association of the
luxembourg fund industry

Luxembourg, 19 December 2019

Response to ESA consultation on amendments to the PRIIPs KID

Introduction

The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community. The Association is committed to the development of the Luxembourg fund industry by striving to create new business opportunities, and through the exchange of information and knowledge.

Created in 1988, the Association today represents over 1,500 Luxembourg domiciled investment funds, asset management companies and a wide range of business that serve the sector. These include depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialised IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg domiciled investment funds are distributed in more than 70 countries around the world.

We thank the European Supervisory Authorities (ESAs) for the opportunity to participate in this consultation on amendments to the PRIIPs KID.

We support the submission of the European Fund and Asset Management Association (EFAMA).

Response to the consultation

Before responding to the individual questions, ALFI would like to summarise key aspects identified by its members:

- Additional narratives, e.g. on the relationship between past performance and future performance scenarios or on performance fees, will be necessary. Moreover, it is suggested by the ESAs to include risk provisions from the UCITS KIID Regulation to the PRIIPs framework. Not properly explaining the nature of risks will result in additional legal exposure for asset managers. The aforementioned changes will result in additional wording which will be in <u>conflict with the risk disclosure limit of 200 characters</u> provided by PRIIPs rules. Therefore, <u>we think the additional elements are likely to require a limit of 1000 characters</u>, in particular when considering translations of the KID. An extension to four pages could also be envisaged.

- Calculation of the implicit transaction costs: we would welcome <u>flexibility</u> in the regulation <u>to choose the more appropriate methodology to calculate the implicit transaction costs</u> depending on the asset type or the PRIIP situation i.e. either the use of arrival prices or of opening / closing prices or the use of the so-called “new PRIIPs” methodology or of any other appropriate approximation for OTC, real estate/private equity or illiquid products. Such flexibility would keep the KID key purpose of comparability between products while mitigating the challenge met by the industry regarding the data availability and in some cases the costs induced by these calculations and ultimately paid by the investor.

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- The ESA's have not considered in their revised draft regulation the impact of anti-dilution mechanisms on transaction costs. The addition of the following wording (Option 1, point 9) "*Where implicit transaction costs are negative, a minimum of explicit transaction costs shall be disclosed*" does not hinder the fact that the deduction of anti-dilution mechanisms might result in negative transaction cost data.

- ALFI would welcome from the ESA's more precise guidance on the cost calculation for illiquid products (cf. Q38 of the consultation). ALFI feels that clarification is needed on the range of expenses which should be included (numerator) and the asset value that these costs should be divided by (the denominator). These costs should be calculated in reference to what is stipulated in the offering documentation (NAV / GAV / capital committed or capital called as denominator), but more guidance is expected on which costs need to be considered to calculate the ratio: notary fees, etc. As the consultation already reflects, there is a wide divergence in EU Member States accounting standards which, absence any guidelines from the ESAs, is likely to lead to widely different PRIIPs costs figures.

- Overall, we believe it is not appropriate to consider an estimator as proposed in the consultation to determine the expected yield or risk premia of the asset class or product.

  In particular, we would like to emphasize that any methodology which would require any form of look through, whether at instrument level or asset class level, will be extremely complex and costly to implement, with no demonstrated benefit at this time. This applies all the more as the product manufacturer will be required to use index-based data for which he needs to pay license-fees. Additionally, any of the proposed approaches is highly subjective, would always leave room for interpretation for the manufacturer and would not even support the objective to derive meaningful information for the end investor.

  Therefore, to ensure that no asset class obtains a preferred treatment, we believe that no risk premia / yield enhancement shall be applied and that the risk free rate alone would be the most appropriate indication of expected returns for the end investor. Should a risk premium be deemed necessary, our preferred option would be to have the ESAs publish risk premia per asset class (see option "Other approaches" on pages 26/27).

- We strongly oppose the prospect of having to produce UCITS KIIDs for professional investors when the exemption for UCITS expires. The content of the UCITS KIID was primarily designed for retail investors and not for institutional investors. Professional investors need more detailed and customised information that is provided to them through other tools. It would also entail substantial efforts and costs for asset managers to maintain and produce two different types of documents. This would create much confusion to investors. We understand that the underlying reason for this consultation was to avoid providing diverging information to investors. The ESAs' proposal would perpetuate this scenario. Last but not least, if the UCITS KIID would not be fully phased out, the ESAs' assessment to delete Articles 12-14 of the UCITS KIID Delegated Regulation regarding multi-option products (MOPs) would become null and void as certain PRIIPs would still produce only UCITS data, which would then have to be accepted by MOP producers.

- The PRIIPs framework should establish a level playing field between all types of PRIIPs. As a result, where possible, in particular for PRIIPs within the same risk category, the required information should be the same across those products. If the level playing field is not extended to all categories, there is a risk that the investor cannot compare all different types of PRIIPs.

1. Are there provisions in the PRIIPs Regulation or Delegated Regulation that hinder the use of digital solutions for the KID?

In principle, we are in favour of any digital solutions that would make the consultation of the PRIIP KID content more user friendly. However, the PRIIPs Regulation states that the investor must be provided the PRIIP KID as a document that can be printed or downloaded. Furthermore, there should also be a record in some form that the investor has read it before subscription, and there should also be a record that PRIIP KIDs are available to investors after any update. Lastly, the information in a PRIIP KID is compliant only as a full set of product information delivered at a certain point in time. We are not certain that any content rendering other than a PDF file will meet all these requirements.

2. Do you agree that it would be helpful if KIDs were published in a form that would allow for the information to be readily extracted using an IT tool?

Today, the output is a PDF file which already offers solutions to allow extraction of information such as the use of PDF metadata or AI-based reading tools. For the retail investor, this is unlikely relevant. If the goal is to exchange information between, for example, manufacturers and distributors/insurers, there is already an agreed industry template standard (EPT/CEPT). As opposed to the UCITS KIID, there is no PDF metadata standard yet. We would welcome if the FinDatEx would develop a standard for PRIIPs metadata, as they did for the EPT/CEPT.

3. Do you think that the amendments proposed in the consultation paper should be implemented for existing PRIIPs as soon as possible before the end of 2021, or only at the beginning of 2022?

Our recommendation is that the amendments should not come into force before 1st January 2022. The final ESA recommendations based on this consultation will not be available before the end of Q2 2020, which does not leave enough time for technical implementation of these changes prior to 1st January 2022.

4. Do you think that a graduated approach should be considered, whereby some of the requirements would be applied in a first step, followed by a second step at the beginning of 2022?

