Reply form for the Technical Discussion Paper on PRIIPs

23 June2015

European Securities and Markets Authority

Date: 23 June 2015

Responding to this paper

EBA, EIOPA and ESMA (the ESAs) welcome comments on this Technical Discussion Paper on Risk, Performance Scenarios and Cost Disclosures in Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs).

Instructions

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response so as to allow them to be processed more efficiently. Therefore, the ESAs will only be able to consider responses which follow the instructions described below:

- use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
- do not remove the tags of type < ESMA_QUESTION_PRIIPs_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
- if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

- if they respond to the question stated;
- contain a clear rationale, including on any related costs and benefits; and
- describe any alternatives that the ESAs should consider

Naming protocol

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESA_TDP_PRIIPs_NAMEOFCOMPANY_NAMEOFDOCUMENT.

E.g. if the respondent were XXXX, the name of the reply form would be:

ESA_TDP_PRIIPs_XXXX_REPLYFORM or

ESA_TDP_PRIIPs_XXXX_ANNEX1

To help you navigate this document more easily, bookmarks are available in “Navigation Pane” for Word 2010 and in “Document Map” for Word 2007.

Deadline

Responses must reach us by **17 August 2015.**

All contributions should be submitted online at www.esma.europa.eu under the heading ‘Your input/Consultations’.

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. 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 the ESAs' rules on public access to documents.[1] We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Board of Appeal of the ESAs and the European Ombudsman.

Data protection

Information on data protection can be found on the different ESAs' websites under the heading 'Legal notice'.

[1] See https://eiopa.europa.eu/about-eiopa/legal-framework/public-access-to-documents/index.html.

General information about respondent

Name of the company / organisation	AFG
Activity	Investment Services
Are you representing an association?	☒
Country/Region	France

Introduction

Please make your introductory comments below, if any:

< ESMA_COMMENT_PRIIPs_1>

AFG welcomes the opportunity to comment on the ESA's Technical Discussion Paper on Risk, Performance Scenarios and Cost Disclosures in Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs).

We would like to thank ESAs for the hard work that had been done to come up with the proposed options in the paper, options that have necessitated a high degree of technicality in a very tight lapse of time.

The consultation asks 95 questions on technical and complex matters that would have needed more time in order to consult our members on every question. That is the reason we have focused on some important matters and have not answered every question.

AFG appreciates the challenge of the ESAs to come up with a single document for all banking, asset management and insurance-based packaged products targeted to retail customers. We are conscious that the subjects covered are not easy to deal and that deadlines are tremendously challenging.

Before answering specific questions, AFG would like to express some general comments:

- **UCITS KIID and SRRI as a benchmark**: As the representative of the asset management French industry, we would like to recall the ESAs that retail customers of investment funds (UCITS and FIA) are already benefiting from a KIID and a prospectus; these KIID and prospectus have been deeply discussed and tested between CESR professionals and consumers in their own time; they also are strictly regulated and controlled by national regulators. The industry incurred rather recently the costs of implementing the UCITS KIID and SRRI. In this perspective, the SRRI for instance should be considered as a benchmark and the new SRI should be cost effective and reliably informative for investors compared to what they already get today.

- **Common sense**: AFG is perfectly aware that the ESAs' job is not easy and that tough choices are to be made. In this context, we would like to insist on the fact that technical choices should be based on proved, tested and well understood techniques. Indeed, even if the discussion is intellectually and economically interesting (and may serve in the future), PRIIPs is not the place for experimentation. We strongly believe that in front of such a challenge, one should modestly admit that the objective cannot be to get the "perfect solution", but a solution which is "understandable, not misleading, not increasing asymmetry" for investors and that is cost effective.

- **Investors, not "consumers"**: AFG would also like to take the opportunity of this consultation to express again a terminology issue. Financial services' clients are above all investors, ie persons/entities that allocate capital with the expectation of a financial return; we are not sure that the general, more passive perceived term of "consumers" is well adapted in the PRIIPS discussion. We prefer to refer to the average "investor" (this notion implies an alert adult person making a decision of investment) not the average "consumer". Potential investors should not be pushed to have passive behaviours based on the research of the cheapest product to consume.

- **<u>Risk indicator – favour option2</u>**: AFG members clearly favour the option 2, as it is the closest to the current SRRI to which our investors are accustomed. AFG also thinks that a volatility measure is appropriate to give indication both on the level of expected risk **and performance**. It is important to present a measure that permits investors to have a neutral presentation in terms of expected risk and correlative reward.

- **<u>Performance scenarios – favour what if scenarios</u>**:

  AFG believes it is very useful for structured funds/products to be able to illustrate the formula through different what-if non-prescribed scenarios (as it is the case currently for structured UCITS). For classic funds, AFG favours option 2 what if scenarios too, but with regulatory prescription.

  We strongly believe that among the scenarios presented, one scenario should be the historical performance. AFG believes that fortunately the level 1 wording does not imply an absolute obligation to present scenarios (if it is deemed inappropriate) and that there is no wording disqualifying past or historical performance presentation.

- **<u>Costs disclosure</u>**
  a. **Transactions costs on equity:** while they are known and can be disclosed on an ex-post basis, they can only be estimated on an ex-ante basis (Q.35)
  b. **Transactions costs on bonds:** they are embedded in the price together with the market and the liquidity risks. We don't see any reliable carving out method. We favor a model approach whereby the ESA determine absolute bonds commissions in basis points (Q. 37&38)
  c. **Market impact costs:** it is interfering (and contradicting with) best execution rules already in place and not compliant with MIFID II. It should be abandoned (Q.39)
  d. **Entry/exit costs:** the funds can only disclose the entry/exit costs charged and received by the fund while other entry/exit costs charged by distributors are not known by producers. It should be left to distributors to inform the client of the entry/exit charges they received or the producer should be left the opportunity to present two level of costs: the maximum and the minimum. (Q.40)

- **<u>Performance fees</u>**
  Performance fees should be disclosed as a cost but in a separate line.
  We cannot think of any single rate of return that would fit all type of PRIIPs products. Performance fees should be calculated with the rate included in the different performance scenarios
  On an ex-ante basis and for new funds, the separate line mentions the method of calculation and refers to the performance scenarios disclosed in the PRIIPs /KID for illustration of the method: performance fees are illustrated with each performance scenarios so the investor can figure out the mechanism between performance and fees.
  On ex-pots basis, historical performance fees could be disclosed together with the annual past performances.

< ESMA_COMMENT_PRIIPs_1>

1. Please state your preference on the general approach how a distribution of returns should be established for the risk indicator and performance scenarios' purposes. Include your considerations and caveats.

<ESMA_QUESTION_PRIIPs_1>
Regarding the distribution of returns to be used, AFG members strongly prefer the use of historical data, which is simpler and less costly to implement. A distribution of returns obtained from historical data has the potential to offer the biggest transparency towards end-investors.

Any modelling approaches will imply underlying hypothesis that make the distribution to be used dependent on more parameters to set based on "basic" data (such as historical data). We believe modelling approaches have little chances of being cost efficient.

If modelling approaches are to be imposed, our members believe that the option of leaving the choice to the manufacturer for the determination of parameters should not be considered as it leaves tremendous room for manipulation.
<ESMA_QUESTION_PRIIPs_1>

2. How should the regulatory technical standards define a model and the method of choosing the model parameters for the purposes of calculating a risk measure and determining performance under a variety of scenarios?

<ESMA_QUESTION_PRIIPs_2>
Again, AFG has a strong preference for the option a), ie a distribution of returns directly obtained from historical data, which appears to be the most common sense option with regards to the objectives of implementing PRIIPS within a retail orientated framework. In this context, Q2 is not relevant to us.

Regarding modelling choices (if regrettably such an approach is to be imposed), our members believe that the option of leaving the choice to the manufacturer for the determination of parameters should not be considered as it leaves tremendous room for manipulation and dampens comparability. As regulators would need to be able to supervise and update (not too frequently) the models they prescribe, we presume the methods of choosing the model parameters must not be too complex.
<ESMA_QUESTION_PRIIPs_2>

3. Please state your view on what benchmark should be used and why. Are there specific products or underlying investments for which a specific growth rate would be more or less applicable?

