

ANNEX

Multi-option PRIIPs

Amendments to the Commission Delegated Regulation of 30.06.2016

Article 12 (a new second paragraph)

'What are the risks and what could I get in return?' section in the Generic key information document

The current text of Article 12 becomes paragraph 1 of Article 12.

"2. Where PRIIP manufacturers use the key investor information document in accordance with paragraph 2 of Article 14, the risk classes in point (a) of paragraph 1 shall refer to the synthetic indicator in accordance with Article 8 of Commission Regulation (EU) No 583/2010."*

Article 13 (a new second paragraph)

'What are the costs?' section in the Generic key information document

The current text of Article 13 becomes paragraph 1 of Article 13.

"2. Where PRIIP manufacturers use the key investor information document in accordance with paragraph 2 of Article 14, the costs in point (a) of paragraph 1 shall refer to charges in accordance with Article 10 of Commission Regulation (EU) No 583/2010."

Article 14 (a new second paragraph)

Specific information on each underlying investment option

The current text of Article 14 becomes paragraph 1 of Article 14.

"2. By way of derogation from paragraph 1, PRIIP manufacturers may use the key investor information document drawn up in accordance with Articles 78 to 81 of Directive 2009/65/EC of the European Parliament and Council to provide specific information for the purposes of Articles 11, 12 and 13 of this Regulation where the underlying investment option referred to in paragraph 1 is only a UCITS or non-UCITS fund referred to in Article 32 of Regulation (EU) No 1286/2014."*

Article 18

Final Provision (a new subparagraph)

[...]

Paragraph 2 of Article 14 shall apply until 31 December 2019.

Recital 18 (a new sentence to be inserted before the last sentence)

“(18) [...]

UCITS and non-UCITS funds which apply Articles 78 to 81 of Directive 2009/65/EC to the format and content of their key investor information document are provided with a transitional period under Regulation 1286/2014. In order to provide those funds with a consistent legal regime, PRIIP manufacturers should be allowed to continue using those key investor information documents in respect of PRIIPs offering those types of funds as underlying investment options.

[...]

** OJ L 176, 10.7.2010, p. 1–15*

*** OJ L 302, 17.11.2009, p. 32-96"*

Should the ESAs be of the opinion that the treatment of PRIIPs with UCITS or non-UCITS and other PRIIPs as underlying investment options is not entirely appropriate, they are invited to provide for the rules addressing this specific situation.

Performance scenarios

Amendments to the Commission Delegated Regulation of 30.06.2016

Article 3

'What are the risks and what could I get in return?' section

[...]

"3. PRIIP manufacturers shall include four appropriate performance scenarios, as set out in Annex V in the section entitled 'What are the risks and what could I get in return?' of the key information document. Those four performance scenarios shall represent a stress scenario, an unfavourable scenario, a moderate scenario and a favourable scenario."

"4." deleted

[...]

The ESAs are invited to assess whether the provision under Article 15(2)(c) of the Commission Delegated Regulation needs to reflect the amendments made to the calculation methodology of performance scenarios.

Amendments to ANNEX IV of the Commission Delegated Regulation of 30.06.2016

The following text is intended to replace points 1 to 9 of Annex IV to the Commission Delegated Regulation of 30.06.2016.

ANNEX IV

PERFORMANCE SCENARIOS

Number of scenarios

1. The four performance scenarios under this Regulation showing the range of possible returns shall be the following:
 - (a) a stress scenario
 - (b) an unfavourable scenario;
 - (c) a moderate scenario;
 - (d) a favourable scenario;
2. The stress scenario shall set out significant unfavourable impacts of the product where those impacts would not be covered in the unfavourable scenario referred to in point 1(b) of this Annex. The stress scenario shall show intermediate periods where those periods would be shown for the performance scenarios under point 1 of this Annex.
3. An additional scenario for insurance-based investment products shall be based on the moderate scenario referred to in 1(c), where the performance is relevant in respect of the return of the investment.