No. We don’t think that the timeline is sufficient enough for proper implementation. In addition, a graduated approach would cause additional complexity in terms of operations and costs. Finally, we think that such process might also create confusion at investor level, because of the existence of two documents with different sets of information.

5. Are there material issues that are not addressed in this consultation paper that you think should be part of this review of the PRIIPs Delegated Regulation? If so, please explain the issue and how it should be addressed.

ALFI believes that some key aspects of the review of the PRIIPs Delegated Regulation have not been considered in the questions:

- **Comparability between PRIIPs**: We believe it would be in the best interest of investors to indicate on a KID the product’s PRIIPs category to make it clear which products are broadly similar and can thus be compared with each other. It might be misleading for the investor to compare an insurance product with a UCITS fund or with a non-UCITS fund, all showing the same level of risk, but not necessarily having the same liquidity or presenting very different product features.

- **Additional narratives**, e.g. on the relationship between past performance and future performance scenarios or on performance fees, will be necessary. Moreover, it is suggested by the ESAs to include risk provisions from the UCITS KIID Regulation to the PRIIPs framework. Not properly explaining the nature of risks will result in additional legal exposure for asset managers. The aforementioned changes will result in additional wording which will be in conflict with the risk disclosure limit of 200 characters provided by PRIIPs rules. Therefore, we think the additional elements are likely to require a limit of 1000 characters, in particular when considering translations of the KID. An extension to four pages could also be envisaged. We include four mock-up KIDs which illustrate the outcomes of options discussed in the consultation paper.

- **ESG disclosure**: It would be important for the industry to know whether the Sustainable Finance Regulations (on disclosure[1] and benchmarks[2]) will necessitate additional updates to the PRIIPs KID in advance of 1st January 2022, e.g. in terms of pre-contractual disclosure for financial market participants. We understand that level 2 measures will be proposed by the ESAs only in October/December 2020 (this aspect is to be taken into account with respect to costs, see Q55-57).

- **Risk figure**: We ask the ESAs to confirm that the UCITS KIID SRRI will no longer be administered ongoing under the revised PRIIPs KID.

- **Presentation of costs for a MOP (section 11 - page 55 of the consultation paper) :**
    - The first sentence of the text should be slightly amended: “The overall costs of the product will depend on the investments chosen and the table below shows what the lower and higher possible costs *might* be for three different periods and for each risk class.”
    - It should be clear from the table what the indicated levels of risk mean from low to high.

- **Draft amendments to the PRIIPs Delegated Regulation (section 12 – page 67 of the consultation paper):**
  The fact that the ESAs introduce new time references (x days/months) for the recommended holding period will cause operational issues with regard to the transmission of data by the EPT and EMT, as well as for some calculations. ALFI recommends to keep the years as a RHP and calculation basis.

- **Revised transaction costs methodology (amendments to Annex VI points 7 to 23 – pages 94 to 103 of the consultation paper):**

  ALFI regrets that the consultation paper does not address questions on the transaction costs methodology, the proposed amendments and the two options proposed in Section 12.7.
  ALFI reviewed the proposed options of the revised transaction costs methodology (amendments to Annex VI points 7 to 23) and has the following comments:

  The transaction cost calculation remains a point of concern within the PRIIPs Regulation and the revised draft regulation is not sufficient to remove the main issues the industry is facing with the existing arrival price methodology, namely its cost and the lack of available data.

  ALFI carefully reviewed the two options laid out by the ESAs.

[1] https://oeil.secure.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2018/0179(COD)&l=en
[2] https://oeil.secure.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2018/0180(COD)&l=en

We believe that the structure of presentation of transaction costs is clearer in Option 2 than in Option 1, with a clear separation and definition of transaction costs between explicit and implicit. However, Option 2 does not provide enough clarity and granularity in how these costs should be calculated to ensure proper comparability between PRIIPs.

Notwithstanding this preference for Option 1, we think it should nevertheless be reviewed for the following reasons:

- Transaction costs calculation**:**
  - **"Average" definition:** Option 1 – point 7 and point 14 (pages 94-95 of the consultation paper): There should be more clarity on what 'average' means and how it is calculated: average of all data over the 3 years period or average of each discrete year average? PRIIPs manufacturers are currently taking into account the whole 3-year period (and not discrete year by year averages) when performing this calculation. A clarification that this understanding is correct would be appreciated.
  - The notion "**implicit transaction costs**" is introduced in the regulation in the new Point 9, and is not defined in relation to transaction costs.

- Explicit costs:
  - ALFI welcomes a clear definition of these costs as described in point 13 of Option 1 (page 95 of the consultation paper). However, there is a need to clarify how charges by third parties (like sub-custodians) have to be treated.
  - The addition of paragraphs 13 and 14 in the section "Actual transaction costs" is confusing: The term "explicit" is newly introduced in the regulation and is not defined in relation to transaction costs.
  - We would like the ESA's to **consider redefining the transaction cost calculation for real assets and OTC derivatives**: the costs of transactions in real assets should be calculated by summing identifiable cost items directly associated with a transaction.

- Treatment of anti-dilution mechanisms (Option 1 – point 12 – pages 94-95 of the consultation paper):

  Anti-dilution mechanisms shall be deducted from transaction costs meaning negative transaction costs could still be calculated: the ESAs should provide clarity on this point.

  The ESA's have not considered in their revised draft regulation the impact of anti-dilution mechanisms on transaction costs. The addition of the following wording (Option 1 point 9) "*Where implicit transaction costs are negative, a minimum of explicit transaction costs shall be disclosed*" does not hinder the fact that the deduction of anti-dilution mechanisms might result in negative transaction cost data.
  However, we would like to point out that this would only be a problem should the arrival price methodology be used.

- Implicit costs:

  ALFI believes that given the diversity of PRIIPs, manufacturers should be granted some flexibility to calculate implicit costs. This approach would be ultimately beneficial for the investor, because in some cases the effort and cost to capture the required data to calculate implicit transaction costs might be disproportionate.

The way of calculating these costs is currently based on “arrival prices” and the industry repeatedly explained in the past why it believes that these are not appropriate for all asset types and often impractical, and why other implicit transaction costs calculations might be more appropriate.

The main negative point associated with arrival prices is its associated cost (consequence of the access to the required data) which will ultimately be paid by the investor.

The following two examples demonstrate why we inter alia believe the current methodology is inappropriate:

- Example 1: Many index funds will place orders during the working day with the instruction to trade on market closing prices at the end of the day. By doing this the index funds reduce the tracking error which is a key component for investors. The difference in the market prices between the time when the instruction is communicated to the market and the time when the trade is effected is not perceived by index fund investors as a cost or opportunity cost, but rather as a sound management of the tracking error.
- Example 2: If a trade instruction cannot be fulfilled in one trade it may be broken down into several trades executed during the day, the cost and effort required to capture and attribute an arrival price for each component part of the original trade instruction would be disproportionate to the informative value of the result.

