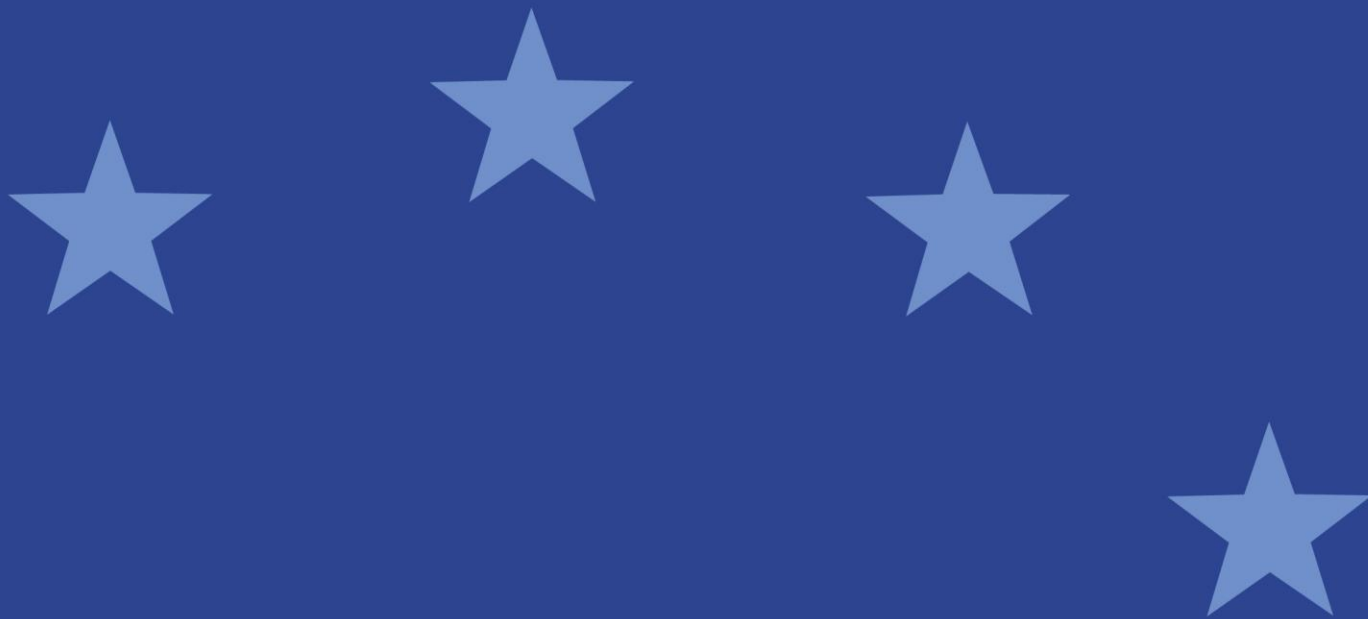


Reply form for the Consultation Paper on PRIIPs Key Information Documents



Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the ESMA Consultation Paper on PRIIPs Key Information Documents, published on the ESMA website.

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 to ESMA so as to allow us to process it properly. Therefore, ESMA 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 ESMA should consider

Naming protocol

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

ESMA_ PRIIPS _NAMEOFCOMPANY_NAMEOFDOCUMENT.

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

ESMA_ PRIIPS_XXXX_REPLYFORM or

ESMA_ 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 **29 January 2016**.

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 end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the headings 'Legal notice' and 'Data protection'.



Introduction

Please make your introductory comments below, if any:

<ESMA_COMMENT_PRIIPS_1>
TYPE YOUR TEXT HERE
<ESMA_COMMENT_PRIIPS_1>

Question 1

Would you see merit in the ESAs clarifying further the criteria set out in Recital 18 mentioned above by way of guidelines?

<ESMA_QUESTION_PRIIPS_1>

The comprehension alert would lose its value and would not help retail investors if it was used for a wide range of products including some that should not fall under its scope. At this stage, the criteria set out in recital 18 do not provide for complete legal certainty as to which products' KIDs should bear such a comprehension alert. There may be, therefore, a risk that some PRIIPs manufacturers face a situation where they choose to disclose the comprehension alert although their products should not bear it. Therefore we are strongly in favour of a further clarification of these criteria. However insurance-based investment products differ significantly between Member states. Therefore some members consider that it might be more adequate to have the guidelines drawn up by the respective NSAs.

