Frankfurt am Main,
26 January 2016

BVI's response to the ESAs' Joint Consultation Paper on PRIIPs Key Information Documents from 11 November 2015 (JC 2015 073)

Introductory remarks

BVI[1] welcomes the opportunity to comment on the ESAs' proposal for draft regulatory technical standards with regard to presentation, content, review and provision of the future PRIIPs KID (draft RTS). Before answering the specific questions raised for consultation purposes, we would like to highlight some general aspects which we think are of broader relevance for the overall PRIIPs framework.

Relation between Level 2 and Level 3 measures

The mandate for developing draft RTS on presentation and content of the PRIIPs KID in Article 8(5) of the PRIIPs Regulation is quite challenging in that it requires the ESAs to include also the methodology underpinning the presentation of risk and reward and the calculation of costs. We appreciate the ESAs' attempt to detach the relevant technical specifications from the text of the draft RTS and to include them in respectively annexes or appendices. However, since the RTS are meant to be adopted by the Commission in form of a Delegated Regulation, this means that any standards included in annexes or appendices will effectively share the fate of the main legal act and will not be capable of any modifications absent a formal process pursuant to Article 10 of the ESA Regulations. In view of the technical challenges implied by some elements of the PRIIPs KID and the ongoing contentious discussions among both the industry and the ESA members, it appears not reasonable to rigidify the potentially immature technical solutions as part of EU law without the possibility of reaping the benefits from their practical application and adjusting/improving the relevant provisions. It should be clear that the next opportunity for modifying any technical specifications included in the RTS as such will probably come only after the regular review of the PRIIPs framework scheduled for end 2018 and certainly not become effective before 2020.

Therefore, we recommend making certain targeted carve-outs from the draft RTS in areas which are particularly challenging and/or require further analysis in light of the practical outcomes to be observed in the first "generation" of the PRIIPs KIDs and dealing with these selected issues by means of Level 3 Guidelines.

In our view, such limited carve-outs should in particular apply to the following items:

- Details of the SRI methodology, especially MRM calculation according to Part 1 of Annex II: In our view, the proposed approach to MRM calculation combining different measures for particular categories of PRIIPs does not ensure comparability of products and thus disregards the basic idea of the PRIIPs KID. Therefore, the calculation methodologies should be further analysed, discussed and tested by the ESAs and the involved scientists and industry experts with-

[1] BVI represents the interests of the German investment fund and asset management industry. Its 92 members manage assets of approximately of EUR 2.5 trillion in UCITS, AIFs and assets outside investment funds. As such, BVI is committed to promoting a level playing field for all investors. BVI members manage, directly or indirectly, the assets of 50 million private clients over 21 million households. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

out the time constraints involved with the draft RTS. Moreover, even if accepting the general approach, one has to bear in mind that the calculation formula for category II PRIIPs has been already rectified twice after the publication of the consultation paper. This leads to significant confusion and materially hampers the assessment of the proposed formulas, since their application seems to produce different results. It would appear reckless to endorse potentially incorrect calculation methodologies in an EU Delegated Regulation. The proposed methodology for category III PRIIPs, on the other hand, seems to be extremely demanding which means that potential adjustments might be necessary in order to ensure its practicability for different product providers.

- Detailed provisions for calculating transaction costs, especially paragraphs 14 to 28 of Annex VI: As explained in our response to Q16 and 17, the proposed calculation methodology does not work for fixed-income transactions for which no reference prices are available. The only feasible solution would be calculation of transaction costs based on a standardised table which should be flexible enough in order to accommodate any changes in market conditions which impact the average costs of a transaction.

Timing of implementation

The proposed Level 2 framework for the implementation of the PRIIPs Regulation is very detailed and challenging. Nonetheless, market participants will have at the most only a few months' time in order to implement the necessary processes and systems for producing the PRIIPs KIDs. This is due to the fact that after submission of the draft RTS by the ESAs by 31 March 2016, the Commission has further three months to endorse the standards before presenting them to the Parliament and the Council which have another 3-months scrutiny window. The publication of the final Level 2 Regulation in the EU Official Journal is likely to happen in autumn 2016 at the earliest. Hence, it is clear that even with the regular timeline of the PRIIPs implementing measures, most manufacturers will have serious difficulties to meet the deadline of 31 December 2016 for delivering a KID for each product marketed to retail investors. In case of remaining controversies, this timeline might be delayed which will further deteriorate the situation of PRIIPs manufacturers who will face serious legal risks in case they are unable to provide KIDs by the date required by the PRIIPs Regulation.

Providers of investment funds face additional problems when it comes to PRIIPs implementation which relate to the new requirements for KIDs in case of multi-option PRIIPs (MOPs) such as unit-linked insurance products. Should the ESAs' approach to MOPs remain unchanged, then many fund management companies will be effectively compelled to set up internal projects in order to provide their business partners from the insurance sector with PRIIPs-compliant SRI, performance scenarios and cost figures. Such elements should in principle be delivered well ahead of the entry into force of the PRIIPs Regulation in order to enable insurance companies to produce PRIIPs KIDs on unit-linked insurance products on time. Since the specific standards for MOPs were not discernible before publication of the draft RTS in November 2015, most fund providers were not expecting any impact from the PRIIPs initiative before 2019 and hence, have not yet assigned specific budgets and set up no business projects for PRIIPs implementation. If needed to be made up in the short term, such projects would probably entail disproportionately high costs. **In any case, it is utterly inappropriate to assume that of all things fund providers shall be ready for the PRIIPs regime going live well ahead of its formal implementation date even though they manage the only sort of PRIIPs for which a temporary exemption from scope until end 2019 applies.**

The complexity of PRIIPs implementation is further aggravated by the following aspects:

- Prospective guidelines on performance scenarios (Article 6(7) of the draft RTS): The ESAs make no clear commitment as to the timing of the envisaged guidelines on the assumptions underlying the choice of scenarios by PRIIPs manufacturers. In any case, it is very improbable that these guidelines will be finalised by 31 March 2016 which is the deadline for the ESAs' work on the draft RTS. With the pending ESA guidelines the operational implementation by PRIIPs manufacturers by 31 December 2016 will become even more challenging if not simply impossible. In any case, it should be avoided that the guidelines be agreed on too late for the first round of KID production which would mean that the relevant IT processes and systems would need to be modified shortly after their first configuration, thus involving additional costs.

- Calculation of transaction costs (para. 14 to 24 of Annex VI): The proposed methodology for calculation of transaction costs does not work for fixed-income transactions due to the lack of reference data for establishing the relevant arrival prices (cf. our reply to Q16 below). MiFID II might remedy this situation in the longer term due to the new requirements for pre-trade transparency due to become applicable to fixed-income instruments. However, with the probable postponement of MiFID II entry into force, it is clear that the necessary data will not become available in time for the implementation of the PRIIPs KID requirements. Even without a formal postponement of MiFID II, from a today's perspective it is difficult to assess whether the new pre-trade transparency regime will result in the effective access to market prices or whether the current market fragmentation will prevent such data consolidation and availability for the buy-side. In any case, it is far too early to expect fund managers to make calculations on the basis of data which the market is yet to deliver.

- Reflection of the target market (Article 4(4) of the draft RTS): While fully supporting the general notion to align the consumer type concept with the description of the target market according to MiFID II/IDD rules, it is very unlikely that the MiFID II requirements for determining the target market will be finalised on time before the due delivery of PRIIPs KIDs. The discussions we had to date with other associations and the regulators demonstrate very impressively that the development of a practicable approach to the target market definition is a very complex exercise, which nonetheless needs to be completed in order to provide for a consistent description of the target market for all PRIIPs, especially those marketed cross-border. Once again, any adaptations needed after the production of a first "generation" of KIDs will only lead to additional costs which will be ultimately borne by investors.

- Controversies surrounding the SRI methodologies: As mentioned above, the computation methodology especially in terms of MRM does not warrant a consistent and reliable assessment of market risk for all PRIIPs and is being heavily contested by scientists and industry experts providing technical support to the ESAs. Hence, it must be expected that the discussions will continue even after the submission of the draft RTS to the Commission. Indeed, we are convinced that further debates, technical analyses and practical testing of the approaches are necessary in order to find a sound solution which meets the Level 1 expectations of real comparability among PRIIPs. However, such continued work will be hardly possible under the current tight timeline of PRIIPs implementation.

In view of these problems and the still immature solutions, we call upon the ESAs and the Commission to initiate a formal postponement of the entry into force of the PRIIPs Regulation in order to allow for orderly and reasonable implementation of the new standards by product manufacturers. In our opinion, the entry into force of the PRIIPs Regulation should be delayed by one year. In any case, the new timeframe should be sufficient to allow for thorough consideration of the remaining discussion points and orderly practical implementing of the KID requirements.

Level playing field among PRIIPs

We are concerned that in terms of calculation of product costs, some categories of investment products might benefit from a preferential treatment which will impair the level playing field among PRIIPs. This pertains in particular to insurance-based investment products for which exclusion of the biometric risk premium from the cost calculations has been proposed. In our view, since providers of insurance-based investment products are able to describe in the PRIIPs KID the benefits of purchasing an insurance cover alongside an investment, they should also be obliged to make clear what price investors are going to pay for that additional product feature. Moreover, the final texts should also make clear that costs of managing the cover pool of assets may potentially encompass all cost elements identified as relevant for investment funds in paragraphs 1 to 30 of Annex VI, including transaction costs. This applies regardless of whether management of the cover pool is performed internally by the insurance company, delegated to an external manager or takes place by investing in a fund wrapper (for further details, cf. our answer to Q20 below).

