

# 4. Section of the KID: what are the costs (Part 2) – Transaction costs

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# Current Rules

- Implicit transaction costs, i.e. included in the price of a transaction, need to be disclosed, as well as explicit costs, such as broker commissions or taxes
- These have a material impact on investment returns
- Appropriate disclosure also promotes competition
- Where the PRIIP has been operating for at least 3 years, and invests in assets that are sufficiently liquid or traded they follow an approach based on “actual transaction costs”
- These costs are calculated according to a so-called “slippage approach”

# Issues raised by stakeholders

- Accuracy and meaningfulness of the results provided
- Negative costs (not intuitive to investors)
- Practical challenges relating to the reliability of price data, in particular for certain OTC securities, such as bonds or derivatives

# ESA proposals

- Overall, we consider the method remains appropriate for certain types of assets (e.g. equities), but adjustments are needed, in particular for OTC transactions or non-financial / real assets (Option 1 preferred approach)
- Also, seeking stakeholder feedback on more principles-based approach (Option 2). This could remove any risk of inappropriate results (based on specific features of trade), but risks inconsistent applications
- In addition, proportionality threshold to use simplified approach where low number of transactions or portfolio turnover.

# Questions?