<ESMA_QUESTION_PRIIPS_1>

Question 2

- (i) Would you agree with the assumptions used for the proposed default amounts? Are you of the opinion that these prescribed amounts should be amended? If yes, how and why?*
- (ii) Would you favour an approach in which the prescribed standardised amount is the default option, unless the PRIIP has a known required investment amount and price which can be used instead?*

<ESMA_QUESTION_PRIIPS_2>

Some members consider that defining prescribed standardised amounts is important in order to allow the comparison between products throughout Europe.

Notwithstanding the above, there are other members that are of the opinion that fine-tuning or detailing the assumptions in the regulatory technical standards (RTS) at EU level (such as setting the initial amount invested) might sometimes prove to be very difficult notably because of (1) the different spectrums of products available in different markets and (2) the differences in investment behaviour and capital at expense across the EU. This fine-tuning should be in line with consumer behaviour at national level.

<ESMA_QUESTION_PRIIPS_2>

Question 3

For PRIIPs that fall into category II and for which the Cornish Fisher expansion is used as a methodology to compute the VaR equivalent Volatility do you think a bootstrapping approach should be used instead? Please explain the reasons for your opinion?

<ESMA_QUESTION_PRIIPS_3>

The methodology under category III (involving bootstrapping and a minimum of 10.000 forward-looking simulations) is much more complicated than the one under category II (historical volatility over the last 5 years). Instead of applying an excessively complex methodology to category II as well, the methodology behind category III products should be simplified.

One member considers that a common approach for all product categories would be preferable in order to ensure the comparability of the results which is an important goal of level 1 of the regulation. This member is of the opinion that a forward looking simulation can be used for all products. Cornish-Fischer and bootstrapping each only deliver meaningful results for a small section of the product scope. The backward looking nature of the approaches invites gaming. Products could be optimized for the recent history whereas the future might hold a wider variety of scenarios.

<ESMA_QUESTION_PRIIPS_3>

Question 4

Would you favour a different confidence interval to compute the VaR? If so, please explain which confidence interval you would use and state your reasons why.

<ESMA_QUESTION_PRIIPS_4>

A risk measure that regards to more than one point of the distribution would be preferred. Looking at a single point is only significant if one is looking at the normal distribution.

<ESMA_QUESTION_PRIIPS_4>

Question 5

Are you of the view that the existence of a compensation or guarantee scheme should be taken into account in the credit risk assessment of a PRIIP? And if you agree, how would you propose to do so?

<ESMA_QUESTION_PRIIPS_5>

Some of the members consider that the existence of a compensation or guarantee scheme should not be taken into account in the credit risk assessment of a PRIIP because these schemes are too diverse and it could be difficult for consumers to assess the quality of the guarantee (ex-ante fully funded schemes vs ex-post funded schemes). Additionally, in many cases the scheme is only providing a guarantee up to a certain amount. To take into account such schemes, the KID may well mention narratively whether the PRIIP is covered by a guarantee scheme and which one.

Having said that though, there are other members that consider that it is a reality that from the perspective of the customer insurers' credit risk in some countries is lower thanks to insurance guarantee schemes which should, therefore be taken into account as a mitigating factor when assessing credit risk.

<ESMA_QUESTION_PRIIPS_5>

Question 6

Would you favour PRIIP manufacturers having the option to voluntarily increase the disclosed SRI? In which circumstances? Would such an approach entail unintended consequences?

<ESMA_QUESTION_PRIIPS_6>

The aim of designing a meaningful SRI methodology should be that there is no need for changing the outcome of the calculation.

<ESMA_QUESTION_PRIIPS_6>

Question 7

Do you agree with an adjustment of the credit risk for the tenor, and how would you propose to make such an adjustment?

<ESMA_QUESTION_PRIIPS_7>

Some members agree with the proposal to adjust credit risk for the tenor, because credit risk is usually increasing with the tenor.

Notwithstanding the above, other members consider that it is not appropriate, in order to avoid complexity, to discriminate further with an adjustment of the credit risk to take into account the applicable tenor.

<ESMA_QUESTION_PRIIPS_7>

Question 8



Do you agree with the scales of the classes MRM, CRM and SRI? If not, please specify your alternative proposal and include your reasoning.

