measurements should be applicable to all types of PRIIPs. Where a measurement (e.g.

	of historic volatility) is available for some PRIIPs but not available for those without a track record, or might be a misleading measure for some, effective methodologies for combining or synthesizing different measures in an objective way may be necessary.
Comparable	The measurements should lead to values that are comparable amongst different types of PRIIPs.
Discriminatory	If it is not possible to differentiate between PRIIPs, a measure loses its purpose. It needs to be clear that a certain measured output is below or above another measured output. Therefore it is important that the indicator provides discriminatory output.
Feasible/ Proportional	An indicator or measure that is overly sophisticated in relation to the granularity and accuracy of the information included in the KID could be seen as disproportionate. This does not imply that the simplest or least costly option should always be selected.
Supervision	Will it be possible for regulators to assess whether product manufacturers are complying with any proposed prescribed methodology?

These criteria have been used – as appropriate and where relevant – throughout the internal work of the ESAs when identifying and developing options. This impact assessment will concentrate however only on the main aspects of the most material of the policy issues, as identified by the ESAs.

5. Policy issues and options

In respect of each of the broad objectives above, the ESAs have identified the following policy issues where different policy options had a strong potential for materially different costs and benefits. Each policy issue is assessed in depth below.

Issue	Description
Risk 1	Selection of types of risk to include in the SRI/risk and reward section
Risk 2	Aggregation of main types of risks
Risk 3	The different aspects of the Methodology to get to a Summary Risk Indicator
Risk 4	Disclosure of liquidity risk and liquidity profile (liquidity issues)
Risk 5	Selection of SRI time frame
Risk 6	SRI presentation format
Reward 1	Choice of Performance Scenarios
Reward 2	Performance Scenarios presentation format
Costs 1	Investment Funds / Transaction costs
Costs 2	Investment funds / Performance fees
Costs 3	PRIPs other than investment funds / Disclosure of certain types of costs for structured products (and derivatives and CFDs)
Costs 4	Insurance-based investment products / Biometric risk premiums (BRP) and summary cost indicator
Costs 5	Insurance-based investment products / Summary indicator for insurance-based investment products
Costs 6	General / Summary cost indicator

The ESAs have also identified the importance of specifically assessing the impact of proposals related to the above in regards of options for 'multi-option products'. This is addressed separately below.

6. Policy options for Risk Indicator and Performance scenarios

Policy issue 1: Selection of types of risk to include in the SRI/risk and reward section

option 1.1 – No reference to specific types of risk
option 1.2 – All types of risk identified in the DP
option 1.3 – Circumscribe risks to market, credit and liquidity

The PRIIPs Regulation indicates that the KID needs to include a summary risk indicator, supplemented by a narrative explaining its main limitations and the risks which are materially relevant to the PRIIP and which are not adequately captured by the summary indicator. The Regulation does not specify which risks shall be included in the summary risk indicator and which others may be better explained in a narrative. To develop a RTS on a SRI a specification of the most relevant types of risk was needed. For this reason the most relevant risks have been enumerated in the Discussion Paper. Based on the responses it was clear to ensure the section on risk needs to include and highlight at least information on the market, credit and liquidity risks of a PRIIP.

Option 1.1 No reference to specific types of risk

No.	Pros	Cons
1	Gives manufacturers more freedom to assess which risks are relevant to each PRIIP.	Not compliant with level one, since it is not possible to define a methodology for the SRI.
2		Subjective, difficult or impossible to supervise. No consistent market approach expected, preventing comparability.
3		

Option 1.2 All types of risk identified in the DP

No.	Pros	Cons
1	Full accountancy of risks.	Some of those risks can be subsumed into the main selected risks.
2		Some of those risks are potentially negligible – there is not an increased level of discrimination stemming from the added complexity of the approach.
3		Not all risks are relevant to all types of PRIIPs/all types of retail investors (e.g.

No.	Pros	Cons
		currency risk, only relevant when the investor´s currency is different from the PRIIP´s currency) or are measurable (e.g. legal risk).
4		When it is stated or suggested that all possible risks are included in the SRI, this might create overreliance on the SRI and therefore possible moral hazard problems with regards to investment risks. No extra information gathered by consumers and overreliance on the KID, which is summarizing product information in the orientation phase, could show up as consequences.

Option 1.3 Circumscribe risks to market, credit and liquidity

No.	Pros	Cons
1	Specification of these risks makes it clear which risks are worth being considered. A comparable approach can be established.	No accountancy of other potentially relevant risks – SRI underestimates true risk. In any case, narratives will be used to highlight those other risks (still, they won´t help investors assess the level or impact of the risks excluded).
2	According to responses to the DP these are considered the most relevant risks.	
3	Some of other risks described in the DP can be subsumed into the main selected risks.	

Policy issue 2: Aggregation of main types of risk into the SRI

Option 2.1 – No aggregation – main types of risk shown separately
Option 2.2 – Aggregation of main types of risk (market, credit and liquidity)
Option 2.3 – Aggregation of market and credit risks. Liquidity risk displayed through narratives and/or warnings

Following the selection of risks to include in the SRI, these risks needed to be measured (policy issue 3) and a way to display them together had to be envisaged. A few options were considered. The first option was to display the three types of risk separately from each other. The second option was to aggregate the three types of risk into the SRI and the third option was to solely aggregate market and credit risk and to display liquidity risk separately, by means of narrative and/or warning.

Option 2.1 No aggregation – main types of risk shown separately

No.	Pros	Cons
1	Easier to implement.	Disclosure of separate indicators without an overall summary, is not compliant with level one.
2	Displays the different types of risk enabling investors to understand the origins of risk.	Difficult for retail investors to synthesize the impact of the three types of risk, weighing the risks and the consequences thereof is left to consumers, where they are not so well equipped to assess the impact.
3		By separating the risks it may become more difficult to compare the different PRIIPs with each other based on their risk assessment.

Option 2.2 Aggregation of main types of risk (market, credit and liquidity)

No.	Pros	Cons
1	Compliant with level one.	Complex to weigh the different types of risk.
2	Easier for retail investors to understand the overall risk and to compare products.	From the indicator itself it is not clear the weight or contribution of each type of risk However, narratives can be used for this purpose.
3		Liquidity risk difficult to aggregate in the same scale as market and credit risk due to difference in the nature and subjective weighting of this risk.

Option 2.3 Aggregation of market and credit risks. Liquidity risk displayed through narrative and/or warning

No.	Pros	Cons
1	Compliant with level one.	Added complexity especially with regards to the weighing of the two types of risk in the SRI - requires the use of judgment calls.
2	Liquidity risk difficult to quantify and weigh against other risks, so better displayed separately.	Difficult to figure out the individual risks´ contribution to the overall risk level displayed in the SRI, though narratives may be used for this purpose.

Policy issue 3: The different elements of the methodology underlying the calculation of the Summary Risk Indicator

Policy issue 3a: Market risk assessment

Option 3a.1 – Purely quantitative

Option 3a.2 – Purely qualitative
Option 3a.3 – Combination of quantitative and qualitative measures

The three risk types selected for inclusion in the SRI can be assessed in a quantitative or in a qualitative way, or alternatively still in a way that combines the use of some of those quantitative and qualitative measures.

With a quantitative assessment reference is made to a methodology that assesses the risk of products on the basis of numerical data. A qualitative assessment merely bases the products´ categorization on their characteristics (e.g. leverage or capital protection).

Option 3a.1 Purely quantitative

No.	Pros	Cons
1	Several known and generally accepted measures from which to choose depending on the risk definition ("loss" vs "return uncertainty"). Quantitative risk assessment (irrespective of risk definition) is standard market practice.	No single measure adequate for all PRIIPs.
2	Objective measures - do not require subjective judgment from regulators to assess and compare the impact of different criteria.	Some risk features may be difficult to assess quantitatively.
3	Strong preference according to TDP consultation.	The computation burden can be heavy for particularly complex products. Depending on the risk definition ("loss" or "return uncertainty") it may be redundant to require a quantitative assessment for PRIIPs with a full guarantee.

Option 3a.2 Purely qualitative

No.	Pros	Cons
1	Relatively easy to assess whether a PRIIP fulfils the characteristics or not	It is not clear whether the qualitative characteristics of a PRIIP are a good proxy for the actual market risk of a PRIIP
2	Qualitative assessment is less costly for manufacturers as the characteristics for a PRIIP will usually not change over time so review and revision of a SRI will be limited	Comparison between products may not be sufficiently refined such as to distinguish them over different classes

Option 3a.3 Combination of quantitative and qualitative measures

No.	Pros	Cons
1	More refined approach, intended to provide	More subjective, given the use of some

No.	Pros	Cons
	increased reliability and discriminatory power	previously defined judgment calls
2	More cost efficient approach, may avoid the need of complex calculations for certain products.	May be disputable which products should be assessed on a quantitative basis and which should not.
3	More reliable approach in respect of extremely risky products (e.g. products where the investor can lose more than the invested amount).	

Policy issue 3b: Market risk quantitative measure: level of prescription and data on which is based. Complexity of the methodology.
Option 3b.1 – Highly standardized methodology based on historical volatility, with an adaptation for non-linear products based on historical simulation (UCITS solution)
Option 3b.2 – Low standardized methodology (high level principles), based on forward looking models and a downside measure for all products
Option 3b.3 – Hybrid approach: highly standardized methodology using historical data. The methodology is adapted to the type of product, considering in any case more information about the shape of the distribution than the volatility and using a downside measure

Given the different products in scope, it is not likely that there will be a "one size fits all" methodology to determine the market risk, a fact already dealt within the context of the UCITS SRRI methodology, where, for structured UCITS, a different approach is applied. Depending on the methodology selected, there may be room for more or less standardization.