We suggest the following changes to point 15 of the revised transaction costs methodology:
The actual transaction costs for each transaction shall be calculated on the following basis:
(a) for each purchase undertaken by the PRIIP, the observed market price of the instrument at the time the purchase order is ~~transmitted to another person for~~ executed~~ion~~ (the purchase ‘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 observed market price of the instrument at the time the order ~~to sell is transmitted to another person for~~ was executed~~ion~~ (the sale ‘arrival price’). The resulting value shall be multiplied by the number of units sold.

Consistent with a proposal made by EFAMA in the past, we propose to **extend the approach** proposed in the ESAs’ June non-paper for bonds and OTC instruments to all asset classes.

This will ensure consistency of transaction costs methodology across all asset classes. Moreover, the same methodology can be used to estimate transaction costs for new funds (on the basis of the standardised industry table foreseen as one of the options).

The implicit cost of a transaction should be calculated as follows:

Implicit Transaction Cost = Half Spread × Volume Traded

There are two options for calculating the half spread: (1) transaction spread or (2) standard spread.

1. **Transaction spread** is calculated as the difference between the price at which the transaction is executed and the mid-price determined as follows:

a. When intraday bid and offer quotes are available from the market, the mid-price is calculated as the mid-point between the quoted bid and offer prices at the time the transaction is executed.

b. When a transaction is executed in several “partial fills” (in order to mitigate the impact of placing a single large order in the market and thereby causing an adverse price reaction or other best-execution objectives), the transaction spread should be taken as being the “market spread” of the instrument measured over an appropriate timeframe.

i. The “Market Spread” is defined as half the difference between the bid and offer prices of the instrument.
ii. It should be measured on a timeframe appropriate to the trade such as the period for which the trade is being worked or between the first and last partial fill.
iii. It should be calculated in accordance with the Best Execution framework, to ensure that the method (such as TWAP, VWAP, average between first and half fill, average of daily spreads, spread of first or last fill) is appropriate for each type of trade.

c. When the firm obtains two-way prices from multiple counterparties for an OTC transaction, the mid-price is calculated as the mid-point between the best bid and best offer prices.

d. When the firm obtains one-way prices for an OTC transaction, the mid-price is calculated as the mid-point between the best bid and best offer prices using reliable passive quotes for the prices not obtained.

e. In instances where the best bid is higher than the best offer, the spread is assumed to be equal to zero (i.e. no negative spreads).

f. When intraday spread market data is not available to the firm, for example for low liquidity instruments or rarely-traded asset classes, but daily spread data for the instrument is available, the Transaction Spread may be calculated as half the daily spread.

In the above, the difference between the execution price and the mid-price is adjusted depending on the type of transaction:

- For a Buy: Spread = Execution Price – Mid Price
- For a Sell: Spread = Mid Price – Execution Price

2. **Standard spread** should be calculated from a standard spread table prepared under an appropriate governance process. This approach should also be used to calculate ex-ante implicit transaction costs when sufficient transaction history is not available.

There is no hierarchy or priority implied between or within these two options. Each firm should determine the most appropriate way to calculate the implicit transaction costs, given the asset classes traded, the trading set-up of the firm, the availability of market data, the characteristics of the transaction and the firm’s best execution framework. **However, this approach must be applied in a consistent manner**.

When a standard spread table is used, the firm should establish appropriate controls within its best execution framework to monitor that the use of the table does not materially underestimate the implicit costs disclosed to the investor (compared to a calculation based on the transaction spread option).

In addition to the above proposed changes, we would like to comment on several points of the proposed revised transaction costs methodology:

Point 16	We would recommend to clarify “indirect” cost components to be taken into account to clearly differentiate them from the ongoing costs (e.g. currently unclear treatment: FTT, soft commissions…). We are referring here to the CESR guidelines on the UCITS KIID (10/674) defining these direct / indirect costs. The principle remains not to double count costs and to provide investors with a way of comparing products.
Point 17-18	Please refer to our definition of implicit costs described above.
Point 19	We would like to point out that the calculations described in point 19(h) and (i) are very impractical or impossible to implement by the industry, and would not provide an accurate reflection of the costs. The effort needed for these calculations is too high and not valuable enough, therefore, we recommend using the above described other possible scenarii.
Point 20	We welcome the flexibility offered in point 20(b)(ii): this is a good alternative solution which should be extended to other cases. We recommend to adopt this approach in a consistent way with MiFID II (ESMA Q&A ESMA35-43-349 on investor protection – Q12 page 82 and Q14) taking into account the practicality as well as the costs associated to these cost calculations.
Point 22	We welcome the introduction of the proposed flexibility offered in point 20(b)(ii), however, we believe it should be offered to any PRIIP where there is insufficient market data available to determine the implicit transaction costs.
Point 23	Same comment as for point 19: very impractical or impossible to implement by the industry, and would not provide an accurate reflection of the costs. The effort needed for these calculations is too high and not valuable enough, therefore, we recommend using the above described other possible scenarii.
Points 24-26	Cost calculations for non-financial assets should be based on a best estimate of transaction costs (cf. point 18 annex IV of PRIIPs level 2 regulation). For example in relation to point 25 (b)(ii): “and appraisal of the fair value of the asset prior to purchase”: such a valuation is generally not available, the first fair valuation happening after the purchase.

<u>Transaction costs for new PRIIPs</u>

- Concerning the “new PRIIPs” methodology as described in para. 27(e)(i) (page 98 of the consultation paper): since the introduction of the PRIIPs Regulation, it was observed by manufacturers that finding appropriate reference indices to estimate costs is very difficult and very costly as based on external data which are not based on observed trading prices. These costs are ultimately charged to the investors.

- Therefore, we recommend to replace these reference indices by **standard spreads** depending on the asset type as described above. This would provide greater comparability among new PRIIPs.
- **The revised method would be based on average observations of half the bid-ask spreads in relevant asset classes, which would then be multiplied by the actual fund turnover in the relevant asset class.**
- It should be clarified if the “new PRIIPs” methodology should be applied to calculate the explicit transaction costs.
- The **portfolio turnover** calculation methodology should be clarified depending on the asset class (e.g. derivatives, FX, swaps …).