<ESMA_QUESTION_PRIIPS_8>

No. In spite of the EU initiatives in progress to reduce the overreliance on credit ratings issued by credit rating agencies, it is surprising to see that the proposal considers that no suitable methodology other than the external rating has been found regarding credit risk assessment.

It should be reminded that hundreds of insurance-based investment products' manufacturers don't have a credit rating issued by a credit rating agency. It should also be reminded that the cost of getting a rating by a credit rating agency is very high, especially for small and medium insurance undertakings, something that could distort competition.

The proposal provides that if an insurer doesn't have a rating, it will be automatically allocated to CR3. According to the aggregation method proposed, this would mean that even if the insurer has a MR1, its final SRI would be 3. This is not a reasonable outcome, given that market risk is the most relevant factor for insurance-based investment products.

For insurance-based investment products, the market risk should be factored in in a much more prominent manner than what is proposed in the current draft RTS. The ESAs' alternative scale proposed page 9 is already a step in the right direction.

It should also be pointed out that the MRM and SRI scales are not really appropriate for long term PRIIPs as they penalise broad equity based PRIIPs versus fixed income ones, while on the long term, equity products might offer better protection against inflation and be less volatile than fixed income based PRIIPs.

<ESMA_QUESTION_PRIIPS_8>

Question 9

Are you of the opinion that for PRIIPs that offer a capital protection during their whole lifespan and can be redeemed against their initial investment at any time over the life of the PRIIP a qualitative assessment and automatic allocation to MRM class 1 should be permitted?

Are you of the opinion that the criteria of the 5 year tenor is relevant, irrespective of the redemption characteristics?

<ESMA_QUESTION_PRIIPS_9>

Some members are of the opinion that a nominal capital protection at maturity should not mean an automatic allocation of the product to MRM class 1, because this would mean not taking into account the effect of inflation, especially for the longer tenors.

However, there are other members that are of the opinion that for PRIIPs that offer a capital protection at maturity, a qualitative assessment and automatic allocation to MRM class 1 should be permitted regardless of their tenor. These members consider that the impact of inflation on the value of the PRIIP should not affect the market risk mainly because inflation is not a risk inherent for PRIIPs but affects other investment products that are excluded from the scope of PRIIPs (real estate, simple bank deposits, equities, fixed income) in the same way (competition issue). Additionally, it should also be taken into account the



current low inflation rates and the expected prolonged low interest rates environment when assessing this particular issue.

<ESMA_QUESTION_PRIIPS_9>

Question 10

Are you aware of other circumstances in which the credit risk assessment should be assumed to be mitigated? If so, please explain why and to what degree it should be assumed to be mitigated?

<ESMA_QUESTION_PRIIPS_10>

Some of the members consider that the existence of a compensation or guarantee scheme should not be taken into account as a mitigating factor in the credit risk assessment of a PRIIP because these schemes are too diverse and it could be difficult for consumers to assess the quality of the guarantee (ex-ante fully funded schemes vs ex-post funded schemes). Additionally, in many cases the scheme is only providing a guarantee up to a certain amount.

Having said that though, there are other members that consider that it is a reality that from the perspective of the customer insurers' credit risk in some countries is lower thanks to insurance guarantee schemes which should, therefore be taken into account as a mitigating factor when assessing credit risk. These members consider that the credit risk assessment should also be assumed to be mitigated because of insurance claims take precedence over other claims against the insurance undertaking (subordination of claims provided in Article 275(1)(1) of Solvency II Directive).

<ESMA_QUESTION_PRIIPS_10>

Question 11

Do you think that the look through approach to the assessment of credit risk for a PRIIP packaged into another PRIIP is appropriate?

<ESMA_QUESTION_PRIIPS_11>

Yes, it is.

<ESMA_QUESTION_PRIIPS_11>

Question 12

Do you think the risk indicator should take into account currency risk when there is a difference between the currency of the PRIIP and the national currency of the investor targeted by the PRIIP manufacturer, even though this risk is not intrinsic to the PRIIP itself, but relates to the typical situation of the targeted investor?