Length of the PRIIPs KID

Ultimately, we would like to raise the ESAs' attention to the fact that the length of the PRIIPs KID which is limited to three pages by the Level 1 text is nearly entirely exhausted by the model texts and presentation elements proposed in terms of the SRI, performance scenarios and costs with only little space remaining for the other sections. In this respect, we were somehow irritated by the KID mock-up presented by the ESAs in the open hearing on 9 December as part of the opening section, since it has been missing some text modules presented as mandatory in the consultation paper. We would like to remind the ESAs to warrant consistency with the final annexes and appendices should the KID template currently included in Annex I be further specified. A rough example of how the overall PRIIPs KID could look like in practice is included in the **attachment** to our reply.

Answers to the questions for consultation

Question 1
Would you see merit in the ESAs clarifying further the criteria set out in Recital 18 mentioned above by way of guidelines?

The criteria for the comprehension alert in recital 18 are linked to the definition of complex and non-complex financial instruments and insurance products defined respectively under MiFID II and IDD. This means that any PRIIP considered as non-complex according to either MiFID II or IDD should not require a comprehension alert. By corollary, the need for a comprehension alert needs to be considered only for those PRIIPs deemed complex under either framework.

We believe that no further clarification around recital 18 is currently required. We are aware that the Commission is invited to conduct a "general survey of the operation of the comprehension alert" as part of its review of the PRIIPs Regulation by 31 December 2018. This survey and the Commission's review will provide further insights into whether differences in national interpretation merit further clarification for the future.

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?

We agree with assuming EUR 1,000 as the standard investment amount for investment funds and other non-insurance PRIIPs. In our view, this solution represents a fair compromise between average lump-sum investments which tend to be rather higher and saving plans which generally involve lower instalment payments. It also has the advantage of being easily multipliable/dividable in order to generate more personalised figures at the point of sale.

Moreover, we deem it appropriate to treat the prescribed standardised amount as a default option while allowing the use of different figures in case of PRIIPs with a required investment amount or price which is known in advance.

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?

As regards the specific methodologies for computing MRM, we would like to point out that the calculation formula for category II PRIIPs has been already rectified two times after the publication of the consultation paper, with the new official errata having been published only on 5 January 2016. This confusion gravely impedes the practical analysis and assessment of the calculation methodology for category II PRIIPs. Discussions on the formula need to continue also among the expert group in order to eliminate any errors and to allow the stakeholders for a renewed assessment. Otherwise, no proper evaluation of methodology II or comparison with methodology III will be possible.

Our general view is that the proposed approach to establishing the MRM is not capable of ensuring comparability of risk among different PRIIPs and hence runs the risk of disregarding the underlying idea of the PRIIPs KID enshrined at Level 1[2]. Since PRIIPs falling under category I and V will be qualitatively assigned to certain MRM classes, they cannot per se be considered comparable with PRIIPs required to calculate the MRM in accordance with the methodology for category II, III and IV. In any case, it should be very difficult under such mixed approach to ensure that the assignment of PRIIPs is overall appropriate when looking at the competitive landscape across the PRIIPs universe. From the fund industry's viewpoint, the following issues should be considered:

[2] Cf. recitals 15 and 17 to the PRIIPs Regulation which clearly anticipate that investors will be able to compare PRIIPs on the basis of information provided in the PRIIPs KID.

- The ESAs' apparent expectation is that a broad based equity fund will be assigned MRM 5[3]. However, according to the practical experience with the UCITS SRRI (which is based on a methodology broadly comparable to that applicable to category II PRIIPs), most equity funds are assigned to risk class 6 or 7, depending on the relevant market cycle.

- This high risk allocation of equity investments is questionable in light of (1) the qualitative treatment of other PRIIPs such as illiquid investments which shall be assigned to MRM 5 at the most **regardless of whether they provide for diversification of risks and without consideration of their level of leverage** and (2) the current CMU initiative brought forward by the EU Commission which aims at enhancing retail investors' engagement on capital markets.

- The ESAs should be very careful not to create steering effects in the markets by presenting some products as too risky or too little risky as compared to other PRIIPs. In fact, a wrong calibration of the overall risk categorisation of products could create deceptive comparability and thus have disastrous effects on the reliability of information presented in the PRIIPs KID.

In view of these deficiencies, we see the clear need of allowing for further consideration and discussion of the general approach to the MRM calculation with an aim of introducing a consistent and reliable calculation method for all PRIIPs in order to meet the requirements of comparability enshrined in the Level 1 text. Hence, while acknowledging the time constraints implied by the deadline for submitting the draft RTS, we urge the ESAs to detach the details of the SRI methodology, at least in terms of MRM calculation, from the draft RTS and to stipulate those details by means of Level 3 guidelines. Such way of proceeding would enable both the ESAs and the industry experts involved in the technical discussions to perform further analyses and testing of the envisaged market risk measures and to adapt the calculation details if proved necessary. Optimally, further time for practical testing would be gained by postponing the entry into force of the PRIIPs Regulation (cf. our introductory remarks above).

Should the ESAs nonetheless adhere to the current mixed approach to MRM calculation, we would strongly recommend reviewing the volatility buckets in the table in Annex II para. 29 bearing in mind that the universe of PRIIPs has been considerably extended in comparison to the range of UCITS and should allow for better discrimination of products. Our suggestion would be to increase the level of volatility for category 7 to 30% and to adjust the preceding buckets accordingly (please also see our answer to Q8 below).

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.

We do not favour a specific confidence interval to compute the VaR. Our members are able to handle VaR calculation methods with different confidence intervals. For example, under the current UCITS requirements for the calculation of VaR, in principle, a 99 % confidence interval should apply. However, UCITS may deviate from that standard and could use confidence intervals of 95 % or 97,5 %.[4] This approach also applies for certain open-ended AIFs distributed to retail investors for which restricted investment guidelines are required under German law. Therefore, it is not important which confidence

[3] Cf. the table in Annex II para. 13 to the draft RTS, explanatory text on Annex II Part 1 (p. 75 of the consultation paper).
[4] Cf. CESR's Guidelines on Risk Measurement and the Calculation of Global Exposure and Counterparty Risk for UCITS, CESR/10-788, 28 July 2010, paragraph 51 of the explanatory text with regard to Box 15.

interval will eventually be used. What matters more it that all PRIIPs apply a common confidence interval in order to ensure comparability of the results of the VaR calculation.

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?

In principle, compensation or guarantee schemes are able to minimise the default risk from the perspective of an investor because investors could have a claim against the guarantor or the compensation scheme in the default case. However, according to the description of credit risk in paragraph 52 of Annex II, credit risk of the PRIIP should be assessed when the return of the investment depends on **creditworthiness of the manufacturer to make the relevant payment to the investor.** The creditworthiness of the manufacturer for the assessment of the credit risk of the PRIIP is not affected by potential claims of investors against third parties such as a guarantor or a compensation scheme the satisfaction of which depends on further criteria (such as the period to assert claims, entitlement, amount of claims etc.). There is therefore no justification for including the existence of a compensation or guarantee scheme in the credit risk assessment of the PRIIP. The information of the existence of a relevant compensation or guarantee scheme should be included in the PRIIPS KID, but only under the section "What happens if [the name of the PRIIP manufacturer] is unable to pay out?".

To be distinguished from claims against guarantee or compensation schemes are other credit risk mitigating factors such as described in paragraph 65 of Annex II of the consultation paper. These factors are directly connected with the creditworthiness of the manufacturer and should be taken into account in the credit risk assessment of the PRIIP.

In this context, we welcome the assumption that for the avoidance of doubt credit risk shall not be assessed on AIFs or UCITS except as specifically [*provided*] otherwise (cf. paragraph 54 of Annex II of the consultation paper). However, we propose an additional clarification that in these cases investment funds should be in general classified as products with the lowest credit risk category as CR1.

Moreover, we welcome the new clarification under paragraph 55 (b) of Annex II that credit risk shall be assessed for an efficient portfolio management technique ("EPMT") only in cases with material exposures. However, the example to paragraph 55 (b) of Annex II presented in Annex VII of the consultation paper should be deleted or at least clarified with a reference to the proposed materiality threshold. According to the explanatory text in Annex VII, an example is described for an AIF, holding, in addition to cash, a total return swap providing the PRIIP with a synthetic exposure on a basket of underlying securities. This example gives the impression that the credit risk shall be assessed in any case for each AIF using such total return swaps regardless of the proposed materiality threshold of 10 % or more of the total assets of the PRIIPs (cf. paragraph 55 (b) of Annex II). The same applies for the example of a structured fund presented in the explanatory text to paragraph 55 (c) of Annex II in Annex VII as an example for a structured PRIIP. According to paragraph 55 (c) of Annex II, the materiality threshold is also relevant for structured PRIIPs. Hence, the explanatory examples should be brought in line with the proposed text of paragraph 55 of Annex II.

