

13 January 2020

Submission to the Joint Committee of the  
European Supervisory Authorities

**VIA RESPONSE FORM RE: JOINT CONSULTATION PAPER CONCERNING  
AMENDMENTS TO THE PRIIPs KID**

Dear Joint Committee:

Financial Planning Standards Board Ltd.'s (FPSB<sup>1</sup>) European affiliate organizations (collectively, FPSB Europe) are pleased to provide comments on the European Supervisory Authorities' (ESAs) [Joint Consultation Paper Concerning Amendments to the PRIIPs KID](#). FPSB Europe consists of eight nonprofit professional financial planning bodies, including:

- 1) Österreichischer Verband Financial Planners (Austria)
- 2) Association Francaise des Conseils en Gestion de Patrimoine Certifies (France)
- 3) Financial Planning Standards Board Deutschland (Germany)
- 4) Financial Planning Standards Board Ireland
- 5) Federatie Financieel Planners (The Netherlands)
- 6) Swiss Financial Planners Organization (Switzerland)
- 7) Finansal Planlama Derneği (Turkey)
- 8) Chartered Institute for Securities & Investment (United Kingdom)

Established in 2004, FPSB's mission is to benefit the public by establishing, upholding and promoting worldwide professional standards in financial planning. FPSB, together with its global network of professional financial planning bodies – represented in Europe by the organizations above – develops, promotes and enforces internationally consistent, locally relevant standards so that:

- The public can identify competent, ethical financial planners who have committed to placing their clients' interests first;
- Practitioners can distinguish themselves as competent, ethical financial planning professionals; and
- Consumers, regulators and other key stakeholders can have confidence in both financial planning professionals and the financial planning profession, and recognize the value that financial planning offers to individuals and society.

<sup>1</sup> Financial Planning Standards Board Ltd. (FPSB) manages, develops and operates certification, education and related programs to benefit the global community by establishing, upholding and promoting worldwide professional standards in financial planning. FPSB demonstrates its commitment to excellence with the marks of professional distinction – CFP, CERTIFIED FINANCIAL PLANNER and CFP Logo Mark – which it owns outside the United States. FPSB and the FPSB global network administer CFP and other certification programs in the following 27 territories: Australia, Austria, Brazil, Canada, Chinese Taipei, Colombia, France, Germany, Hong Kong, India, Indonesia, Ireland, Israel, Japan, Malaysia, the Netherlands, New Zealand, People's Republic of China, Peru, Republic of Korea, Singapore, South Africa, Switzerland, Thailand, Turkey, the United Kingdom and the United States. At the end of 2018, there were 181,360 CFP professionals worldwide. For more, visit [fpsb.org](http://fpsb.org).

FPSB owns the international CERTIFIED FINANCIAL PLANNER certification program outside the United States, and has licensed the affiliate organizations of FPSB Europe to oversee the administration, promotion and enforcement of CERTIFIED FINANCIAL PLANNER certification in Europe.

CERTIFIED FINANCIAL PLANNER professionals meet rigorous competency, ethics and practice standards, qualifying them to develop financial planning strategies to assist their clients in achieving their financial and life goals. CERTIFIED FINANCIAL PLANNER professionals are part of a growing global community of financial services practitioners who place clients' interests first, both through their commitment to financial planning professionalism, and their adherence to FPSB's *Code of Ethics and Professional Responsibility* and *Financial Planning Practice Standards*.

As of 31 December 2018, there were 181,360 CFP professionals in 26 countries and territories worldwide, with over 8,500 CERTIFIED FINANCIAL PLANNER professionals practicing in Austria, France, Germany, Ireland, the Netherlands, Switzerland and the United Kingdom.

### **About FPSB's Standards**

FPSB's standards are based on a global framework that includes empirical research of the abilities, professional skills and knowledge needed to practice financial planning. FPSB and its Affiliates have developed initial education, assessment, experience and ethics requirements, as well as continuing professional development standards for financial planning professionals globally. The organizations comprising FPSB Europe have localized these global standards and certification requirements for applicability in each of their territories, and maintain the relevancy of these standards through regular analyses of the practice of financial planning in Europe.

