

Comments Template for Joint Consultation Paper concerning amendments to the PRIIPs KID (JC 2018 60)

**Deadline
6 December 2018
23:55 CET**

Name of Company:	Test-Achats	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question or a cell, leave the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, in Word Format, to CP-18-005@eiopa.europa.eu</p> <p>Our IT tool does not allow processing of any other formats.</p>		
Reference	Comment	
General Comments	<p>Test-Achats is the Belgian consumers association and makes up about 350 000 members. Test-Achats is a member of BEUC (Bureau européen des Unions des Consommateurs).</p> <div align="center">  </div> <p>Internet site: www.test-achats.be Internet site for retail investors: www.test-achats.be/invest</p> <p>It has been recognised by the Commission as an entity qualified to bring injunctions at Community level to protect consumer interests.</p>	

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Test-Achats is registered in the EC Transparency Register under nr 694466214317-80.

Test-Achats is very supportive of the KID aim as a short and understandable document allowing retail investors to better understand the proposed investment products, to compare the different kinds of investment products that can fill the same need, and to make better informed choices. The KID has also an important role in avoiding malafide intermediaries to sell products by mean of partial or wrong information that could be easily detected when reading the KID.

The quick fixes aimed by the current consultation should be considered as temporary in order to avoid too much misleading impact during the time lapse until the review of the level 1 regulation comes into force. This review is needed and should occur as soon as possible. Other aspects than those mentioned in the consultation paper should be tackled. We mention just some of them:

- Costs: some costs are not on board of the KID. This is the case for some with profits life insurance when specific costs are to be paid if you leave during the first period of 8 years if the interest rates have risen.
- Costs: The impact of the costs on the return is very useful to understand their impact and avoid to high recurrent costs on the market. But as the impact of costs is calculated taking the recommended holding period in account, not all similar product are comparable as the issuers choose different holding periods. Ans choosing an excessively long period allows to water down the real impact of the costs compared with a shorter holding period. In this regard, mentioning also the costs in percentage – what doesn't need a lot of room on the KID, would be helpful.
- Information to be provided by the intermediary, tax regime: a 4th page, dedicated for the intermediary, should be added to the KID. That additional page can avoid multiple information sources to be consulted by the retail investor, avoid bad choices. For instance, the Belgian consumer was used to find the tax regime on the life insurance information sheet. This information is crucial as not all PRIIPs have the same tax regime and holding period has an important tax impact.

The review of the level 1 regulation should occur as soon as possible in order to make a better

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	<p>document available to the public and to put an end to the coexistence of the KII for UCITS and the KID for PRIIPs without undue delay.</p> <p>We can understand that the KID would be adapted in two steps, one with the modifications as discussed in this consultation paper and a second time with the KID review. This is somehow confusing for the retail investor, but it looks less harmful for the less literate investors than keeping the misleading future performance longer as it currently is.</p> <p>As the KID review should follow very rapidly, the quick fixes should be limited to the crucial aspects, the rest to be addressed by the review with due consultations and testing.</p> <p>Given the urgent character of the needed changes, their entry into force should be set to a earlier date than 1/1/2020.</p>	
Q1	Yes.	
Q2	Yes, past performance is not suitable for structured products and for new products without sufficient price history.	
Q3	<p>Less literate retail investors tend to give too much importance to only past return, not taking the risks into account. When comparing PRIIPs or UCITS that have similar benchmarks, past return is not the only criteria to compare them. The risks taken, the volatility should be taken in account in order to take a right decision or give a correct recommendation. We do it in our recommendations, Morningstar does it also.</p> <p>This said, it doesn't seem possible to develop more accurate way to inform retail investors in the short time allowed. Past performance as it is published in the KIID for UCITS, will be less misleading than the current optimistic future returns.</p>	
Q4	<p>We consider that past performance should be actual, not simulated. This is certainly the case for active managed products. Simulated return based on the volatility of underlying assets at the launch of a new PRIIP won't reflect the quality of the asset management as the underlying assets will change during the product life.</p> <p>However, for passive managed products, like index tracking products, mentioning the past</p>	

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	performance of the tracked index is useful.	
Q5	Past performance could be simulated for passive managed products, like index tracking products, mentioning the past performance of the tracked index is useful.	
Q6	<p>When we inform our members about future return and risks of financial instruments, we always take some assumption of the way the economy could evolve, what the future volatility of the underlying assets could be. It's the same when firms estimate the fair value of options. As mentioned in the consultation paper, the current technique based on the 5 last years is procyclical. For example, it pushes retail investors in the direction of financial bubbles and discourage them to invest when the markets have known an important drop in value. Just the opposite of the behaviour of professional or more experienced investors.</p> <p>The mentioned future returns have a quite bigger impact on the public than text. In order to mitigate the current misleading impact of the published returns, the text must be short and powerfull. Higher and bold (as mentioned by the ESAs consultation document) fonts could help. Mentioning that future returns are simulated or are an estimation won't have a significant impact on its own as it is obvious that it is not known yet and can only be simulated.</p> <p>Our first choice is to suspend mentioning future returns as long as it remains calculated as it currently is.</p> <p>Would it be kept, we suggest a text in this style:</p> <p align="center">The returns hereunder are simulated and based on only the last 5 years. Nothing indicates that this product will keep perform in the same way during the coming years.</p>	
Q7	<p>In the short time allowed before the EU elections, it is difficult to find an acceptable and definitive solution for all kind of PRIIPs.</p> <p>In our view, mentioning future returns without taking expected reconomic evolution in account will remain misleading for the retail investor. And the KID is precisely designed for that group of (less literate) investors.</p> <p>We agree with the ESAs that extending the historical period to measure performance would not</p>	

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	solve the problem. As mentioned in the consultation document, the more critical drop in value during the 2008-2009 crisis won't be included in a 10 years back period. And it will excessively dilute the impact of possible future volatile events that could temper the positive evolution of the 5 last years.	
Q8		
Q9		
Q10		
Q11		
Q12		
Q13		