<ESMA_QUESTION_PRIIPs_3>
AFG strongly believes that performance should be measured against the amount invested **without any adjustment**. There are several reasons that brought us to this conclusion:

- Take for instance the PRIIPS global objectives of comparability and simplicity of understanding. People are accustomed to banking savings products. They give them information on [invested capital + interest perceived]. They are accustomed with this presentation and they can thus easily grasp and compare their other investments on this well-known basis.
- It avoids difficulties related to how regulators can accurately determine reference rates; it avoids for instance cases where the risk free rate is negative.

<ESMA_QUESTION_PRIIPs_3>

4. What would be the most reasonable approach to specify the growth rates? Would any of these approaches not work for a specific type of product or underlying investment?

<ESMA_QUESTION_PRIIPs_4>

First, we recall that we are against the use of stochastic models and have a clear preference for the use of historical data If, regrettably, a more complicated model is used, such as stochastic models, risk premiums are in theory a way of getting nearer to a real world environment compared to a risk neutral one. However, in real life, there is currently no consensus on risk premiums and regulators would have to step in and impose standardised figures. In addition, we believe that the use of risk premiums will make the results more assumption-dependent, thus more difficult to explain. In the same time, the risk neutral option is closer to what is currently used for derivatives pricing.

All these difficulties reinforce again our belief that the use of historical returns is a better choice.
<ESMA_QUESTION_PRIIPs_4>

5. Please state your view on what time frame or frames should the Risk Indicator and Performance Scenarios be based

<ESMA_QUESTION_PRIIPs_5>
We are strongly in favour of option c) to show the risk indicator on the recommended holding period (which is in fact the final maturity for fixed term PRIIPS).

AFG members are not globally in favour of showing several time frames as such a choice may be confusing. Indeed, at any time one cannot be sure of a particular investor's date of exit. As the supplementary time frames cannot be exact, there is some probability that this supplementary information can deliver some false impressions on different time intervals and maybe generate some unintended behaviours from investors.

Option a) may be seen as giving too much information and b) diluting it.

Frontloading issues in case of early exit from life insurance products is nevertheless an issue that should be dealt with in a prominent way either through a warning or through supplementary indicators at intermediate times. Maybe the solution could be to impose that on the specific case of insurance products the warning should include the figures for the risk indicator at intermediate times.
<ESMA_QUESTION_PRIIPs_5>

6. Do you have any views on these considerations on the assessment of credit risk, and in particular regarding the use of credit ratings?

<ESMA_QUESTION_PRIIPs_6>
Regarding the assessment of credit risk, our members believe that a qualitative approach is preferred as credit quantitative data (credit or CDS spreads) are not always available, too volatile and instable to be used as a PRIIPS indicator.

AFG believes that a difference should be clearly made between a well-diversified exposure and a highly concentrated or even mono-issuer risk. Average rating cannot thus be the only metric used. CDS approach is not appropriate as it is volatile and depends more on market conditions than on credit quality.
Similarly, credit value at risk is not appropriate since it is linked to market conditions and volatile. Furthermore, it is not predictive (cf Greek crisis) and is strongly model-dependent.

Credit risk that is linked to the underlying assets is already reflected in the PRIIP's market risk, especially if the PRIIP in question is a sufficiently diversified vehicle. More specifically, credit risk is two-fold: spread volatility and default risk. It should be clear that it is the underlying credit risk linked to spread volatility that is fully taken into account in the market risk indicator. Regarding the default risk, (1) if the managing company fails, investors' assets are safe with the custodian; (2) if the issuer of an invested position fails, the diversification rules are in place to minimize the impact at the portfolio level. Consequently, default risk is fundamentally limited in UCITS and AIFs.

As a consequence, AFG thinks it would be useful and efficient to qualify the credit risk as the risk of default of the issuer of the product. Depending on the creditworthiness of the issuer, credit risk could be the most important risk investors are facing when investing in some PRIIPs (unlike UCITS and AIFs where investors are remote from the risk of issuer default).

The use of credit rating for the issuer can be considered in the construction of the indicator, as external ratings are a common language already understood by retail and a standardised measure allowing reliability and comparability. Of course, the prescribed use of credit ratings could be seen as a challenge regarding the fight against mechanistic reliance on external credit ratings; however the objective is to fight the overreliance which does not mean a “ban” of use. In case of an approach where the use of external ratings is prescribed, as this would be considered a “regulatory” use of ratings, there should be no licence costs related to the retrieval of necessary data from the rating agencies.

Regarding the incorporation of credit risk in the risk indicator, AFG believes that as such it would be more difficult to grasp than 2 separated comprehensible indicators (market risk and credit risk). If finally only one indicator has to be presented, the presentation should give investors transparency on where risks stem from. <ESMA_QUESTION_PRIIPs_6>

7. Do you agree that liquidity issues should be reflected in the risk section, in addition to clarifications provided in other section of the KID?

<ESMA_QUESTION_PRIIPs_7>
It is always tricky to handle concepts that are not clearly defined. What is liquidity risk at a PRIIP level (compared to works/studies that exist regarding liquidity risk, but at a systemic level)? There is no unique definition today and correspondingly no standardized measures either. Furthermore, the liquidity concept is tricky to grasp also because it depends on the investor’s investment horizon and preferences, i.e. not all investors/investment strategies have the same tolerance to the liquidity risk.

Clarifying the description of the PRIIP with regards to liquidity expectations and specific constrains (ex: penalties) constitutes undeniably an important piece of information for investors to have. Thus, when there is adequate transparency on the PRIIP liquidity level, thus allowing investors to gauge if it fits their needs, then we believe that liquidity is not a risk.

Thus, in any case, a liquidity risk score scale would not be the best information to give to investors. It makes no sense to orientate potential investors that are for instance looking for investing solutions on a long term horizon (or investing solutions with a high upside) towards investment solutions based on very short term highly liquid no-upside underliers (that would have a very “good score” as having the potential to offer higher liquidity).

As a consequence, we believe that the risk section should mention the liquidity profile of the PRIIP in a qualitative narrative.
<ESMA_QUESTION_PRIIPs_7>

8. Do you consider that qualitative measures such as the ones proposed are appropriate or that they need to be supplemented with some quantitative measure to some extent?

<ESMA_QUESTION_PRIIPs_8>
If it is decided that liquidity issues are also to be included in the risk section, then we deem that the qualitative measures proposed are appropriate and further quantitative measures are neither necessary nor appropriate.

We totally agree that liquidity could be assumed if (i) a product is traded or will be traded on a regulated market or MTF (ii) a liquidity provider exists (either manufacturer or other parties) (iii) market rules ensure liquidity under normal conditions and/or, (iv) when regular redemption dates are offered throughout the life of the product under normal market conditions. Regarding any further quantitative measures, as expressed in our answer to question 7, a liquidity risk score scale would not be the best information to give to investors. It makes no sense to orientate potential investors that are for instance looking for investing solutions on a long term horizon (or with a high upside) towards investment solutions based on very short term highly liquid no-upside underliers (that would have a very "good score" as having the potential to offer higher liquidity).

Again, information on the liquidity profile is very useful for investors. Their inclusion in the risk section could be considered as not imperative if given in other sections (for instance the section called "What happens if I take out my money early?"). Introducing a narrative on cost and exit penalties in the section would nevertheless help investors defining if a product is rather liquid or rather not relative to a time horizon, (thus further specifying a supplementary risk for some PRIIPs compared to others for instance the risk of losing a part of the investment with an early redemption) but this won't necessarily constitute a "liquidity risk".
.<ESMA_QUESTION_PRIIPs_8>

9. Please state your views on the most appropriate criteria and risk levels´ definition in case this approach was selected.

<ESMA_QUESTION_PRIIPs_9>
AFG members no not favour Option 1 approach. This approach does not differentiate enough products and in addition of not being consistent with current SRRI, it looks more like a "degraded mode", judgemental solution than a precise opposable solution. For funds, compared to the 7 classes SRRI, this approach would be less precise, less discriminating, and unfairly based on some judgement calls.

For funds, this option would be less informative than the current SRRI and thus investors would lose on the quality of information they receive today (and in addition they may risk being puzzled as the two measures are not comparable).