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?

The option to voluntarily increase the disclosed SRI should only be allowed in limited cases, if e.g. the calculated SRI is oscillating between two risk buckets. However, we propose for such cases as an alternative a clarification under which circumstances the SRI for a PRIIP shall be attributed for the new risk class.[5]

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?

We do not agree with an adjustment of the credit risk for the tenor. The consultation paper refers as a reason to the possibility of further discrimination between certain products. However, an explanation of such discrimination is missing. Moreover, we cannot recognise what the discrimination should be in such cases. In cases where credit risk could materialise, the SRI should consider such risk without exemptions. This applies all the more given that the credit risk scale is already limited to 6 classes in comparison to the MRM displaying 7 classes and that the credit risk is disproportionately under-represented in the aggregation table for the calculation of the SRI (please also see our answer to Q8 below).

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.

We have significant reservations to the proposed approaches to the calculation and scaling of MRM, CRM and SRI. In view of our concerns expressed in the reply to Q3 and the deficiencies identified below, we see the clear need of allowing for further consideration and discussion of the general approach to the MRM calculation with an aim of introducing a consistent and reliable calculation method for all PRIIPs in order to meet the requirements of comparability enshrined in the Level 1 text. Hence, while acknowledging the time constraints implied by the deadline for submitting the draft RTS, we urge the ESAs to detach the details of the SRI methodology, at least in terms of MRM calculation, from the draft RTS and to stipulate those details by means of Level 3 guidelines. Such way of proceeding would enable both the ESAs and the industry experts involved in the technical discussions to perform further analyses and testing of the envisaged market risk measures and to adapt the calculation details if proved necessary. Optimally, further time for practical testing would be gained by postponing the entry into force of the PRIIPs Regulation (cf. our introductory remarks above).

Furthermore, we deeply regret that the ESAs did not opt for encompassing liquidity risk in the SRI determination. Liquidity risk attaching especially to long-term investments with limited withdrawal opportunities tends to be overlooked by investors who are often caught by negative surprise in case of unforeseen events to their financial planning. The suggested warning on liquidity will certainly not remedy this situation since the experience shows that investors generally focus on the prominently displayed SRI figure. In our view, liquidity risk associated with the product wrapper can be quantified in a relatively easy manner depending on the time requirements for cashing-in and the significance of the applicable

[5] We refer insofar to the process described in Box 3 of the CESR's guidelines on the methodology for the calculation of the synthetic risk and reward indicator in the Key Investor Information Document, Ref.: CESR/10-673.

exit penalties or losses incurred upon termination of a PRIIP[6]. We invite the ESAs to reconsider the possibility of including such liquidity risk scale in the calculation of the overall SRI.

As regards the detailed proposals in Annex II, we see the following problems:

MRM classes

- **MRM of category V PRIIPs (paragraphs 12, 13 of Annex II)**: We strongly disagree with the proposal in paragraphs 12 and 14 of Annex II to consider the illiquid nature of the underlying assets as criteria for the MRM of category V PRIIPs. It is essential to ensure that the determination of market risks is without reference to liquidity risk. According to the general proposal in the consultation paper, liquidity risks shall not be part of the overall summary risk indicator (SRI) but shall instead be clearly explained in the narrative part and a warning to the liquidity effect shall be added in the presentation of the SRI (cf. Art. 5 (3) of the draft RTS). Considering the illiquid nature of the underlying assets as criteria for the MRM of category V PRIIPs would be incompatible with the system of the clear distinction between liquidity and market risks. In particular, retail funds which invest more than 50 % of their portfolios in illiquid assets such as German open-ended real estate funds s would be assigned disproportionately high risk with the proposed MRM class 4 as category V PRIIPs. We therefore suggest deleting the reference to the illiquid nature of the underlying asset in paragraph 12 of Annex II and the examples described in paragraph 14 (ii) and (iii) of Annex II.

  Should the ESAs not be prepared to follow this suggestion, it should be at the very least clarified that funds investing in illiquid assets are allowed (or required) to calculate their MRM figures according to the methodology under class II or III if they have sufficient price data for performing such calculations. New funds which anticipate obtaining the relevant data during their lifetime should be able to make provisional MRM calculations with reference to a benchmark or proxy such as an existing fund with a comparable investment strategy as it is foreseen for category II PRIIPs.

  For the sake of clarity, we therefore propose supplementing paragraph 13 (a)(i) of Annex II as follows:

  "13. For These Category V PRIIPs the MRM class is determined as follows:
  (a) Insufficient Data
  *i. When historical data is lacking but a natural or a proxy **<u>such as a PRIIP with a comparable investment strategy</u>** exists, such benchmark or proxy shall be used, subject to relevant documentation; …"*

  An equivalent supplement should be included in the wording of paragraph 10, last subparagraph, of Annex II.

  With regard to paragraph 13 of Annex II, the ESAs should be aware that many common fund types will not be covered by the specified fund categories and thus would be automatically assigned MRM 6. This pertains for instance to absolute and total return funds, multi-asset funds and balanced or mixed funds. Especially in the latter terms, we propose to add "**balanced and mixed funds**" as another special PRIIP type with a MRM class of "4" in the table. Otherwise this type of funds would be

[6] Our respective suggestions were submitted to the ESAs in our response to Q14 to the Technical Discussion Paper on 17 August 2015 (cf. https://www.esma.europa.eu/file/13087/download?token=JqTosQYv)

categorised as “all other funds” with a MRM class of 6 although its overall market risk is generally derived from a mixed bond and equity portfolio with varying weightings and the potential admixture of other assets, and thus should be perceived as significantly lower. Whereas the term “balanced funds” is generally used for UCITS, mixed funds are retail AIFs established in different forms in several Member States which invest in other investment funds units and/or in assets in which UCITS invest (with the same restrictions as required under the UCITS Directive). According to the current experiences with the synthetic risk and reward indicator (SRRI) for UCITS which also applies for mixed retail funds in Germany, mixed funds are categorised with an average SRRI of “4”.

- **MRM for category II PRIIPs and volatility table *(*paragraph 29 of Annex II):** We suggest modifying the proposed volatility table. This table is identical with the volatility table presented for the computation of the SRRI for UCITS[7] which has been very controversially debated from its very inception by both practitioners and academics.[8] In our view, it is important to review these volatility buckets bearing in mind that the universe of PRIIPs has been considerably extended in comparison to the range of UCITS and should allow for better discrimination of products. Moreover, the buckets are incapable of addressing all market conditions (for example, there is no consideration of changed yield curves). The buckets are only based on a five-years-volatility which does not allow any other information about time horizon. However, in the capital market theory, volatility is only a figure which describes on the basis of estimations how past returns are shared. Depending on certain conditions, the estimation procedures may vary. These aspects are not considered in the volatility table. Moreover, the volatility (also on the basis of the five-year-volatility) could be subject to large fluctuation depending on the certain market conditions (for example very high or very low volatility). **Based on these kinds of practical experiences, we suggest increasing the level of volatility for MRM class 7 to 40% and to adjust the preceding buckets accordingly**.

CRM classes

With regard to the presented table in **paragraph 68 of Annex II** which shows various credit rating scales used by a number of Credit Rating Agencies (ECAIs), we propose referring to the new rating scales defined in the proposed Final Draft ITS of ECAIs’ Mapping[9]. It seems that the rating table presented in the consultation paper deviates from the relevant ESAs proposals.

SRI

In our view, the credit risk is disproportionately under-represented in the aggregation table for the calculation of the SRI proposed in **paragraph 69 of Annex II**. Therefore, the impact of CRM on the overall risk categorisation of a product should be more visible in the overall summary risk indicator (SRI) which is designed as a combination of the CRM and MRM classes. In particular, for products with a high MRM (5-7), it seems to be entirely irrelevant whether the creditworthiness of the product issuer is excellent or whether it entails a high probability of default, since the overall risk category (SRI) will not change. We think that a high probability of the issuer’s default demonstrated in the credit risk classes 5 and especially 6 is very relevant and should be made sufficiently clear for investors. Therefore, we propose to amend the aggregation table at least for PRIIPs with MRM classes 5 and 6 and CRM class 6 in such a

[7] Cf. Box 2 of the CESR’s guidelines on the methodology for the calculation of the synthetic risk and reward indicator in the Key Investor Information Document, Ref.: CESR/10-673.
[8] Cf. Hübner (2010), Synthetic Risk and Reward Indicator (SRRI) and Investor Profiles, Gambit White Paper Series # 10404.
[9] Cf. https://www.eba.europa.eu/-/esas-define-risk-weights-for-credit-ratings-in-the-eu.

way that these PRIIPs are assigned an overall SRI of 7. Moreover, the SRI of PRIIPs with MRM classes 5 and 6 and CRM class 5 should be adjusted accordingly.

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 qualitatively 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?

We are strongly of the opinion that PRIIPs that offer a capital protection over a lifespan longer than 5 years should not be automatically allocated to MRM class 1, since developments in terms of inflation and general market circumstances are not predictable in the longer term. Our preferred solution would even be to waive the automatic allocation to MRM class 1 for any products offering capital protection since such approach disregards the potentially significant risk of losses in case of early exit. In any event, we request the ESAs to clarify that the automatic allocation to MRM class 1, should it be uphold, pertains only to products offering unconditional protection of 100% of the invested capital.