### **What Is Financial Planning?**

FPSB and its affiliate organizations define financial planning as the process of developing strategies to help people manage their financial affairs to meet life goals. In creating their recommendations and plans, financial planners may review all relevant aspects of a client's situation across a breadth of financial planning activities, including inter-relationships among often conflicting objectives. At the end of the financial planning process, a financial planner may or may not recommend products to a client.

Although financial planning is gaining prominence as a professional practice globally, people who call themselves financial planners often do so with little or no training or oversight. FPSB seeks to position financial planning oversight and models of professionalism within, or adjacent to, existing or proposed regulatory frameworks, whereby regulators and professional financial planning bodies work together to protect and benefit consumers.

## FPSB Europe's Point of View

FPSB Europe's responses to the ESAs' questions are through the rubric of financial planning – a client-centric, process-driven professional practice that can help (re)build trust and restore the public's confidence in the marketplace and financial intermediaries. If you have any questions or would like additional information, please feel free to contact Raymond Leban, Chairperson of the FPSB European Forum and President and CEO of Association Francaise des Conseils en Gestion de Patrimoine Certifies (CGPC), at +33 01 40 06 08 08 or [raymondleban@cgpc.fr](mailto:raymondleban@cgpc.fr), or Noel Maye, CEO of FPSB, at +1-720-407-1902 or [nmaye@fpsb.org](mailto:nmaye@fpsb.org). We appreciate the opportunity to participate in the ESAs' comment process.