Regarding the specific features of the Option 1, AFG would like to make several comments:
- The common thread here is the possibility of losing capital. The capital protection is thus a central concept. What is a "very creditworthy company"? Are implicit and explicit guarantees counting in equal manner? We strongly believe that only explicit capital protection/guarantee given only by counterparties subject to prudential regulation are protective enough (and equally) for investors to be able to form a basis for an indicator.
- Only ST MMFs UCITS are in category 1. How about a ST MMF AIF with exactly the same features or a MMF UCITS OR AIF with exactly the same portfolio?
- Why government bonds and structured deposits with insurance protection are included in Option 1 without any differentiation on the real risk supported by the end investors?
- This option is too qualitative and mixes separate issues to too high a level. We do not read article 8 (3) (d) (i) as requiring market and credit risks to be combined in a unique indicator, as it mentions explicitly the case of risks not captured in the indicator. In our view, an appropriate indicator must separate on one hand the risk of the underlying exposure and the risk resulting from the structure of the PRIIPs. The list of criteria suggested in the table pages 33/34 does not address this distinction sufficiently (and it may confuse investors) and we fear that the scope of underlyings is not large enough to encompass all PRIIPs.

<ESMA_QUESTION_PRIIPs_9>

10. Please state your views on the required parameters and possible amendments to this indicator.

<ESMA_QUESTION_PRIIPs_10>
AFG members clearly favour the option 2, as it is the closest to the current SRRI to which our investors are accustomed. AFG also thinks that a volatility measure is appropriate to give indication both on the level of expected risk **and performance**. It is important to present a measure that permits investors to have a neutral presentation in terms of expected risk and correlative reward.

ESMA has already done an in-depth work on risk measures and the SRRI which is based on volatility is an adequate measure to grasp market risks. We would like to recall that in the perspective of a coherent

PRIIP risk measure, the SRRI's qualities should not be neglected and should constitute a viable benchmark for the final PRIIP risk measure. We would like to recall that SRRI is not a proprietary method, can be implemented by all companies, and has already been tested as implemented on a pan-European scale. Since we do not start from a blank page and that the SRRI has an incontestable number of technical qualities, we strongly believe that any evolution of the current measure or any other alternative measure would have to bear a certain number of very convincing attributes in addition of those already filled in by the SRRI such as simplicity but technically viable and meaningful, robust, scalable, permanency of the results, cost of implementation, pan-European solution, non-proprietary, meaningful in terms of risk taken and expected return...

Option 2 seems to us the closest one to the current measure related to classic funds (not structured).

Conversely, option 1 and 4 based partly on qualitative judgment are considered more like degraded mode solutions. In addition, some assumptions that are made are not that accurate (ex: sovereign bonds are not risky, capital protected products are less risky and capital "protection" is equivalent to "capital guarantee" given contractually by a 3rd party authorized by European legislation to deliver guarantees…etc.). Option 3 would be too costly to implement by all companies and would be difficult to supervise. In any case, the technology to use in the regulatory prescribed PRIIP KID should not be proprietary.

Relative the "delta" methodology that is proposed for structured products/funds, its main disadvantages are the fact that it is a short term risk measure and that it is not so well appropriate for non-linear products. Instead of delta, our members would suggest to use a long-term risk measure over the recommended holding period, such as a 50% expected shortfall. The distribution of returns that could be used for this measure could be made of simulated past performances (like in the current UCITS method for structured funds), or for example, monte-carlo simulations based on a log-normal standard model using the effective volatility (and other parameters) observed over the last 5 years. A key issue to bear in mind is to seek for a standardized, easy to compute (and thus to supervise) methodology.

For the avoidance of doubt, any proprietary, too complex or too costly solution should be disqualified. PRIIPs regulation (which is set at such a wide level encompassing several industries) should not require too many costs to be implemented, as these costs are ultimately borne by the end investors. It should be cost effective to serve the assigned objectives of PRIIPs.

Regarding more specifically the question regulators have on the viability of option 2 (second paragraph page 37), should it be decided to require one indicator for both market and credit risk, a single summary indicator can easily be obtained (as both risks are expressed in option 2 on a 7 grade scale which are additive). Furthermore, we do not read in article 8 (3) (d) the need for a unique indicator encompassing all risks as lit (i) refers to "risks which are relevant to the PRIIP and which are not adequately captured by the summary risk indicator". All risks are not to be covered by the risk indicator.

<ESMA_QUESTION_PRIIPs_10>

11. Please state your views on the appropriate details to regulate this approach, should it be selected.

<ESMA_QUESTION_PRIIPs_11>
AFG members no not favour Option 3 approach.

AFG believes that option 3 based on VaR could be too costly to implement by all actors (mid-sized, small sized companies). Such a solution requires a lot of standardization to be specified at regulatory level and reviewed each time market parameters change significantly enough (thus requiring a review of the model parameters).

The SRRI experience showed that the stability of the measure was an important characteristic. How about the stability of a local VaR measure as the one proposed in option 3? This risk measure can be assumed to be potentially more sensible and thus maybe require updating the KID too frequently.

For structured products, the method bears a strong model risk as the result depends on the valuation of the product at a 10 day horizon under various scenarios.

In the consultation (page 39), Option 3 is subdivided into 2 very different alternatives : the first one being a short term risk measure (like 10 days VaR used in Germany), the second one being a long term risk measure (over the recommended holding period).
The first alternative (short term VaR) would have several major drawbacks:

- it is not appropriate for non-linear structured products (because the non-linearity is mainly over the entire life of the product)
- it is very heavy to implement for structured products (because it needs full repricing of the product for all monte-carlo scenarios)
- it is unable to take into account the default risk
- it is less applicable to real estate funds or private equity

As a consequence, should option 3 be selected, AFG members strongly recommend using the second alternative: a long term risk measure over the recommended holding period, using simulated pay-outs at maturity of the product for structured products/funds.
For classic market funds, option 3 should produce very similar results with option 2, option 2 being much easier and less costly to implement, in particular for smaller asset managers.<ESMA_QUESTION_PRIIPs_11>

12. Please state your views on the general principles of this approach, should it be selected. How would you like to see the risk measure and parameters, why?

<ESMA_QUESTION_PRIIPs_12>
AFG members are of the view that proportionality should be applied: option 3 is already very heavy to implement. The proposed "extensions" of this approach would increase again the costs of implementation in an inappropriate manner. However the proposed solution brings a couple of real improvements: reference to models prescribed by the regulators and usage of the end maturity as the default holding period.
<ESMA_QUESTION_PRIIPs_12>

13. Please state your views on the potential use of a two-level indicator. What kind of differentiators should be set both for the first level and the second level of such an indicator?

<ESMA_QUESTION_PRIIPs_13>
AFG members do not favour Option 4 approach on a two-level indicator (except maybe if it allows for a double scale indicator with one first field for credit risk and a second for market risk ; and if the quantitative indicator is a simple re-use of the UCITS SRRI). If there is one interesting idea behind the flagging of products where the investor may lose more than the invested capital, the proposed framework is not fostering comparability between products situated on different levels. Compared to the current SRRI for funds, we believe the results are less meaningful. In addition, what is meant by capital "protection"?
<ESMA_QUESTION_PRIIPs_13>

14. Do you have suggestions or concrete proposals on which risk scale to use and where or how the cut-off points should be determined?

<ESMA_QUESTION_PRIIPs_14>
We believe a scale with 7 numerical classes like the current SSRI offers a sufficient level of granularity to be able to correctly discriminate between products.
<ESMA_QUESTION_PRIIPs_14>

15. Please express your views on the assessment described above and the relative relevance of the different criteria that may be considered.

<ESMA_QUESTION_PRIIPs_15>
We agree with ESAs regarding the fact that investors are interested to get information on expected return given the risk they take and that it is not easy for them to grasp the relationship between risk and return. That is why the way the SRRI is presented today is very helpful, as it gives the indication on the inverse relationship between risk and return. Prescribing performance only scenarios is a very tricky thing, as investors may disregard the risk taken and thus may infer wrongly some expectations.

AFG favours what if scenarios (non-prescribed for structured products and regulatory prescribed for classic funds).

It is very useful for **structured funds/products** to be able to illustrate the formula through different scenarios (pessimistic, optimistic and medium); that is the reason why UCITS asks for a third page illustrating scenarios specifically for structured UCITS KIID.