Option 3b.1 Highly standardized methodology based on historical volatility, with an adaptation for non-linear products based on historical simulation (UCITS solution)

No.	Pros	Cons
1	Volatility is a well understood and well established concept in finance	Volatility as a risk measure is not adequate for all PRIIPs (e.g. insurance products and fixed term products in general)
2	Familiar methodology, in use for UCITS since 2011 – easy to implement and easy to supervise	History does not repeat itself, i.e., past volatility is not a good estimator of future volatility
3	Significant support among TDP respondents	Lack of historical data for PRIIPs/proxies prevents the risk calculation

Option 3b.2 Low standardized methodology (high level principles), based on forward looking models and a downside measure for all products

No.	Pros	Cons
1	The VaR approach (or any downside measure) is in line with consumers' main risk perception (i.e., "loss")	With models and parameters left at the discretion of manufacturers, it is difficult to ensure a common approach and proper

No.	Pros	Cons
		comparability
2	Very reliable (all risk factors considered) and applicable to all PRIIPs in scope	Some feasibility problems expected, namely in regards to products that invest in a big number of underlying assets that can be actively managed.
3	Good support among TDP respondents	More difficult to supervise

Option 3b.3 Hybrid approach: highly standardized methodology using historical data. The methodology is adapted to the type of product, considering in any case more information about the shape of the distribution than the volatility and using a downside measure[11]

No.	Pros	Cons
1	High level of standardization ensures robustness of the methodology and facilitates the creation of a risk scale able to discriminate and compare different types of products.	High level of standardization reduces flexibility to adapt to certain products or market situations.
2	Allows a less complex analysis for products that have a linear pay-off.	History does not repeat itself, i.e., historical data may not be a good base for estimating future behaviour
3		

Policy issue 3c: Credit risk assessment
Option 3c.1 – Based on external credit ratings
Option 3c.2 – Based on quantitative standardized measures
Option 3c.3 – Based on internal assessment of the manufacturer

Credit risk has been identified as one of the risk types that needs to be included in the SRI. The point with credit risk is that in ordinary circumstances the risk of a credit event unfolding is relatively low but the impact of such an event could be tremendous on the performance or pay-out of a PRIIP.

There are several ways in which credit risk can be measured. The most flexible approach is to allow manufacturers themselves to assess the credit risk they subject retail investors to (3c.3). Another approach would be to apply quantitative measures based on which credit risk can be assessed (3c.2). Difficulty may be to identify sufficient measures to proxy the credit risk that a PRIIP has for the retail consumer. The final method is to base the credit risk assessment on the CRA rating that has been given to the PRIIP itself and if such is not the case the CRA rating of the obligor.

[11] This methodology, the hybrid approach, was not proposed in the TDP

Option 3c.1 Based on external credit ratings

No.	Pros	Cons
1	Generally accepted market practice.	May be considered as not preventing overreliance on credit ratings, in contrast with recent regulatory trends.
2	Preferred option according to TDP consultation.	Not all entities have ratings, an alternative solution needs to be found for those entities facing a comparative disadvantage.
3	Robust approach that enables comparisons across different manufacturers.	
4	Avoids reliance on internal assessment.	
5	Unequivocal/easy to supervise.	

Option 3c.2 Based on quantitative standardized measures

No.	Pros	Cons
1	Potentially easier to concatenate with (quantitative) market risk measure.	Credit spreads and CDS spreads can be volatile, unstable, and reflecting market developments not necessarily credit related.
2	Potentially more reactive to changing market circumstances.	Not available for all entities.
3		No objective criteria or methodology (not based on market data) currently in use in the markets (work in progress in other regulatory bodies).

Option 3c.3 Based on internal assessment of the manufacturer

No.	Pros	Cons
1	Potentially more reliable as it can lean on more features and take into account current market situations	No consistent approach expected, not allowing comparability.
2	Potentially quicker to react to changing market circumstances	Increased onus on supervision
3		May pose some conflicts of interests 'problems (and possibly credit risk underestimation problems), considering that the manufacturer is often the obligor whose solvency needs to be assessed.

Policy issue 4: Disclosure of liquidity risk and liquidity profile (liquidity issues)

Option 4.1 – No reference to liquidity issues in the risk (and reward) section. All liquidity related information displayed under the section "How long should I hold it and can I take money out early? ("How long…?")

Option 4.2 – Information in the risk (and reward) section limited to liquidity risk. Liquidity profile separately explained under the section "How long …?"

Option 4.3 – Warning in the risk (and reward) section cautioning retail investors about potential lack of accessibility to the amount invested before maturity or significant limits. Full description of liquidity profile (disinvestment procedures and costs) under the section "How long …?".

Liquidity risk has been defined as one of the main risks to be included in the KID.

It is important to distinguish liquidity risk from liquidity profile (laying out the contractually established limits on accessibility to the amount invested in the product before maturity and early redemption costs), which the retail investor is acquainted with from the moment he buys the product. The liquidity risk refers to unforeseen deviations to this liquidity profile, i.e., potential difficulties to have access to the amount invested in the conditions defined in the contract.

Option 4.1 No reference to liquidity issues in the risk section, only under "How long ….?" section

No.	Pros	Cons
1	Easy to implement. All information about disinvestment details in the same section	Liquidity has been considered a major risk type, worth for inclusion in the risk section
2	Treat together issues that are interrelated	Lack of accessibility to the money (without significant costs), should that need arise, is a potential source of loss for the investor that would not be referred to in the risk section.
3		Limited accessibility to the money has an impact on the market risk the investor may face - he may not be able to react to adverse market changes, or changes in personal circumstances

Option 4.2 Information in the risk section limited to liquidity risk. Liquidity profile under "How long…?" section.

No.	Pros	Cons
1	Although the risk profile may limit accessibility to money, it is known in advance (a feature of the product) and hence, it may be considered not a risk, in the sense that there is no uncertainty regarding it.	Lack of accessibility to the money (without significant costs), should that need arise, is a potential source of loss for the investor that would not be referred to in the risk section.
2	Allows full description of the liquidity profile and disinvestment procedures.	Limited accessibility to the money has an impact on the market risk the investor may face - he may not be able to react to adverse market changes, or changes in

No.	Pros	Cons
		personal circumstances
3		

Option 4.3 Warning in the risk section for accessibility problems. Full description of liquidity profile under "How long…?" section

No.	Pros	Cons
1	Advises investors about possible potential problems in accessing their accessibility to money, should they need it, in a standardized format that helps passing that message along.	Liquidity profile may not technically qualify as a risk, if risk presumes uncertainty.
2	Treat together issues that are interrelated	
3	Allows for detailed and flexible explanation of liquidity profile in the corresponding section	

Policy issue 5: Selection of SRI time frame

Option 5.1 – Short and standardized holding period for all products
Option 5.2 – Multiple time frames
Option 5.3 – End of maturity/Recommended holding period

Calculating the risk for a certain product is highly dependent on the chosen timeframe over which the risk will be calculated. The selection of a time frame is all the more important in case of a quantitative assessment of market risk. Not only is this relevant for the choice of the period from which to collect data, but also because the risks might be significantly different for the same product at different time frames. In particular, this is the case for products with a guarantee/compromise to repay the capital at maturity, so that the market risk the investor face if he holds the product until that date is limited (he will receive 100%). However, if the product offers liquidity facilities during its life at market price, the risk the investor faces if he sells or redeems the product before maturity may be significantly higher as the exit price will normally fluctuate and the investor may incur in losses.

Allowing for flexibility in timeframes used may result in difficulties comparing different risk assessments with each other.

Option 5.1 Short and standardized holding period for all products

No.	Pros	Cons
1	Easier to implement, notably in respect of (simpler) drift assumptions	Short term risk is a biased estimator of longer term risk. For a lot of

No.	Pros	Cons
		products/investors with a buy and hold strategy, risk matters at maturity only
2	Easier comparison for different products (standard holding period for this purpose)	
3	Adapted to those investors that are not long term investors or may be oriented to restructure their portfolios according to market evolution.	

Option 5.2 Multiple time frames

No.	Pros	Cons
1	Full picture of risk throughout the PRIIP´s life	Harder to implement, maintain and supervise
2	Comparability ensured at more than one point in time	Harder to understand for retail investors
3		

Option 5.3 End of maturity/Recommended holding period

No.	Pros	Cons
1	For a lot of products/investors' types, only risk at maturity matters, as they have a buy and hold strategy. Easy concept to understand.	Requires an additional step in the methodology to make the different time frames comparable to each other.
2	Preferred option according to TDP consultation	Varying risk at different points in time not accounted for. For investors wishing to invest for shorter holding periods than maturity, the risk indicator will underestimate the risk shown in certain products. Although this limitation of the indicator may be indicated through a narrative, the investor is not fully aware of the losses (which are not estimated) he may face before maturity (or the recommended holding period), should he want to disinvest.
		Potential large losses in products classified in the lower class of market risk, may be difficult to understand by consumers and may increase litigation. An alternative could be to stablish maximum tenors for products in the lowest classes of risk to reduce such cases.

Policy issue 6: SRI presentation format

Option 6.1 – Simple graphical presentation of the scale
Option 6.2 – Add other informative elements (reference to reward, narratives for relevant risks)
Option 6.3 – Add images or other visual elements

With regards to the SRI presentation in the first Consumer Testing phase, four very different variants were tested. In the second phase of Consumer Testing three different versions of the variant that resulted better in phase I were tested. It appears from consumer testing that objective understanding and comparison, but also subjective preferences of consumers are best met by selecting a simple scale presentation of risk, aggregating different risk factors.

Option 6.1 Simple graphical presentation of the scale

No.	Pros	Cons
1	Straightforward, intuitive, simple (numerical) message	No contribution breakdown of different types of risk, (though narratives can be used for that purpose) or other complementary pieces of information
2	Strongly endorsed approach according to CT results	Potentially less appealing than images for certain investors
3	Similar to SRRI presentation with which investors are acquainted	

Option 6.2 Add other informative elements (reference to reward, narratives for relevant risks,…)

No.	Pros	Cons
1	Baseline numerical message complemented with other useful information	Potentially more confusing message leaving investors unaware as to how to integrate the information about risks displayed in narratives
2	Products more finely differentiated from each other	The allusion to reward, in the context of the risk indicator, is not easily seized by all investors (cf. CT result)
3		

Option 6.3 Add images or other visual elements

No.	Pros	Cons
1	Without prejudice to the main numerical message, visual elements are good at capturing investors' attention to particular product features	Some images create inappropriate analogies with other symbols or scales

Policy issue 7: Choice of performance scenarios

Option 7.1: Full manufacturers´ discretion
Option 7.2: Highly prescribed scenarios based on probabilities or pre-established assumptions
Option 7.3: Hybrid approach based on principles, including the reasonability of the scenarios (manufacturers´ choice within the limits or guidelines in the RTS)

There are different approaches one could take to prescribe how the performance scenarios shall be calculated. The most flexible approach is to allow manufacturers full discretion to display three (or more) performance scenarios in the KID (policy option 7.1). Clearly this would lead to performance scenarios that are not comparable. Furthermore, there is the risk that too optimistic performance scenarios end up being displayed, which may mislead investors.