In conclusion, ALFI would welcome a revised regulation and flexibility to choose the more appropriate methodology to calculate implicit transaction costs depending on the asset type. Such flexibility would preserve the KID’s key purpose of comparability between products while mitigating the challenge met by the industry regarding the data availability, and in some cases the costs induced by these calculations which are ultimately paid by the investor.
Finally, ALFI would like to point out that the suggested flexibility would not introduce higher risks for investors in relation to data quality. The calculation of implicit transaction costs is by nature an approximation of these costs and none of the above mentioned methodologies provides undervalued calculations. The greatest risk for investors lies with fund managers being obliged to apply an implicit cost methodology which results in improbable or misleading results. The suggested mitigation for this risk is to allow the fund managers to make the most appropriate judgement when calculating implicit transaction cost by having some flexibility in the options available.

6. Do you have comments on the modifications to the presentation of future performance scenarios being considered? Should other factors or changes be considered?

A number of comments concerning the presentation and/or calculation are contained in the answers to subsequent questions.

What is relevant and appropriate to be presented in the KID should also be derived from a consumer testing to be applied. Still, we would like to point out the following:

- The intermediate holding period could be removed as these do not provide material additional information to investors.
- Adding an explanation regarding the probability of performance scenarios might be helpful for investors to understand the potential impacts. We agree also with the suggested presentation contained in the consultation. Given the fact that the document only works with 10, 50 and 90 percent, one could also describe the probabilities in 1 out of 10 or 9 out of 10 instead of 10 out of 100 etc.
- Additionally, we believe that it might be worth testing whether a combination of historical performance scenarios and future scenarios in one graph might be appropriate. This might save space on the document, and would give investors a good indication on how historical performance scenarios and simulated performance relate to each other.

7. **If intermediate scenarios are to be included, how should they be calculated for Category 3 PRIIPs (e.g. structured products)? If intermediate scenarios are not shown in the performance section, which performance assumption should be used for the 'What are the costs?' section?**

First question:
For structured products, the scenario simulation is strongly dependent on the payoff profile and structure of the structured product. Still, we believe that at any point in time, a fair value of the structured product can be determined given a simulation of the underlying's price scenarios.

Second question:
Independent of the fact whether the interim holding period will be shown in the performance section, the underlying simulation can be performed by the product manufacturer and the results can be used for the computation of the cost section. This is also due to the fact that manufacturers are often preparing a wide range of holding periods, which are provided to manufacturers of Multi Option Products.
We would also like to refer to our answer to question 33. We think a fixed intermediate time period of five years would be appropriate for PRIIPs with a RHP of 8 years or more.
For illiquid products however the current regulation should still apply, i.e. it would be appropriate to only consider the RHP (cf. article 90 of annex VI of the PRIIPs level 2 regulation).

8. **If a stress scenario is included in the presentation of future performance scenarios, should the methodology be modified? If so, how?**

While the methodology applied for the stressed scenario in the current RTS gives a reliable indication for a stressed performance scenario, we do not believe the results can be explained to investors in an appropriate manner. We also do not believe that there is another preferable method to perform stressed performance scenarios, and therefore we recommend to remove them from PRIIPs KIDs.

9. **Do you agree with how the reference rate is specified? If not, how should it be specified?**

The proposed wording (point 13(a) on page 60) is not precise enough and leaves too much room for interpretation. We recommend using references to risk free rates only linked to the currency of the product (not to any country reference at underlying asset level). Furthermore, we recommend to exactly specify whether government rate curves or swap curve equivalents shall be used.

10. **The revised methodology specifies that the risk premium is determined by future expected yields. The methodology further specifies that future expected yields should be determined by the composition of the PRIIP decomposed by asset class, country and sector or rating. Do you agree with this approach? If not, what approach would you favour?**

Overall, we believe it is not appropriate to consider an estimator as proposed in the consultation to determine the expected yield or risk premia of the asset class or product.

In particular, we would like to emphasize that any methodology which would require any form of look through, whether at instrument level or asset class level, will be extremely complex and costly to implement, with no demonstrated benefit at this time. This applies all the more as the product manufacturer will be required to use index-based data for which he needs to pay license-fees.

Additionally, any of the proposed approaches is highly subjective, would always leave room for interpretation for the manufacturer and would not even support the objective to derive meaningful information for the end investor.

Therefore, to ensure that no asset class obtains a preferred treatment, we believe that no risk premia / yield enhancement shall be applied and that the risk free rate alone would be the most appropriate indication of expected returns for the end investor. Should a risk premium be deemed necessary, our preferred option would be to have the ESAs publish risk premia per asset class (see option “Other approaches” on pages 26/27).

11. The ESAs are aware that historical dividend rates can be averaged over different time spans or that expected dividend rates can be read from market data providers or obtained from analyst reports. How should the expected dividend rates be determined?

Please refer to our answer to question 10.

Additionally, we believe that dividend rates alone (also not including buyback rates) are a reliable indicator for the expected performance of an asset.

Still, if the regulator would decide to pursue with this approach, we recommend to fix one methodology to ensure that a consistent method is applied across the market. Our preferred option would be to have the ESAs publish risk premia per asset class.

12. How should share buyback rates be estimated?

Please refer to the answer of questions 10.

Still, if the regulator would decide to pursue with this approach, we recommend fixing one methodology to ensure that a consistent method is applied across the market. Our preferred option would be to have the ESAs publish risk premia per asset class.

13. Do you agree with the approach for money-market funds? Are there other assets which may require a similar specific provisions?

<u>First question</u>:
Implied volatilities are to be used and might be better forecasts in particular due to the fact that the RHP for MMFs is typically rather small. The 5 years returns history might be too long to be a reliable projection for the near future. Therefore, we agree that such an approach might make sense. Additionally, we would like to mention that an alternative would be to work with implied rates which could consider a shorter return history (e.g. 1 year only), and which might also be appropriate given the short RHPs of the MMFs. If a shorter return history is used for the volatility, it should also be used for the other risk factors.

<u>Second question</u>:
We do not believe it is necessary to apply a similar provision to other products. Still, we believe that it might be appropriate to have for products with a shorter RHP (below 1 year) a shorter historical estimation period (e.g. 1 or 2 years instead of 5).

14. The methodology proposes that the future variance be estimated from the 5-year history of daily returns. Should the volatility implied by option prices be used instead? If so, what estimate should be used if option prices are not available for a particular asset (equities namely)?

While such an approach might be operationally feasible for a single equity position, it is very difficult to be implemented for any UCITS, AIF or many other financial products, because implied volatility information is only available for a limited set of instruments. Therefore, we do not believe that this would be a feasible approach.

15. Do you think compensatory mechanisms for unforeseen methodological faults are needed? If yes, please explain why.

We believe that any of the proposed mechanisms to modify the results due to unforeseen methodological faults would be even more difficult to explain to investors, in particular the assumptions taken for the scenarios. Significant confusion could particularly be caused where the best and worst historical figures are calculated over a different time period than that on which the scenarios are based.