<ESMA_QUESTION_PRIIPS_12>

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<ESMA_QUESTION_PRIIPS_12>

Question 13

Are you of the opinion that the current Consultation Paper sufficiently addresses this issue? Do you it is made sufficiently clear that the value of a PRIIP could be significantly less compared to the guaranteed

value during the life of the PRIIP? Several alternatives are analysed in the Impact Assessment under policy option 5: do you see any additional analysis for these assessment?

<ESMA_QUESTION_PRIIPS_13>

The PRIIP Regulation establishes that there is a single risk indicator (Article 8(3)(d)). This is to be a summary indicator, which takes account of and combines the relevant factors. Thus, the presentation of several risk indicators for different intermediate stages as suggested in option 5.2 would be contrary to the level 1 text. Its limitations should be also explained. In our view, a warning, specifying the boundaries of the risk indicator would make sense.

Furthermore, the PRIIP Regulation foresees an entire section of the KID for the description of what happens if consumers take out money early (Article 8(3)(g)(iv)). Thus, consumers are informed in this section about what happens when they surrender early. If the same information is included differently in different sections, this would only lead to confusion.

The same applies to the option 5.1. Consumers will be confused if the term for the risk indicator was shorter than the term of the product displayed in Article 8(3)(d). Moreover, a risk indicator based on short and standardised holding period for all products is not meaningful since for long-term products, such as insurance-based investment products, consumers will receive a wrong impression about the real risk of the product.

<ESMA_QUESTION_PRIIPS_13>

Question 14

Do you agree to use the performance fee, as prescribed in the cost section, as a basis for the calculations in the performance section (i.e. calculate the return of the benchmark for the moderate scenario in such a way that the return generates the performance fee as prescribed in the cost section)? Do you agree the same benchmark return should be used for calculating performance fees for the unfavourable and favourable scenarios, or would you propose another approach, for instance automatically setting the performance fees to zero for the unfavourable scenario? Please justify your proposal.

<ESMA_QUESTION_PRIIPS_14>

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<ESMA_QUESTION_PRIIPS_14>

Question 15

Given the number of tables displayed in the KID and the to a degree mixed consumer testing results on whether presentation of performance scenarios as a table or a graph would be most effective, do you think a presentation of the performance scenarios in the form of a graph should be preferred, or both a table and a graph?

<ESMA_QUESTION_PRIIPS_15>

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<ESMA_QUESTION_PRIIPS_15>

Question 16

Do you agree with the scope of the assets mentioned in paragraph 25 of Annex VI on transaction costs for which this methodology is prescribed? If not, what alternative scope would you recommend?

<ESMA_QUESTION_PRIIPS_16>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPS_16>

Question 17

Do you agree with the values of the figures included in this table? If not, which values would you suggest? (please note that this table could as well be included in guidelines, to allow for more flexibility in the revision of the figures)

<ESMA_QUESTION_PRIIPS_17>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPS_17>

Question 18

Do you agree that the monetary values indicated in the first table are a sum of costs over the respective holding periods? Or should the values reflect annualized amounts? If you prefer annualized amounts, which method for annualisation should be used (e.g. arithmetic average or methods that consider discounting effects)?

<ESMA_QUESTION_PRIIPS_18>

Some members consider that the monetary values indicated in the first table should be a sum of costs over the respective holding periods.

However, there are other members that are of the opinion that since the insurance-based investment products have terms that sometimes last over decades, only annualised costs are comparable for different PRIIPs in a consistent, robust and stable way. If the total costs were included, then a product with a longer term would automatically – even if it is cheaper – look more expensive than a product with a shorter term. An option presenting the total costs for the whole investment period would not allow for an effective comparison between, for example, a product with a few months investment period and one characterised by a 35 years investment and would be nothing but misleading for consumers.

<ESMA_QUESTION_PRIIPS_18>

Question 19

Do you think that estimating the fair value of biometric risk premiums as stated in paragraph 55(b) of Annex VI would raise any technical or practical difficulties?

<ESMA_QUESTION_PRIIPS_19>

In order to achieve meaningful comparisons between products, the biometric risk premium and the investment costs cannot be aggregated in one figure and must be presented in separate sections of the KID.

The PRIIPs Regulation is important to help enhance consumer protection and improve consumer confidence by aiming to improve the transparency and comparability of PRIIPs products. It is, therefore, extremely important that the features of insurance-based investment products are appropriately presented in the key information document.