Another approach is to prescribe the specific assumptions based on which the performance scenarios should be calculated (policy option 7.2). This would lead to comparable assumptions for all PRIIPs in scope. However, given the broad range of PRIIPs and the even broader range of underlying investments, this approach is not likely to deliver meaningful results to consumers or may even lead to misleading results. A highly prescriptive approach would likely result in a lot of different calculation methods for different product types. Furthermore, the specific product aspects should be reflected in the calculation of the returns, therefore a standardized methodology is probably providing outcomes which are far removed from outcomes in reality calculated with a better fit model.

The final option is to have an approach which is more based on principles (hybrid). This approach sets the boundaries for the performance scenarios but allows for the different types of PRIIPs to display their different characteristics in the performance scenarios.

One could argue that the distribution of returns is already taken into account in the calculation method chosen for the SRI. However, for a lot of products a 'qualitative short-cut' was introduced releasing these products from the need of a quantitative calculation. For the products where it is mandatory to generate distributions of returns we also separate between different types of products, hence the hybrid model.

Option 7.1: Full manufacturers' discretion

No.	Pros	Cons
1	Flexibility, ability to focus on specific product features and market situations	Lack of robustness. Risk of abuse by manufacturers (showing too favourable potential results)
2		Only face-comparability, a presentation can be prescribed, but the underlying assumptions and methodologies used are not comparable.
3		Not compliant with level one which requires a methodology to be set.

Option 7.2: Highly prescribed scenarios based on probabilities or pre-established assumptions

No.	Pros	Cons

No.	Pros	Cons
1	Robust: it prevents manufacturers from selecting too favourable or biased scenarios	Methodologies to forecast the future are difficult to prescribe and are necessarily based on product specific assumptions.
2	Comparable results for different products and manufacturers	Pre-established scenarios, not based on estimations, may not be applicable or relevant for all products. May even result in misleading performance scenarios.
3	In the case of a probabilistic approach, there is added value for investors from the information about likelihood of different scenarios (reduce asymmetry of information)	Easier to supervise compliance (methodology is more clear), though expertise on modelling may be required

Option 7.3: Hybrid approach based on principles, including the reasonability of the scenarios (manufacturers' choice, within the limits or guidelines in the RTS)

No.	Pros	Cons
1	The principles or guidelines increase robustness, preventing manufacturers from selecting too favourable or biased scenarios, particularly those requiring reasonability assumptions	Level of prescription may not be sufficient to enable manufacturers to have a clear steer as to how to produce the scenarios
2	It may be proportional for certain products allowing different approaches to select scenarios for different products	May lead to more meaningful but however less comparable results compared to a prescribed methodology.
3	Should the experience advise further standardization, supervisors may issue additional guidelines to detail a more concrete methodology, at least for certain products.	

Policy issue 8: Performance Scenarios presentation format

Option 8.1: Tables or graphs containing cost information (showing performance both before and after costs)
Option 8.2: Other formats aimed at showing returns with different levels of likelihood (funnel of doubt, histogram)
Option 8.3: Tables showing net returns at different holding periods

In the first phase of Consumer Testing in five different ways of communicating possible results were explored in regards to objective understanding and comparison as well as on subjective preferences of consumers for the different ways of presenting information on performance. From the first phase two variants were found to be both subjectively preferred and objectively understood and well compared by consumers. Those two variants were then again tested within the whole context of the KID. The results of both consumer testing phases were controlled for product and demographical effects, including the level of financial literacy and the experience with PRIIPs.

In the second phase, for each successfully tested performance scenarios variant, two different versions were tested, coming up to a total of four different variants. The second phase did not provide an indisputable preferred option, neither on subjective or objective understanding, nor on comparison. It did show that two of the four variants were outperformed by the other two variants tested. Both tables and graphs which show net results for different holding periods (including the recommended holding period) in three different scenarios, were found to be more informative with regards to understanding and comparison and also on what is subjectively the preferred option.

Option 8.1 Tables and/or graphs containing cost information (showing performance both before and after costs)

No.	Pros	Cons
1	Reminds investors about the impact of costs on returns	Investors have a limited ability to understand/process all the information
2	Has a higher informative value	Consumers do not subjectively prefer this option. They feel it is too complicated.
3		Consumers have difficulties determining what their possible outcome could be. Probably because the amount of numbers that is presented increases significantly with this option. Also this information is already presented in the cost section.

Option 8.2 Other formats aimed at showing returns with different levels of likelihood (funnel of doubt, histogram)

No.	Pros	Cons
1	Some investors appreciate information on likelihood of scenarios	A lot of investors have difficulty understanding percentages/likelihood of events
2	When consumers have no information about the likelihood of the scenarios, they automatically make their own, wrongful inferences about it. Therefore, presenting information on likelihood could be preferred.	Showing likelihood of scenarios requires a more prescriptive way of calculating them.
3		Consumers may attach a disproportionate weight to (some of) the actual likelihood numbers being displayed, rather than concentrating on the overall dispersion of possible outcomes.

Option 8.3 Tables showing net returns at different holding periods

No.	Pros	Cons
1	Simple formats with no additional layers of information are better understood according to consumer testing.	These formats are less able to show information about the whole distribution of returns, as only a limited number of scenarios can be chosen.
2	Information about returns at different points in time has been found interesting according to the consumer testing. Limiting possible outcomes in order to not confuse them or overload them, but also not depriving them from relevant information on uncertainty of the outcomes.	For illiquid products, return information at intermediate periods may be misleading.
3	A simpler methodology to select scenarios can be used. Less dependent on a model. The same methodology requirements are needed for a graphical presentation.	With regards to the consumer testing the graphical presentation of the information was sometimes more effective in communicating what possible returns could be expected in a certain scenario at a certain time.
4.		In marketing material graphs are often used which makes it hard for the KID to compete for attention in the pre-contractual/reflection phase when only tables with performance information are provided.

7. Policy options for Costs

Policy issue1: Investment Funds / Transaction costs

Option 1: transaction costs disclosed using a standard table only

Option 2: transaction costs disclosed using a hybrid approach, disclosing actual costs where known and a standard table only where actual costs are not known

The cost disclosure in the KID shall include all types of costs, including both direct and indirect costs. Transaction costs are indirect costs incurred by the PRIIP when it undertakes transactions. The challenge for the KID is that transaction costs are dependent on the transactions that the PRIIP undertakes and so cannot be known in advance. There is also a challenge to ensure that transaction costs, including implicit costs are appropriately calculated.

The options considered are: for the ESAs to establish a standard table of transaction costs, and for manufacturers to use this table to calculate the transaction costs within their PRIIP; or for manufacturers to report the actual costs that they incur when they transact, where that is possible, and to use standard costs only when actual costs are not available.

After considering the issues and the responses to the Discussion Paper, it was considered that a simple methodology can be defined which enables actual transaction costs to be calculated for most assets, reducing the need for a complex standard table.

Policy Option 1.1: transaction costs disclosed using a standard table only

No.	Pros	Cons
1	No need to calculate actual transaction costs	Calculation is likely to be inaccurate, and may be misleading
2	Potentially easy for industry to calculate estimates of transaction costs	Detailed standard table would need to be developed and maintained, using a large number of variables to provide a distinction between higher transaction cost and lower transaction cost assets
3		
4		Manufacturers might not be incentivised to control actual transaction costs as they will not be disclosing them

Policy Option 1.2: transaction costs disclosed using a hybrid approach disclosing actual costs where known and a standard table only where actual costs are not known

No.	Pros	Cons
1	Methodology allows simple calculation of actual transaction costs for most assets. In cases where a standard table may be needed would this also be potentially easy to calculate.	Standard table may still need to be defined for some assets
2	Methodology for calculating actual transaction costs is comprehensive, removing investor concerns of hidden costs	
3	Uses established methodology widely used	

No.	Pros	Cons
	by asset managers and supported by independent third parties	
4	Investors will be able to compare PRIIPs based on the actual costs they are incurring	

Policy issue 2: Investment funds / Performance fees

Option 2.1: ex-ante estimate of performance fees only shown in performance scenarios

Option 2.2: ex-ante estimate of performance fees included in the summary cost indicator (as well as in performance scenarios)

Option 2.3: ex-ante estimate of performance fees shown separately in the cost section (excluded from the total cost indicator)

The cost disclosure in the KID shall include all types of costs. Performance fees are incidental costs (i.e. they do not appear on a regular basis). They have to be paid under specific conditions, when the performance of the fund is higher than the performance of a predefined benchmark. The challenge that arises for KID as a pre-contractual document is that while the performance fee formula is known in advance of the purchase of the investment, the likelihood and scale of any such fees is uncertain.

While it has been chosen to include ex-ante estimate of performance fees in the summary cost indicator, the different options have the following pros and cons:

Policy Option 2.1: only show estimates of performance fees in performance scenarios

No.	Pros	Cons
1	It is potentially easy for industry to integrate performance fees in performance scenarios.	Calculation is likely to be error prone, as the choice of values cannot take into account all potential scenarios.
2	-	Performance fees would not be indicated as costs: less visibility of these costs for supervisors and investors, as compared to other types of costs. This option may also not be in line with the level 1 PRIIPs Regulation.
3	Investors understand that performance fees impact the reward.	Investors will have difficulties to understand that performance fees are costs, as they are not indicated as such.