Respectfully submitted,



Raymond Leban  
Chairperson, FPSB European Forum  
President and CEO, CGPC

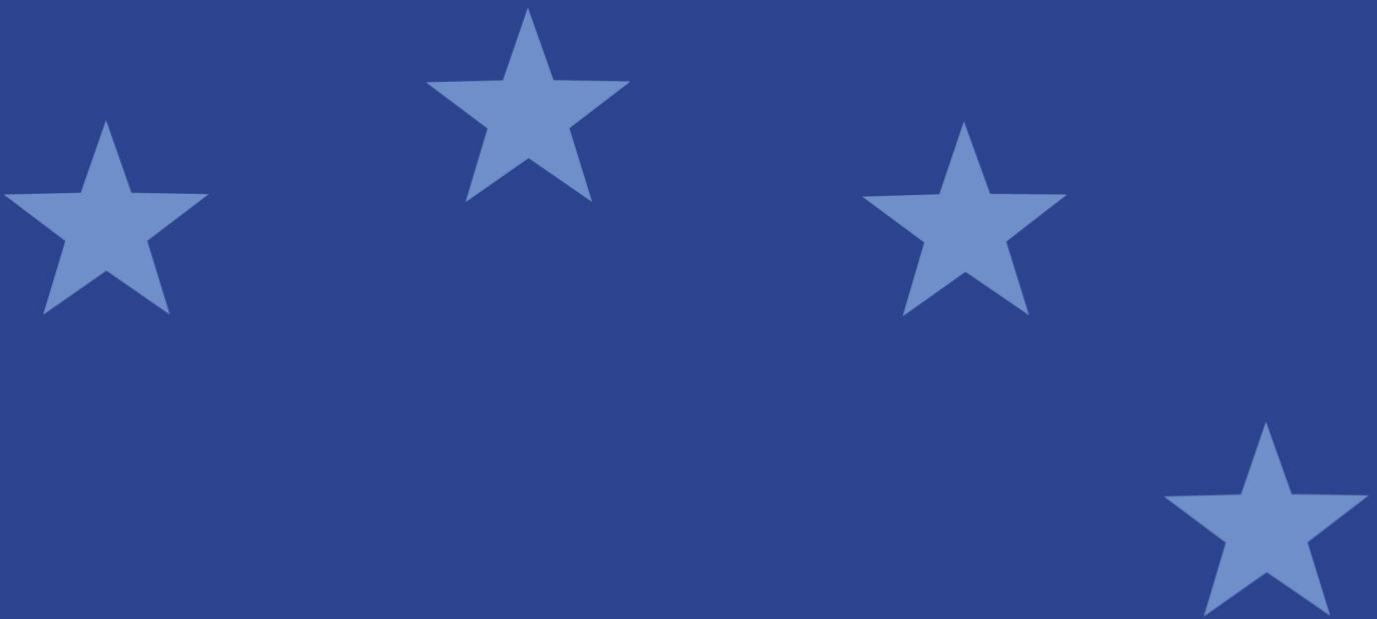


Noel Maye  
CEO, FPSB

Cc:

Österreichischer Verband Financial Planners (Austria)  
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# Response form for the Joint Consultation Paper concerning amendments to the PRIIPs KID



Date: 16 October 2019  
ESMA 30-201-535

## Responding to this paper

The European Supervisory Authorities (ESAs) welcome comments on this consultation paper setting out proposed amendments to Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 (hereinafter “PRIIPs Delegated Regulation”).

The consultation package includes:

- The consultation paper
- Template for comments

The ESAs invite comments on any aspect of this paper. Comments are most helpful if they:

- contain a clear rationale; and
- describe any alternatives the ESAs should consider.

When describing alternative approaches the ESAs encourage stakeholders to consider how the approach would achieve the aims of Regulation (EU) No 1286/2014<sup>2</sup> (hereinafter “PRIIPs Regulation”).

## Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

- Insert your responses to the questions in the Consultation Paper in the present response form.
- Please do not remove tags of the type <ESA\_QUESTION\_PKID\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
- If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
- When you have drafted your response, name your response form according to the following convention: ESA\_PKID\_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESA\_PKID\_ABCD\_RESPONSEFORM.
- The consultation paper is available on the websites of the three ESAs and the Joint Committee. Comments on this consultation paper can be sent using the response form, via the [ESMA website](#) under the heading ‘Your input - Consultations’ by 13 January 2020.
- Contributions not provided in the template for comments, or after the deadline will not be processed.

<sup>1</sup> COMMISSION DELEGATED REGULATION (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents

<sup>2</sup> Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), OJ L 352, 9.12.2014, p. 1.

## Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise in the respective field in the template for comments. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESAs rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESAs Board of Appeal and the European Ombudsman.

## Data protection

The protection of individuals with regard to the processing of personal data by the ESAs is based on Regulation (EU) 2018/1725<sup>3</sup>. Further information on data protection can be found under the [Legal notice](#) section of the EBA website and under the [Legal notice](#) section of the EIOPA website and under the [Legal notice](#) section of the ESMA website.

<sup>3</sup> Regulation (EU) 2018/1725 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39.

## General information about respondent

Name of the company / organisation	FINANCIAL PLANNING STANDARDS BOARD (FPSB) EUROPE
Activity	Other Financial service providers
Are you representing an association?	EUROPEAN AFFILIATES OF FPSB
Country/Region	Europe

## Introduction

***Please make your introductory comments below, if any:***

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or FPSB's CEO Noel Maye at +1-720-407-1902 or [nmaye@fpsb.org](mailto:nmaye@fpsb.org). We appreciate the opportunity to participate in the ESAs' comment process.

**Q1: Are there provisions in the PRIIPs Regulation or Delegated Regulation that hinder the use of digital solutions for the KID?**

If by digital solutions, the ESAs mean electronic versions of the durable mediums used to supply the KID, or websites containing the KID information, these are authorized in view of Article 14 §2, 4 and 5 of the PRIIPS regulation.

Besides, the understanding of FPSB Europe is that portable (mobile) applications fall under the provisions of letter c) of Article 14§2.

If digital solutions are seen as means to customize the content, format or order of presentation of the key information of the PRIIP, such as dropdown lists, tabs, windows, flip-images, videos or electronic features allowing for information customization (like computer-generated information), they are to be considered as not acceptable within the present PRIIPs regulatory framework.