Demonstrating the value added/usefulness for investors regarding the addition of performance scenarios in the KID for **classic funds** in all cases is not that straightforward. Depending on choices made to construct the scenarios at time 0 and the realized market conditions at time t (when an investor redeems), there is tremendous place for confusion and in some cases it might be argued that presenting performance scenarios could have been an unhelpful hazardous and projective information to give. Thus, the **question to ask is to know whether the information on performance scenarios is always appropriate and clarifying information to give** (in the sense it helps reducing asymmetry between producers and investors). Regarding the **level 1 PRIIPS** requirements, it should be reminded that are required “appropriate performance scenarios” “and the assumptions made to produce them”. It should be clarified that fortunately the level 1 wording **does not imply an absolute obligation to present scenarios** (if it is deemed inappropriate) and that there is no wording disqualifying past or historical performance presentation. We strongly believe that among the scenarios presented, one scenario should be the historical performance. This is useful information to give to investors in order to discriminate between funds based on realized data (accompanied of course with the indisputable warnings on the fact that past performance does not necessarily predict future results).

AFG is strongly opposing probabilistic scenarios as the risks of misselling (and potential litigations) with investors basing their investment decisions on probabilistic presentations are too high. In addition, it would not be cost effective compared to what if/hypothetical scenarios based preferably on historical performance. In any case, disclaimers in this section are as important as the figures presented.

Unlike structured products where scenarios currently presented help understanding how the formula works and thus reduces dissymmetry (we believe no change is needed to the current UCITS KIID framework which is based on manager’s choice), for more classic funds the useful direction could instead be how the product behaves in different market situations. We are thus **in favour of what if prescribed scenarios** by regulators on a horizon which is the recommended investment/holding period and using past performance data.

Thus, for non-structured products, we are in favour of presenting the historical performance (option a)).
Another option (more difficult to implement) could be to present in addition of the historical performance, two other scenarios based on two different market situations completely prescribed that would look like stress tests (for example one scenario based on upward markets and another one on downward markets specifying the upward/downward formulas based on some hypothesis on market correlations and on parameters estimated for main markets/risk sources : equity markets, interest rates, FX, spreads, commodities, volatility). Another possibility could be to use the volatility annualized figure (that are already calculated with the SRRI methodology based on the 5 years historical weekly performances) and convert it to the corresponding VaR(95%, 5Y) measure. This could represent the pessimistic scenario and the optimistic one could be the best realized performance figure on a 5 year time window. Another methodology could be the use of a bootstrap methodology based on the full range of historical performances. The results for the pessimistic and optimistic scenarios could be presented by displaying visually a grid by performance buckets.

AFG clearly advocates for only one time period: investment recommended period (and lifetime for fixed term/structured products). Presenting several time horizons could be finally more confusing than enlightening, especially as intermediate horizons would in any case be uncorrelated to the true history of each investor in the PRIIP (thus, there is no gain in terms of reducing asymmetry as the producer cannot know in advance how the liability side of the PRIIP will be evolving).
<ESMA_QUESTION_PRIIPs_15>

16. Do you think that these principles are sufficient to avoid the risks of manufacturers presenting a non-realistic performance picture of the product? Do you think that they should be reinforced?

<ESMA_QUESTION_PRIIPs_16>
As explained above in the answer to Q 15 (please review our answer to Q 15), AFG believes that "what-if manufacturers choice" is perfectly adapted to structured funds as it helps to understand the formula and thus reduce the asymmetry. UCITS guidelines are sufficient.

Conversely, non-structured products do not present similar characteristics and in their case, scenarios should be completely prescribed as responding more to a stress test kind of information than an illustrative exercise on a specific formula.
<ESMA_QUESTION_PRIIPs_16>

17. Do you think the options presented would represent appropriate performance scenarios? What other standardized scenarios may be fixed?

<ESMA_QUESTION_PRIIPs_17>
Our members express strong support for historical scenarios (option a).

As explained above in the answer to Q 15 (please review our answer to Q 15), AFG has a strong preference for a prescribed approach for non-structured products with historical scenarios. Another option (more difficult to implement) could be to present in addition of the historical performance, two other scenarios based on two different market situations completely prescribed that would look and two projective scenarios.

Indeed, unlike structured products where scenarios currently presented help understanding how the formula works and thus reduces dissymmetry, for more classic funds/products, the useful direction could instead be how the product behaves in different market situations.

We are strongly in favour of prescribed scenarios by regulators on a horizon which is the recommended investment/holding period and using past performance data. Thus, for non-structured products, we are in favour of presenting the historical performance. Another option (more difficult to implement) could be to present in addition of the historical performance two other scenarios based on two different market situations completely prescribed that would look like **stress tests** (for example one scenario based on upward markets and another one on downward markets specifying the upward/downward formulas based on some hypothesis on market correlations and on parameters estimated for main markets/risk sources : equity markets, interest rates, FX, spreads, commodities, volatility). Another possibility could be to use the volatility annualized figure (that are already calculated with the SRRI methodology based on the 5 years historical weekly performances) and convert it to the corresponding VaR(95%, 5Y) measure. This could represent the pessimistic scenario and the optimistic one could be the best realized performance figure on a 5 year time window. Another methodology could be the use of a bootstrap methodology based on the full range of historical performances. The results for the pessimistic and optimistic scenarios could be presented visually by a grid displaying contingent performance buckets and flag the one corresponding to the figure obtained.
<ESMA_QUESTION_PRIIPs_17>

18. Which percentiles do you think should be set?

<ESMA_QUESTION_PRIIPs_18>
As explained earlier, AFG does not favour probability approaches. Regarding the neutral scenario, we are in general against a presentation of such a scenario as it could be misleading if too much confidence is accorded to the accuracy of the probability of occurrence of such a scenario. The historical performance should be presented in any case/combination.

<ESMA_QUESTION_PRIIPs_18>

19. Do you have any views on possible combinations?

<ESMA_QUESTION_PRIIPs_19>
AFG's strong preference would go clearly towards prescribed what-if scenarios (for non-structured products). Our proposal would be to present:

- the historical performance
- eventually together with two what-if scenarios.

The latter can be based on two different market situations completely prescribed

- one scenario based on upward markets
- another one on downward markets.

or obtained through another calculation using realised volatility figures for instance or some other technique preferably based on historical data (please see our response to Q15).

AFG members do not favour the probabilistic approach. The historical performance should be presented in any case/combination.
<ESMA_QUESTION_PRIIPs_19>

20. Do you think that credit events should be considered in the performance scenarios?

<ESMA_QUESTION_PRIIPs_20>
The question raised by the ESAs is indeed legitimate. Is the investor interested to know the performance scenario given the PRIIP strategy within the forecasted market evolution over the investment horizon or the potential performance scenario over the investment horizon taking into account all sources of risks? In any case, the priority should be to avoid giving investors information that could be wrongly interpreted. It is better to give information on selected items that are rather well understood with the appropriate disclaimers than creating the illusion that all information on all risks is presented, which by definition cannot be accurate in a prospective context.

We would rather advocate against credit events to be considered in the performance scenarios, as the credit default is properly addressed in another question of the KID, "what if XXX is unable to pay out?" as defined in art.8 (3) (e). Consistency in the presentation would clearly be gained with a 2 level risk indicator rating on one side the market risk and on the other side the credit risk.
<ESMA_QUESTION_PRIIPs_20>

21. Do you think that such redemption events should be considered in the performance scenarios?

<ESMA_QUESTION_PRIIPs_21>
AFG believes that regarding structured funds, specific events as the ones mentioned by the ESAs are well described through the choice of showing what-if scenarios (as it is the case today with structured UCITS that already have to present performance scenarios precisely in order to illustrate the specific features of the formula). There is thus no need to prescribe additional scenarios for these types of funds.

ESAs rightly mention the particular case of life insurance products regarding early exit, but in this case we believe the exit fee should indeed be prominently indicated in the document but not necessarily as a performance scenario.

<ESMA_QUESTION_PRIIPs_21>

22. Do you think that performance in the case of exit before the recommended holding period should be shown? Do you think that fair value should be the figure shown in the case of structured products, other bonds or AIFs? Do you see any other methodological issues in computing performance in several holding periods?

<ESMA_QUESTION_PRIIPs_22>
AFG members do not believe necessary to show the performance in the case of exit before the recommended holding period, as this case is already covered under the early redemption section of the KID: “how long should I hold it and can I take money out early?” (article 8. (3) (g)).