Policy Option 2.2: estimate performance fees ex-ante and include them in the total cost indicator (as well as in performance scenarios)

No.	Pros	Cons
1	Relatively easily to implement for industry.	.
2	The total cost indicator would include all potential costs, which would trigger a good visibility for supervisors, and be in line with the level 1 PRIIPs Regulation.	The total cost indicator might be error prone because it would show an amount which is higher than the real costs in those years where no performance fee is taken and lower than the real costs in those years where the performance is better than the corresponding assumption made for the calculation of the cost indicator.
3	Investors would clearly identify performance fees as costs.	Investors might have difficulties to conclude that performance fees will not have to be paid on an ongoing basis (but only under specific conditions).

Policy Option 2.3: estimate performance fees ex-ante and show them separately from the total cost indicator

No.	Pros	Cons
1	Relatively easily to implement for industry (as approach is already known for UCITS).	Calculation might be error prone in some cases (as based on historical data).
2	Reliable quality of the total cost indication (because errors related to the calculation of performance fees will not be included in the summary cost indicator).	The total cost indicator would show an amount which would differ from the real costs This option may also not be in line with the level 1 PRIIPs Regulation.
3	Investors identify performance fees as costs, which are incidental. They might not understand the difference between the summary cost indicator (that would include performance fees) and the incidental costs (performance fees) that could not be simply added to the latter	Investors might have difficulties to understand that costs impact the reward.

Policy issue 3: PRIPs[12] other than investment funds / Disclosure of certain type of costs for structured products (and derivative and CFD)

Option 3.1: Principle-based approach which establishes a set of high level rules that govern the methodology for the estimation of the fair value of the PRIIP

Option 3.2: Prescriptive approach which establishes prescriptive methodologies for the estimation of the fair value of the PRIIP

Having in mind that the cost disclosure in the KID shall include all types of costs, the KID of a structured product should enable retail investors to identify, within the issue price of a PRIIP, (i) the amount that will be captured by the manufacturer (cost), and (ii) the amount that will be used to provide/generate a return to the customer (invested capital). To identify the cost components that are hidden because included in the purchase price of the PRIIP and discriminate them from the actual invested amount it has been identified the fair value methodology.

Alternative approaches which do not use the methodology of the fair value and able to estimate all the costs borne by the investor have not been identified so far.

While a principle-based approach to fair value has been chosen, the different identified options have the following pros and cons:

Policy Option 3.1: Principle-based approach to Fair Value

No.	Pros	Cons
1	ability to define a general formalized process, but which ensures comparability of results	low degree of standardisation
2	adaption to the increasing complexity of the structure of the products and the evolution of the regulation and the standards	
3	certainty on the inclusion of all costs in the KID section	
4	high level of transparency	

Policy Option 2: Prescriptive approach to Fair Value

No.	Pros	Cons
1	standardization	rigidity

[12] 'PRIPs' is used in this CP intentionally to distinguish the smaller collection of non-insurance based products. We follow the definition made in art 4 (1) of the PRIIPs Regulation.

No.	Pros	Cons
2		difficulties in prescribing a specific model for each type of product
3		unreliability of the estimations

Policy issue 4: Insurance-based investment products / Biometric risk premiums (BRP) and summary cost indicator

Option 4.1: Include the costs of BRP (difference between the BRP and the fair value of the BRP) in the summary cost indicator, with no separate figures for BRPs

Option 4.2: Exclude BRP (and the costs of BRP) from the summary cost indicator, but show them in a secondary "breakout"

The cost disclosure in the KID shall include a summary cost indicator that includes all types of costs of the PRIIP. This summary cost indicator shall be understandable by the investor and allow him to compare the costs of different PRIIPs among one category of PRIIPs, but also the different types of PRIIPs between themselves.

While it was chosen to include the costs of BRP (difference between the BRP and the fair value of the BRP) in the summary cost indicator, with no separate figures for BRPs, the different identified options have the following pros and cons:

Policy Option 4.1: Include the costs of BRP (difference between the BRP and the fair value of the BRP) in the summary cost indicator, with no separate figures for BRPs

No.	Pros	Cons
1	Simplest overall picture of all costs	This option implies calculating the fair value of the BRP

Policy Option 4.2: Exclude BRP (and the costs of BRP) from the summary cost indicator, but show them in a secondary "breakout"

No.	Pros	Cons
1	This option might ease the comparison of insurance-based investment products on BRP related criteria.	May be more complex for consumers to understand. This option might not be fully in line with the level 1 PRIIPs Regulation
2		Overall costs of product (combining both BRPs and investment costs) may be less

No.	Pros	Cons
		clear

Policy issue 5: Insurance-based investment products / Summary indicator for insurance-based investment products

> **Option 5.1**: As for the calculation of the summary cost indicator, consider the scenario in which the insured biometric risk does not occur, i.e. only consider premium cash flows and endowment benefit cash flows, both with probability 1.
>
> **Option 5.2**: For the calculation of the summary cost indicator consider all cash flows – premiums, biometric benefit cash flows and endowment benefit cash flows – weighted with the probability of their occurrence.

The cost disclosure in the KID shall include a summary cost indicator that includes all types of costs of the PRIIP. This summary cost indicator shall be understandable by the investor and allow him to compare the costs of different PRIIPs among one category of PRIIPs, but also the different types of PRIIPs between themselves.

Without a clarification it might not be clear how to treat possible cash flows form insurance coverage when calculation the summary cost indicator.

While option 1 was chosen, the different identified options have the following pros and cons:

Policy Option 5.1: For the calculation of the summary cost indicator, consider the scenario in which the insured biometric risk does not occur, i.e. only consider premium cash flows and endowment benefit cash flows, both with probability 1.

No.	Pros	Cons
1	Easy to understand for the investor, yield numbers based on probability weighted cash flows might not be comprehensible for the average investor	
2	RIY-approaches following option 1 are already in place in several member states and will therefore be easier to implement for manufacturers	
3	Calculations according to option 1 are less complex and therefore less error prone	
4	Disregarding probabilities for early termination due to insured events like death is more consistent to other PRIIPs-products	
5		It is not obvious how to treat certain life

No.	Pros	Cons
		insurance products without a fix term

Policy Option 5.2: For the calculation of the summary cost indicator consider all cash flows – premiums, biometric benefit cash flows and endowment benefit cash flows – weighted with the probability of their occurrence.

No.	Pros	Cons
1	Approach is more general than option 1	
2	It is obvious how to apply this approach to life insurance products without fix term	
3		Approach is not yet used in practice
4		More complex and therefore more error prone than option 1
5		Yield numbers based on probability weighted cash flows considering benefits from insurance coverage difficult to understand for investors

Policy issue 6: General / Summary cost indicator

Option 6.1: the summary cost indicator is a total cost ratio (TCR) for all types of PRIIPs

Option 6.2: the summary cost indicator is a reduction in yield (RIY) ratio for all types of PRIIPs

Option 6.3: the summary cost indicator is a RIY, except for those types of PRIIPs where the value of RIY equals TCR and where a TCR is more appropriate

The cost disclosure in the KID shall include a summary cost indicator that includes all types of costs of the PRIIP. This summary cost indicator shall be understandable by the investor and allow him to compare the costs of different PRIIPs among one category of PRIIPs, but also the different types of PRIIPs between themselves.

While the RIY ratio was chosen for all types of PRIIPs, the 3 options that have been identified include the following pros and cons:

Policy Option 6.1: the summary cost indicator is a total cost ratio (TCR) for all types of PRIIPs

No.	Pros	Cons

No.	Pros	Cons
1	It is potentially easy to implement a TCR approach for some parts of the industry (funds and structure products).	-
2	The TCR approach might be less subject to assumptions on performance	Calculation is likely to be error prone for some other parts of the industry (insurance-based PRIIPs), because the timing of the cost deductions is not fully taken into taken by a TCR.
3		Investors will have difficulties to compare the costs of the different types of PRIIPs, because the accuracy of the TCR will be different depending on the type of PRIIP.

Policy Option 6.2: the summary cost indicator is a reduction in yield (RIY) ratio for all types of PRIIPs

No.	Pros	Cons
1	It is potentially easy to implement a RIY approach for some parts of the industry (insurance-based PRIIP)	
2	The RIY approach is equally accurate and applicable for all types of PRIIPs.	The RIY approach might be more subject to assumptions on performance. The implementation of the RIY approach to structured products might need to be more specified than for the other types of PRIIPs.
3	Investors will be able to compare the costs of the different types of PRIIPs..	

Policy Option 6.3: the summary cost indicator is a RIY, except for those types of PRIIPs where the value of RIY equals TCR and where a TCR is more appropriate

No.	Pros	Cons
1	It is potentially easy to implement for all parts of the industry (funds, structured products and insurance-based PRIIP)	
2		This option would mean using a different methodology to calculate the summary cost indicator for the different types of PRIIPs, which might raise issues of consistency-

No.	Pros	Cons
3		Investors might have difficulties to understand that the value of the RIY equals the value of the TCR for some types of PRIIPs and why for some products a TCR approach is shown while for some others a RIY approach is shown.

8. Analysis of overall impacts

The assessment of the ESAs, following consultation through the relevant Discussion Papers, has been to retain the options highlighted above. In summary:

Issue	Retained option
Risk 1	Selection of types of risk to include in the SRI: *Focus on market, credit and liquidity risk*
Risk 2	Aggregation of main types of risks *Aggregation of market and credit, with liquidity risk shown in warning in indicator*
Risk 3	The different aspects of the Methodology to get to a Summary Risk Indicator *Mixture of quantitative measure with qualitative elements*
Risk 4	Disclosure of liquidity risk and liquidity profile (liquidity issues) *Warning within indicator*
Risk 5	Selection of SRI time frame *End of maturity or Recommended Holding Period*
Risk 6	SRI presentation format *Simple graphic presentation of scale*
Reward 1	Choice of Performance Scenarios *Flexible approach*
Reward 2	Performance Scenarios presentation format *Tables, without indication of likelihood*
Costs 1	Investment Funds / Transaction costs *Hybrid approach*
Costs 2	Investment funds / Performance fees *Ex-ante estimate included in performance scenarios and costs*
Costs 3	PRIPs other than investment funds / Disclosure of certain type of costs for structured products (and derivative and CFD) *Fair value methodology, common principles*
Costs 4	Insurance-based investment products / Biometric risk premiums (BRP) and summary cost indicator *RIY*
Costs 5	Insurance-based investment products / Summary indicator for insurance-based investment products *Calculation assuming biometric risk does not occur*

Costs 6 General / Summary cost indicator
RIY comparators

Overall Assessment

In the view of the ESAs, the retained options provide for an optimal balance when considered in the context of the criteria identified above. A high level of standardisation and comparability is ensured, coupled with a sufficient and appropriate degree of flexibility given the wide range of PRIIPs in scope, as necessary for ensuring KIDs that are accurate for specific products.