First, because, as it is the case with the UCITS Directive and other regulations pertaining to customer information and in light of Recital 27 of the PRIIPs regulation, the purpose of allowing the provision of KIDs on durable mediums appears limited to making available the electronic format of the document. Second, because, while articles 13 and 14 of the PRIIPs Regulation (read in light of Recital 27) allow the customer to choose whether to receive the KID in paperback or electronic format, off line or on line, articles 6§2 and 8§1, 2 and 3, outline the status of "stand-alone document" of the KID and clearly and precisely define its form and content.

Investigating whether/how customizing the information in KIDs through digital solutions that could improve the understanding, comparison capabilities and engagement of retail investors, in particular by allowing the provision of totally tailor-made documents, would be interesting. Such investigation should however be led in the framework of a Level 1 review of the PRIIPs regulation.

**Q2: Do you agree that it would be helpful if KIDs were published in a form that would allow for the information to be readily extracted using an IT tool?**

FPSB Europe thinks that this would be helpful, since it would:

- Ease the iteration of ESAs' reports on costs and past performance;
- Facilitate harmonized reporting by NCAs; and
- Reduce the costs of data aggregation and reporting, especially in the context of developing web-comparison tools and online databases.

**Q3: Do you think that the amendments proposed in the consultation paper should be implemented for existing PRIIPs as soon as possible before the end of 2021, or only at the beginning of 2022?**

FPSB Europe thinks that the transitional periods for implementing the new requirements should be reduced as much as possible, in view of the difficulties encountered today by financial advisers and



financial planners in helping retail investors to understand the meaning of the KID and to select the most suitable one using the information in the KID.

**Q4: Do you think that a graduated approach should be considered, whereby some of the requirements would be applied in a first step, followed by a second step at the beginning of 2022?**

FPSB Europe does not favor a graduated approach.

A graduated approach could lead to conceptual conflicts in the provision of the KID, given the complexity of the current requirements and of the proposed amendments.

It would result in the provision of different KIDs to potential retail customers which could make the assessment and comparison of investment products by retail investors even more difficult.

**Q5: Are there material issues that are not addressed in this consultation paper that you think should be part of this review of the PRIIPs Delegated Regulation? If so, please explain the issue and how it should be addressed.**

In the absence of Level 1 regulatory restrictions, the ESAs should consider standardizing or defining clearer requirements for the assessment and the assignment of recommended holding periods (RHP) to PRIIPs. The RHP anchors are as essential elements as performance and costs.

Moreover, given the new proposals in the consultation paper and the absence of any mention by the ESAs of the historical track record needed to estimate performances, when they revised the probabilistic future return scenarios, it is not clear whether the old 5-year period will be used or not.

**Q7: If intermediate scenarios are to be included, how should they be calculated for Category 3 PRIIPs (e.g. structured products)? If intermediate scenarios are not shown in the performance section, which performance assumption should be used for the 'What are the costs?' section?**

The ESAs propose to remove the intermediate scenario (which deals with performance at the middle of the recommended holding period or RHP) and the stress scenario, in the presentation of future performance scenarios in a PRIIPs KID.

Since the RHP is not standardized, the costs and performances of the various products may be incomparable at maturity. For the same reason, the results in intermediate scenarios may also be incomparable.

If the intermediate scenario were kept in the KID, it should be at a standardized point in time for certain types of products:

- For "short-term products" (RHP < 1 year), no intermediate scenario;
- For "medium-term products" (1year < RHP <= 10 years), intermediate scenario at 3 years holding point; and
- For "long-term products" (RHP > 10y), intermediate scenario at 10 years holding point.

**Q8: If a stress scenario is included in the presentation of future performance scenarios, should the methodology be modified? If so, how?**

The current methodology generates confusing results for the retail investor: on the one side, the cumulative performance constantly decreases over time; on the other side, the annualized performance (return per year) increases over time.