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?

We refer to our answer to Q5 above. Only the credit risk mitigating factors such as those described in **paragraph 65** of Annex II of the consultation paper should be taken into account in the credit risk assessment of the PRIIP.

Furthermore, we believe that the cases outlined by the ESAs in relation to para. 55 of Annex II (on page 40, completed by explanatory text on page 76) in which credit risk is still meant to be considered for funds should be discarded, because all potential credit risk arising within a fund's portfolio impacts the fund's NAV and thus is already covered by the relevant market risk measure. As a result, we think that for all calculations of the SRI, a fund's credit risk should always be considered as being CR1. If the ESAs nevertheless persist with the proposal to require certain funds to assess their credit risk, such assessment should be limited to those funds for which an entity directly engages to make a payment to the unitholder (i.e. external guaranteed funds). In such cases, the fund's credit risk rating should be that of the guarantor.

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?

A look-through approach to the assessment of credit risk may be necessary if packaging into another PRIIP is used to escape the assessment of credit risk of the effective underlying. However, it should not generally apply in case of PRIIPs investing in other PRIIPs or other underlying instruments as suggested in paragraph 55 (d) of Annex II. In our view, the credit or counterparty risk involved with such investments should be considered part of the market risk as is the case for other investments in underlying assets and indeed, will be captured by the historical volatility data or performance simulations relevant for establishing the MRM category.

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?

Generally speaking, the KID is meant to describe the overall characteristics of a PRIIP and not account for the situation of the individual investor in terms of e.g. national currency, risk appetite or tax situation. Therefore, the approach chosen to showcase the potential 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) should be disclosed from the point of view of the PRIIP and not that of the individual investor.

The currently proposed narrative for PRIIPs “denominated in a currency other than the legal tender in the Member State where the product is being marketed” will in effect require a separate KID for every country a PRIIP is being marketed into in case it diverges from the retail investor’s currency, which will inhibit cross-border distribution in the EU. We propose a more generic statement in element c of Appendix 1 to Annex III that should avoid such duplications, but still sufficiently alert the retail investor to the currency risk:

> *[Where applicable: c] The money you get back is in [**insert currency**]. If your country has another currency, this means that the value of this product to you also depends on the exchange rate between [**currency of product**] and the currency of your country.*

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?

The SRI should clearly indicate that it is computed on the assumption that the investor keeps the PRIIP until maturity, and therefore that it does not cover the risk associated with early redemptions by investors or secondary market transactions. A warning should be required for capital guaranteed PRIIPs, stating that the value of the PRIIP could be significantly lower than the guaranteed value during the life of the PRIIP due to market and liquidity risk and the corresponding fluctuations of market prices. Such warning should be prominent and clear enough in order to illustrate the potential impact of early withdrawal on the risk and return profile of a PRIIP. In addition, this impact should be calculated and disclosed in the performance scenarios for interim periods (cf. our reply to Q14 below).

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.

Presentation of past performance

First of all, we deeply regret that the ESAs seem determined not to allow past performance to be shown in the PRIIPs KID. In our view, past performance based on validated figures should be still regarded as the most reliable source of performance-related information in case of investment funds and other products which feature a relevant track record. Since the composition of a fund and thus the performance of the underlying assets are not known in advance, it should be preferable to assess future performance prospects with reference to historical data. Also, the to-date experience with the UCITS KIID clearly demonstrates that investors wish to see the product's history of returns.

Moreover, the Level 1 text does not explicitly prohibit presentation of past performance in the PRIIPs KID. Even though Article 8 para. 3 (d) (iii) refers specifically to performance scenarios, it provides for the limitation that such scenarios shall be "appropriate" which raises the question what shall apply in case of actively managed funds. Recital 15, on the other hand, contains a general reference to "relevant performance information".

Therefore, we still believe that both the performance history and prospective performance scenarios can and should be combined in one graphical presentation as already suggested in our response to the Technical Discussion Paper. We urge the ESAs to revisit their stance on performance presentation as laid down in Article 6 and Annexes IV and V of the draft RTS in this respect.

Performance scenarios

We are not convinced that the proposed use of the performance fee figures as displayed in the cost section as a basis for the relevant calculations of the moderate scenario is generally appropriate. The ESAs should be aware that for investment funds charging performance fees this approach will effectively result in the past performance of the preceding five years being presented as a moderate performance option. For example, if a fund substantially outperformed its benchmark in the past five years, this outperformance would now be considered as the normally expected return under the moderate scenario. Moreover, the corresponding favourable scenario should assume an even stronger outperformance which would be even more peculiar. The unfavourable scenario would then need to be construed alongside performance prospects which should more or less mirror the favourable scenario on the negative side.

Since performance scenarios are meant to illustrate not only the effects of performance fees, but more generally the possible return achievable in a PRIIP in different market conditions, it appears too short-sighted to make the choice of relevant scenarios entirely dependent on the past results in terms of performance fees. **Hence, we think that it should be up to the discretion of the product provider whether the previous performance results which generated the performance fee are presented as a moderate or a favourable scenario depending on the extent of the achieved outperformance and the underlying development of the markets.**

Moreover, fund providers should also have the discretion to assume different benchmark returns for different scenarios in order to avoid overly positive performance presentation in case of outstanding market performance in the preceding years. For instance, under the approach proposed by the ESAs, equity funds which succeeded to beat their respective benchmark would have been required in 2008 to make assumptions on their performance on the basis of very positive market developments in the years 2003-2007, even though the market prospects have changed and the responsible fund managers would have known that past performance figures will not be even remotely achievable in the near future. In this case, and assuming that other funds would follow the general line of illustrating performance on the basis of reasonable and conservative assumptions about future market conditions, it might even be that the ESAs would have created an unjustified bias in favour of funds charging performance fees by requiring excessively positive performance presentation on the basis of historical data.

In any event, the approach presuming that the return of the benchmark will remain stable for all scenarios should be clearly limited to events where a benchmark is being used as a determinant for performance fee calculation. Such assumption implies that a fund is able to generate performance which is detached from the relevant market developments which is certainly not true in every case.

Beyond the issue of performance fees, we have some further comments relating to the construction of performance scenarios which we deem important to share with the ESAs:

- Treatment of illiquid products according to Annex V para. 5: We strongly oppose to the suggestion of exempting products which are considered as illiquid for the purpose of risk presentation from the duty to illustrate possible performance for interim holding periods. The liquidity warning in the SRI context pertains to a broad range of products, including those applying significant penalties for early exit, featuring long disinvestment periods or discretionary redemption prices, or even products with liquidity profiles not matching their underlying assets (cf. Annex II para. 76 d) and e)). In these cases, investors have the general possibility of withdrawing from their investments before maturity, but mostly at the price of disproportionately high costs many of them do not expect. Presentation of possible performance outcomes net of costs at intermediate points of time would allow investors to take notice of these consequences of early withdrawal and to assess their impact on performance before an investment decision has been made and thus must be deemed an indispensable element of the PRIIPs KID for all products for which interim disinvestment opportunities exist. Only in cases in which the possibilities to redeem or dispose of an investment are expected to be very limited during the entire lifetime of a PRIIP, presentation of interim performance results might be dispensed with as possibly creating false expectations from investors.

- Accounting for future profit participation (Annex IV para. 11): We agree with the ESAs' stance that profit participation which is subject to a fully discretionary decision of the manufacturer shall not be taken into account in either risk, performance or cost calculations[10]. For the sake of clarity, we think it helpful to reflect this limitation in the text of para. 11 a) (e.g. by stating that "future profit participation shall be taken into account**, provided that it does not depend on a fully discretionary decision of the manufacturer**"). Furthermore, as explained in our reply to Q19, profit participation which is reflected in the simulated future performance cannot be additionally taken into account as a discount on costs.

- ESAs' Guidelines on performance scenarios under Article 6(7) of the draft RTS: We share the ESAs' view that it will probably be helpful to further harmonise the approach to selecting scenarios for the performance presentation. However, as indicated in our introductory remarks, prospective guidelines on the assumptions underlying the choice of scenarios by PRIIPs manu-

[10] Cf. Explanatory Text to Annex II para. 49, page 75 of the consultation paper.

facturers entail significant problems in terms of timing. Even with the regular timeline of the PRIIPs implementing measures, most manufacturers will have serious difficulties to meet the deadline of 31 December 2016 for delivering a KID for each product marketed to retail investors. With the pending guidelines for which no definite time commitment has been made, the operational implementation will become even more challenging if not simply impossible. In any case, it should be avoided that the guidelines be agreed on too late for the first round of KID production which would mean that the relevant IT processes and systems would need to be modified shortly after their first configuration, thus involving additional costs. In our view, the ESAs' intention to issue guidelines on the selection of performance scenarios further underscores our request for the general postponement of the entry into force of the PRIIPs Regulation.

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?

We are in favour of a graphical presentation of performance which should optimally allow for a combined display of past performance (in case there is any) and prospective scenarios (cf. our reply to Q14 above). We also believe that a graphical presentation might be more appealing and intuitive for investors and thus would be more likely to attract their attention.