Costs for industry, including for smaller PRIIP manufacturers, have, where possible, been taken into account. Impacts for supervisors have also been considered. Crucially, in view of the goal of the KID, all of the retained options have been considered so as to take into account the results from the Consumer Testing, so as to optimise the approach in view of the use of the KID by consumers, and thereby the comprehensibility and comparability of different options in practice for a representative sample of retail investors.

Specific Costs

Both one-off and ongoing costs are entailed by the introduction of the KID. As noted above, to a large degree both of these types of costs are entailed by the requirements already set at level one.

In regards the use of quantitative methodologies as part of the calculation of the SRI, one off costs can be anticipated for many PRIIP manufacturers in identifying and developing the expertise, processes and data sets necessary. On-going costs can be anticipated in relation to monitoring, continued data acquisition, and reviewing and republishing the KID. These costs can be expected to be similar to those experienced by UCITS when introducing the SRRI for these funds, though some additional aspects necessary for the PRIIPs SRI may increase one off costs to a degree for all PRIIP manufacturers. Economies of scale are likely to reduce these costs for larger PRIIP manufacturers, while it can be expected that third party support for smaller PRIIP manufacturers will also reduce the impact.

In regards the cost methodologies, the major change for *funds* will be the need to now develop processes for calculating portfolio transaction costs. Views amongst stakeholders vary on the scale of these costs, and it can be expected that ongoing costs will drop once systems are in place and once necessary data has been identified. The calculation of RIY figures as opposed to TER-based ongoing cost figures, as are now common for funds, should incur relatively low costs in practice (an RIY can largely be calculated from the TER, once portfolio transaction costs are included and one-off costs are estimated).

For structured products, the 'fair value' estimation will incur one-off costs related to setting up procedures and data availability, and ongoing costs for monitoring, data collection, KID republication. Costs may be reduced given existing pricing and risk management methodologies implied internally by the relevant PRIIP manufacturers.

For insurance-based investment products, RIY methodologies exist in some markets, but there will be one-off costs in particular in relation to the costs associated with biometric risk premiums, where new processes and data will need to be developed. These costs may be mitigated in view of data necessary for internal processes already in place, including in regards Solvency II.

MOPs Costs

The costs related to the KID for multi-option products are worth highlighting, though these costs are in very large part triggered by the level one. In some markets unit-linked insurance contracts have been offered where disclosures related to units offered in these contracts have been provided by means of UCITS KII documents. These UCITS are used to back units offered in the insurance contract.

In this context there are two important consequences that may be foreseen under the PRIIPs Regulation:

- The Regulation provides a temporary exemption whereby UCITS continue to provide KII, and are not required to produce KIDs. However, the insurance undertaking offering a unit-linked insurance contract is themselves a PRIIP manufacturer in the meaning of the PRIIP Regulation, and liable to produce a KID for the unit-linked contract, including either in this KID or in separate documents detailed information in respect of the investment options offered. The combination of the general KID for the unit-linked contract and the more detailed documents in respect of the investment options offered must comply with Article 8 (3) of the PRIIPs Regulation. This creates a problem because the requirements in the Regulation are not consistent with the information produced in a KII (the risk indicator and cost disclosures, for instance, are different). In so far as the insurance undertaking requests that the UCITS to already prepare KID compliant information for the insurance undertaking – though this is not directly required under the PRIIP Regulation -- this would have the practical impact of undermining the temporary exemption in the Regulation and requiring UCITS to produce simultaneously a KII and KID-compliant information.
- More generally, in so far as the information provided about the unit-linked contract must comply with Article 8 (3) of the PRIIPs Regulation, the information provided about the investment options must take into account the difference between the investment option offered and the instruments used to back that option. For instance, the costs and performance of the investment option may not be identical to the situation if the instrument to back it was bought directly by the retail investor, while the legal form of the investment would be different.

The PRIIPs Regulation applies at the level of the PRIIP Manufacturer (the MOP provider) and does not apply obligations on the providers of underlying investments. 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) would be able to obtain all the information necessary for the preparation of the disclosures they are responsible for on a look through basis from the published KID for that other PRIIP, and should not require additional information. This should limit indirect impacts where a KID for an underlying investment is available.

Lack of Grandfathering

The level one does not foresee any grandfathering. Given the volume of individual PRIIPs outstanding currently, including being traded on secondary markets, there could be very significant day one compliance and cost impacts.

PRIIPs traded on exchanges

There will be new one-off and ongoing costs for PRIIP manufacturers who hitherto have not had equivalent pre-contractual disclosure requirements in regards to transactions on these markets. These costs could be different depending on whether the PRIIP was first issued in a primary market – for which a KID would also be prepared – or whether the PRIIP is only been available on exchange. For collective investment schemes distributed via secondary markets the impact would be less, as these will already normally be required to produce pre-contractual disclosures also for transactions on the secondary markets. The fact that these costs arise follows the level one requirements.

Benefits

The KID is introduced to address consumer issues in the retail investment markets – poor decision making, difficulties understanding and comparing products. The impact of these issues – reduced confidence and trust in financial markets and services, on the one hand, and individual detriment (whether in terms of absolute losses or opportunity costs) – may be significant. The level one impact assessment was not able to fully quantify the possible impact of improving disclosures in monetary terms, given the range of factors that determine outcomes for consumers, including the impact of problems in advice processes, but did note that the massive scale of the EU investment market means even small impacts (for instance, a less than 1% reduction in mis-selling) can outbalance costs.

The measures in the draft RTS are designed to take into account consumer testing results, precisely to try to maximise their effectiveness in practice for retail investors, in view of both the comparability and comprehensibility of KIDs, but also in view of the ability of these documents to 'engage' the retail investor and encourage their use of the document.

Improved transparency can also be beneficial indirectly through its impact on other market players than the retail investor themselves. For instance, greater clarity on costs, risks and performance is likely to aid advisors and distributors when considering which investment proposition to recommend to a customer.

As mentioned above in the discussion of the baseline, the establishment of standardised methods for the production of the KID – while these of course incur costs – could also reduce these costs for the industry compared to the situation where the level one requirements are not further specified at level two. Legal uncertainty and the costs of establishing – case by case – an approach that is sufficient for satisfying the level one requirements could incur significant costs, and by contrast, standardisation can be expected to reduce legal uncertainty and associated risks – including compliance risks -- and reduce one-off costs associated with scoping out and implementing PRIIP manufacturer specific policies.

Standardisation will also have benefits for supervisors by reducing implementation costs at the supervisory level.

In cross-border situations standardisation will also benefit supervisors, PRIIP manufacturers and distributors, and retail investors, by reducing the scope for misunderstandings and barriers to such activity. Consistency will aid in building the confidence of those buying cross-border, and in ensuring they clearly understand their rights and the nature of any commitment they enter into.

Other impacts

The retained options may have some differential impacts for different stakeholders.

In general terms, smaller PRIIP manufacturers may face costs that are not proportionate to their size, where they are not able to draw on internal expertise or resources or economies of scale. Further to this, while KID requirements will incur one-off and ongoing costs for all PRIIP manufacturers, those that already have in place retail disclosure processes can be expected to be bear lower costs that those setting up such processes for the first time. This however is clearly a consequence of the level one requirements. There is also a possibility – given the heterogeneity of the PRIIPs market across the EU – that differentials in cost impacts cluster geographically. However, as mentioned, these impacts are driven in very large part by the level one requirements, rather than the specific measures foreseen at level two.

Any cost impacts for PRIIP manufacturers or those indirectly impacted as providers of underlying investments used by PRIIP manufacturers could in theory reduce the availability of PRIIPs, while enhanced transparency can be expected to have some competition impacts with similar consequences for the availability of PRIIPs across the EU. It is however very difficult to reliably assess such possible impacts. The consequences for retail investors of such factors – for instance, reduced prices or changes in access (either a reduction in the range of PRIIPs offered, or an increase in the range) -- are equally difficult to assess.

ii. Impact Assessment Article 10

1. Procedural issues and consultation of interested parties

According to ESAs' Regulation, the ESAs conduct analysis of costs and benefits when drafting regulatory technical standards. The analysis of costs and benefits is undertaken according to an Impact Assessment methodology.

The draft RTS and its impact assessment are subject to public consultation.

In preparing these draft RTS, the ESAs have conducted two separate public consultations by means of Discussion Papers.

2. Problem definition

According to Article 10, the ESAs shall develop draft regulatory technical standards specifying:

A. **Conditions** for **review** of the information contained in a key information document (KID);
B. **Conditions** under which the KID must be **revised**;
C. **Specific conditions** for review and revision for a PRIIP 'made available to retail investors in a non-continuous manner'; and
D. **Circumstances** in which retail investors are to be informed about a revised KID and the means for this.

The general purpose of further specifying these conditions and circumstances is set out in the Recitals to the PRIIPs Regulation, where it is stated in Recital 21 that 'detailed rules' are necessary 'to ensure that the information contained in the key information document is reliable'.

Once a KID has been prepared and published, it is possible that developments in the financial markets, amongst other changes, could lead to a situation in which the information contained in a KID is no longer sufficiently accurate as to give a correct basis for an investment decision in relation to the PRIIP it relates to.

Information on the potential risks, performance, and costs of the PRIIP can be expected to be most liable to change. For some PRIIPs that continue to be sold to investors, the costs will indeed vary from year to year.