This methodology should be revised or the stress scenario be replaced by a concise warning narrative: “Under a stress scenario (adverse market conditions, crisis, political intervention), you could lose a significant part or even all of your investment”.

**Q9: Do you agree with how the reference rate is specified? If not, how should it be specified?**

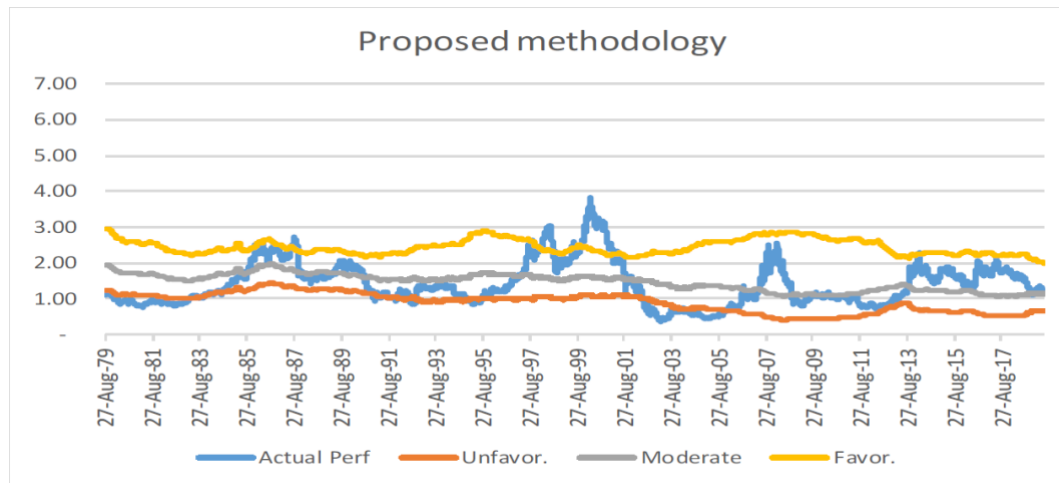
FPSB Europe agrees that the reference rate should be country specific and based on the historical prices of sovereign bonds of the domicile, with the following provisions:

- For securities, the risk-free rate should be estimated only from investment grade (AAA – C) bonds, thus eliminating the risky (speculative) ones; otherwise, there would be an additional risk premium included in the historical price of the fixed instrument;
- For bond indices, the risk-free rate (for EUR-denominated bonds) should be based on the yield curve published by the European Central Bank for AAA-rated bonds.<sup>4</sup>

If the securities’ class is cross-border (more than one domicile, such as for European small-cap securities, for example), then the required rate of return should be either based on the securities’ index (the ESAs could provide guidelines on this) or could be the weighted average of the risk-free rates of all domiciles involved plus the risk premiums of the securities in all domiciles involved, in order to capture the weighted average of the domiciles’ risk.

**Q10: The revised methodology specifies that the risk premium is determined by future expected yields. The methodology further specifies that future expected yields should be determined by the composition of the PRIIP decomposed by asset class, country and sector or rating. Do you agree with this approach? If not, what approach would you favour?**

<sup>4</sup> See European Central Bank, ‘Euro Area Yield Curves’ (accessed 16 December 2019) [https://www.ecb.europa.eu/stats/financial\\_markets\\_and\\_interest\\_rates/euro\\_area\\_yield\\_curves/html/index.en.html](https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_area_yield_curves/html/index.en.html).



Compared to the current one, the new methodological approach brings a “gain in terms of consistency”, as it reduces the frequency of periods when the value of actual performance is outside the range [performance in the unfavorable scenario, performance in the favorable scenario].

However, the methodology uses the prices/returns of asset classes the PRIIP invests in rather than the historical prices/returns of the PRIIP itself. Consequently, two products investing in the same index (asset class) will show almost the same return at the RHP point. The approach results in a loss of product comparability possibilities for the retail investor.