Moreover, as pointed out in our reply to Q14 above, we deem it particularly important to disclose performance prospects for interim holding periods in case of products featuring some relevant liquidity risk.

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?

We have considerable objections to the general methodology for calculation of transaction costs as proposed in paragraphs 8 et seqq. of Annex VI. In our view, this methodology, while being extremely complex and expensive in terms of implementation, is not feasible for transactions without multilateral trading opportunities, in particular for fixed-income trades.

In this regard, we deem it not feasible to calculate transaction costs for fixed-income trades on the basis of the proposed methodology due to the lack of reference data for establishing the relevant arrival prices. Since the arrival price shall reflect the mid-market price at the time the order to transact is initiated, the calculation of the arrival price necessarily implies availability of the relevant data on market prices. In the fixed-income market, however, market prices are not yet transparent. A few data vendors such as Bloomberg publish indicative quotes for fixed-income instruments obtained from brokers which, however, do not represent real trading quotes since brokers are under no obligation to keep the information up to date. Hence, the data published by Bloomberg cannot be considered adequate mid-market prices of fixed-income investments. **It is imperative that calculations on the basis of such purely indicative prices will always entail faults and in any case, do not form a reliable basis for establishing real transaction costs for fixed-income trades.**

In addition, the approach to determining the relevant arrival price as proposed in para. 16 of Annex VI creates quite significant arbitrage opportunities for calculating transaction costs, thus increasing its susceptibility to errors. Specifically, calculations on the basis of market prices known before the initiation of an order may be used in order to push down transaction costs in case of an anticipated price decrease, possibly based on market developments after the last available quote. In any case, the ESAs should be aware that even indicative quotes for some fixed-income products are often not updated for several hours, or even days, due to the low level of relevant trading activities.

MiFID II might remedy this situation in the longer term due to the new requirements for pre-trade transparency applicable to fixed-income instruments. However, with the probable postponement of MiFID II entry into force, it is clear that the necessary data will not become available in time for the implementation of the PRIIPs KID requirements. Even without a formal postponement of MiFID II, from a today's perspective it is difficult to assess whether the new pre-trade transparency regime will result in the effective access to market prices or whether the current market fragmentation will prevent such data consolidation and availability for the buy-side. In any case, it is far too early to expect fund managers to make calculations on the basis of data which the market is yet to deliver.

Moreover, the ESAs should be aware that the proposed calculation methodology will anyway not be practicable at the time of the entry into force of the PRIIPs Regulation. The methodology foresees calculation of average transaction costs on the basis of transactions incurred over the previous three years. Specifically, this means that at the time of the first production of PRIIPs KIDs, i.e. December 2016, fund providers would need to calculate transaction costs by referring back to the data from December 2013 onwards. We can state with certainty that these data are not available and cannot be obtained in the market. Especially, it is neither required by EU rules nor considered common practice for fund providers to record mid-market prices or reference prices in general at a given point of time. The UCITS and AIF rules provide solely for the duty to record the prices of the portfolio transactions (along with other data points) conducted on behalf of the fund[11]. Hence, it should be clear that even when applying the methodology to the indicative prices available in the market, basically no fund will be able to retrace the relevant data history. This means that the proposed calculation methodology will become workable in December 2019 at the earliest.

Since this date even exceeds by one year the review timeline for the PRIIPs Regulation according to Article 33, we strongly suggest postponing the decision about introducing such a sophisticated calculation methodology for transaction costs to the scheduled review process. The feasibility of the proposed calculations should then be appraised in light of the availability of data for the fixed-income markets after the first experiences with the MiFID II transparency regime. Such staggered process would allow the regulators to make evidence-based decisions instead of inventing new standards lacking the compulsory base of market data. In the meantime, we believe that the ESAs would be best advised to revive the hybrid approach to the calculation of transaction costs which has been favoured in the previous round of consultation[12]. Under this approach, implicit transaction costs embedded in fixed-income prices should be calculated by reference to a standardised table established by the ESAs for which we make further suggestions below.

Furthermore, and regardless which method for computation will eventually be chosen, the ESAs should make it clear that transaction costs incurred in other PRIIPs than investment funds should also be cal-

[11] Cf. Article 14(2) letter e) of Directive 2010/43/EU (for UCITS), Article 64(2) letter e) of the Implementing Regulation (EU) 231/2013 (for AIFs).
[12] Cf. page 66 of the Technical Discussion Paper from 23 June 2015 (JC DP 2015 01).

culated and disclosed according to the relevant methodology. This pertains in particular to insurance-based investment products which under the current wording are only generally required to account for costs for the management of insurance cover[13]. **The final RTS should allow no doubt that such costs also need to include the relevant transaction costs.**

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)

First of all, since the calculation methodology proposed in para. 8 et seqq. of Annex VI does not work for a major part of the market, specifically not for fixed-income transactions, we recommend reviving the hybrid approach previously suggested by the ESAs. Under this approach, implicit transaction costs incurred in any fund should be established by reference to a centrally designed table. This standardised way of calculation should apply in the first place to fixed-income transactions in government and corporate bonds.

ESMA should be best equipped to set up and maintain such standardised transaction cost measures in view of the transaction data to be collected and processed for MiFID II purposes. In the recent debate on the possible postponement of MiFID II, ESMA itself explained that it is currently running a project called FIRDS for centralising the collection of reference data which entails direct connections to around 100 trading venues and collection of data on more than 15 million instruments. The FIRDS project is also meant to apply to collecting and consolidating transaction data for the purpose of determining the liquidity status of a financial instrument[14]. We are convinced that this extensive data collection exercise also could and should be utilised in order to establish average transaction cost of financial instruments, including fixed-income products, in the MiFID II environment. However, being aware that the complexity of FIRDS is one of the main reasons for the probable MiFID II delay and will not allow for operational readiness before mid-2017, it is likely that a temporary solution needs to be found even in case that the entry into force of the PRIIPs Regulation will be aligned with the new MiFID II timeline. Such temporary solution could involve a table based on reasonable estimations of relevant transaction costs.

In this respect, we think that the table suggested in Annex VI para. 25 could be used for standardised calculations of transaction costs subject to a few adjustments as specified below. In any case, given the anticipated evolvement of transaction data transparency, the table should not be legally enshrined as part of the RTS, but should be adopted as a Level 3 measure in order to allow for more flexibility and smooth adaptation of the standardised values in line with potential new insights from market data.

As regards the specific table design, we would suggest distinguishing between implicit and explicit costs and including a further column to accommodate the latter. Trading costs in equity instruments and listed derivatives should then be classified as explicit costs. In these terms, we would recommend distinguishing between program and no program trading also in terms of emerging market shares and assuming the explicit costs of listed derivative transaction in absolute numbers in order to reflect the prevailing market practice.

[13] Cf. para. 53 (c) of Annex VI to the draft RTS.
[14] Cf. ESMA's Note on MiFID/MiFIR implementation: delays in the go-live date of certain MiFID provisions from 2 October 2015 (ESMA/2015/1514), para. 21 and 27 in particular.

The adjusted table would then look as follows (the newly inserted values correspond with the market experience of our members):

Asset Classes	**Sub Asset Classes**	**Implicit Cost % (Bps) (***)**	**Explicit Cost % (Bps) (***)**
Liquidity	Money market instruments (for the sake of clarity, money markets funds not included)	1	
Government bonds	Government bonds and similar instruments developed market rating AAA-A	5	
	Government bonds and similar instruments developed market different rating below A	8	
Government bonds emerging markets (hard and soft currency)	Government bonds emerging markets (hard and soft currency)	50	
Investment grade corporate bonds	Investment grade corporate bonds	25	
High yield corporate bonds (worldwide)	High yield corporate bonds	50	
Shares developed markets	Shares developed markets		Program trading: 4; no program trading: 15;
Shares emerging markets	Shares emerging markets		**Program trading: 4; no program trading: 25;**
Listed derivatives	Listed derivatives		**0,50 Euro per contract**
OTC	OTC Exotic options	70	
	OTC Plain vanilla options	20	
	OTC IRS, CDS and similar	1	
	OTC Swaps and similar instruments (different from IRS, CDS and similar)	20	

These adaptations would also help to mark out the relevance of the table for existing products as compared to new PRIIIPs: whereas newly launched PRIIPs would need to apply the entire table in order to compute their transaction costs, funds with a relevant trading history would only rely on the assumptions for the implicit cost elements. Explicit costs comprising in particular broker fees, depositary fees, taxes and potential fees charged by specialised custodians in case of equity transactions would be disclosed on the basis of actual transaction data according to para. 6 (j) of Annex II.

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)?

The approach to cost disclosure over the respective holding periods should correspond to the presentation of performance prospects in the risk and reward section. This is of particular importance if, as proposed by the ESAs, the cost disclosure in monetary terms shall be supplemented by a Reduction in Yield figure to illustrate the effects of costs on performance. Investors must be able to recognise which net performance will be achievable after the deduction of the specified costs. Hence, since the performance tables in Appendix 1 are supposed to show the average yearly returns over some specified holding periods, the cost table must also display annualised cost amounts. On the other hand, the cost table should display a sum of costs over a holding period if the performance scenarios were also to show the accumulated performance over the same time. In any case, it is imperative that costs and performance are both disclosed on the basis of consistent assumptions and calculations.