For this reason, it shall be necessary to assess the continued accuracy of the information contained in the KID – pursuant to the methodologies to be followed for the risk, performance and cost disclosures as set out above in regards to the RTS under Article 8 – so that the KID that is made available to retail investors can be used as a basis for an informed investment decision.

However, while some quantitative factors on which information in the KID is dependent may change on a continuous basis, it is not proportionate nor relevant, given the summary nature of the KID and the methodologies to be followed in preparing the risk, performance and cost information set out in the RTS under Article 8, for the KID to be produced on a 'real time' basis, notwithstanding the fact that its content might have to be monitored on a close or continuous basis depending on the nature of the PRIIP. For instance, a certain degree of averaging or smoothing of data, and use of approximations, is foreseen in the methodologies using quantitative information on costs and for the summary risk indicator.

On this basis, therefore, questions arise as to the methods to be followed for reviewing the changing circumstances, in view of their possible impact on the information in the key information document, in revising the key information document where necessary, and in ensuring it is made available to prospective retail investors.

It can also be considered that changes may occur that are sufficiently important so as to enable retail investors who are already invested in a PRIIP to be informed of these changes, as these changes may be material for a decision by those investors as to whether they should remain invested in the PRIIP.

In the absence of sufficient minimum standards on these methods to be followed for review, revision, and republication, it can be expected that in some cases retail investors will receive key information documents that are not sufficiently accurate. This could then lead to mis-buying of PRIIPs, with consequent possible consumer detriment in terms of opportunity costs for retail investors (asset allocations that are not efficient for those retail investors) or outright losses for those investors (for instance, by those investors taking on unforeseen risks that are, because they are unforeseen, not effectively mitigated).

Baseline scenario

When analysing the impact from proposed policies, the impact assessment methodology foresees that a baseline scenario is applied as the basis for comparing policy options. This helps to identify the incremental impact of each policy option considered. The aim of the baseline scenario is to explain how the current situation would evolve without additional regulatory intervention.

The baseline scenario is based on the situation where the PRIIPs Regulation applies, but where there is no RTS to further specify the obligation in Article 10 (which states under 10 (1) that the PRIIP manufacturer shall 'review the information contained in the key information document regularly and shall revise the document where the review indicates that changes need to be made. The revised version shall be made available promptly'.)

3. Objectives

The overall objective of this RTS is to ensure that sufficient measures are taken by PRIIP manufacturers to ensure that retail investors do not make investment decisions on the basis of KIDs that have become inaccurate or misleading following publication. The measures adopted should also ensure sufficient consistency across the EU so that retail investors can be confident that the KID available to them can be relied on – whoever the PRIIP manufacturer or distributor is, and irrespective of their jurisdiction.

The assessment of the ESAs is that the specific policy issues to be addressed, in view of the scope of the empowerment for draft RTS, are:

1: The processes and procedures to be put in place by PRIIP manufacturers
2: Timing of periodic reviews
3: Criteria for republication of the KID, including materiality of change criteria
4: The treatment of non-continuous offers
5: Communication with retail investors

4. Policy options

Policy issue 1: The processes and procedures to be put in place by PRIIP manufacturers

Option 1.1: Highest degree of flexibility for manufacturer

Option 1.2: Common principles (minimum standards)

Option 1.3: Detailed rules

In order for the PRIIP manufacturer to be in a position to be able to ensure a published KID continues to be accurate, that manufacturer would need to be able to identify and monitor circumstances whereby the information in the KID may be no longer accurate.

A variety of circumstances might have such an impact:

- Fundamental changes to the product itself, such as changes to its investment strategy or objectives
- Changes in the pricing of underlying assets or reference values, or to their risk/reward profile, that could lead to a change in the product's risk rating
- Changes in the pricing of underlying assets or reference values or to their risk/reward profile, that could impact the product's performance information
- Costs that impact the investor arising that were not foreseen, or where the volume or level of currently disclosed costs is different

This is of particular significance where changes are occurring outside of a normal review cycle.

Given the range of PRIIPs and PRIIP manufacturers within the scope of the Regulation, the types of circumstance that might need to be considered will be very wide, and it would be difficult to identify all such circumstances.

In addition to the identification of kinds of circumstance as a one-off activity, the PRIIP manufacturer would need to be in a position whereby they can monitor these circumstances. Some of these circumstances would be clearly under the control of the manufacturer (such as changes of strategy, or a change to the fee structure or level), such that any need to review and republish a KID could form a natural part of the manufacturer's activities in relation to that circumstance.

Other circumstances are liable to change continuously (such as those related to the pricing or valuation of assets). In these cases, the appropriate frequency and accuracy of any monitoring processes would need to be considered. What would be appropriate would depend also on the question of what amounts to a ‘material’ change such that it should trigger a change in the contents of the KID and hence a republication of the KID. This relates to policy issue 3 examined below,

Again, the range of PRIIPs and the circumstances that may impact the accuracy of the KIDs produced for these PRIIPs means that the processes effective for identifying and monitoring these circumstances are likely to vary significantly. For instance, for an open ended fund, it may be important to set a process for monitoring and responding to movements in the pricing of underlying assets if defined risk triggers are exceeded, or to set a process for monitoring portfolio transaction costs. For a fixed term structured instrument, the pay-out formula and fees may typically be predetermined, but substantive changes in the behaviour of underlying assets or reference values could nonetheless trigger a change in the instrument’s risk rating, so processes would be needed for monitoring their behaviour. Insurance based investment products could see changes in the outlook for the insurer that impact likely bonuses to a degree that causes a change in their risk rating, again such that monitoring and the use of triggers would make sense.

Policy Option 1.1: Flexibility for manufacturers

No.	Pros	Cons
1	Manufacturers able to achieve maximum proportionality to their specific products, business models and operating scale and structure.	Approaches of different manufacturers diverge, reducing effectiveness of the KID for comparisons.
2	-	Approaches of different manufacturers diverge, increasing risk of misleading KIDs for retail investors.
3	-	Some legal uncertainty/legal risk for manufacturers in assessing compliance.

Policy Option 1.2: Common principles (minimum standards)

No.	Pros	Cons
1	Greater legal certainty for manufacturers than option 1.1.	Minimal standards may still leave room for divergence in approaches, with risk of misleading and less comparable KIDs.
2	Minimum standards ensure common minimum level of comparability and accuracy of KID for retail investors.	Minimal standards may still leave room for some legal uncertainty/legal risk for manufacturers in assessing compliance.
3	Flexibility for manufacturers to adapt procedures for their products and organizational structure – proportionality in costs.	

Policy Option 1.3: Detailed rules

No.	Pros	Cons
1	Greatest legal certainty for manufacturers.	Detailed rules may not be always appropriate for every PRIIP or manufacturer, so some scope for gaps / risks that are not covered.
2	Comparability and accuracy of KID for retail investors.	Lack of flexibility for manufacturers to adapt procedures for their products and organizational structure – disproportionate costs for some.

Policy issue 2: Timing of periodic reviews

Option 2.1: Left for manufacturers to decide

Option 2.2: Yearly reviews in all cases

Option 2.3: Minimum standard for reviews (at least yearly)

The timing of periodic reviews is a specific element of the common standards addressed already under Policy issue 1 that merits individual treatment.

In general, periodic reviews are necessary for certain parts of the information in the KID. Typically the information on costs, risks and performance can be expected to be determined in such a way that it needs to be 'updated' after each year. This is the approach that is already used for the purposes of the UCITS KII. This would immediately imply a fixed periodic review on a yearly basis, supplemented by *ad hoc* reviews where circumstances have changed so as to indicate that the KID may be inaccurate.

However, given the range of PRIIPs and PRIIP manufacturers, such a period for the review may not always be so relevant – for instance, some fixed maturity PRIIPs may not have costs that are varying on an ongoing basis, or may have shorter lifespans, accordingly meriting a shorter frequency of periodic review.

An alternative, in view of the range of PRIIPs, would be to leave the choice of period to the manufacturer, in view of their overall liability for the accuracy of the KID.

The frequency of review could significantly increase costs – where reviews are conducted on a frequent basis, such as on a quarterly basis, for some PRIIP manufactures who issue large numbers of PRIIPs, particularly if linked to mandatory revision and republication of the KID. This may seem disproportionate where there are only small changes that for instance do not lead to a different cost, performance or risk disclosure. On the other hand, as long as revision implies only publication on the website of the manufacturer, publication of the revised version through yearly mandatory reviews may not lead to significant additional costs, while ensuring a minimum update frequency of the information in all cases.

Policy Option 2.1: Left for manufacturers to decide

No.	Pros	Cons
1	Manufacturers able to achieve maximum proportionality to their specific products, business models and operating scale and structure.	Approaches of different manufacturers diverge, reducing effectiveness of the KID for comparisons.
2	-	Approaches of different manufacturers diverge, increasing risk of misleading KIDs for retail investors.
3	-	Some legal uncertainty/legal risk for manufacturers in assessing compliance.

Policy Option 2.2: Yearly reviews

No.	Pros	Cons
1	Model has worked well for the UCITS market, and likely to align well with costs, risk and performance review cycle (Art 8).	Yearly cycle may be either too infrequent or frequent for some PRIIPs: risk for retail investors, and for manufacturers.
2	Legal certainty.	

Policy Option 2.3: Minimum standard for reviews (at least yearly)

No.	Pros	Cons
1	Comparability and accuracy of KID for retail investors – KID reviewed more frequently where necessary.	Some legal uncertainty over choice of periodicity.
2	Adaptability for shorter term PRIIPs or those where a yearly cycle is too short.	

Policy issue 3: Criteria for republication of the KID

Option 3.1: Wide scope: following all reviews

Option 3.2: Narrow scope: where review shows need for changes

Once a review has been undertaken, a decision needs to be taken as to how the KID will be revised and thereafter republished. This relates to the important materiality test for changes.

As set out above, a republication may be envisaged after every periodic review. This would be to follow the approach in the UCITS rules related to KII documents. There, the methods followed for the cost information, the risk indicator, and the past performance information contained in the document, imply that the KII will need to be republished at the very least on a yearly basis. The cost methods outlined in this Consultation Paper foresee the use of ex-post cost data on a yearly basis, in a similar fashion to the KII for UCITS, and for this reason a similar republication cycle can be foreseen to take into account the most up to date data.