16. Do you favour any of the options above? If so, which ones? How would you ensure that the information in the KID remains comparable for all products?

No, we do not favour any of the options above. Please see our answer to question 15.

17. Are there any other compensatory mechanisms that could address unforeseen methodological faults? If yes, please explain the mechanism; explain how it ensures that scenario information in the KID allows investors to compare PRIIPs, and explain how the information for similar products from different manufacturers remains sufficiently consistent.

No, please see our answer to question 15.

18. What are your views on the use of a simplified approach such as the one detailed above, instead of the use of probabilistic methodologies with more granular asset specific requirements?

The recommendation we gave in our answer to question 10 remains valid. We believe it is not appropriate to consider an estimator to determine the expected yield or risk premia of the asset class or product.

Still, assuming that a specific method to determine the premia on an asset class basis must be applied, we believe that an approach as described within the consultation paper on pages 26/27 would be easier to be implemented. It would generate consistent results across all products in the European market and it could therefore be considered to be a better idea than using probabilistic methods for the premiums.

However, it would be important to have a significantly detailed granularity and the assumptions on the parameters would have to be determined and published by the ESAs. For example, the granularity could be linked to the granularity defined in the costs section.

19. Do you consider the use of a single table of growth rates appropriate? If no, how should the methodology be amended?

Yes, we think the use of a single table of growth rates is appropriate. Please see our answer to question 18. It would be important to have a significantly detailed granularity in the table shown on page 27.

20. More generally, do your views about the use of a probabilistic methodology vary depending on the type of product (e.g. structured products vs non-structured products, short-term vs long-term products)? For which type of products do you see more challenges to define a probabilistic methodology and to present the results to investors?

Please refer to our answer to question 10. If we were to answer this question, we would encounter significant challenges and issues in trying to determine the risk premia for all asset classes.

21. Do you think these alternative approaches should be further assessed? If yes, what evidence can you provide to support these approaches or aspects of them?

An alternative approach to be further assessed should be the Sharpe Ratio, which would be centrally determined for each asset class, published by the ESA and then applied by all market participants.

22. Are there any other approaches that should be considered? What evidence are you able to provide to support these other approaches?

There is no specific other readily available solution to be proposed.

23. Do you think illustrative scenarios should be included in the KID as well as probabilistic scenarios for structured products?

Yes – a methodology as currently applied for UCITS KIID structured products (Box 8 of CESR guidelines 10/673) could be applied.

24. If not, do you think illustrative scenarios should replace probabilistic scenarios for structured products?

We believe it could be kept and the illustrative scenario could be shown instead of the historical one for structured funds.

25. Do you agree with this approach to define PRIIPs which would show illustrative performance scenarios using the existing definition of Category 3 PRIIPs? If not, why not? Where relevant, please explain why this approach would not be appropriate for certain types of Category 3 PRIIPs?

Please see our answers to questions 23 and 24. We agree that illustrative scenarios could be shown for Category 3 PRIIPs only.

26. Would you be in favour of including information on past performance in the KID?

Yes, we are in favour of including past performance information. We think that the provisions included in the new Annex IX (page 75) should be more specific to link past performance to the future performance scenarios.

Should the ESAs introduce past performance and to give the industry enough time to calculate costs and charges at the same date, we highly recommend to stick to an implementation period of 35 days after year end as currently applied by the UCITS Directive to allow the manufacturer sufficient time to calculate the previous years' past performance and to gather cost data.

We kindly ask the ESAs to clarify whether according to point 1(a) to (c) of Annex IX (new) on page 75 all categories of PRIIPs should be in scope of past performance.

27. Would your answer to the previous question be different if it were possible to amend Article 6(4) of the PRIIPs Regulation?

No.

28. Do you think that it can be more appropriate to show past performance in the form of an average (as shown in the ESA proposal for consumer testing) for certain types of PRIIPs? If so, for exactly which types of PRIIPs?

We believe the pure presentation of the historical average of past performance does not provide easy to understand information to the end investors, the illustration of ups and downs is important for the investor's understanding of risks and benefits.

29. Do you have any comments on the statement that would supplement the display of past performance (e.g. with regard to the presentation of costs which are not included in the net asset value (NAV))?

There have been well established narratives and comments established over the past years for the disclosure of past performance in the UCITS KIID. We therefore believe that these shall be continued to be used also for the PRIIPs KID. In particular, we recommend removing the second suggested sentence in the disclaimer on page 77 ("It can help you to assess how the fund has been managed in the past") as this comment may be reasonable, but may also be inappropriate for the respective product (e.g. for passive investment strategies or products which faced significant market impacts over the last years).

30. Are you of the opinion that an additional narrative is required to explain the relationship between past performance and future performance scenarios?

Yes, we believe an additional disclaimer is required to explain to investors the differences as well as connections between past performance and simulated performance. Point 12 on page 78 does not seem to be sufficient as regards future performance scenarios.

A standard disclaimer could have the following wording: "The projected performance shown is an estimate based partly on simulation drawn from historical observation and partly on best estimates about future market developments. There is no guarantee that the product will behave in the way suggested here."

31. Do you see merit in further specifying the cases where the UCITS/AIF should be considered as being managed in reference to a benchmark, taking into account the provisions of the ESMA Questions and Answers on the application of the UCITS Directive?

The ESMA Q&A on the application of the UCITS Directive, while providing many cases to consider, focusses on disclosure of benchmarks impacting the strategy of UCITS and the detailed disclosure of these.

a) We would recommend to explicitly define that a benchmark used in the management of the fund (basically if any target / constraint in the fund management) is expected to be shown in the objective and investment policy section of the KID if introduced into PRIIPs.
b) We would recommend to explicitly define that one benchmark used in the management of the fund (basically if any target / constraint in the fund management) is expected to be shown as well in the past performance section alongside the performance of the fund if introduced into PRIIPs (using the same rules as for the current UCITS KIID – indication of benchmarks used if they changed over time).
c) We recommend to explicitly define that a performance fee benchmark has to be mentioned (if applicable) in the relevant cost section(s) of the KID if introduced into PRIIPs.
d) We do not recommend to further specify the requirements on presenting benchmarks in the UCITS KIID.
e) We recommend to not disclose internal / risk / remuneration etc. benchmarks or indices as this will be confusing for retail investors.

32. Do you see the need to add additional provisions for linear unit-linked insurance-based investment products or linear internal funds?

No opinion from the ALFI WG on performance scenarios and risks.

33. Do you agree that a fixed intermediate time period / exit point should be used instead of the current half the recommended holding period to better facilitate comparability?