As a general principle, the information shown in the KID should be simple to grasp. We thus believe that the multiplication of the investment horizons for the performance scenarios might not reach the target of better information and on the contrary be rather puzzling. In addition, presenting several potential returns at different dates is not reducing the asymmetry of information between producer and investor, as the producer cannot know when there will be early exits and the probability that the real dates of early exit happen exactly on those dates that had been retained for the supplementary scenarios is very low. Depending on the hypothesis that are made on some parameters to estimate the performance scenarios, the supplementary message conveyed on the potential outcomes may be completely wrong and nevertheless form an additional potential piece of information for the client to take into account in his investment decisions.

Among the different choices we are facing regarding the time horizon for the performance scenarios, we believe that retaining the recommended holding period seems to us the most sensible and appropriate information to give.
<ESMA_QUESTION_PRIIPs_22>

23. Are the two types of entry costs listed here clear enough? Should the list be further detailed or completed (notably in the case of acquisition costs)? Should some of these costs included in the on-going charges?

<ESMA_QUESTION_PRIIPs_23>
A generic definition should be given for entry (and exit) costs or ESAs should preferably give an exhaustive list. A definition or an exhaustive list should clarify that entry/exit charges are separated from “on-going” charges.
Their very nature is to be charged up-front once (or at the end) and deducted from the amount invested by (or returned to) the client. Consequently, entry and exit costs should never be included in the “on-going” charges since they are not “on-going” by nature but charged only on two occasions (entry & exit). Including them into the on-going charges would be wrong information delivered to the client.
But we also support the view that all “up-front costs” (and exit costs if any) should be disclosed, especially when they are embedded in the price, for example in banking structured products. In that case they should be carved out and disclosed in entry charges.
As for acquisition costs, we don’t see the precise perimeter intended.
<ESMA_QUESTION_PRIIPs_23>

24. How should the list be completed? Do you think this list should explicitly mention carried interest in the case of private equity funds?

<ESMA_QUESTION_PRIIPs_24>
The list is complete but the information delivered to the client should stay simple. As regards to carried interest in the case of private equity fund, they should be explicitly mentioned in a specific line as it is the case now and not included in the “on-going” charges. The reason is that carried interest is only charged

when the fund is closed, on the condition that there is a capital gain and that this capital gain has reached a predefined level.
<ESMA_QUESTION_PRIIPs_24>

25. Should these fees be further specified?

<ESMA_QUESTION_PRIIPs_25>
Instead of "providers of property management services" we suggest the term "real estate operating expenses and capital expenditures" that encompasses better the scope of expenses in real estate funds. In France, this type of charges while disclosed as on-going charges are usually disclosed on a separate line as it doesn't remunerate the fund manager but external service providers. They are expressed in % of the net assets as well as in % of the real estate gross assets. The difference between gross and net asset is the money borrowed to finance the acquisition. The real estate gross asset gives the client a more realistic view of the value of the real estate detained in the fund
Example:
On-going charges: 4.30% of net asset
-Management fees: 2.10% of net asset (1.6% of gross asset)
- Operating expenses and capital expenditure: 2.20% of net asset (1.70% of gross asset) <ESMA_QUESTION_PRIIPs_25>

26. Should these fees be further specified? The "recovering fees" cover the following situation: when an investor receives income from foreign investments, the third-country government may heavily tax it. Investors may be entitled to reclaim the difference but they will still lose money in the recovering process (fee to be paid).

<ESMA_QUESTION_PRIIPs_26>
This question refers to "registration fees, regulatory fees and similar charges, including passporting fees": We agree with the inclusion of fees specified in subsection (c). In this regard, we would deem fees for listing on stock exchanges incurred e.g. by ETFs to be covered by the term "similar charges". Only fees directly charged to the fund have to be considered.

<ESMA_QUESTION_PRIIPs_26>

27. Should these fees be further specified? The "recovering fees" cover the following situation: when an investor receives income from foreign investments, the third-country government may heavily tax it. Investors may be entitled to reclaim the difference but they will still lose money in the recovering process (fee to be paid).

<ESMA_QUESTION_PRIIPs_27>
Recovering fees as described by the ESAs would be incurred in the tax recovery process initiated by the individual investor. Hence, such fees do not apply at the level of the fund and thus cannot be ascertained by the product manufacturer. Moreover, the amount of fees might considerably vary depending on the fund investor's domicile, the foreign tax rules and the specificities of the recovery procedure applicable in the relevant third country. In the end, such fees might even not be applicable at all if the investor fails to initiate the recovery process.
If these recovering fees are directly paid by the fund to benefit to all holders they usually are paid to either a legal advisor or the depositary and should appear under the corresponding heading.

<ESMA_QUESTION_PRIIPs_27>

28. This list is taken from the CESR guidelines on cost disclosure for UCITS. What is missing in the case of retail AIFs (real estate funds, private equity funds)?

<ESMA_QUESTION_PRIIPs_28>
We are somewhat puzzled by subparagraph (g) which refers to costs of distribution "to the extent that these payments are known to the PRIIP manufacturer". Clearly, any distribution costs agreed directly between the distributor and the investor should not be reflected in the ongoing charges of a product, even if such payments are known to the product provider. Hence, the list should comprise only costs of distribution paid by the PRIIP's manufacturer. Such costs can encompass e.g. retrocession payments to third party distributors where such payments are legitimate under the applicable regulation.

In this regard, however, it is important to note that retrocessions are generally not debited to the fund on a separate basis, but paid out of the management fee charged by the product manufacturer. In this case, it should be clear that such payments should not be accounted for twice and that inclusion of the management fee in the ongoing charges is sufficient.

The issue of double counting is pertinent also in relation to other cost items. Thus, we urge the ESAs to clarify in the general provisions concerning the cost section that as a matter of principle, cost items should be only included in the calculation if they are effectively charged to the fund and not covered by other cost positions.
<ESMA_QUESTION_PRIIPs_28>

29. Which are the specific issues in relation to this type of costs?

<ESMA_QUESTION_PRIIPs_29>
Performances fees are unknown at the point of sale; its amount varies depending on the performance reached at year end, every year being different, an annual and regular % cannot be disclosed. The performance fee could be null. We consider that a description of the principles of calculation of the performance fee will be sufficient to disclose.

About financing costs resulting from borrowing: we think that only direct financing costs should be taken into account.
When borrowing money is offset by a buying of a specific financial instrument then it should be considered as single investment decision; it is the portfolio manager's decision whereby the return he expects from the purchase of the security is higher than the cost of borrowing. Carving out and including the cost of borrowing in the on-going charges would disclose only one leg of the operation or it would mean accounting twice the same cost (first in the return of the investment decision, second in the costs). Hence, we do not support the idea of considering interest rate paid as a cost. Borrowing and buying is part of the investment strategy decided by the fund manager and shouldn't be split. Consequently, we also support the view that both legs of the operation (borrowing& buying) should be taken in account in the calculation of the results of the portfolio (in the performance) and that no additional operational costs should be hidden particularly when transactions are done within a group.
As previously said above in that answer, we support the view that all direct financing costs should be taken in account including those for structured products (i.e. structured EMTN)
<ESMA_QUESTION_PRIIPs_29>

30. Is it relevant to include this type of costs in the costs to be disclosed in the on-going charges? Which are the specific issues in relation to this type of costs? Which definition of Costs for capital guarantee or capital protection would you suggest? (Contribution for deposit insurance or cost of external guarantor?)

<ESMA_QUESTION_PRIIPs_30>
There are two different cases. Yes, we agree that cost of capital guarantee effectively paid to a bank should be disclosed. The costs of capital guarantee or capital protection should be disclosed either in %, or in basis point or in reduction in yield. Conversely, optional strategies developed in a fund cannot be

considered as a cost for a guarantee. An option premium is not a cost. An option is an instrument which has a market value, just like stocks or bonds. The price paid for a stock or a bond is not considered as a cost (only the transaction cost is). In the same way, the price paid for an option cannot be considered as a cost (only the transaction cost can).