In this context, we would suggest taking further steps in order to enhance the comprehensibility of the Reduction in Yield concept. Specifically, the term "Reduction in Yield" should be replaced by a description readily understandable for retail investors such as "estimated impact of costs on return". In addition, the introductory part should clearly explain that the impact of costs is calculated on the basis of the moderate scenario displayed in the risk and reward section.

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?

First of all, we would like to question whether it is appropriate to exclude the fair value of a biometric risk premium from the cost calculations. Since providers of insurance-based investment products are able to describe in the PRIIPs KID the benefits of purchasing an insurance cover alongside an investment, they should also be obliged to make clear what price investors are going to pay for that additional product feature. In addition, in many instances insurance-based PRIIPs cannot be purchased without an insurance element. Hence, the cost for the insurance cover is an inextricable part of the overall product costs which has to be borne by the investor, even if he has no use, let alone need, for the insurance cover and its – more or less fictional – fair value. Given that insurance-based PRIIPs usually are being sold as mere investment products, the information on the total costs charged, including the costs of the biometric risk premium, is of essential importance for investors.

Should the ESAs not be prepared to revisit the general approach, we would agree that if the insurance undertaking is not able to establish the fair value of a biometric risk premium based on sound estimations of future benefit payments, it should be obliged to include the full biometric risk premium in the cost calculations. As regards principles of establishing the fair value, we think that profit sharing mechanisms must not be taken into account as a cost mitigating factor. Expected profit sharing shall already be accounted for in the presentation of performance scenarios which shall be calculated net of costs. A further deduction for the purpose of cost calculations would result in an unjustified double counting of estimated shared profits for insurance-based PRIIPs and thus would privilege them over other investment products. Moreover, it should be imperative that the estimated fair value is clearly disclosed to investors, preferably in the spatial link with in the first table to be included in the cost section (cf. our response to Q20 below).

In general terms, it should be also made clear that costs of managing the insurance cover for insurance-based PRIIPs may potentially encompass all cost elements identified as relevant for investment funds in paragraphs 1 to 30 of Annex VI. This applies regardless of whether management of the insurance cover is performed internally by the insurance company, delegated to an external manager or takes place by investing in a fund wrapper. In all those cases, costs relating to the management activities such as those listed in subparagraphs (h) to (r) of paragraph 6, including especially transaction costs, will become relevant and hence must be pro-rata accounted for in the cost calculations for insurance-based PRIIPs. We urge the ESAs that the final texts leave no doubt in this regard.

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?

In our view, it is not helpful to separate the fictional fair value of the biometric risk premium and to exclude it from the cost calculations (cf. our reply to Q19 above). However, should the ESAs insist on a separate disclosure, we think that it will be useful for investors to obtain coherent information about all factors mitigating the anticipated return in one place. Therefore, we support the idea to present the fair value of the biometric risk premium in the first table below the RIY figures in order to depict that in insurance-based investments, there are also other elements than costs that will impact the overall performance of the investment.

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?

We think that disclosure of percentage figures distinguishing between different types of costs is very helpful for the purpose of the overall cost calculations by distributors under MiFID II/IDD and should not be foregone.

As regards the basis for calculations, we would like to refer to our reply to Q18 above. It is imperative that costs and performance are both presented on the basis of consistent assumptions and calculations. Hence, since the performance tables in Appendix 1 are supposed to show the average yearly returns over some specified holding periods, the cost tables must also consistently display annualised cost amounts.

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?
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?
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?

Since Q22 to 24 are closely interrelated, we would like to provide to them a common reply.

First of all, we would be reluctant to replace the first table proposed in Annex VII by the suggested graphical presentation of the cost breakout. The table has the decisive advantage of accommodating cost impacts for different holding periods which is difficult to accomplish in the graphic. If deemed helpful for investors, graphical presentation could be rather envisaged for the specification of the different types of costs in the second table of Annex VII. However, it should be carefully assessed whether the specification of percentages should be replaced by monetary amounts. Bearing in mind the needs of distributors at the point of sale, we are in favour of using percentage figures (cf. our response to Q21 above).

With regard to the presentation of recurring costs, especially performance fees, we do not believe that indication of possible levels of charges under the unfavourable and favourable scenario is likely to be understood by an average retail investor. On the contrary, investors could be induced to assume that since only the performance fee figures are presented as variable in different market conditions, other costs will remain stable in any case. This impression should be avoided given that the recurring cost figure is also meant to comprise transaction costs which may also considerably vary depending on the market situation and the portfolio composition at a specific point of time.

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?

Even though it might be more easily readable for investors if the presentation of costs in the first table was shortened, we believe that it is important to include the information on the impact of the specific cost elements over different holding periods. Specifically, investors should be put in the position to understand that high initial costs have significant effects on the performance in the short term, but can be outweighed by performance benefits achievable over the recommended holding period or the lifetime of an investment. Therefore, we would recommend retaining the detailed presentation of table 1 as proposed in Annex VII.

Concerning calculation of the relevant cost elements for investment funds, we have some suggestions for clarification in terms of the following items:

- One-off costs: The relation between paragraph 1 and 2 of Annex VI is unclear. Since paragraph 1 provides a general definition of one-off costs, one would expect without further guidance that paragraph 2 is meant to specify certain elements of this definition. In fact, however, paragraph 2 refers to a situation where, in addition to the costs covered by paragraph 1, costs borne by the fund are counted towards one-off costs.

- Distribution costs: Whether accounted for as one-off costs (paragraph 3(a) of Annex VI) or included in the recurring cost calculation (paragraph 6(g) of Annex VI), costs of distribution can only be taken into account for the purpose of cost disclosure if they are legally charged by the product manufacturer (regardless of the operational method of payment). Therefore, it is clear that front-load fees or similar charges incorporated in the product structure should be included in the cost figures to be disclosed in the PRIIPs KID. On the other hand, distribution fees individually agreed between the intermediary and the investors or charged by the intermediary independently from a specific product must not be accounted for in the relevant calculations regardless of whether the amount of such fees is known or not known to the product provider.

- Costs of underlying investments: The wording in paragraph 6(l) and (m) is very ambiguous and should be rectified by deleting the first subparagraph and starting right away with the respective subparagraph (i). In our view, the correct provision should read as follows (taking the example of 6(l)):

  > (l) ~~the costs of acquiring or disposing of units in UCITS or AIFs shall be taken into account in accordance with the following steps:~~
  > ~~(i)~~ Where a fund invests its assets in UCITS or AIFs, its summary cost indicator and recurring ratio shall take account of the charges incurred in the underlying UCITS/AIFs. The following shall be included in the calculation:
  >
  > (i~~i~~) if the underlying is a UCITS its most recently available recurring and entry/exit charges figure shall be used; this may be the figure published by the UCITS or its operator or management company, or a figure calculated by a reliable third-party source if more up-to-date than the published figure; […]

- Costs of structured funds: The reference to paragraph 2 is incorrect and should be probably replaced by reference to paragraph 32.

Lastly, we would like to emphasise that the cost presentation in the tables included in Annex VII must be assessed for its compatibility with MiFID II requirements on disclosure of product costs at the point of sale. It should be considered imperative that the PRIIPs KID provides a sufficient information basis for distributors in order to calculate the overall investment costs in line with MiFID II without the need to reach out to product manufacturers requesting further information.

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.?

In our opinion, the different types of costs should be expressed as percentages of NAV in order to provide distributors with adequate figures for determining product costs according to MiFID II. As pointed out above, it should be considered imperative that the PRIIPs KID provides a sufficient information basis for distributors in order to calculate the overall investment costs in line with MiFID II without the need to reach out to product manufacturers requesting further information.

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.

In principle, providers of retail investment funds in Germany benefit from the temporary exemption under Article 32 and are thus not formally covered by the PRIIPs Regulation for the time being. Factually, however, we expect the PRIIPs Regulation and the proposed implementing measures to have from the outset significant impact on the product information for investment funds. Such impact must be anticipated in particular in the following circumstances:

- Funds offered as investment elements of unit-linked insurance products: As correctly outlined by the ESAs in the preliminary impact assessment[15], the options for dealing with investor information on “multi option PRIIPs” (MOPs) in Article 12(1) of the draft RTS would both trigger the necessity to supply the insurance undertaking issuing the unit-linked insurance with new information elements on the fund investments. This is because both options seek to ensure that information on each investment option in a MOP shall comply with the PRIIPs requirements especially in terms of the summary risk indicator, performance scenarios and presentation of costs[16]. Since the insurance undertaking offering the unit-linked insurance contract will not be capable of producing such information on each underlying fund, it will refer to the fund provider for assistance and request delivery of the relevant information elements for creating a MOPs KID. In the end, the decision whether or not to satisfy such requests will depend to a significant extent on the competitive pressure and the importance of insurance-based distribution for the business model of a fund provider. We anticipate that most fund providers will strive to ensure delivery of the relevant information to the insurance undertakings which indeed will have the practical consequence of undermining the temporary exemption under Article 32.