Calculation of scenario values for the recommended holding period

4. The scenario values under different performance scenarios shall be calculated in a similar manner as the market risk measure. The scenarios values shall be calculated for the recommended holding period.
5. The unfavourable scenario shall be the value of the PRIIP at the 10th percentile.
6. The moderate scenario shall be the value of the PRIIP at the 50th percentile.
7. The favourable scenario shall be the value of the PRIIP value at the 90th percentile.
8. The stress Scenario shall be the value of the PRIIP that results from the methodology outlined in points 10 and 11 for category 2 PRIIPs and in points 12 and 13 for category 3 PRIIPs.
9. For Category 2 PRIIPs, the expected values at the recommended holding period shall be:

- (a) The unfavourable scenario:

$$Scenario_{Unfavourable} = e^{\left[+\sigma\sqrt{N}\left(-1.28+0.107\frac{\mu_1}{\sqrt{N}}+0.0724\frac{\mu_2}{N}-0.0611\frac{\mu_1^2}{N}\right)\right]}$$

- (b) The moderate scenario:

$$Scenario_{moderate} = e^{\left[-\sigma\frac{\mu_1}{6}\right]}$$

- (c) The favourable scenario:

$$Scenario_{favourable} = e^{\left[+\sigma\sqrt{N}\left(1.28+0.107\frac{\mu_1}{\sqrt{N}}-0.0724\frac{\mu_2}{N}+0.0611\frac{\mu_1^2}{N}\right)\right]}$$

where N is the number of periods in the recommended holding period, and where the other terms are defined in point 12 of Annex II.

10. For Category 2 PRIIPs, the following adjustments shall be made for the calculation of the stress scenario:

(a) identify a sub interval of length w of the historical lognormal returns r_t , where $t = t_0, t_1, t_2, \dots, t_N$.

(b) Measure the volatility based on formula below, starting from $t_i = t_0$ rolling until $t_i = t_{(N-w)}$

$${}_{t_i}^w \sigma_S = \sqrt{\frac{\sum_{t_i}^{t_{i+w}} (r_{t_i} - {}_{t_i}^{t_{i+w}} M_1)^2}{M_w}}$$

where M_w is the number of data of the sub interval and ${}_{t_i}^{t_{i+w}} M_1$ is the corresponding mean.

(c) From the distribution of collected second moment (as calculated at the previous step), ${}_{t_i}^w \sigma_S^w$, infer the value that corresponds to the [XX] percentile (from now ${}^w \sigma_S$). This value will be the new stressed volatility.

11. For Category 2 PRIIPs, the expected values at the recommended holding period for the stress scenario shall be:

$$Scenario_{Stress} = e^{\left[{}^w \sigma_S * \sqrt{N} * \left(z_\alpha + \left[\frac{(z_\alpha^2 - 1)}{6} \right] * \frac{\mu_1}{\sqrt{N}} + \left[\frac{(z_\alpha^3 - 3z_\alpha)}{24} \right] * \frac{\mu_2}{N} - \left[\frac{(2z_\alpha^3 - 5z_\alpha)}{36} \right] * \frac{\mu_1^2}{N} \right) \right]}$$

where z_α is a proper selected extreme percentile

12. For Category 3 PRIIPs, the following adjustments shall be made to the calculation of performance scenarios:

(a) the expected return for each asset or assets shall be adjusted on the basis of the formula defined in point 13(d) of this Annex;

(b) the expected performance shall be calculated at the end of the recommended holding period, and without discounting the expected performance using the expected risk-free discount factor.

13. For Category 3 PRIIPs, the following adjustments shall be made for the calculation of the stress scenario:

(a) Infer stress volatility ${}^w \sigma_S$ based on methodology defined in point 10 (a, b, c) of this Annex,

(b) Rescale historical returns r_t , based on the formula set out below

$$r_t^{adj} = r_t * \frac{{}^w \sigma_S}{\sigma_S}$$

(c) Conduct bootstrapping on r_t^{adj} as described from point 22 of Annex II.

(d) Calculate the return for each contract by summing returns from selected periods and correcting these returns to ensure that the expected return measured from the simulated return's distribution is as below.

$$E^*[r_{measured}] = M_1^S - E[r_{measured}] = 0$$

where M_1^S is the mean of the simulated distribution on a given recommended holding

period (RHP), and $E^*[r_{measured}]$ is the new simulated mean.

[...]

Please, note that the subsequent points of Annex IV are to be renumbered accordingly. In addition, all cross-references in the Commission Delegated Regulation (in particular Annex IV) are to be adjusted so as to reflect also the amendments to the Annexes described above, where relevant. Annex V is to be properly amended.

Calibration issue

Taking into account the recommended holding period of the PRIIP and the frequency of price calculation, we suggest considering the following hypothesis of calibration of the parameters of the proposed model for PRIIPs with daily prices:

RHP	1Y-3Y	3Y-5Y	5Y or >
Window (days)	21	21	21
Percentile			
Volatility	10%	10%	10%
Percentile			
Scenario	1%	5%	5%

Should the ESAs be of the opinion that such calibrations are not entirely appropriate, they are invited to provide for adjustments and provide calculations for PRIIPs with weekly and monthly prices available.