To illustrate that point we will present the following example.
Let's assume that a fund with a NAV of 1000 € buys a ABC stock at 100€. In doing so, it incurs some transaction costs, for example 0.05€. The fund can subsequently sell the stock at its market price, let's say 120€, and it will again incur 0.05€ transaction costs. The net profit resulting from these two transactions is 20-0.05-0.05 = 19.9€. The fund's performance after costs is 1.99% and 2% before costs.
Let's now assume the fund buys a call option at a price (=premium) of 100€. Let's say the fund incurs 0.05€ transaction costs. Then the market moves up and the fund can subsequently sell the option at its market price, let's say 120€ (- 0.05€ transaction costs). Like in the previous example, the profit resulting from these two transactions is 20-0.05-0.05 = 19.9€.
It would thus be absurd to qualify the 100€ premium as "cost". Otherwise, the fund's performance before costs would be +12% ! (=120/1000).

<ESMA_QUESTION_PRIIPs_30>

31. Which are the specific issues in relation to this type of costs? Should the scope of these costs be narrowed to administrative costs in connection with investments in derivative instruments? In that respect, it could be argued that margin calls itself should not be considered as costs. The possible rationale behind this reasoning would be that margin calls may result in missed revenues, since no return is realized on the cash amount that is deposited, and that:

<ESMA_QUESTION_PRIIPs_31>
Derivative instruments are standard financial instruments and should not be considered as having specificities in all fields, for example holding costs. Payments incurred for the holding of financial derivative instruments shouldn't be considered as costs but as part of an investment strategy decision. The margin calls for example are expected to be compensated by the gain generated by purchase and sale of the derivative instruments. They are part of a global strategy which will result on a net gain or loss for the client. Carving out the cost of missed revenues on margin calls, would not only be very difficult, it would be counting twice one leg of an operation, one in the net result of the portfolio, and second in the charges.
<ESMA_QUESTION_PRIIPs_31>

32. Which are the specific issues in relation to this type of costs? Should this type of costs be further detailed/ defined?

<ESMA_QUESTION_PRIIPs_32>
The Commission is currently dealing with this issue; PRIIPs should wait for the outcome. The ESAs should also keep information as simple as possible in PRIIPs.
<ESMA_QUESTION_PRIIPs_32>

33. How to deal with the uncertainty if, how and when the dividend will be paid out to the investors? Do you agree that dividends can be measured ex-post and estimated ex-ante and that estimation of future dividends for main indices are normally available?

<ESMA_QUESTION_PRIIPs_33>
NA
<ESMA_QUESTION_PRIIPs_33>

34. Is this description comprehensive?

<ESMA_QUESTION_PRIIPs_34>
NA
<ESMA_QUESTION_PRIIPs_34>

35. Can you identify any difficulties with calculating and presenting explicit broker commissions? How can explicit broker commissions best be calculated ex-ante?

<ESMA_QUESTION_PRIIPs_35>
No difficulties with presenting actual broker commissions on ex-post based on historical records; for new funds with no records, broker commissions cannot be calculated but only estimated. A disclaimer should warn the client that the broker commissions are only estimated. AFG disapproves the idea to calculate ex ante brokerage fees.

<ESMA_QUESTION_PRIIPs_35>

36. How can the total of costs related to transaction taxes best be calculated? How should this be done to give the best estimate ex-ante? Are there other explicit costs relating to transactions that should be identified? Do you think that ticket fees (booking fees paid to custody banks that are billed separately from the annual custodian fee paid for depositing the securities) should be added to this list?

<ESMA_QUESTION_PRIIPs_36>
No difficulties with presenting actual transaction taxes on ex-post based on historical records; for new funds with no records, transaction taxes cannot be calculated but only estimated. A disclaimer should warn the client that the transaction taxes are only estimated. AFG opposes the idea to calculate ex ante transaction taxes.

<ESMA_QUESTION_PRIIPs_36>

37. As regards the abovementioned estimate, can the fair value approach be used?[2]

<ESMA_QUESTION_PRIIPs_37>
No, a fair value approach of the broker commission cannot be made; the bid-ask spread reflects other elements such as market risk and liquidity risk. Their respective proportion in the spread is fluctuant along with the market conditions and the broker commission is not stable.
<ESMA_QUESTION_PRIIPs_37>

38. Can you identify any other difficulties with calculating and presenting the bid-ask spread? Do you believe broker commissions included in the spread should be disclosed? If so, which of the above mentioned approaches do you think would be more suitable for ex-ante calculations or are there alternative methods not explored above?

<ESMA_QUESTION_PRIIPs_38>
The bid-ask spread reflects other elements such as market risk and liquidity risk. Their respective proportion in the spread is fluctuant along with the market conditions and the broker commission is not stable. We don't believe the broker commissions included in the spread could be disclosed.

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[2] One could also argue that all fund managers either have their own dealing desk or sub-contract this to other dealing desks. Since the principle of Best Execution is paramount, the dealers should know the typical spread in the securities with which they deal.

Should ESMA wish to maintain their requirement of a bond commissions' calculation, we recommend that ESMA defines a standardized commission cost for bonds (for govies, credit IG, credit HY and emerging) expressed in basis points. <ESMA_QUESTION_PRIIPs_38>

39. Do you believe that market impact costs should be part of the costs presented under the PRIIPs regulation? If so, how can the market impact costs best be calculated? How should this be done to give the best estimate ex-ante?

<ESMA_QUESTION_PRIIPs_39>
No, we don't think that market impact costs should be disclosed since it cannot be accurately calculated on each transaction. There's no proper method to distinguish between market impact and market risk if the price moves along when the order is executed. Our members strongly oppose any reference to a proprietary model and the costs that it would imply.

Besides, Best execution rules are already in place. Best execution results from a number of elements (speed, price, cost, place…) and cannot be over weighted on a single component (market impact). Lastly, and for all these reasons, MIFID II hasn't retained market impact on its cost disclosure list.

<ESMA_QUESTION_PRIIPs_39>

40. How should entry- and exit charges be calculated considering the different ways of charging these charges? How should this be done to give the best estimate ex-ante? Can you identify any other problems related to calculating and presenting entry- and exit fees?

<ESMA_QUESTION_PRIIPs_40>
Dual pricing, swing pricing and anti dilution levy are done to prevent the holders of the funds to pay for the entry (or exit) charges induced by a new investor (or by an exiting investor); so they shouldn't be integrated into the TCR paid by the current investors since they're not paying it. For the new investor entering the fund (and symmetrically for the investor leaving the fund) the net cost of entry (or exit) cannot be known on an ex-ante basis; knowing them on ex-ante would lead to risk of market timing and late trading and would violate the rules governing swing pricing. We recommend that only upfront entry and exit charges be disclosed in the TCR
Other problems with entry and exit charges: the funds can only disclose the entry/exit costs charged and received by the fund while other entry/exit costs charged by distributors are not known by producers. It should be left to distributors to inform the client of the entry/exit charges they received and to update the Total cost ratio accordingly. This option is clearly mentioned in Level 1, article 8.3.f).

Another option would be to disclose two set of total costs, one with the minimum entry/exit charges, the second with the maximum entry/exit charges.

<ESMA_QUESTION_PRIIPs_40>

41. Which other technical specifications would you suggest adding to the abovementioned methodology? Which other technical issues do you identify as regards the implementation of the methodology?

<ESMA_QUESTION_PRIIPs_41>
On ex-post, when transaction costs are known, portfolio turn-over rate should take subscriptions and redemptions of the unit in the formula to give an accurate %. It could be averaged over the last 3 years. When the fund has less than 3 years, cost on shorter periods (1 or 2 years) can be given.
If the fund is a new fund, only estimation can be given with a disclaimer.
As explained above, only explicit costs can be taken into account.

<ESMA_QUESTION_PRIIPs_41>

42. Do you think that an explicit definition of performance fees should be included? Do you think the definition by IOSCO is relevant in the specific context of the cost disclosure of the PRIIPs Regulation?

<ESMA_QUESTION_PRIIPs_42>
Yes, an explicit definition should be given and the IOSCO definition is relevant. AFG considers that performance fees cannot be included in ongoing charges ratios. (see below question 44).
<ESMA_QUESTION_PRIIPs_42>

43. What would be the appropriate assumption for the rate of returns, in general and in the specific case of the calculation of performance fees?

<ESMA_QUESTION_PRIIPs_43>
We cannot think of any single rate of returns that would fit all types of PRIIPs products. As a consequence, we oppose any reference to risk premiums or standard rate of return. Performance fees should be calculated with the rate included in the different performance scenarios.
<ESMA_QUESTION_PRIIPs_43>

44. Which option do you favor? Do you identify another possible approach to the disclosure and calculation of performance fees in the context of the KID?