The ESAs acknowledge that the aggregation of the investment costs and the full biometric risk premium would be inappropriate is welcomed. It is indeed, the insurance sector's views that, such an aggregation would (1) not seem to be in line with the level 1 PRIIPs Regulation; (2) not be in the interest of consumers who will not be in a position to compare what is comparable; and (3) create an unlevel playing field for insurance-based investment products.

Nevertheless, only if the full biometric risk premium is presented separately, would consumers actually be able to make a meaningful comparisons. Meaningful comparison remains the key objective of the PRIIPs Regulation and the insurance sector considers that only separating the full biometric risk premium from the investment costs could achieve such an objective.

If this separation is not made, the consumer will be disadvantaged in several ways, as they would not be in a position to compare what is comparable:

- The cost indicator of an insurance-based investment product will be deceptively higher than that of other PRIIPs, and consumers will not be in a position to compare the investment part of the different products on the market.
- The amount of the insurance premium will not be clearly visible to consumers and this will prevent them from comparing the insurance cover, including the potentially high benefits if the insurance cover payment is granted. It will also allow them to compare the premium with the ones offered through other insurance-based investment products and through pure life insurance products with no investment component.

Therefore, in order to achieve meaningful comparisons between products, these two features cannot be aggregated in one figure and must be presented in separate sections of the KID.

<ESMA_QUESTION_PRIIPS_19>

Question 20

Knowing that the cost element of the biometric risk premium is included in the total costs calculation, how do you think the investor might be most efficiently informed about the other part of the biometric risk premium (i.e. the fair value), and/or the size of biometric risk premium overall? Do you consider it useful to include the fair value in a separate line in the first table, potentially below the RIY? Or should information on the fair value be disclosed in another part of the KID (for instance, the "What is this product?" section, where the draft RTS currently disclose biometric risk premiums in total, and/or in the performance section)? What accompanying narrative text do you think is needed, and where should this be placed, including specifically narrative text in the cost section?

<ESMA_QUESTION_PRIIPS_20>

First, it seems key to recall that the level 1 PRIIPs Regulation Article 8(f) introduces in the KID a section on costs which should include "the costs associated with an investment in the PRIIP" – it does not say "costs associated with an investment and biometric protection". Therefore, separating the full biometric risk premium and the investment cost, as well as being the most transparent and meaningful approach, is also in line with the level 1 text.

Insurance-based investment products comprise an insurance cover, consisting of protection against biometric risks faced by consumers, alongside an investment element. When freely choosing an insurance-based investment product, a consumer is looking for both beneficial investment opportunities and for insurance protection for his or her family against biometric risks.

Effective comparison should be ensured for consumers. Meaningful comparison remains the key objective of the PRIIPs Regulation and the insurance sector considers that only separating the full biometric risk

premium from the investment costs could achieve such an objective. It is in the interest of the consumer that:

- The biometric risk premium in total is presented in a section separate from the KID cost section
- No part of the insurance biometric risk premium is presented in the cost section of the KID
- To ensure complete transparency, a reference to this could be made in the cost section, such as: "The contributions for additional benefits that are not related to the savings process are presented separately." Similarly, a reference to this separate section could be made in the performance scenario section, such as: "The additional benefits that are not related to the savings process are presented separately."

It is not considered it useful to include the fair value component of any biometric risk premium in the cost section below the RIY. If optional, the biometric risk coverage should be priced separately as a non-mandatory option. If it is, on the contrary, embedded in the product, then there should be a narrative explanation included in the section "What is this product".

<ESMA_QUESTION_PRIIPS_20>

Question 21

Given evidence as to the difficulties consumers may have using percentage figures, would you prefer an alternative presentation of the second table, solely using monetary values instead? As with the first table, please also explain what difficulties you think might arise from calculating monetary values, and whether this should be on an annualized basis, and if so, how?

<ESMA_QUESTION_PRIIPS_21>

The question relates to the second table on the presentation of costs. The ESAs proposed format of presentation of the costs is not supported.

