European Securities and Markets Authority

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	Federation of Finnish Financial Services
Activity	
Are you representing an association?	☒
Country/Region	Finland

Introduction

Please make your introductory comments below, if any:

< ESMA_COMMENT_PRIIPs_1>

The Federation of Finnish Financial Services represents banks, insurers, finance houses, securities dealers, fund management companies and financial employers. We would like to present here some general comments which are of utmost importance for the PRIIPs project.

We would like to point out to the difficulties relating to bringing certain OTC derivatives to the scope of PRIIPs, if they´re used in hedging purposes. These products are sold mainly to SME clients and clients that are out of scope of PRIIPs. In our view it is not appropriate nor comparable to provide KID information on these kind of products. These products do not offer investment purpose but hedging purpose. They are made to measure products created or adjusted for the customer in each individual case. They do not exchange amounts repayable, but are subject to a payment of a premium. As these products do not offer investment purpose and are not subject to fluctuation, they do not fulfill the criteria of a PRIIPs product specified in the Regulation. Thus, **derivatives that do not offer an investment opportunity but only have a hedging purpose should be out of scope of PRIIPs**.

Another area where we find **major challenges in creating an informative, accurate and comparable KID is unit linked insurance products.** We feel these products do fall under the scope of PRIIPs. However, there are several challenges in producing the information on these products, which need to be taken into account when drafting the RTS. Many unit-linked insurances offer currently the possibility to invest in different kind of investments, not only UCITS funds. These other underlying investments might be shares, bonds, structured products, almost any kind of object in value. I**t will not be possible to provide a pre-contractual KIID document on a unit-linked insurance product that would include all investment possibilities which might be chosen by the customer.** We also fear disclosing information based on artificial assumptions would lead to a requirement to disclose misleading information to the customer.

At the moment, the Discussion Paper does not address the specificities of these products or provide details for the specific requirements in article 6.3 of the Regulation. The question is relevant particularly for calculating risks, costs and returns.

We also feel that in general, **the Discussion paper presents and analyses too detailed and theoretical ways of calculating and presenting risks, costs and rewards. Retail client´ s possibility to grasp, understand and compare the information in the KIID is essential.** Too detailed and technical information will not fulfill the original aim of the Regulation. The calculation models should be set at a level which is fulfilled with reasonable efforts by the product providers as well. Too detailed requirements will end up raising the costs of the products, as the collection, analysis and updating of different pieces of information will bring up the administrative costs.

If the information requirements are not well tailored for different kind of products in scope, there might arise a situation where the product provider is not able to gather or produce all information required. We feel the requirements should leave certain flexibility in these cases. Too rigid and too detailed requirements might drive towards an obligation to present information which might in certain cases or for certain products lead to misleading information for retail clients. This problem has not been dealt with in the Discussion Paper.

< 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>

<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>
We feel market risk is the most important factor to be displayed. It is the only one which can be displayed in figures. Credit and liquidity risks are important as well, but they need to be displayed in narrative form.

We feel presentation of PRIIPs KID should keep as much as possible to the way of presentation of UCITS risks, costs and rewards. UCITS KIID has proved to be quite a clear and successful way of presenting the key figures, and that´s why completely new models of presenting the key figures are not advisable. Customers are now familiar with UCITS KIID. This doesn´t mean we do not need amendments to UCITS KIID. For some products, especially structured products, it might however be difficult to use a UCITS risk measure, and in these cases adaptations will be needed.

It is very important to try to find ways to present the key figures which are clear and simple enough for the consumer to understand. The KID is a document for standardized key information, which means not all of the information can be displayed. The balance between right amount and level of information (not too detailed) and the possibilities for the customer to understand and compare the products is crucial.

The design of the KID needs to take account of the limited amount of pages (3) and of the fact that distribution channels vary. Products might be sold online as well, and in these cases the customer needs to understand the information by reading the KID himself / herself.

There are several challenges in producing the information on unit-linked insurance products and their underlying investments. Many unit-linked insurances offer currently the possibility to invest in different kind of investments, not only UCITS funds. These other underlying investments might be shares, bonds, structured products, almost any kind of object in value. It will not be possible to provide a precontractual KIID document on a unit-linked insurance product that would include all investment possibilites which might be chosen by the customer. We also fear disclosing information based on artificial assumptions would lead to a requirement to disclose misleading information to the customer.