<ESMA_QUESTION_PRIIPs_44>
Performance fees should be indicated as costs but excluded from the TCR and indicated in a separate line.
On an ex-ante basis and for new funds, the separate line mentions the method of calculation and refers to the performance scenarios disclosed in the PRIIPs /KID for illustration of the method: performance fees are illustrated with each performance scenario so the investor can figure out the mechanism between performance and fees.
On ex-post basis, actual historical performance fees could be disclosed together with the actual past annual performances. Simulations based on benchmarks or peer groups are not relevant and are misleading.
<ESMA_QUESTION_PRIIPs_44>

45. Which of the above mentioned options 1 and 2 for the calculation of aggregate costs would you prefer? Do you agree with above mentioned assumptions on the specificities of the costs of life-insurance products? How should the breakdown of costs showing costs specific to the insurance cover be specified? Do you think that risk-type riders (e.g. term or disability or accident insurances) have to be disregarded in the calculation of the aggregated cost indicator? How shall risk-type rider be defined in this context? (one possible approach might be: A risk-type rider in this context is an additional insurance cover without a savings element, which has separate contractual terms and separate premiums and that the customer is not obliged to buy as a compulsory part of the product).

<ESMA_QUESTION_PRIIPs_45>
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<ESMA_QUESTION_PRIIPs_45>

46. Do you think this list is comprehensive? Should these different types of costs be further defined?

<ESMA_QUESTION_PRIIPs_46>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_46>

47. Do you agree that guaranteed interest rate and surrender options should be handled in the above mentioned way? Do you know other contractual options, which have to be considered? If yes how?

<ESMA_QUESTION_PRIIPs_47>
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<ESMA_QUESTION_PRIIPs_47>

48. Should the methodology for the calculation of these costs be further specified?

<ESMA_QUESTION_PRIIPs_48>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_48>

49. Do you think this list and breakdown is comprehensive?

<ESMA_QUESTION_PRIIPs_49>
Transactions costs should also be included in the currency –denominated contract
<ESMA_QUESTION_PRIIPs_49>

50. Should the methodology for the calculation of these costs be further specified? How?

<ESMA_QUESTION_PRIIPs_50>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_50>

51. Should the methodology for the calculation of these costs be further specified? How?

<ESMA_QUESTION_PRIIPs_51>
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<ESMA_QUESTION_PRIIPs_51>

52. Should the methodology for the calculation of these costs be further specified?

<ESMA_QUESTION_PRIIPs_52>
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<ESMA_QUESTION_PRIIPs_52>

53. Should the methodology for the calculation of these costs be further specified? How? Do fund related costs also exist for with profit life insurance products?

<ESMA_QUESTION_PRIIPs_53>
Fund related costs also exist with profit life insurance products and should be taken in account
<ESMA_QUESTION_PRIIPs_53>

54. How to ensure that the look-through approach is consistent with what is applied in the case of funds of funds?

<ESMA_QUESTION_PRIIPs_54>
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<ESMA_QUESTION_PRIIPs_54>

55. Should the methodology for the calculation of these costs be further specified?

<ESMA_QUESTION_PRIIPs_55>
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<ESMA_QUESTION_PRIIPs_55>

56. Which above mentioned or further options do you support, and why? More generally, how to measure costs that are passed to policy holders via profit participation mechanisms? Would you say that they are known to the insurance company? Do you think an estimate based on the previous historical data is the most appropriate methodology for the calculation of these costs?

<ESMA_QUESTION_PRIIPs_56>
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<ESMA_QUESTION_PRIIPs_56>

57. Is this type of costs really specific to with-profit life-insurance products? Do you agree that these costs should be accounted for as on-going costs?

<ESMA_QUESTION_PRIIPs_57>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_57>

58. Do you think the list of costs of life-insurance products presented above is comprehensive? Which types of costs should be added?

<ESMA_QUESTION_PRIIPs_58>
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<ESMA_QUESTION_PRIIPs_58>

59. To what extent are those two approaches similar and should lead to the same results?

<ESMA_QUESTION_PRIIPs_59>
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<ESMA_QUESTION_PRIIPs_59>

60. In comparison to structured products, do you see any specificity of costs of structured deposits? Do you think that the potential external guarantees of structured deposits might just have to be taken into account in the estimation of the fair value of these products?

<ESMA_QUESTION_PRIIPs_60>
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<ESMA_QUESTION_PRIIPs_60>

61. Do you agree with the above mentioned list of entry costs? Which of these costs are embedded in the price? Should we differentiate between “delta 1” and “option based” structured products? In which cases do you think that some of these costs might not be known to the manufacturer? Which of these types of costs should be further defined?

<ESMA_QUESTION_PRIIPs_61>
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<ESMA_QUESTION_PRIIPs_61>

62. To what extent do you think these types of costs should be further defined and detailed?

<ESMA_QUESTION_PRIIPs_62>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_62>

63. How would you estimate ex ante the spread referred to above in (b), in the case the product is listed as in the case it is not? Should maximum spreads, when available, be considered? Should the term “proportional fees” be further defined? Which definition would you suggest?

<ESMA_QUESTION_PRIIPs_63>
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<ESMA_QUESTION_PRIIPs_63>

64. Do you agree with the list of costs outlined above? Which types of costs would require more precise definitions? To what extent should the methodology be prescriptive in the definition and calculation methodologies of the different types of costs?

<ESMA_QUESTION_PRIIPs_64>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_64>

65. Would you include other cost components?

<ESMA_QUESTION_PRIIPs_65>
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<ESMA_QUESTION_PRIIPs_65>

66. Under which hypothesis should the costs of the underlying be included?

<ESMA_QUESTION_PRIIPs_66>
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<ESMA_QUESTION_PRIIPs_66>

67. How would you deal with the issue of the amortization of the entry costs during the life of the product? For derivatives it will be notably important to define what the invested capital is, in order to calculate percentages. The possibilities include: the amount paid (i.e. option premium price or initial margin/collateral) or the exposure (to

be defined for optional derivatives). Do you see other possible approaches on this specific point?

<ESMA_QUESTION_PRIIPs_67>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_67>

68. Do you think that there are products with ongoing hedging costs (to ensure that the manufacturer is able to replicate the performance of the derivative component of the structured product)?

<ESMA_QUESTION_PRIIPs_68>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_68>

69. Do you agree with the general framework outlined above?

<ESMA_QUESTION_PRIIPs_69>
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<ESMA_QUESTION_PRIIPs_69>

70. Which criteria should be chosen to update the values in the KID when input data change significantly?

<ESMA_QUESTION_PRIIPs_70>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_70>

71. As the evolution of underlying asset/s should be taken into account, are there specific issues to be tackled with in relation to specific types of underlying? To what extent should the RTS be prescriptive on the risk premium?

<ESMA_QUESTION_PRIIPs_71>
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<ESMA_QUESTION_PRIIPs_71>

72. Are you aware of any other assumptions to be set?

<ESMA_QUESTION_PRIIPs_72>
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<ESMA_QUESTION_PRIIPs_72>

73. Having in mind that most of the applied models in banking are forward looking (e.g. using implied volatility instead of historical volatility) which are the pros and cons of backward looking approach and forward looking approach?

<ESMA_QUESTION_PRIIPs_73>
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<ESMA_QUESTION_PRIIPs_73>

74. Do you think that there are other risk free curves that could be considered?

<ESMA_QUESTION_PRIIPs_74>
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<ESMA_QUESTION_PRIIPs_74>

75. Do you think that there are other market data that could be used to determine the credit risk? Do you think that implied credit spreads from other issuer bonds (other than structured products) could be used?

<ESMA_QUESTION_PRIIPs_75>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_75>

76. How would you determine the credit risk in the absence of market data and which are the criteria to identify the comparable?

<ESMA_QUESTION_PRIIPs_76>
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<ESMA_QUESTION_PRIIPs_76>

77. How would you include the counterparty risk in the valuation? Would you include specific models to include counterparty risk in valuation (CVA models)? How would you consider the counterparty risk for pure derivatives?