First of all, only the costs at the recommended holding period or at maturity are meaningful. Otherwise, not only would it lead to confusing information and information overload for consumers, but such a presentation would simply send the wrong message to retail investors:

- Insurance-based investment products are usually long-term products. These products are being considered by retail investors also for this very feature. When acquiring an insurance-based investment product, the retail investor should aim to keep it until the recommended holding period or at maturity. Displaying, at a pre-contractual stage, holding periods inferior to the recommended holding period or the product's maturity would send the wrong message to retail investors.
- Obviously, surrender costs are important and must be displayed in a fully transparent way to retail investors. It is understood that this is the reason why the PRIIPs level 1 Regulation dedicates a specific section of the KID to the surrender. The issue would be better addressed in the section of the KID on surrender value.
- In addition, it should be pointed out that the RIY method, selected by the ESAs, has the advantage of taking into account the timing of costs, compared to the Total Cost Ratio. In this context, it seems irrelevant to display all these costs figures over time.
- Furthermore, it should also be pointed out that Level I regulation does not mention intermediate holding periods.

Should, against all the above arguments, it be decided to include intermediate periods, it must be acknowledged that the draft RTS must consider the different products included in the PRIIPs Regulation, including long-term (such as insurance-based investment products) and very short term investment products. Regarding insurance-based investment products specifically, it should be noted that adding scenarios for intermediate stages of 1, 3 and 5 years as suggested in Annex VII makes no sense, given that



insurance-based investments generally have very long recommending holding periods (of 30 years and more in many jurisdictions).

<ESMA_QUESTION_PRIIPS_21>

Question 22

Given the number of tables shown in the KID, do you think a more graphic presentation of the breakout table should be preferred?

<ESMA_QUESTION_PRIIPS_22>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_PRIIPS_22>

Question 23

The example presented above includes a possible way of showing the variability of performance fees, by showing the level for all three performance scenarios in the KID, highlighting the 'moderate' scenario, which would be used for the calculation of the total costs. Do you believe that this additional information should be included in the KID?

<ESMA_QUESTION_PRIIPS_23>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_PRIIPS_23>

Question 24

To reduce the volume of information, should the first and the second table of Annex VII be combined in one table? Should this be supplemented with a breakdown of costs as suggested in the graphic above?

<ESMA_QUESTION_PRIIPS_24>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_PRIIPS_24>

Question 25

In relation to paragraph 68 a) of Annex VI: Shall the RTS specify that for structured products calculations for the cost free scenario have always to be based on an adjustment of the payments by the investor?

<ESMA_QUESTION_PRIIPS_25>

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<ESMA_QUESTION_PRIIPS_25>

Question 26

Regarding the first table of the cost section presented in Annex VII, would you favour a detailed presentation of the different types of costs, as suggested in the Annex, including a split between one-off, recurring



and incidental costs? Alternatively, would you favour a shorter presentation of costs showing only the total costs and the RIY?

<ESMA_QUESTION_PRIIPS_26>

We favour a shorter presentation of costs showing only the total costs and the RIY.

<ESMA_QUESTION_PRIIPS_26>

Question 27

Regarding the second table of the cost section presented in Annex VII, would you favour a presentation of the different types of costs showing RIY figures, as suggested in the Annex, or would you favour a presentation of costs under which each type of costs line would be expressed differently, and not as a RIY figure -expressed as a percentage of the initial invested amount, NAV, etc.?

<ESMA_QUESTION_PRIIPS_27>

We do not favour the second table, which is unnecessary. But if the second table is to be kept, it is important that costs are expressed using in the same approach in the two tables (RIY figures). It could be very confusing for investors if two different units (percentage of the initial invested amount, NAV) are used.

<ESMA_QUESTION_PRIIPS_27>

Question 28

Do you have any comments on the problem definition provided in the Impact Assessment?

Are the policy issues that have been highlighted, in your view, the correct ones? If not, what issues would you highlight?

Do you have any views on the identified benefits and costs associated with each policy option?

Is there data or evidence on the highlighted impacts that you believe needs to be taken into account?

Do you have any views on the possible impacts for providers of underlying investments for multi-option products, and in particular indirect impacts for manufacturers of underlying investments used by these products, including where these manufacturers benefit from the arrangements foreseen until the end of 2019 under Article 32 of the PRIIPs Regulation?

Are there significant impacts you are aware of that have not been addressed in the Impact Assessment? Please provide data on their scale and extent as far as possible.

<ESMA_QUESTION_PRIIPS_28>

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<ESMA_QUESTION_PRIIPS_28>