We understand that in the consultation paper the ESAs are proposing to show costs over time after 1 year and at RHP for PRIIPs having a RHP of less than 8 years.

Yes, we agree that a fixed intermediate time period for PRIIPs with a RHP of 8 years or more would better facilitate comparability for retail investors. This period should be five years.

The same reserve apply for illiquid products as mentioned in Q7: For illiquid products however the current regulation should still apply i.e. only consider the RHP (cf art. 90 of annex VI Commission delegated regulation).

34. In this case (of a fixed intermediate time period), do you agree to show costs if the investor would exit after 5 years for all PRIIPs with a recommended holding period of at least 8 years? Or do you prefer a different approach such as:
o **Applying this approach (i.e. showing also the costs of exit at 5 years) only for PRIIPs with a longer recommended holding period, for example at least 10 years**
o **For longer term products (e.g. above 15 years) showing exit costs at a different fixed time period (e.g. 10 years instead of 5 years)?**

This question is not applicable to the vast majority of investment funds, which generally have a recommended holding period of five / six years or less.

It is important to take this into account for the 'cost over time' table as presented on page 55 of the consultation paper, which mentions in the utmost right column a RHP of eight years.

35. Do you think it would be relevant to either (i) use an annual average cost figure at the recommended holding period, or (ii) to present both an annual average cost figure and a total (accumulated) costs figure?

For sake of clarity and to avoid investor confusion, we think an annual average cost figure at the recommended holding period is sufficient.

36. Do you think that it would be helpful, in particular for MiFID products, to also include the total costs as a percentage of the investment amount?

We are of the view that total costs as a percentage of the investment amount provide a useful indication to non-professional investors and should thus be included.

37. In this context, are there PRIIPs for which both performance fees and carried interests are applied?

Our members are not aware of any such PRIIPs.

38. Do you agree with this analysis from the ESAs? If yes, what are your views on the extent to which fees related to the management of the underlying real estate assets, i.e. the properties themselves, should be taken into account in the calculation of the cost indicators?

Performance fee narrative:

Disclosures on performance fees: As such, we agree with the ESA's analysis. We have however doubts regarding the space available in the KID in case narrative text is significantly extended, even though cross-references to the prospectus are allowed. The proposed options of "Presentation of costs" (pages 82 ff. of the consultation paper) mention 100 characters. In previous consultations, ALFI already stressed that 300 characters would be a more appropriate length considering the complexity of the topic.

Treatment of costs disclosures in case of real estate or private equity funds:

We agree with the ESA's view on the need to provide more information on the disclosure of the costs of real estate or private equity funds.

Generally, we think common EU rules regarding fees related to the management of the underlying real estate assets would be helpful.

However, it will be challenging to determine on which basis these costs should be calculated. In our view, the total commitment needs to be taken into account when calculating these management fees.

ALFI would welcome from the ESAs more precise guidance on the cost calculation for illiquid products. Clarification is needed on the range of expenses which should be included (in the numerator) and the asset value that these costs should be divided by (the denominator). The denominator reference should refer to what is stipulated in the offering documentation (NAV / GAV / capital committed / capital called).

As the consultation already reflects, there is a wide divergence in EU member states accounting standards which, absence any guidelines from the ESAs, is likely to lead to widely different PRIIPs costs figures.

For closed-ended funds with subsequent capital calls (like private equity funds), there may however be a lack of figures at the time when the fees would have to be calculated. ALFI would on that topic as well welcome more guidance and specifically on whether the use of projection of costs is possible.

39. Do you agree with the ESAs' preferred option 3 to revise the cost tables?

We do not agree with the ESA's preferred option 3, because it mixes in the second table calculated information (RIY) with information displayed in the prospectus. It is less clear than option 2, which we prefer, and where in table 1 simulations and impacts are shown to the investor (calculated data & RIY) and where in table 2 the retail investor can find the fee indicated in the prospectus and the definitions of the various cost classes.

As regards all the options proposed, we have spotted that the 'cost over time' table as presented on page 55 of the consultation paper still uses the abbreviation RIY, which is inconsistent with the alternative approaches (which use the term 'reduction in return').

As a general comment we would like to add that we do not agree for sake of comparability with the removal of the incidental cost row in the presentation of costs and should have the possibility to indicate "None".

40. If not, which option do you prefer, and why?

We prefer Option 2, which is more structured in its content and therefore includes in our view the clearest presentation for both investors and their financial advisers. It also provides clearer explanations.

Option 1 results as well in a large second table and is not, in our opinion, reader-friendly. Option 1 also presents the same confusion in data as Option 3.

Please see in appendix example of revised KID as per Options 2 and 3.

We would like to point out that translations of the KID is other languages than English result in a longer document (e.g. documents in German are usually 20 to 30% longer than the English ones).

Finally, Option 4 is, in our view, not suitable as it makes it difficult for the investor to reconcile the information on fees with the one available in the prospectus (or marketing material where fees are generally displayed in the same way as in the prospectus), and because the lack of definitions makes it very difficult for retail investors to understand the content.

We also support the idea put forward by EFAMA that implicit transaction costs are reflected separately as they are based on imperfect data and are estimates.

Example of a cost presentation as proposed in option 3:

What are the costs?

The total costs you pay and how they affect what you might get back depend on how long you hold the product and how well the product does.
Be aware that the person selling you or advising you about this product may charge you additional costs.
You can use the reduction in return each year due to costs to compare with other products.

Investment: € 10,000 We have assumed the product performs as shown in the moderate performance scenario	**If you exit after 1 year**	**If you exit after 5 years** (recommended holding period)
Impact on return over time		
Return per year before costs	xx.xx %	xx.xx %
Return per year after costs	xx.xx %	xx.xx %
Reduction in return each year due to costs	**-xx.xx %**	**-xx.xx %**

Type of cost		**Description**	**Costs over time** **If you exit after 1 year**	 **If you exit after 5 years**
One-off costs	Entry costs	**x.xx % of the amount invested.** The impact of the costs you pay when entering your investment. This is the maximum you could pay. The person selling you the product will inform you of the exact charge.	xx.xx €	xx.xx €
	Exit costs	**x.xx % of the value of your investment at exit time.** The impact of the costs when exiting your investment. This is the maximum you could pay. The person selling you the product will inform you of the exact charge. For details, refer to section "How long should I hold it and can I take my money out early?"	xx.xx €	xx.xx €
Ongoing costs	Management fees and other costs	**x.xx % of the amount invested.** The impact of the costs that we take each year for managing your investments.	xx.xx €	xx.xx €
	Transaction costs	**x.xx % of value of your investment.** This is an estimate of the costs of us buying and selling underlying investments for the product.	xx.xx €	xx.xx €
Incidental costs	Performance fees	**xx.xx %** a year from your investment if the product outperforms its benchmark S&P 500 Index by more than **yy.yy %.**	xx.xx €	xx.xx €
Total costs			**xx.xx €**	**xx.xx €**

Example of a cost presentation as proposed in option 2 (ALFI's preferred option):

What are the costs?