<ESMA_QUESTION_PRIIPs_77>
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<ESMA_QUESTION_PRIIPs_77>

78. In which circumstances do you think parameters cannot be computed/estimated using market data? What would you suggest to deal with this issue?

<ESMA_QUESTION_PRIIPs_78>
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<ESMA_QUESTION_PRIIPs_78>

79. Would it be meaningful to prescribe specific pricing models for structured products, derivatives and CFDs? If yes which are the pros and cons of parametric and non-parametric models?

<ESMA_QUESTION_PRIIPs_79>
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<ESMA_QUESTION_PRIIPs_79>

80. What should be the value of x? (in the case of UCITS, x=5, but the extent to which this is appropriate for other types of PRIIPs, notably life-insurance products, is unclear).

<ESMA_QUESTION_PRIIPs_80>
NA<ESMA_QUESTION_PRIIPs_80>

81. Should this principle be further explained / detailed? Should the terms “rank pari passu” be adapted to fit the different types of PRIIPs?

<ESMA_QUESTION_PRIIPs_81>
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<ESMA_QUESTION_PRIIPs_81>

82. What should be the relevant figure for the initial invested amount to be taken into account for the calculation of cost figures? Should a higher initial investment amount be taken into account not to overestimate the impact of fixed costs? How should the situation of products with regular payments be taken into account for that specific purpose? (Would an invested amount of 1 000 euros per period of time be a relevant figure?)

<ESMA_QUESTION_PRIIPs_82>
1 000€ is OK
<ESMA_QUESTION_PRIIPs_82>

83. For some life-insurance products, the costs will differ on the age of the customer and other parameters. How to take into account this specific type of PRIIPs for the purpose of aggregating the costs? Should several KIDs for several ages be considered?

<ESMA_QUESTION_PRIIPs_83>
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<ESMA_QUESTION_PRIIPs_83>

84. Do you agree with the abovementioned considerations? Which difficulties do you identify in the annualisation of costs?

<ESMA_QUESTION_PRIIPs_84>
The annualisation of the costs doesn’t properly inform the investor of the profile of the costs and of its effect on the return of its product over time. As an example, having a high entry-fee means for the investor to stay invested a certain period of time to get back to its initial investment; this information should be clearly disclosed to the client. Secondly, annualisation needs a determined investment horizon and cannot inform the client of the costs on a shorter (or longer) investment time.
<ESMA_QUESTION_PRIIPs_84>

85. Which other assumptions would be needed there? In the case of life-insurance products, to what extent should the amortization methodology related to the amortization methodology of the premium calculation? To what extent should the chosen holding period be related to the recommended holding period?

<ESMA_QUESTION_PRIIPs_85>
See answer 84
<ESMA_QUESTION_PRIIPs_85>

86. This definition of the ratio is taken from the CESR guidelines on cost disclosure for UCITS. Is it appropriate also in the case of retail AIFs? Should it be amended? Another approach to calculate these costs is to calculate the ratio of the total of these amortized costs to the invested amount in the fund. However in that case the question remains as to how to aggregate this ratio with the on-going charges ratio. Another possible approach could be to use the ratio between the total amount of costs over the

holding period and the average net investment (assumed during the whole period, in order to take into account future additional investments, partial withdrawals, payments (i.e. programmed investments or disinvestments)). Do you think this approach would be appropriate?

<ESMA_QUESTION_PRIIPs_86>
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<ESMA_QUESTION_PRIIPs_86>

87. What would be other options to define the TCR ratio in the case of life-insurance products? What about the case of regular payments or regular increasing? Which definition would you favour? How to ensure a level playing field and a common definition with the other types of PRIIPs in this regard? Another possible approach could be to use the ratio between the total amount of costs over the holding period and the average net investment (assumed during the whole period, in order to take into account future additional investments, partial withdrawals, payments (i.e. programmed investments or disinvestments)). Do you think this approach would be appropriate? To what extent do these possible calculation methodologies fit the case of insurance products with regular payments?

<ESMA_QUESTION_PRIIPs_87>
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88. What would be other options to define the TCR ratio in the case of structured products? Do you identify other specific issues in relation to the TCR if applied to structured products? Another possible approach could be to use the ratio between the total amount of costs over the holding period and the average net investment (assumed during the whole period, in order to take into account future additional investments, partial withdrawals, payments (i.e. programmed investments or disinvestments)). Do you think this approach would be appropriate? For derivatives, it might be the case that it is necessary to further define the concept of investment to be used as denominator of the ratio. Possibilities include the use of the actual sums paid and received (i.e. initial margins, variation margins, collateral postings, various payoffs, etc.) or the use of the exposure (i.e. market value of the derivative underlying). Do you think these approaches would be appropriate?

<ESMA_QUESTION_PRIIPs_88>
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89. This definition of the ratio is taken from the CESR guidelines on cost disclosure for UCITS. Is it appropriate also in the case of retail AIFs? Should it be amended? Another possible approach could be to use the ratio between the total amount of costs over the holding period and the average net investment (assumed during the whole period, in order to take into account future additional investments, partial withdrawals, payments (i.e. programmed investments or disinvestments)). Do you think this approach would be appropriate?

<ESMA_QUESTION_PRIIPs_89>
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90. These different aforementioned principles are taken from the CESR guidelines on cost disclosure for UCITS. Is it also appropriate in the PRIIPs context?

<ESMA_QUESTION_PRIIPs_90>
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91. To what extent do the principles and methodologies presented for funds in the case of on-going charges apply to life-insurance products?

<ESMA_QUESTION_PRIIPs_91>
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***92.* Do you think this methodology should be further detailed? To what extent do you think this methodology is appropriate and feasible (notably in terms of calibration of the model)? It might indeed be considered that valuation models for Solvency II usually are not likely to be designed for per contract calculations. Life insurers may restrict the calculation of technical provisions in the Solvency II-Balance-Sheet to homogenous risk groups. Furthermore they are allowed to use simplified calculation methods if the error is immaterial at the portfolio level. As profit sharing mechanisms in many countries are applied on the company level and not on a per contract level, projected cash flows from future discretionary benefits will not easily be broken down on a per product or even a per contract basis with the existing Solvency II-Valuation-Models.**

<ESMA_QUESTION_PRIIPs_92>
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93. Do you identify any specific issue in relation to the implementation of the RIY approach to funds?

<ESMA_QUESTION_PRIIPs_93>
We support the RIY approach as it gives the best information whatever the profile of the cost is; i.e. where there are upfront costs and exit costs, the RIY is the only way to disclose their impact on the return on different holding periods..
There is a problem with the choice of the entry /exit costs to be selected for the calculation when they are not received by the fund or the fund manager but by the distributor and based on its choice (depending on its relationship with the client and/or the amount invested).
The fund mentions in its KIID that a range from 0% to x% could be charged by the distributor and the actual % charged by the distributor is not known by the fund manager.
So we think that the manager of the fund should calculate a first RIY induced by the costs received by the funds and the fund manager only while distributor calculate the final RIY induced by all costs including their entry/exit costs (as allowed in level 1 article 8.3.f). That would give the retail investor accurate information. Another option would be for the fund manager to calculate two RIY, one with the minimum entry/exit charges and a second one with the maximum entry/exit charges.
That would give the retail investor global information.

There is also an issue with the choice of the growth rate; the growth rate has to reflect the characteristics and potential of the product and shouldn't be the same for all PRIIPs. We suggest taking the rate assumed in the central scenario disclosed in the performance scenarios. <ESMA_QUESTION_PRIIPs_93>

94. In addition to the abovementioned issues and the issues raised in relation to TCR when applied to structured products, do you identify any other specific issue in relation to the implementation of the RIY approach to structured products?

<ESMA_QUESTION_PRIIPs_94>
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<ESMA_QUESTION_PRIIPs_94>

95. Do you agree with the above-mentioned assessment? Should the calculation basis for returns be the net investment amount (i.e. costs deducted)? Do you identify specific issues in relation to the calculation per se of the cumulative effect of costs?

<ESMA_QUESTION_PRIIPs_95>
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96. Is this the structure of a typical transaction? What costs impact the return available to purchasers of the product?

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97. What costs impact the return paid on the products?

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98. What are the potential difficulties in calculating costs of an SPV investment using a TCR approach?

<ESMA_QUESTION_PRIIPs_98>
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99. What are the potential difficulties in calculating costs of an SPV investment using a RIY approach?

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