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:	Banking & Payments Federation Ireland	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	Please follow the following instructions for filling in the template: ⇨ 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 empty. ⇨ Please fill in your comment in the relevant row. If you have no comment on a question or a cell, leave the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to CP-18-005@eiopa.europa.eu** **Our IT tool does not allow processing of any other formats.**	
Reference	**Comment**	
General Comments	The focus in the comments below is on structured products and OTC derivatives for customer hedging. It would be beneficial, in particular, to receive further clarification on customer hedging OTC derivatives in the context of the scope of the PRIIPs Regulation. The scope of the PRIIPs Regulation includes OTC derivatives. However, the concept of a return on investment does not readily align itself to hedging transactions given that many of these transactions involve no initial investment and are designed / intended to remove risk and not to add it (as an investment typically does).	
Q1	BPFI members have conflicting views on the value of including Past Performance in the KID. Members focused on OTC derivatives for customer hedging agree, to a certain extent, that it would be useful however, the costs are likely to be significant while others do not think that past	

	performance should be included, in particular, for structured investments. This is because past performance is not available for all products and would, by necessity, be calculated differently for different products. There is a concern among the Membership that this would detract from the primary purpose of the KID to make products comparable. In addition, showing past performance for the previous five years along with simulated performance also based on the previous five years performance risks enforcing the view with clients that the recent past performance is likely to be similar going forward, whereas the last five years may have been either much higher or much lower than expected going forward. Members also note that information on past performance can be provided by the manufacturer in other product literature	
Q2	Yes. We note that implementation costs are likely to be material across the range of PRIIPs and the industry will need sufficient lead-in time to implement the changes. In addition, for fixed term illiquid products like structured securities, it would be difficult to calculate simulated past performance as data may not be available and there would be a risk of different inputs used by simulated valuation tools resulting in different performance figures for very similar products produced by different manufacturers.	
Q3	Bar charts may not be the most appropriate methodology for fixed term illiquid tranche- based structured investments. This would show the simulated mark- to -market performance and have the same problems as mentioned above in point 2. Annualised performance has the potential to be confusing to clients investing on a hold -to- maturity basis, on an illiquid security. For auto-callable products, past performance will be markedly different depending on the frequency of the auto call observations and the term of the first auto call, making otherwise relatively similar products seem markedly different. In addition, rules would need to be clear on reinvestment rules for auto- callable products that have auto- call observation dates with a less	

	than annual frequency. However, on the other hand, some Members believe the bar chart approach is acceptable however, it is noted that unlike UCITS funds, OTC derivatives do not have a net asset value. Also, the concept of an investment and/or investment amount cannot be properly applied to OTC derivatives (a vanilla at-the-money interest swap is a good example of this). If OTC derivatives are in scope for this requirement, one Member suggests that past performance of an OTC derivative at a point-in-time in the life of the OTC derivative could be calculated as: the mark- to- market + previous settlement(s) made on the OTC derivative. However, this suggestion would need further analysis and consideration.	
Q4	If the decision is made to include past performance, then simulated past performance should be included to make the KIDs for different products as comparable as possible, provided that simulated past performance is an accurate reflection of what past performance would have been and is not subject to material variations from input assumptions used by manufacturers creating the simulated performance. Members wish to highlight that simulated past performance information has the potential to be misleading for customers. Members would also query what meaningful value simulated past performance has for customers when they are already provided with future simulated performance information in the KID. Moreover, Members believe that there are likely to be significant costs incurred to implement this.	
Q5	Of the two suggested solutions, Members believe that using the historical prices to replicate the payoff of the product would be preferable to using the history of the asset itself as for structured investments, it is likely that product payoff may significantly differ to the historical price of the underlying.	
Q6	Yes. Members believe that the proposed amendments are sensible. In addition, Members propose that a line should be included stating that data used from the past x years may be significantly different to performance over the RHP.	
Q7	 In general, Members believe that using historic returns has a high risk of driving inappropriate behaviours resulting in investors buying high priced investments at the wrong time. The idea of	

	basing future expectations on the risk-free rate therefore has merit. Using the risk-free rate, along with a regulatory defined appropriate risk premium for different asset classes would remove the issue of not capturing an appropriate potential return. The graphic representation in Annex 6 is attractive, but the full range of returns should be graphed with the scenario lines overlaid, rather than being at the outer bounds, as there is the potential that the best and worst case could be higher or lower than the favourable/stressed scenarios. If possible, some additional shading could be used in the graph to indicate the distribution of returns. Members further suggest that for customer hedging OTC derivatives, any material benefits for customers of any of these three options are likely to be limited. These limited benefits in this regard are perhaps outweighed by the implementation costs involved.	
Q8		
Q9	The Summary Risk Indicator should be amended to a 10-point scale with 1-7 aligned with the old SRRI measures and additional risk categories 8-10 capturing the higher levels of risk included at the last moment in the PRIIPs legislation. The bands are too wide and leads to clustering of investments with significantly different risks for the average retail investor who does not invest in very high-risk investments. The amendment proposed at 'Growth assumption for the reduction in yield (RIY) calculation' seems like a reasonable change, although Members note that this is a very significant change and may require further analysis prior to implementing same. Members also believe that the amendments proposed in 'Narratives for the Summary Risk Indicator' section and the examples given in the 'Other Minor Amendments' section are sensible, positive changes. The other amendments proposed are unlikely to have a material impact in relation to OTC derivatives. With regard specifically to autocallable structures, Members agree with the proposal to only include the performance to the call occurrence. However, Members do not agree with the proposal to include the value at the subsequent intermediate period. For a 10-year product calling on the second anniversary, the time to the 5-year intermediate period would be too long. The table should be blank at the subsequent intermediate period and the return at the call date	

	added by way of narrative.	
Q10	The aim should be to standardise the KIID and the KID so that there are no differences within the shortest time frame as this is currently very confusing for investors.	
Q11	Members query whether the benefits of including past performance outweigh the costs for both structured and OTC derivative hedging products. An amendment to the narrative texts would be beneficial given relatively low costs however, the future performance scenarios are currently significantly flawed, so even though the cost is high, this is likely to be worthwhile. In relation to option 2 and option 3 with respect to customer hedging OTC derivatives, Members suggest that any material benefits for customers of either of these two options are likely to be limited	
Q12	No, not at this stage. A thorough analysis would be required at implementation stage. However, some Members suggest that costs are likely be material for structured investments and OTC derivative hedging products, but less impactful for funds.	
Q13		