

Question 7 [Last update: [6 June 2017](#) [23 March 2018](#)]

Questions and Answers

On MiFID II and MiFIR investor protection and intermediaries topics

How should investment firms use the product's costs as presented in the PRIIPs KID?

Answer 7

The PRIIPs KID will contain detailed information about costs and charges of the PRIIP. ESMA is of the view that the cost components, as mentioned in the PRIIPs KID, cover all cost components, so that an investment firm can fulfil its obligation under the MiFID II regime with regard to the ex-ante costs and charges of a financial instrument.

Based on the prescribed calculation methodology of the PRIIPs RTS Annex VI, PRIIPs manufacturers have to calculate the total amount of costs on an annualised basis, [for standardised investments \(usually either €10,000 lump sums or €1,000 p.a. for recommended holding periods\)](#). This means that PRIIPs manufacturers have insight in (i) one-off costs; (ii) ongoing costs, which include transaction related costs and charges and (iii) incidental costs. In order to calculate the reduction in yield this total amount of costs is turned into values that reflect the annualised impact on return per year at the recommended holding period. Firms could use this raw annualised data as the basis for the MiFID II cost calculation, [while](#) they could also use the PRIIPs annualised Reduction in Yield (RIY) indicator. [For investment amounts different from the abovementioned standardised ones or for products with non-linear charging structures \(linear charging structures being understood as where the charges increase in direct proportion to the size of the investment\), firms would need to amend the PRIIPs KID data or indicator depending in particular on these charging structures.](#) Unless [this all relevant](#) annualised data is already publicly available, it is probable that an investment firm will have to liaise with the PRIIPs manufacturers to obtain such data. [With regard to inducements, ESMA is aware of the fact that PRIIPs manufacturers are required to present inducements as costs of the PRIIP, mentioned separately from other costs in the KID.](#) As investment firms need to include inducements in the costs of the investment services, any inducements mentioned as costs of the PRIIP should be added to the costs of the investment services and deducted from the costs of the PRIIP (as mentioned in the KID). [Lastly, ESMA notes that under the PRIIPs RTS, manufacturers should include in the KID the costs of the service, to the extent that the amount is known and not paid to the distributor. If the amount is not known, the KID may not include all the distribution costs, whilst in the case of investment funds, the management company may only include the maximum of the possible distribution costs. It is therefore important that the investment firm adjusts the information about distribution costs, if applicable, to provide the investor with the correct cost figures applicable in the specific situation of the investment firm.](#)