The total costs you pay and how they affect what you might get back depend on how long you hold the product and how well the product does.
Be aware that the person selling you or advising you about this product may charge you additional costs.
You can use the reduction in return each year due to costs to compare with other products.

Investment: € 10,000 We have assumed the product performs as shown in the moderate performance scenario		If you exit after 1 year	If you exit after 5 years (recommended holding period)
Costs over time			
One-off costs	Entry costs	xx.xx €	xx.xx €
	Exit costs	xx.xx €	xx.xx €
Ongoing costs	Management fees and other costs	xx.xx €	xx.xx €
	Transaction costs	xx.xx €	xx.xx €
Incidental costs	Performance fees	xx.xx €	xx.xx €
Total costs		**xx.xx €**	**xx.xx €**
Impact on return over time			
Return per year before costs		xx.xx %	xx.xx %
Return per year after costs		xx.xx %	xx.xx %
Reduction in return each year due to costs		**-xx.xx %**	**-xx.xx %**

Type of cost		**Description**
One-off costs	Entry costs	**x.xx % of the amount invested.** The impact of the costs you pay when entering your investment. This is the maximum you could pay. The person selling you the product will inform you of the exact charge.
	Exit costs	**x.xx % of the value of your investment at exit time.** The impact of the costs when exiting your investment. This is the maximum you could pay. The person selling you the product will inform you of the exact charge. For details, refer to section "How long should I hold it and can I take my money out early?"
Ongoing costs	Management fees and other costs	**x.xx % of the amount invested.** The impact of the costs that we take each year for managing your investments.
	Transaction costs	**x.xx % of value of your investment.** This is an estimate of the costs of us buying and selling underlying investments for the product.
Incidental costs	Performance fees	xx.xx % a year from your investment if the product outperforms its benchmark S&P 500 index by more than yy.yy %.

41. In particular, do you think that the proposed changes to the presentation of the impact of costs on the return in percentage terms (i.e. including reduction in return before and after costs) is an improvement on the current presentation?

Yes, we think a reconciliation of the RIY in this way makes sense and might be clearer for retail investors. This should however be confirmed by consumer-testing.

42. Do you have other comments on the proposed changes to the cost tables?

We have the following observations regarding our preferred Option 2:

- ‘Cost over time’ table: the order of the “cost over time” part of the first table should be consistent with the second table (1. One-off costs, 2. Ongoing costs, 3. Incidental costs) and show all items disclosed in these cost categories:

  ‘Costs over time’ table (also see example of Option 2 above):

One-off costs	Entry costs	€
	Exit costs	€
Ongoing costs	Management fees & other costs	€
	Transaction costs	€
Incidental costs (where applicable)	Performance fees	€
	Carried interests	€
TOTAL COSTS		**€**

- Second table listing the types of costs:

  The presentation of the second table in Option 2 easily allows the retail investor to reconcile the costs disclosed with the ones displayed in the prospectus or in MiFID documents.

  Comments on the proposed “descriptions of costs” in the table:

  - **Exit costs**: x% of the value of your investment at ~~that~~ **exit** time.
    We would recommend to add the following wording in relation to exit costs: “This is the maximum you could pay. The person selling you the product will inform you of the exact charge.”

  - **Ongoing costs / Management fees**: some funds do not charge management fees, but (sub-)adviser fees; in our view, only one figure or percentage should be shown. We therefore recommend to delete the wording in brackets “(of which % are management fees)”.

  - **Ongoing costs / Management fees and transaction costs**: should be expressed as X% (annualised percentage of the Net Assets)”

  - **Incidental costs / Performance fees**: it would be challenging to describe the performance fee percentage in maximum 100 characters, in our view, 300 characters would be more appropriate; the percentage should be based on the methodology included in the prospectus (see Q38) to keep the consistency of this table.
    With regard to these disclosures, we enjoin the ESA’s to consider the outcome of the ESMA consultation on “Guidelines on performance fees in UCITS” - ESMA34-39-881 so that manufacturers may have a global view of all changes required in a PRIIPs KID and may optimise the operational process and therefore the costs of amending that document (which are ultimately impacting the investor).

43. What are your views on the appropriate levels of these thresholds? Please provide a justification for your response.

The introduction of a proportionality threshold driving the choice of a calculation methodology for the implicit transaction costs would cause significant operational issues and complexity.
A proportionality threshold would not solve the existing lack of comparability between transaction costs and products, because those below the threshold would continue to apply the ‘new PRIIPs’ methodology.

We believe that the best way to estimate the cost of transaction best execution should be by the use of a set of methodologies with enough flexibility to match each type of product and situation of PRIIP manufacturer.

44. If UCITS would fall in the scope of the PRIIPs Regulation, do you agree that the coexistence of the UCITS KII (provided to professional investors under the UCITS Directive) and the PRIIPs KID (provided to retail investors under the PRIIPs Regulation) would be a negative outcome in terms of overall clarity and understandability of the EU disclosure requirements? Are you of the view that the co-legislators should therefore reconsider the need for professional investors to receive a UCITS KII, as the coexistence of a PRIIPs KID together with a UCITS KII (even if not targeted to the same types of investors) would indeed be confusing, given the differences in the way information on costs, risks and performance are presented in the documents? Alternatively, are you of the view that professional investors under the UCITS Directive should receive a PRIIPs KID (if UCITS would fall in the scope of the PRIIPs Regulation)?

We strongly oppose the prospect of having to produce UCITS KIIDs for professional investors when the exemption for UCITS expires. The content of the UCITS KIID was primarily designed for retail investors and not for institutional investors. Professional investors need more detailed and customised information that is provided to them through other tools. It would also entail substantial efforts and costs for asset managers to maintain and produce two different types of documents. This would create much confusion to investors. We understand that the underlying reason for this consultation was to avoid providing diverging information to investors. The ESAs' proposal would perpetuate this scenario. Last but not least, if the UCITS KIID would not be fully phased out, the ESAs' assessment to delete Articles 12-14 of the UCITS KIID Delegated Regulation regarding multi-option products (MOPs) would become null and void as certain PRIIPs would still produce only UCITS data, which would then have to be accepted by MOP producers. The PRIIPs KID has been designed for retail investors in the EEA and, therefore, should only be distributed to them (not to any professional investors, irrespective of whether they are domiciled in the EEA or beyond).