The KID for the wrapper product should only include information of the wrapper product, not of the underlying investment objects. Information on the wrapper should make it clear that there is a multilayer design in the product and all information on the final investment is not available in the wrapper KID. The wrapper should provide for links to information on the underlying investments, when possible.

Utmost it might be possible to disclose the different kind of investment object classes the investor may choose from (in the form of examples or a summary). Using ranges of risk and costs for certain investment classes would result in too wide ranges and this information will not bring added value to the customer. Limited space in the KID needs to be taken into account when deciding on what information on underlying investments can be shown in the wrapper KID. The customer cannot normally grasp and understand the information contained in several graphs or indicators in the same limited document. We also have to take into account that after concluding the contract, the customer may at any time change the underlying investments in the wrapper.

Presenting risks in with-profit insurance products will need some adjustments in the way the risks are presented. For example, risks relating to the solvency and liquidity cannot be presented in figures, but will need to be presented in narrative. Also, there should not be requirements to present similar kind of performance scenarios on with-profit insurance products as in other PRIIPs products when the profit paid is fixed according to the insurance contract.

The market risk for different products cannot be measured with the same method as they have different variables but the results for different types of PRIIPs could be expressed in the same scale.

Access to historical data is also one important factor that could pose limitations to the use of some of the methods. Historical figures are, however, the best way of presenting performance. They can be calculated for most of the products offered. We´re not in favor of models based on totally artificial figures.

We prefer the European supervisors to set parameters and performance scenarios in cases when they are not easily observable and/ calculated. This would ensure objectivity, harmonization and comparability of figures and calculation models.

<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>
TYPE YOUR TEXT HERE
<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>
TYPE YOUR TEXT HERE
<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>
TYPE YOUR TEXT HERE
<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>
TYPE YOUR TEXT HERE
<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>

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<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>
TYPE YOUR TEXT HERE
<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>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_9>

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

<ESMA_QUESTION_PRIIPs_10>
TYPE YOUR TEXT HERE
<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>
TYPE YOUR TEXT HERE
<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>
TYPE YOUR TEXT HERE
<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>
TYPE YOUR TEXT HERE
<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´re in favour of the scale of risks presented in UCITS KIID (1-7). The scale needs to be wide enough to present options and varieties.

<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´re not in favor of a probabilistic model. It results in too complicated figures and this would not facilitate customers understanding, which should be the ultimate aim of the presentation. Probabilities might give false impression of promised returns etc. Performance scenarios should show possible outcomes feasible under the PRIIPs without any implications to their likelihood.

Historical figures are the best way of presenting performance. They can be calculated for most of the products offered. We´re not in favor of models based on totally artificial figures.
<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>
TYPE YOUR TEXT HERE
<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>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_17>

18. Which percentiles do you think should be set?

<ESMA_QUESTION_PRIIPs_18>
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<ESMA_QUESTION_PRIIPs_18>

19. Do you have any views on possible combinations?

<ESMA_QUESTION_PRIIPs_19>
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<ESMA_QUESTION_PRIIPs_19>

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

<ESMA_QUESTION_PRIIPs_20>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_20>

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

<ESMA_QUESTION_PRIIPs_21>
TYPE YOUR TEXT HERE
<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>
TYPE YOUR TEXT HERE
<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>
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<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>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_24>

25. Should these fees be further specified?

<ESMA_QUESTION_PRIIPs_25>
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<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>
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<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>
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<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>
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<ESMA_QUESTION_PRIIPs_28>

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

<ESMA_QUESTION_PRIIPs_29>
TYPE YOUR TEXT HERE
<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>
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<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>
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<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>
TYPE YOUR TEXT HERE
<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>
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<ESMA_QUESTION_PRIIPs_33>

34. Is this description comprehensive?

<ESMA_QUESTION_PRIIPs_34>
We note that transaction costs are not included in UCITS KIID and think that this is for good reason. Transaction costs are heavily dependent on market conditions and the need to react on such conditions. The value of this information in a pre-contractual document is not clear at all. Presenting past information makes more sense since it allows analysis of the performance of a fund.
<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>
We would like to point out that unlike UCITS which are rather homogenous, AIF:s include very different kind of funds. Therefore it may well be that even presenting explicit cost can be difficult. This is especially if they should be evaluated ex-ante.

