



PRIIPS REGULATION

Amendments to the PRIIPs Delegated Regulation

June 2021



Agenda

- 1** Introduction and Main Proposals
- 2** Performance Scenarios
- 3** Costs and Charges



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Introduction and Main Proposals

Introduction



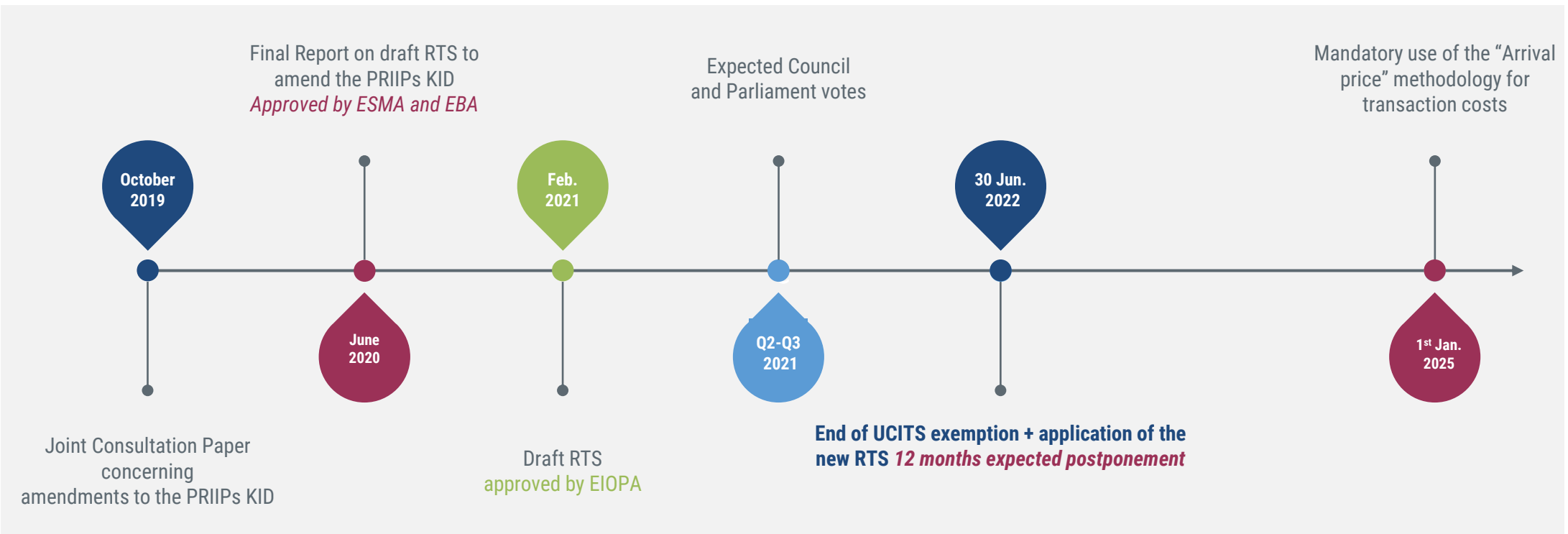
Following the 2019 consultation in response to the difficulties encountered after the entry into force of the PRIIPs regulation, the ESAs published a final report on draft regulatory technical standards (RTS).

This review aims **to address the main problems identified since the implementation of the Key Information Document (PRIIPs KID) for financial products other than investment funds** and **to facilitate its application for UCITS** and **AIFs** at the end of the temporary exemption period (30/06/2022).

The main topics subject to amendments in the new RTS are:





- Costs & Charges
- Performance scenarios
- PRIIPs offering a range of options for investment (Multi-Option Products - MOPs)

Intended timeline for the application of amendments to the PRIIPs Delegated Regulation



Main Proposals/Changes



 <h2>General Information</h2> <p>New details for funds</p>	<ul style="list-style-type: none">▪ General information section enriched to include all the UCITS KIID elements that were missing in the PRIIPs KID▪ Additional details to cover the specificities of fund of funds, feeders, compartments of funds and structured funds▪ Possibility to combine several share classes into a single document under conditions of equivalence▪ <i>No specific provisions relating to ESG characteristics in PRIIPS (nor in SFDR)</i>
 <h2>Risks & Performance scenarios</h2> <p>Presentation and methodology</p>	<ul style="list-style-type: none">▪ Revision of the performance scenarios methodology for category 2 products▪ Longer observation periods for category 2 products (ten years or more)▪ Removal of the intermediate performance scenarios for products with RHP \leq 10 years▪ Inclusion of a link to information on past performance & a link to previous performance scenarios*▪ <i>Where the PRIIP manufacturer considers that the SRI does not adequately reflect the risks, he may decide to increase the SRI.</i>
 <h2>Cost indicators</h2> <p>Presentation and calculation methodology</p>	<ul style="list-style-type: none">▪ A minimum of explicit transaction costs to be disclosed in any case▪ Derogation to use “half spread” methodology for products with low number of transaction or low transaction costs▪ Derogation for OTC transactions to use the “half spread” methodology if prices from more than one counter party are not available▪ Removal of the intermediate time period (RHP/2) for products with a recommended holding period (RHP) lesser than 10 years▪ For the calculation of the main summary total cost indicator for holding period of one year or less, use of a net performance of 0%▪ Costs’ breakdown disclosed in € & calculated over 1 year assuming a net performance of 0 for PRIIPs under MIFID (UCITS, AIF...)
 <h2>MOPs</h2> <p>PRIIPS offering a range of options for investment</p>	<ul style="list-style-type: none">▪ Two options maintained: a single KID for each option including information about the PRIIP as a whole or a generic KID with reference to specific documents on each option▪ Disclosure of the insurance contract fees separately from those of the underlying investments if they can be provided in a single figure▪ Obligation for options’ KIDs to include a statement on “whether or not disclosed costs include all of the costs of the PRIIP in the case that the retail investor invests in that specific investment option only”