  We deem it questionable whether such outcome was envisaged by the EU legislators or even is covered by the Level 1 text. Article 6(3) of the PRIIPs Regulation stipulates that in case of

[15] Cf. Page 123 of the Joint Consultation Paper.
[16] Cf. Article 13 and 15(2) of the draft RTS.

MOPs “the key information document shall provide at least a generic description of the underlying investment options and state where and how more detailed pre-contractual information documentation relating to the investment products backing the underlying investment options can be found.” In our view, this wording does not imply provision of a PRIIPs KID on each underlying investment option. On the contrary, when combined with Article 32 it should be read as allowing the provision of the UCITS KIID as pre-contractual information on any UCITS or AIF benefitting from the exemption under Article 32.

Against this background, we urge the ESAs to reconsider their approach to “multi-option PRIIPs” having regard to the wording of Article 6(3) of the PRIIPs Regulation and the EU legislator’s deliberate choice to spare investment funds providing a UCITS or UCITS-like KIID from the duty to implement new information standards until end 2019. The ESAs should bear in mind that the EU provisions on KIID under the UCITS Directive will remain effective alongside the PRIIPs Regulation which means that UCITS would effectively need to deliver two separate sets of product information to the market which might considerably differ in some relevant details, i.e. as regards the presentation of risks and costs for a fund.

- Closed-ended funds traded on secondary markets: Closed-ended investment funds are generally being offered to investors by manufacturers during a specified subscription period at the beginning of a fund’s lifetime. After expiry of the subscription period, no sales by manufacturer generally take place, but fund units may be traded on secondary markets at the initiative of third parties. In Germany, like in other Member States, there are many closed-ended retail funds which have been initiated decades ago for which no key information document has ever been produced and which are still subject of secondary market trading. The wording of recital 20 (second sentence) to the draft RTS suggests that manufacturers of these funds might be under the obligation to produce a PRIIPs KID by 31 December 2016.

  We disagree with this interpretation. Since the application of the PRIIPs Regulation will commence on 31 December 2016, it will impose obligations on product manufacturers only if relevant marketing activities in relation to PRIIPs occur after that date. This means that the duty to produce a PRIIPs KID according to Article 5(1) of the PRIIPs Regulation will apply only if a PRIIP is made available to retail investors after 31 December 2016. Moreover, recital 12 of the Level 1 text acknowledges that “the obligation [to produce a KID] should apply only to the PRIIP manufacturer and should continue to apply for as long as the PRIIP is traded on secondary markets”. This wording presupposes that the maintenance of KIDs for products subject to secondary market trading is conditional upon the product provider’s initial duty under Article 5(1) in the first place**. In other words, only product manufacturers who are bound to deliver a PRIIPs KID due to them making a PRIIP available to retail investors after 31 December 2016 can be obliged to ensure regular updates of the KID on the basis of secondary trading.**

  Moreover, secondary market trading should only be deemed as means of “making a PRIIP available to retail investors” if it takes place at the initiative, or upon approval, of the PRIIP manufacturer. Otherwise, it should be considered the responsibility of the distributor under Article 13 of the PRIIPs Regulation to establish whether a PRIIP-adequate KID for a product exists before purchasing a PRIIP on the secondary market on behalf of a retail investor. This limitation is necessary given the fact that product manufacturers are not in the position to prevent secondary market trading of their products, particularly outside regulated markets, or to put an end to such trading once they become aware of it. Otherwise, PRIIPs manufacturers would be effectively forced to screen potentially hundreds trading platforms in all 28 Member States in order to establish whether their products are being traded on secondary markets and factually sold to retail investors.

In order to provide for legal certainty in this regard, we suggest supplementing the wording of recital 20 to the draft RTS as follows:

20. Where a PRIIP ***for which a key information document has been drawn up under Article 5(1) of Regulation (EU) No 1286/2014*** *is not currently available for retail investors, the continued review and revision of the key information document for that PRIIP would be disproportionate, however a review and revision of the key information document should be undertaken if such a PRIIP is to become available to retail investors again. The trading of a PRIIP on a secondary market* ***taking place upon approval of the PRIIPs manufacturer*** *however would not exempt the PRIIP manufacturer from the obligation to continue to review and revise the key information document for that PRIIP.*

- Disclosure of product costs according to MiFID II: The provisions of cost transparency under MiFID II match to a large extent with the envisaged standards under the PRIIPs Regulation. In particular, the draft Level 2 texts implementing MiFID II explicitly require information on transaction costs for all products, including investment funds, for which distribution or other investment services are provided[17]. Since the EU fund regimes currently do not encompass standards on calculation and disclosure of transaction costs, it is likely that the market (and regulators) will expect fund providers to calculate transaction costs in line with the implementing measures for the PRIIPs KID. Consequently, fund management companies have great interest in ensuring that the methodology for computing transaction costs for the purpose of PRIIPs KID disclosure is practicable right from the start and does not entail unreasonable costs or efforts. Regulators should bear in mind that due to the cost information requirements under MiFID II, UCITS and other retail funds formally benefitting from the temporary exemption under Article 32 will be probably allowed no grace period when it comes to calculation of transaction costs.

Overall, we expect that the impact of the Level 2 measures on the fund industry in terms of both financial resources and operational efforts will be much higher than expected by the EU legislator. Should the requirements for MOPs remain unchanged, then many fund management companies will be effectively compelled to set up internal projects in order to provide their business partners from the insurance sector with PRIIPs-compliant SRI, performance scenarios and cost figures. Such elements should in principle be delivered well ahead of the entry into force of the PRIIPs Regulation in order to enable insurance companies to produce PRIIPs KIDs on unit-linked insurance products on time. Since the specific standards for MOPs were not discernible before publication of the draft RTS in November 2015, most fund providers have not yet assigned specific budgets and set up no business projects for PRIIPs implementation. If needed to be made up in the short term, such projects would probably entail disproportionately high costs. **In any case, it is utterly inappropriate to assume that of all things fund providers shall be ready for the PRIIPs regime going live well ahead of its formal implementation date even though they manage the only sort of PRIIPs for which a temporary exemption from scope applies. This anticipated**

[17] Article 45(2) 5th subparagraph [in connection with Annex II] of the draft Commission Delegated Regulation on Directive 2014/65/EU as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

outcome provides further argument to underpin our request for postponing the entry into force of the PRIIPs Regulation (cf. our introductory remarks above).

<u>Additional comments relating to the draft RTS not covered in the Questions</u>

In addition to our responses to the questions for consultation, we would like to submit the following detailed comments on the draft RTS and its Annexes:

1. Article 3: Identity section

Article 3(f) of the draft RTS requires the date of « any subsequent revision » to be included in the KID. The wording "any *subsequent* revision" could be misunderstood to refer to the dates of all the subsequent revisions, adding no useful information to the investor. **We therefore propose that the Article instead refers to the date of "the *latest revision* of the key information document".**

2. Article 4: 'What is this product?' section

- **Article 4(3):** According to this provision, the description of the PRIIPs "underlying investments or reference values" has to be very detailed. A generic description is possible only where the "number of specific investments is large". In case of UCITS the criterion of the number of investments is inadequate because UCITS investments are generally made on the basis of the principle of risk diversification. Also a considerable number of retail AIFs is managed on the basis of UCITS risk diversification rules or comparable rules for the specific market segment. In addition, actively managed UCITS and AIFs are not built upon a stable portfolio, but comprise assets which are bought and sold in accordance with the agreed investment strategy.

  Therefore, more flexibility as regards the generic description under subparagraph (b) is needed. We would recommend supplementing Article 4(3)(b) in the following manner:

  (b) *On underlying investment assets or reference values may only refer to market segments or instrument types where ~~the number of~~ specific investments ~~is~~* ***are numerous or can be continuously purchased and sold according to the investment policy and strategy of the PRIIP"***

- **Article 4(4):** Article 4(4) proposes to include "the target market identified by the PRIIP manufacturer´s product oversight and governance processes". The referenced Article 8(3)(c) of the PRIIPs Regulation merely requires "a description of the type of retail investor to whom the PRIIP is intended to be marketed, in particular in terms of the ability to bear investment loss and the investment horizon". The addition of "product oversight and governance processes" does not exist in the Level 1 Regulation and thus would require non-MiFID firms, such as UCITS management companies and AIFMs, to apply the MiFID II product governance and oversight rules for product manufacturers, which was not anticipated by the Level 1 Regulation.

  Consequently, the above mentioned sentence should be amended as follows:

  "the description referred to in sub-paragraph (iii) of Article 8(3)(c) of Regulation (EU) No 1284/2014 shall reflect ***the target market identified by the PRIIP manufacturer […]"***

Moreover, the ESAs' proposal goes even further by stating that these product oversight and governance processes need to take into account "the financial interests, knowledge, objectives and characteristics of the types of retail investors for whom the PRIIP has been designed…". This is inconsistent with the product oversight and governance processes[18] requirement of the to-be-released MiFID II Delegated Directive, which shall not require the product manufacturer to specify a target market according to financial interests, knowledge and objectives of investors. The PRIIP KID regime is meant to define standards of product disclosure and should not introduce new governance requirements through the Level 2 measures.