For *ad hoc* reviews it may be very often the case that following the review a revision and subsequent republication is required, since the *ad hoc* review would typically only be triggered where a new KID would likely be necessary.

For both periodic and *ad hoc* reviews, however, the question arises as to the degree of 'materiality' of changes – for instance, a change of a basis point or two in costs may not lead to a change in the costs figures shown in the KID, once rounding and approximation is taken into account. While the KID might be republished as normal, the figures and contents of the document would remain the same.

The cost methodology foresees recalculation on a yearly basis to reflect changes that impact the summary cost indicator at the level of 2 decimal points. Where there are changes to the costs during any year that are known to the PRIIP manufacturer, where such changes would be material for the retail investor, these would also trigger an *ad hoc* revision and republication.

In regards the risk methodology, under the quantitative measurement of market risk, a PRIIP might temporarily move between SRI categories, or, where it sits close to the boundary between buckets, the assigned SRI may be particularly sensitive to small changes in the risk outlook. The methodology foreseen for the risk indicator includes some intrinsic smoothing and approximations that would to a degree reduce excessive sensitivity.

An additional 'smoothing' is foreseen however within the risk methodology, whereby a movement between SRI categories related to market risk must persist for at least four months before it is to be counted as a permanent change triggering a revision and republication of the KID. Shorter term movements would not require republication. Changes related to credit risk would however always require revision and republication of the KID.

In the absence of these smoothing and approximation measures, a clearly disproportionate approach could arise where the KID would need to be continuously updated and republished; such an approach was not considered a viable option.

A choice remains however as to whether the KID would be always republished following a review, or whether the KID might only be revised and republished following changes.

Where the KID is always revised and republished, there could be benefits from the legal certainty this brings for issuers, the market and retail investors, in that to find the accurate KID, one would need to simply locate the KID closest to the nearest periodic review date. Where the revision and republication are left to manufacturers to decide, questions on the materiality of changes – and whether these should lead to revision and republication – might arise, while different practices emerge in different markets and sectors.

Policy Option 3.1: Wide scope

No.	Pros	Cons
1	Maximises accuracy of KID .	Could imply high costs.
2	Legal clarity.	Costs may be disproportionate for some manufacturers.

Policy Option 3.2: Narrow scope

No.	Pros	Cons
1	Lower costs for some manufacturers	Legal uncertainty.

Policy issue 4: The treatment of non-continuous offers

Option 4.1: Apply same rules as for continuous offers

Option 4.2: **Apply rules solely where a PRIIP is available – or soon to be available – to retail investors**

The case of non-continuous offers is of specific importance. These occur where a product is offered to retail investors for only a pre-defined period. Once that period is complete, the product may no longer be offered to retail investors.

Note that, in general, periodic and *ad hoc* reviews are relevant where a PRIIP remains 'open' to retail investors. In principle, if the product is no longer on offer to new investors, there will be no new investment decisions to be made by such investors. This leaves solely investment decisions (related, e.g. to opportunity costs) for existing investors.

An alternative possibility, where a product is available in a discontinuous fashion, could be a product that is only available during specific 'windows'. In this regard, there is a risk to retail investors if the PRIIP is not reviewed and republished prior to it being made available (again), so as to ensure its continued accuracy.

Policy Option 4.1: Apply same rules as for continuous offers

No.	Pros	Cons
1	Simplicity of rules, applying evenly to all PRIIPs.	Level one empowerment foresees specific treatment.
2		Revision of document whilst a PRIIP is not on sale may be disproportionate.

Policy Option 4.2: Apply rules solely where a PRIIP is available – or soon to be available – to retail investors

No.	Pros	Cons
1	Proportionate costs, where a PRIIP is not on offer.	More complexity in rules.
2	Coherence with level one.	

Policy issue 5: Communication with retail investors

Option 5.1: Active model

Option 5.2: Passive model

Where there is a change to the KID, the new KID should be used by manufacturers and distributors when they are selling directly for satisfying requirements to provide the KID to retail investors.

However, there may be cases where existing investors should be aware also of the changes in the KID. A shift in the risk indicator or costs of the PRIIP may be material for the existing investors in their decision as to whether to remain invested in the PRIIP in question or to shift their investment to another PRIIP.

Two models can be envisaged – a passive model, where the KID is republished, but it is up to individual investors to monitor the information and locate and use the new KID, and an active model, where the KID is provided directly to investors (e.g. through email, through physical paper mailings, or otherwise).

For UCITS, a mostly passive model is followed, though some structural changes to UCITS (mergers, for instance) may trigger a requirement to actively provide a KID in respect of that structural change.

A challenge for an active model is that the PRIIP manufacturer may not have access to the identity of their underlying retail investors. In such a case an active model would need to address the entire distribution chain, and obligations solely on the PRIIP manufacturer would be unlikely to achieve the desired impact.

It could be very costly therefore to put in place a requirement for active communication, in that this could require the creation of single registers of retail investors for all PRIIPs, irrespective of their legal form. Such measures would impact some PRIIP manufacturers to a far greater extent than others.

Policy Option 5.1: Active model

No.	Pros	Cons
1	Investors will be systematically informed of evolution of their investment.	Likely to be costly to implement..
2		May cause significant market disruption (in order to comply).

Policy Option 5.2: passive model

No.	Pros	Cons
1	Cheap to implement.	Some investors will not receive information or appropriately monitor their investment.
2	Investors may still gain access via website (tools may be implemented to enable 'alerts' to those investors interested in information).	

5. Analysis of impacts

Rules on review, revision and republication of the KID can be significant cost drivers for PRIIP manufacturers, yet are important for ensuring retail investors can be confident that the information they are provided in a KID can always be relied on.

The absence of coordinated rules in this area would not necessarily reduce costs, as PRIIP manufacturers are bound to ensure the KID used for all sales of a PRIIP is fair, clear and not misleading, and so could be expected to establish internal procedures and governance for these to ensure timely review and republication of the KID in those situations where it may no longer be fair clear and not misleading.

Cost drivers that have been identified include one-off costs related to introducing procedures and measures to ensure compliance, and the ongoing costs of operating these procedures. The costs can be expected to be split between those that are sensitive to the number and frequency of KIDs issued by a manufacturer, and the frequency of review necessary for these PRIIPs, and those that are fixed. One-off costs could include consultancy fees, internal resources for establishing policies and putting these into place. Ongoing costs could include publication costs (updates to websites, provision to distribution channels of new KIDs, and ensuring old KIDs are no longer in circulation or use).

The ESAs analysis is that a significant factor in the scale of these costs would be the frequency of reviews and revisions, and the extent or use of an 'active' communication model for existing retail investors. The latter could be by far the greatest cost driver, in that in the absence of a relationship between the manufacturer and retail investors, new mechanisms would need to be put in place.

The cost impact of this Regulation is significantly reduced, in view of the proposal to follow a 'passive' model for communication with retail investors, and the proposal to normalise on a 12-month period for periodic reviews.

The expectation is that the costs borne by standardisation of measures on periodic review, revision and republication, including by setting a standardised maximum period for republication (annual), are likely to be materially similar to those borne by virtue of the level one Regulation and its high-level obligation in relation to review, revision and republication of the KID. Such additional specification as is imposed by means of this Regulation is, in the view of the ESAs, unlikely to drive significant additional costs. In practice, this specification could reduce one-off costs in particular, by reducing legal uncertainty and compliance an implementation costs by virtue of the employment of external consultants.

Benefits

The harmonisation of measures on review, revision and republication of the KID can be expected to ensure greater consistency in the practices adopted by PRIIP manufacturers, and thereby to contribute to increased confidence by retail investors when using the KID. Greater reliance on information in the KID could have significant impacts. In addition, in so far as the greater harmonisation of this Regulation reduces cases in which retail investors make decisions on the basis of information that is not fair, clear and not misleading, then this would directly contribute to their benefit. For firms, clearer rules would reduce compliance costs.

iii. Impact Assessment Article 13

1. Procedural issues and consultation of interested parties

According to ESAs' Regulation, the ESAs conduct analysis of costs and benefits when drafting regulatory technical standards. The analysis of costs and benefits is undertaken according to an Impact Assessment methodology.

The draft RTS and its impact assessment are subject to public consultation.

In preparing these draft RTS, the ESAs have conducted two separate public consultations by means of Discussion Papers.

2. Problem definition

According to Article 13 (5), the ESAs shall develop draft regulatory technical standards specifying the **conditions** for fulfilling the requirement to provide the KID in 'good time before' the retail investor is bound by any contract or offer relating to the PRIIP.

The general purpose of further specifying these conditions is to ensure consistent application of Article 13 (1).

The KID has been designed as a pre-contractual document, to aid the retail investor in understanding and comparing different PRIIPs. The success of the KID in this regard depends therefore on the KID being read prior to any investment decision being taken by the retail investor. This means the KID must be provided sufficiently early in the deliberation process of the retail investor as to be able to assist that process. The KID is not designed to inform the retail investors about the product they have bought, or to confirm to the retail investors the commitment they have made.

The KID is also a response to a problem faced by retail investors in understanding and comparing retail investments, due to challenges related to the complexity of these investments and investment decisions in general, and relatively low levels of engagement and financial literacy amongst retail investors in general. The timing of the delivery of the KID so as to allow the retail investor to reflect on its contents therefore needs to take into account the problems faced by investors.

In addition, neither retail investors nor PRIIPs they are considering are always the same in terms of the amount of time needed for the retail investor to comprehend the PRIIP. The comprehension of the PRIIP by means of the KID would depend on the complexity of the PRIIP itself, the novelty of that PRIIP for the specific retail investor, and the financial capabilities of that retail investor.

While the level one Regulation sets out a common principle on the timing of delivery ('in good time') the interpretation of this for different types of PRIIPs and different types of retail investors is not specified. For distributors this may raise legal concerns over their liability in relation to the timing of their delivery of the KID for a PRIIP. This could include, for instance, questions over whether or when a prospective retail investor might be expected to be given the time to take KIDs for proposed products away from the distributor, for instance to engage in further deliberation prior to making a commitment.