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Performance Scenarios

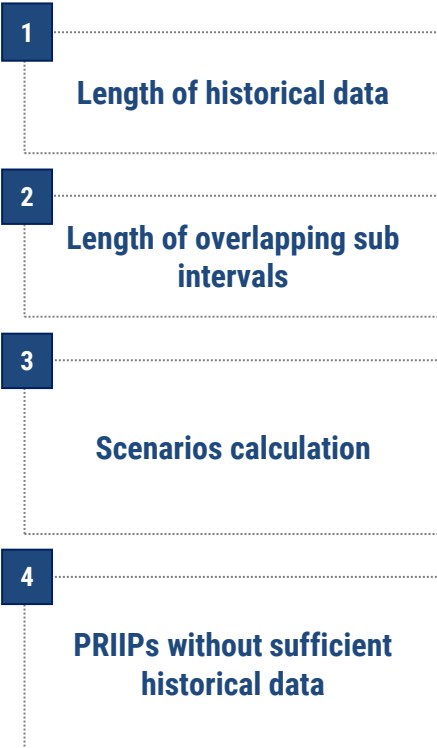
Performance Scenarios: Calculation Methodology



Following the strong opposition to the « implied risk premia » methodology proposed in the 2019 consultation and issues related to its application, the ESAs decided to keep an approach based on actual price history for **category 2 products**. However, the ESAs have decided to avoid **relying on a statistical method which produces performance scenario** that could amplify observed returns for **favorable, moderate and unfavorable scenarios**.

The stress scenario was strengthened for the RHP period with a stressed volatility corresponding to the 95th percentile (instead of 90th). However **no structural change** was introduced on the methodology.

Performance scenarios calculation for category 2 products



- Case 1 : $RHP^* \leq 5$ years → scenarios to be calculated over the last **10 years**
- Case 2 : $RHP^* > 5$ years → scenarios to be calculated over a time period equal to **RHP + 5 Years**

- Sub intervals length = RHP
- When $RHP^* > 1$ years , **additional subintervals required for the unfavorable scenario** :
 $1 \text{ year} \leq \text{Sub intervals length} \leq RHP$ and end at the end of the calculation period

The sub intervals are ranked regarding to their performance :

- The unfavorable scenario represents the worst “observed” evolution of the PRIIP’s value
- The moderate scenario represents the median evolution of the PRIIP’s value
- The favorable scenario represents the best “observed” evolution of the PRIIP’s value

Supplement the values of the PRIIP using data of a benchmark or a proxy (Same approach as in 2017 RTS):
Attention point The manufacturers must **demonstrate the consistency of the benchmarks with the objectives of the PRIIP and shall document their decision**, including a clear justification of the benchmark used.

No significant change was introduced on performance scenarios for **category 1, category 3 and category 4 products** compared to 2017 RTS.

However, the manufacturer is now **allowed to use lower percentiles (lower scenarios)** if he considers that the scenarios may provide investors with inappropriate expectations about their future returns.

(*) Recommended Holding period

Performance Scenarios: Presentation



The current presentation of performance scenarios has been criticized for being overloaded with information. However, the results of the consumer testing conducted by the ESAs indicated that it may **not be necessary to substantially change the current presentation**, provided that appropriate figures are shown.