<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>
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<ESMA_QUESTION_PRIIPs_36>

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

<ESMA_QUESTION_PRIIPs_37>
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<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>
As commented before, we have reservations on including costs like bid ask spreads in the KID. While direct brokerage fees could possibly be estimated (but even in that case it is a very rough estimate) things get more difficult with bond trading. Spreads tend to change depending on market conditions which makes presenting them in a pre-contractual document difficult in some cases even misleading. We prefer keeping KID clear and simple.
<ESMA_QUESTION_PRIIPs_38>

[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.

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>
We do not support the inclusion of market impact cost in PRIIPS KID. While it is theoretically speaking a cost for the investor, it is very different from other costs to be included. First it is linked to all investments, not on only PRIIPS or PRIIPS fund structures. It is very difficult to quantify in advance since it is heavily dependent on market conditions. Second we are skeptical about retail clients understanding the calculation and direct impact of this cost. Adding too many theoretical indirect costs bears the risk of losing the clear and simple content of KID.
<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>
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<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>
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<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>
TYPE YOUR TEXT HERE
<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>
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<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>
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<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>
We feel the UCITS KIID presents a good basis for creating a model for calculating costs.

Insurance premiums should not be regarded as costs. Premiums are paid for the insurance risk cover offered and it is not a cost for the investment. Including the risk premium as a cost would make it more difficult to compare actual costs for different investment products.

As mentioned in answer 2., for unit-linked insurance products, the KID for the wrapper product should only include information of the wrapper product, not of the underlying investment objects. Information on the wrapper should make it clear that there is a multilayer design in the product and all information on the final investment is not available in the wrapper KID. The wrapper should provide for links to information on the underlying investments, when possible.

Utmost it might be possible to disclose the different kind of investment object classes the investor may choose from (in the form of examples or a summary). Using ranges of risk and costs for certain investment classes would result in too wide ranges and this information will not bring added value to the customer. Limited space in the KID needs to be taken into account when deciding on what information on underlying investments can be shown in the wrapper KID. The customer cannot normally grasp and understand the information contained in several graphs or indicators in the same limited document. We also have to take into account that after concluding the contract, the customer may at any time change the underlying investments in the wrapper.

It seems the proposed RIY model for calculating costs might be the most suitable for insurance savings products. For other products like structured products, it might not be a workable model.

Overall, we feel there is a risk that the cost calculation model ends up being too detailed and too complicated. We should aim for a clear and comparable cost model, which brings added value for the customer. This means simplification is needed and every detail cannot be displayed.

<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>
We feel there should not be other types of costs defined, as the result for the retail investor risks being too detailed and too complicated.

It is important to keep costs paid by the retail client apart from the business costs. The business costs are included in the costs paid by the customer and therefore they might be presented twice if both have to be presented. Only the costs paid by the retail client should be presented.
<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>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPs_47>

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

<ESMA_QUESTION_PRIIPs_48>
No. See our answer 46.
<ESMA_QUESTION_PRIIPs_48>

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

<ESMA_QUESTION_PRIIPs_49>
Yes. See our answer 46.

<ESMA_QUESTION_PRIIPs_49>

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

<ESMA_QUESTION_PRIIPs_50>
No. See our answer 46.

<ESMA_QUESTION_PRIIPs_50>

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

<ESMA_QUESTION_PRIIPs_51>
No. See our answer 46.

<ESMA_QUESTION_PRIIPs_51>

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

<ESMA_QUESTION_PRIIPs_52>
No. See our answer 46.

<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>
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<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>
No. See our answer 46.

<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>
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<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>
TYPE YOUR TEXT HERE
<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>
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<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>
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<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>
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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>
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<ESMA_QUESTION_PRIIPs_68>

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

<ESMA_QUESTION_PRIIPs_69>
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70. Which criteria should be chosen to update the values in the KID when input data change significantly?

<ESMA_QUESTION_PRIIPs_70>
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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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72. Are you aware of any other assumptions to be set?

<ESMA_QUESTION_PRIIPs_72>
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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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74. Do you think that there are other risk free curves that could be considered?

<ESMA_QUESTION_PRIIPs_74>
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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>
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76. How would you determine the credit risk in the absence of market data and which are the criteria to identify the comparable?

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

<ESMA_QUESTION_PRIIPs_84>
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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>
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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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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?

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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?

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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.

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

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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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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?

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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?

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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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