Amendments to the Commission Delegated Regulation of 30.06.2016

New provisions on comprehension alert

In developing the criteria for the inclusion of the comprehension alert in KID, the ESAs should ensure that all of the following factors are fully taken into account:

- (a) the likelihood of retail investors not understanding the risks incurred by acquiring the PRIIP;
- (b) the likelihood of retail investors not understanding the PRIIP being offered;
- (c) the criteria specified in Point 10 of the ESMA Opinion on MiFID practices for firms selling complex products (ESMA Opinion on MiFID practices);
- (d) the criteria specified in Point 11 of ESMA Opinion on MiFID practices;
- (e) the International Organization of Securities Commissions' (IOSCO) related work streams.

Biometric Risk Premium

Article 2

‘What is this product?’ section

The details of insurance benefits in the section entitled ‘What is this product?’ of the key information document shall include, in a general summary, the key features of the insurance contract, a definition of each benefit included, with an explanatory statement that what the value of these benefits could be is shown in the section entitled ‘What are the risks and what I could get in return’, information which reflects the typical biometric characteristics of the target retail investors, showing the overall premium, the biometric risk premium that forms part of that overall premium and either the impact of the biometric risk premium on the investment return the retail investor might get at the end of the recommended holding period or the impact of the cost part of the biometric risk premium taken into account in the recurring costs of the ‘Costs over the time table’ calculated in accordance with Annex VII. Where the premium is paid in the form of a single lump sum, the details shall include the amount invested. Where the premium is paid periodically, the number of periodic payments, an estimation of the average biometric risk premium as a percentage of the annual premium, and an estimation of the average amount invested shall be included in the information.

The information shall also include an explanation of the impact of the insurance premium payments (equivalent to the estimated value of insurance benefits) for the product on the returns of the investment for the retail investor.

Article 5

‘What are the costs?’ section

(...)

3. In the ‘Composition of costs’ table in the section entitled ‘What are the costs?’ of the key information document, PRIIP manufacturers shall specify the following:

(a) any one-off costs, as entry and exit costs, presented in percentage terms;

(b) any recurring costs, as portfolio transaction costs per year, and other recurring costs per year,⁷ ~~insurance costs, where relevant~~ presented in percentage terms;

(c) any incidental costs, such as performance fees or carried interest, presented in percentage terms.

4. PRIIP manufacturers shall insert a description of each of the different costs included in the ‘Composition of costs’ table in the section entitled ‘What are the costs?’ of the key information document, specifying where and how such costs may differ from the actual costs the retail investor may incur or may depend on the retail investor choosing to exercise or not exercise certain options. ~~For insurance-based investment products, PRIIP manufacturers shall insert an explanation of the impact of the insurance premium payments for the product on the returns of the investment for the retail investor below the ‘Composition of costs’ table.~~

ANNEX VI

PART 1

(...)

Recurring costs

50. *Recurring costs are payments regularly deducted from all payments from the retail investor or from the amount invested or amounts that are not allocated to the policyholder according to a profit sharing mechanism.*

51. *The recurring costs include all types of costs borne by an insurance-based investment product whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.*

52. *The following list is indicative but not exhaustive of the types of recurring charge that shall be taken into account in the amount ~~to be disclosed~~ of the 'other ongoing costs' in table 2 of this Annex:*

(a) structuring or marketing costs;

(b) acquisition, distribution, sales costs;

(c) processing/operating costs (including costs for the management of insurance cover);

(d) cost part of biometric risk premiums referred to in point 59 of this Annex;

(e) other administrative costs;

(f) costs of holding capital (recurring part to be disclosed insofar as they are charged);

(g) Any amount implicitly charged on the amount invested such as the costs incurred for the management of the investments of the insurance company (deposit fees, costs for new investments, etc.);

(h) payments to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset owned by the insurance-based investment product (including transaction costs as referred to in points 7 to 23 of this Annex).

ANNEX VII

(...)

Table 2

Composition of costs

(...)

~~*On the same basis, the additional impact of your insurance premium payments (equivalent to the estimated value of insurance benefits) is [x%]. Details of the insurance benefits such as death benefits are in the section "what is this product".*~~

Please, note that the subsequent provisions of Annex VI are to be revised accordingly. In addition all cross-references in the Commission Delegated Regulation (in particular Annex VI) are to be adjusted so as to reflect also the amendments to the Annexes described above, where relevant.

Please, make sure that Annex IV is amended accordingly.