Recommended holding period:	[]			
Example Investment:	[EUR 10 000]			
(Where applicable) Insurance premium:	[monetary amount]			
	If you [exit] after 1 year <i>(where applicable)</i>	If you [exit] after [] <i>(where applicable)</i>	If you [exit] after [] <i>(where applicable)</i>	If you [exit] after [] <i>(where applicable)</i>
[Survival] Scenarios				
Minimum	[Monetary amount] or [There is no minimum guaranteed return [if you [exit] before [...years/months/days]] (where applicable). You could lose some or all of your investment [or have to make further payments to cover losses] (where applicable)]			
Stress	What you might get back after costs Average return each year	[] EUR [] %	[] EUR [] %	[] EUR [] %
Unfavourable	What you might get back after costs Average return each year	[] EUR [] %	[] EUR [] %	[] EUR [] %
Moderate	What you might get back after costs Average return each year	[] EUR [] %	[] EUR [] %	[] EUR [] %
Favourable	What you might get back after costs Average return each year	[] EUR [] %	[] EUR [] %	[] EUR [] %
<i>(Where applicable)</i> [Death] Scenario				
[Insured event]	What your beneficiaries might get back after costs	[] EUR	[] EUR	[] EUR

- 1 The **intermediate holding** period is **only to be disclosed if RHP > 10 years**
- 2 New narrative included in the table on the minimum guaranteed return
- 3 Stress scenario not removed as planned in 2019 RTS proposal
- 4 Changes introduced on the content of narratives regarding category 2 PRIIPs , however the number of narratives remains the same
- 5 **Previous performance scenarios to be published on a monthly basis** (outside the KID)

} *Specific to insurance-based investment products*

Past performance for category 2 PRIIPs

In view of the replacement of the UCITS KIID by the PRIIPs KID, the regulator proposes, for category 2 products, to include **a link to the website, or a reference to a document**, where the information about past performance is published by the manufacturer.
The information about the past performance shall be presented in a bar chart covering the performance for the last 10 years.



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Costs and Charges

Costs and Charges: Transaction Cost Methodology



Despite the requests raised to replace the slippage methodology with the “half spread” methodology, the ESAs decided to maintain the prescriptive approach based on the arrival price and to introduce some marginal adjustments taking into account the feedbacks received on the previous consultation. **Unfortunately, the regulator has not revised its method of determining the 3-year average which is subject to interpretation.**

Minimum transaction cost

The ESAs are aiming through an explicit cost floor to avoid negative transaction costs that can be confusing to the consumers.

- A **minimum of explicit transaction costs must be disclosed**
- The **anti-dilution benefit** may only be considered to the extent that the **benefit does not take the total transaction costs below explicit transaction costs.**

OTC transactions

- if "**bid prices**" and "**offer prices**" are obtained from more than one counterparty → "**arrival price**" methodology
- if "**bid prices**" and "**offer prices**" from more than one counterparty are not available → "**half spread**" methodology

Derogation to use the « half spread» methodology

Transaction costs can be calculated using “half spread methodology” in each of the following cases

- **Very low number of transactions** over the previous three years;
- The **total value for all transactions** over three years accounts for **a very low percentage of the Net Asset Value**
- **The estimate of total transaction costs** is **not significant** as compared to the **estimate of the total costs**

Auction orders

While the **regulator had reaffirmed the obligation to consider an implicit transaction cost at the closing** (despite requests from some ETF managers), a new added sentence completely **reopens the debate** on the possibility to consider the execution price as the arrival price.



The arrival price methodology will become mandatory starting from 01/01/2025 but may require to collect and determine arrival prices as of 01/01/2022 in order to be able to disclose the 3-year averages.

Costs and Charges: Presentation



The ESAs, the manufacturers and the distributors agree on issues related to understanding and interpreting costs and charges presentation, even if the ESAs have not changed their view regarding the appropriateness of the RIY to calculate the main summary total cost indicator. Therefore, adjustments have been made to **facilitate alignment between the KID and MiFID II costs and charges** & to increase consumer understanding.

Revision of the intermediate period (Table 1: costs over time)

To avoid presenting unnecessary information for investors, **the number of period presented will depend on the recommended holding period** of the product :

- $RHP \leq 1\text{year}$ → Disclose costs at RHP only
- $1\text{ year} < RHP < 10\text{ years}$ → Disclose costs at 1 year and at RHP
- $10\text{ years} \leq RHP$ → Disclose cost at 1 year, RHP/2 and RHP

Annual cost impact (Reduction in Yield)

The assumption on performance used to calculate the main summary total cost indicator will depend on the corresponding holding period:

- For holding period of **one year or less**, a standardized **net performance of 0%** will be assumed which should facilitate alignment with MiFID II cost disclosures and table 2 figures
- For other periods, the RIY will continue to be calculated using the moderate performance scenario

Cost breakdown disclosure (Table 2: composition of costs)

To facilitate the use of the disclosures in the KID with the MiFID II framework by distributors, RIY will not be used for PRIIPs falling in the scope of MiFID :

- For PRIIPs under MIFID (**UCITS, AIF...**), figures corresponds to costs in **monetary units** if the product is **held for one year** (or RHP if shorter), **calculated assuming a net performance of 0**
- For **insurance-based products**, figures corresponds to the **reduction of the annual yield** due to the costs considering that the PRIIP is held until the recommended holding period

Narrative's review (Table 2: composition of costs)

Additional changes were introduced in the presentation of Table 2 to reduce the risk of confusion related to the presentation of some information

- **Review of all narratives** included in table 2
- **Disclosure of management fees** collected in % of the value of investment
- Merger of incidental costs' rows (performance costs and carried interest)



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