The main problems to be addressed therefore are:

- Clarity for PRIIP distributors over regulatory / legal expectations
- Responding to the different needs of retail investors
- Responding to the different PRIIPs on offer

Baseline scenario

When analysing the impact from proposed policies, the impact assessment methodology foresees that a baseline scenario is applied as the basis for comparing policy options. This helps to identify the incremental impact of each policy option considered. The aim of the baseline scenario is to explain how the current situation would evolve without additional regulatory intervention.

The baseline scenario is based on the situation where the PRIIPs Regulation applies, but where there is no RTS to further specify the obligation in Article 13 (which states under 13 (1) that ´A person advising on, or selling, a PRIIP shall provide retail investors with the key information document in good time before those retail investors are bound by any contract or offer relating to that PRIIP.')

Note that the publication requirement placed on the PRIIP manufacturer under Article 5 (1) already addresses an aspect of the problem of retail investor access to the KID during the deliberative phase of an investment decision process: this publication obligation will ensure the generalised availability of the KID for those retail investors who are willing and active to find further information during an exploratory phase.

3. Objectives

The overall objective of this RTS is to ensure that sufficient measures are taken by the person advising on or selling a PRIIP (hereafter the PRIIP distributor, who may also be the PRIIP manufacturer) to ensure that each retail investor receives the relevant KID sufficiently early – in view of his needs and the nature of the PRIIP – for the KID to be useful for the investment decision making of that retail investor. In addition, there should be sufficient consistency in the approach taken by different PRIIP distributors, to ensure retail investors can always trust in receiving a KID at the right time, and that these distributors are clear as to their obligations in respect of the PRIIPs Regulation.

The policy issues to address therefore are:

- Degree of harmonisation of approach
- Adaptation to needs of the retail investor
- Adaptation to PRIIP

4. Policy options

This section explains the rationale behind the most relevant alternative solutions that the Joint Committee has examined when designing the RTS proposals.

Policy issue 1: Degree of harmonisation of approach

Option 1.1: Highest degree of flexibility for distributor

Option 1.2: Common principles (minimum standards)

Option 1.3: Detailed rules

In order for the PRIIPs distributors to be in a position to be able to know when they have satisfied the obligation to provide the KID 'in good time', some questions arise as to the broad regulatory approach that might be adopted. At one extreme, it could be left entirely for each distributor to assess, according to criteria and processes of their own, what might count as 'in good time'. At the other extreme, strict prescriptive rules might be established, setting out, for instance, the specific period of time (for instance hours or minutes, or a prescribed cooling off period of a day or two) during which the retail investor can reflect about the PRIIP. Another option would be to set in place some common principles and criteria, but to leave open.

This is the approach already established in MiFID II as set out in Recital 83.

The reference to MiFID II is important, in that establishing different standards in the context of the PRIIPs Regulation to those applying on distributors in respect of MiFID II could be a material cost driver for distributors, who would need to comply with different standards for different products (that is, those that are PRIIPs and those that are not PRIIPs).

Policy Option 1.1: Highest degree of flexibility for distributors

No.	Pros	Cons
1	Distributors able to achieve maximum proportionality to their customer base and its needs.	Approaches of different PRIIPs distributors diverge, undermining retail investor trust.
2	-	Some legal uncertainty/legal risk for distributors in assessing compliance.

Policy Option 1.2: Common principles (minimum standards)

No.	Pros	Cons

No.	Pros	Cons
1	Greater legal certainty for distributors than option 1.1.	Minimal standards may still leave room for divergence in approaches, with potential for some retail investors to receive KID too late in the process.
2	Depending on substance of standards, permits greatest coherence with other distribution rules (MiFID II).	Minimal standards may still leave room for some legal uncertainty/legal risk for distributors in assessing compliance.
3	Flexibility for distributors to adapt procedures -- proportionality in costs.	

Policy Option 1.3: Detailed rules

No.	Pros	Cons
1	Greatest legal certainty for distributors.	Lack of flexibility for retail investors if a long period is set for review of KID, yet retail investors very familiar with investment.
2		Lack of flexibility and disproportionate costs in some cases for distributors to adapt procedures for their products and typical customers.
3		Possibility of divergence between different rules (MiFID II, PRIIPs Regulation) – increasing costs.

Policy issue 2: Adaptation to needs of the retail investor

Option 2.1: Responsibility of the retail investor

Option 2.1: Needs of generic retail investor

Option 2.2: Needs assessed relative to the specific retail investor

The amount of time a retail investor might need for reading and comprehending the KID is likely to vary significantly according to the capacities, experience and knowledge of that retail investor. Investors with considerable ongoing experience with specific instruments – for instance, those who have built up for themselves a portfolio of fund investments over many years – or past professional experience in such investments may require considerably less time to read and comprehend a KID. Other investors may need considerably longer.

It can be argued that it would be up to the retail investors themselves to express their preferences. However, the obligation on timing applies to the PRIIP distributor, and it is up to the PRIIP distributor to assess what would count as 'in good time'. When making such an assessment, a 'one size fits all' approach might be taken (setting the same standard for everyone, with sufficient time to suit those of lesser financial capability). On the other hand, a tailored approach, where the PRIIP distributor takes into account the retail investor and their needs, may be more proportionate.

Adaptation to needs is not only a reflection of the capacities, experience and knowledge of the retail investor, but also their expressed needs in respect of the specific transaction. A retail investor who wishes to buy a particular product at a particular price and time should not be unduly prevented from doing so, other regulation applying to the sale notwithstanding.

Policy Option 2.1: Responsibility of the retail investor

No.	Pros	Cons
1	Low cost and liability for distributors.	Inconsistency with requirements under MiFID II.
2	Adaptability for some investors.	Lower capability / experience retail investors may be less well informed.
3	-	May be inconsistent with level one empowerment.

Policy Option 2.2: Needs of generic retail investor

No.	Pros	Cons
1	Simple standardized model potentially easy/cheap to implement for distributors.	Potential inconsistency with requirements under MiFID II.
2	Legal certainty.	Where standardized for lower capability retail investors, increases costs for higher capability or experienced retail investors.

Policy Option 2.3: Needs assessed relative to the specific retail investor

No.	Pros	Cons
1	May serve both lower and higher capability retail investors equally well.	Some legal uncertainty for distributors.

No.	Pros	Cons
2	Consistency with MiFID II	May be more costly to implement.

Policy issue 3: Adaptation to PRIIP

Option 3.1: Separate those PRIIPs with a comprehension alert and those without

Option 3.2: Reflect specifics of different products

Different PRIIPs may raise different challenges for retail investors. Some innovative or complex PRIIPs may be intrinsically more difficult for retail investors – irrespective of their experience, knowledge or capabilities – to understand and fully comprehend. While the KID itself is intended to provide as simple and easy to understand information as possible about a product, it cannot be assumed that all KIDs will be equally easy for retail investors to understand and compare.

This implies therefore that for some PRIIPs the retail investor may need a longer time horizon to consider the information contained in the KID.

Two basic approaches can be envisaged: a simplified approach, where the existence of a comprehension alert on the KID for a PRIIP triggers a mandatory requirement to allow a longer period for deliberations by retail investors, and a more flexible approach which leaves it for the PRIIP distributor to consider on a case by case basis the appropriate period needed.

The latter is the approach proposed under MiFID II. In addition, it is not clear that all products that possess a comprehension alert or vice versa will be equally difficult or easy to comprehend for all retail investors, so removing all flexibility on this point may nonetheless reduce consumer protection levels.

Policy Option 3.1: Separate those PRIIPs with a comprehension alert and those without

No.	Pros	Cons
1	Simplicity, low costs of implementation.	May be insufficiently tailored to specific retail investors and their needs.
2	Legal clarity.	May be insufficiently tailored to the specific complexity of a specific PRIIP in the view of the distributor.
3		Inconsistency with MiFID II

Policy Option 3.2: Reflect specifics of different products

No.	Pros	Cons
1	Adaptability for specific PRIIPs.	Legal uncertainty, with some additional costs.
2	Retail investor needs more comprehensively taken into account	
3	Consistency with MiFID II	

5. Analysis of impacts

Rules on the timing of the delivery of the KID – derogations related to distance sales notwithstanding – are aimed at ensuring that distributors consistently take into account the varying needs of retail investors in relation to different transactions.

By its nature, this entails a certain flexibility – putting the responsibility and liability for this onto the PRIIP distributor. A 'one size fits all' approach would be cheaper to implement and would of course carry less liability for the PRIIP distributor, but would be less likely to ensure retail investors get the protection that is sought for them by the level one Regulation.

These considerations have already been taken on board by the co-legislators in regards the existing criteria established through MiFID II in Recital 83. Inconsistency with these criteria for the KID could create additional uncertainty and costs for PRIIPs distributors subject to MiFID II, while at the same time the solution established in MiFID II has also been designed in view of addressing the same policy issues as set out here in respect of the KID.

For those subject to MiFID II, the baseline arguably – due to the need to comply with MiFID II already – contains the costs of applying these same standards in respect of the KID. For those not subject to MiFID II – those subject to the IMD – costs of implementation would include:

- establishing policies – where necessary in view of the size of the distributor – on timing of delivery and being prepared to explain the appropriateness of these;
- establishing documentation, as may be requested by relevant supervisors;
- gathering information on the needs, demands, knowledge and experience of relevant retail investors.

The last point – in terms of 'know your customer' consequences – would however already apply under the IMD, such that the incremental costs of taking the customers' needs, demands, knowledge and experience into account also with the timing of the delivery of information to the customer should be low.

Benefits

The effectiveness of the KID depends on it being provided or made available to retail investors prior to their investment decision making. For this reason, all measures that would increase the extent to which retail investors are able to read and use the KID, and the emphasis placed upon the KID by PRIIPs distributors, can be expected to reduce levels of mis-selling and mis-buying. The extent of this benefit however would depend on the overall effectiveness of the KID itself, and it is difficult to separate the benefit arising from timely delivery from the benefit arising from the quality and effectiveness of the document itself.