45. What are your views on the issue mentioned above for regular savings plans and the potential ways to address this issue?

We think that the KID should follow Section II, Question 2a of the ESMA Q&A on the application of the UCITS Directive. The KID is a pre-contractual document and should only be provided at the beginning of the savings plan and when the investor makes changes to its plan. In addition, since the introduction of MiFID II annual reporting, the investors receive sufficient information on the product in which they have invested.

46. Do you agree that these requirements from Article 4 should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIFs?

Yes. We indeed think that the PRIIPs framework is supposed to establish a level playing field between different investment products. As a result, to the extent possible the required information should be the same across all types of PRIIPs.

47. Do you agree that this requirement should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIF?

Yes. As the clear language requirement is an essential feature of the KID, it should be extended to all PRIIPs. Regarding the information requirement concerning remuneration disclosure, we think that this information should not be included in the KID for several reasons. First, the remuneration policy is not a key feature of a fund and it is already available by other means (such as websites, UCITS prospectuses and annual reports). Second, such information is likely to create confusion if it is added to the cost section. Finally, the remuneration policy is probably not relevant for all other PRIIPs.

48. Do you agree that these requirements should be extended to all types of PRIIPs, or would you consider that they should be restricted to the Management Company of the UCITS or AIF?

The PRIIPs framework should establish a level playing field between all types of PRIIPs. As a result, where possible, in particular for PRIIPs within the same risk category, the required information should be the same across those products. If the level playing field is not extended to all categories, there is a risk that the investor cannot compare all different types of PRIIPs.

<u>Article 7</u>: Specific contents of the description
We think that this requirement should be extended to all PRIIPs.

<u>Article 9</u>: Principles governing the identification, explanation and presentation of risks
We think that this requirement should be extended to all PRIIPs. We are of the opinion that the narrative for risk description in the PRIIPs KID should not be restricted to 200 characters. We refer to our answer to question 5 (paragraph on narratives)..

<u>Article 15 to 19</u>: Past performance
Past performance is an essential information that should be introduced in the KID as requested by the industry since the introduction of the PRIIPs KID. Moreover, the industry has always wanted to display only past performance. Overall, any PRIIP that has past performance should also have to disclose it.

<u>Article 20 and 21</u>: Practical information and cross-references
Generally, our preference is to keep the current PRIIPs rules as regards practical information. If the UCITS provisions will be applied to PRIIP UCITS and PRIIP AIFs, we think that this requirement should be extended to all PRIIPs. We refer to our answer to question 5 regarding the need to extend the length of the KID.

49. Do you have any comments on the proposed approaches in relation to the analysis and proposals in this Section, and in particular on the extent to which some of the abovementioned requirements should be extended to other types of PRIIPs?

We think the articles quoted in relation to this question are specific to UCITS investment funds (compartments, share classes, fund of funds, feeder UCITS) and should be extended to AIFs where applicable.

50. Do you think this proposal would be an improvement on the current approach?

We do not have a view on this question from a fund’s perspective.

51. Do you envisage significant practical challenges to apply this approach, for example for products which allow the investor to choose between a wide range or large number of options?

We do not have a view on this question from a fund's perspective.

52. Do you see any risks or issues arising from this approach in relation to consumer understanding, for instance whether the consumer will understand that other combinations of investment options are also possible?

We do not have a view on this question from a fund's perspective.

53. Do you think this proposal would be an improvement on the current approach?

We do not have a view on this question from a fund's perspective.

54. Are there other approaches or revisions to the requirements for MOPs that should be considered?

We do not have a view on this question from a fund's perspective.

55. Do you have any comments on the preliminary assessment of costs and benefits?

The additional changes will incur substantial implementation costs for the industry. Time and resources, specialist involvement for the review, understanding and implementation of new methodologies will be significant. Consequently, the UCITS KIID should be abolished completely, as otherwise, the fund industry compared to other industry sectors will continue to have significantly higher running costs due to having to maintain two disclosure documents.

As regards the performance scenarios and risk section, we think the implementation costs depend on the option that will be chosen by the ESAs. For example, section 5.7 on pages 26/27 ("Other probabilistic methodological approaches") would be easier to implement and therefore cause less costs.

Generally speaking we agree with the benefits and costs assessment provided for the "Revised methodology for transaction costs (option 2)".

We recommend to the ESA's to carefully consider:

- the outcome of this consultation
- the conclusions of the consumer-testing exercise possibly on the entirety of the PRIIPs KID document
- the outcome of the consultation on Guidelines on performance fees in UCITS
- the possible upcoming ESG disclosure requirements

to propose an holistic revision of the KID document and not to rush it in order to minimise the costs associated to successive revisions or adjustments which are ultimately impacting the investor.

56. Are you able to provide information on the implementation costs of the proposed changes, in particular regarding, (1) the proposed revised methodology for performance scenarios (using a reference rate and asset specific risk premia), and (2) the overall changes to the KID template?

Regarding the overall changes to the KID template, it is not possible at this stage to come up with proper estimations.

The data for calculating transaction costs will remain very high, which is detrimental to investors.

57. Are there significant benefits or costs you are aware of that have not been addressed?

We anticipate that data to be provided for a revised PRIIPs KID will also entail changes to the CEPT/EPT, and cause corresponding costs.

Even if the intermediate scenarios will no longer have to be included in the KID, they must still be calculated for the costs table, which will cause costs.

There are a couple of regulators which request PRIIPs KIDs to be filed. As a result, if UCITS KIIDs will be replaced by PRIIPs KIDs, there will be additional filing fees for PRIIP manufacturers. We think the ESAs should clarify the NCA filing obligation in due course across Europe.

Please refer to our comments in Q55 regarding the benefits of adopting a holistic approach with regard to all regulations which might impact the PRIIPs KID.

As mentioned in our response to Q5, it would be important for the industry to know whether the Sustainable Finance Regulations (on disclosure[3] and benchmarks[4]) will necessitate additional updates to the PRIIPs KID in advance of 1st January 2022, e.g. in terms of pre-contractual disclosure for financial market participants. We understand that level 2 measures will be proposed by the ESAs only in October/December 2020.

Finally we believe that the impact of using external data to calculate performances or costs should be more considered by the ESAs:
- Licences enabling the use of benchmark or instrument data are very expensive,
- Such costs are disadvantaging the smaller PRIIPs manufacturers,
- Such costs are ultimately impacting the investors and are in general increasing the cost of financial products.

[3] https://oeil.secure.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2018/0179(COD)&l=en
[4] https://oeil.secure.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2018/0180(COD)&l=en