3. Article 7: 'What happens if [the name of the PRIIP manufacturer] is unable to pay out?' section

An additional paragraph providing information on the structure of funds is necessary in order to correspond with para. 2 on investor compensation and guarantee schemes. This paragraph should explain that a fund's assets are structurally separated from the management company's own funds and safeguarded by a depositary. A pay-out of the fund's assets is thus not affected by a management company's financial position or potential default.

4. Article 10: 'How can I complain?' section

Article 10(1) and (2) require the PRIIP manufacturer to provide information on "the person advising on, or selling, the PRIIP on the relevant website". This assumes a direct connection between the PRIIP manufacturer and distributor, which is not always the case. In particular, for funds information about who will be advising on or selling the PRIIP cannot be determined by the manufacturer in advance. Funds providers generally maintain distribution networks with different intermediaries involved, but it is also quite frequent that fund units are sold by distributors with whom no distribution agreement exists. **Therefore, the reference to the person advising on, or selling, the PRIIP should be deleted.**

5. Article 11: 'Other relevant information' section

The phrasing "without prejudice to ad hoc reviews" proposed in Article 11(3) should not be part of the information on the updating period. It could just be omitted because this information is not relevant for the investor and conflicts with the plain language requirement as well as with the restriction in length to three pages.

6. Article 17: Ad hoc review of the key information document

Article 17 is missing an all-important "materiality" reference. This is inconsistent with the UCITS KIID Regulation which ensures that only <u>material</u> changes trigger an ad-hoc review of the KIID[19]. Limitation to material changes is very relevant in practice, as it avoids reviewing the key information due to some minor and inconsequential changes and thus, helps reducing the administrative burden associated with the maintenance of the KID. The materiality test should focus on the impact of a given change on the investment risk, return scenarios and/or cost from the investors' perspective.

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[18] MiFID II Commission Delegated Directive; Article 9(9)-(12)
[19] Cf. Article 22(3) of Regulation (EU) 583/2010.

Attachment

Key Information Document

Purpose

This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

Product

Product: XYZ Sondervermögen (hereinafter the Fund), ISIN XXXXXXX
Product manufacturer: XYZ Kapitalverwaltungsgesellschaft (hereinafter the KVG); www.xyz-kvg; call XXXXXX for more information
Regulator: Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Germany
Date of publication of this document: XX.XX.XXXX

What is this product?

Type
The Fund is an investment fund set up in contractual form (Sondervermögen) under the German Capital Investment Act (Kapitalanlagegesetzbuch, KAGB) and according to the European Directive on Undertakings for Collective Investment in Transferable Securities (UCITS).
The Fund is set up for an indefinite period of time. The KVG may terminate the management of the Fund according to the fund rules. In this case, the depository bank will either liquidate the Fund and distribute the proceeds to investors, or entrust its management to another management company.

Purpose
The Fund's objective is to achieve high dividend returns and stable long-term growth. Its investment strategy is focused on stocks of European companies of big or middle size producing automobiles or parts of them. In addition, the Fund may hold other stocks, cash, money market instruments and/ or shares of money market funds. The Fund's value and annual distributions to investors depend directly on the value of the securities in its portfolio, and the dividends paid on these securities.

Intended Market
The Fund is addressing all kinds of retail and institutional investors wishing to build up retirement provisions and/ or accumulate capital for other purposes. Potential investors should have an investment horizon of at least five years. They should not wish for any conservation guarantee regarding their investment and should be able to afford considerable losses. They should have already acquired some knowledge and/ or experience regarding stock-focused investment funds or similar products.

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

Risk Indicator	1	2	3	4	**5**	6	7
	Lower risk						**Higher risk**

The summary risk indicator is a guide to the level of risk of this Fund. It helps you to assess it and compare it with other products. It takes into account how likely it is that you might lose money and whether the money you have invested has some form of protection.
The Fund has been classified as class 5 out of 7 considering that, given its legal form as an investment fund, there is no credit risk from the KVG. On the other hand, the Fund has a considerable risk of losses linked to the value of the securities contained in its underlying portfolio.
The summary risk indicator shown assumes that you keep the Fund for the recommended holding period.
The summary risk indicator does NOT take into account whether you can take your money out early or the costs you might incur for doing so.
The Fund's investment strategy is focused on stocks of European companies producing automobiles or parts of them. If there is a downturn in this sector, the Fund will incur heavier losses than similar

products with a more diversified portfolio.
The amount that you have invested is not protected so in some unfavourable circumstances you could lose all of your investment.

Performance Scenarios

Investment: 1000 Euros				
Scenarios		**1 year**	**3 years**	**5 years**
Unfavourable scenario	**What you might get back after costs** Average return each year	**X Euros** X %	**X Euros** X %	**X Euros** X %
Moderate scenario	**What you might get back after costs** Average return each year	**X Euros** X %	**X Euros** X %	**X Euros** X %
Favourable scenario	**What you might get back after costs** Average return each year	**X Euros** X %	**X Euros** X %	**X Euros** X %

This table shows the money you could get back over the next 5 years, under different scenarios, assuming that you invest 1000 Euros.
The scenarios shown are a simplified representation of possible outcomes. You can use these scenarios to compare with the scenarios of other products, because they are calculated under similar conditions.
The scenarios presented are not an exact indicator of future performance, but an estimation to that effect. What you will get will vary depending on how the market performs and how long you keep the Fund.
For the favourable scenario a rise in the market of x% is shown. So if the market goes up by x% the money you may get back will rise with the market.
For the moderate scenario a rise in the market of y% is shown. So if the market goes up by y% the money you may get back will rise with the market.
And for the unfavourable scenario a fall in the market of z% is shown. So if the market drops by z% the money you may get back will drop with the market.
The figures shown take into account all costs associated with the Fund, but may not include all the costs that you pay to your advisor or distributor, and do not take into account your personal tax situation, which may also impact on what you get back.
For a more complete overview of the assumptions that were made in producing the performance scenarios, please see our website< weblink to additional information>.

What happens if XYZ KVG is unable to pay out?

The Fund's assets are kept separate from the KVG's own funds. They are safeguarded and controlled by the Fund's depository bank, but are kept separate from this bank's own funds. Therefore, neither an insolvency of the KVG nor of the depository bank will make you lose the money invested in the Fund. In case of insolvency of the KVG, the depository bank will either liquidate the Fund and distribute the proceeds to investors, or entrust its management to another management company.

What are the costs?

Costs over time
The RIY (Reduction in Yield) shows the impact total costs have on what you get back. The total costs take into account one-off, recurring and incidental costs.
The costs that are shown here are the costs of the Fund. There may be other costs charged to you by the person who is either selling the Fund to you or advising you on the Fund. They will provide you with information about these costs, and show you the impact that all costs will have on your investment over time.
The table shows what the costs could mean for different holding periods. The figures assume you invest 1000 Euros. The figures shown are partially based on data from the past and therefore may change in the future.

Investment: 1000 Euros			
	If you cash in after 1 year	If you cash in after 3 years	If you cash in after 5 years (recommended)
One-off costs	X Euros	X Euros	X Euros
+ Recurring costs	X Euros	X Euros	X Euros
+ Incidental costs	X Euros	X Euros	X Euros
= Total costs	X Euros	X Euros	X Euros
RIY	X %	X %	X %

Composition of costs

The table shows the impact the different types of costs have on what you get back at the recommended holding period and what the different cost categories mean.

One-off costs	Entry costs	X %	Impact of entry costs taken before investment. This is the maximum, you could pay less.
	Exit costs	n.a.	n.a.
Recurring costs	Portfolio transaction costs per year	X %	Impact of recurring costs taken from your investment each year. The figures shown are based on our costs for last year. The figures cover all recurring costs, including annual management costs, operating expenses and portfolio transaction costs.
	Other recurring costs per year	X %	
Incidental costs	Performance fees	X %	Impact of performance fees taken where the Fund's annual performance is positive in absolute terms and exceeds the XY index.

How long should I hold it and can I take money out early?

Recommended minimum holding period: 5 years. Due to its investment strategy, the Fund's value may vary considerably over the short time. You should therefore stay invested for at least 5 years to profit from gains on the longer term. If you disinvest earlier, there is a higher risk that you might get back only poor returns, or not even the sum you invested.
Generally, you may on any stock exchange day give back your shares in the Fund and get paid out your money. If we receive your redemption order before 4 p.m., you will get back the actual value of your shares as calculated on the following stock exchange day. However, the KVG may suspend the redemption of shares in exceptional circumstances if this is in the best interest of investors.

How can I complain?

You can submit complaints regarding the Fund or the KVG on our website by filling in the form here: <weblink>. You may as well contact us via mail at <postal address of KVG for lodging complaints> or via e-mail at <e-mail address of KVG for lodging complaints>. Please see our website for further information on complaints related to any other firm or person advising on, or selling, the Fund.

Other relevant information

The depository bank of the Fund is XXX.
You may find the Fund's actual prospectus including the fund rules, the last annual and semi-annual report and other additional information related to the Fund on our website <weblink to Fund information>. On your request, we will provide you with hard copies of the prospectus, fund rules and reports free of cost. Without prejudice to ad hoc reviews, this key information document is updated at least every 12 months and published on our website.