**Q11: The ESAs are aware that historical dividend rates can be averaged over different time spans or that expected dividend rates can be read from market data providers or obtained from analyst reports. How should the expected dividend rates be determined?**

The expected dividend rates should be estimated from the full price history available for each security class. As it is observed, the higher the number of price/return observations, the lower the standard deviation (and, thus, the standard error band) in the estimated return distribution.

The ESAs should require PRIIP designers to exhibit the full price/return history of the securities for which they are estimating returns.

**Q19: Do you consider the use of a single table of growth rates appropriate? If no, how should the methodology be amended?**

This approach could be discussed further in view of its contribution to simplicity and transparency, in order to identify which drawbacks are associated to its use.

**Q22: Are there any other approaches that should be considered? What evidence are you able to provide to support these other approaches?**

As the KID is supposed to be simple, understandable, and concise document that provides key information to help retail investors understand the main benefits and risks of a PRIIP, methodologies simpler than the probabilistic scenarios approach deserve to be explored.

Probabilistic scenarios of returns estimation are somewhat misleading since:

- They build on past returns without saying it;
- As built and presented, investors see these performance scenarios as predictive;
- Disclosing estimated return figures at the recommended holding period (RHP) point has a high potential for giving rise to false expectations among retail investors.

Those scenarios are not easy to couple with historical actual performance (which we think useful). It is difficult to mitigate the confusion created from publishing past performance and the warning attached to it and then disclose future return estimations based on past performance.

FPSB Europe favors the replacement of probabilistic scenarios of returns estimations with illustrative scenarios based upon/referring to actual past performance.

We believe that, in addition to “structural information” on returns levels and volatility (that is contained in past actual performance records), meaningful information for retail investors is the one that prepares them for different market evolutions without emphasizing particular levels of return.

These illustrative scenarios should thus be clearly defined as not attempting to predict the future, but as giving the retail investor reasonable information about what could happen with a PRIIP across several contrasted possible futures, resulting in abnormal (positive or negative) returns, significant losses or moderate performances, compared to/based upon what was observed in the past.

These illustrative scenarios would also have the advantage of providing some financial education and of encouraging the retail investor to better track the performance of his or her product and engage more often with regard to it.

Explanation of what can be expected from the PRIIP in contrasted situations should be kept short, simple and concise, with product manufacturers banning the use of jargon or technical language in the explanations for retail investors.

The ESAs proposals consider describing an illustrative scenario as a drop or increase in the market (index) of the PRIIP and showing how the product would behave in such conditions.

FPSB Europe considers this to be a risky approach: correlating the decrease of the market with an accurate decrease of the product might prove more difficult than the current approach. It could give rise to the same debate as the ongoing one on how to achieve greater accuracy in return estimations.

In summary, it seems reasonable to replace probabilistic scenarios with short illustrative ones, which accommodate the presence of information relating to past performance since they are based on this information (see answer to question 26 below).

**Q23: Do you think illustrative scenarios should be included in the KID as well as probabilistic scenarios for structured products?**

No, FPSB Europe believes that providing information about different types of future performance scenarios (one illustrative, the other probabilistic) in the KID would require explanations of the relationship between them, likely confusing the retail investor and not helping the investor better understand the product, or the limitations of the different scenarios presented. Moreover, as noted in our answer to question 22, retail investors would likely see probabilistic future performance scenarios as predictive of real rather than potential outcomes. The KID should only present illustrative scenarios for all products, including structured products.

**Q24: If not, do you think illustrative scenarios should replace probabilistic scenarios for structured products?**

Yes, illustrative scenarios should replace probabilistic scenarios – see FPSB Europe’s answers to questions 22 and 23.

**Q25: Do you agree with this approach to define PRIIPs which would show illustrative performance scenarios using the existing definition of Category 3 PRIIPs? If not, why not? Where relevant, please explain why this approach would not be appropriate for certain types of Category 3 PRIIPs?**

Yes, see FPSB Europe’s answers to questions 22 & 23.

**Q26: Would you be in favour of including information on past performance in the KID?**

Yes, FPSB Europe is in favour of including information on past performance in the KID, for one simple reason and on one condition.

The reason for inclusion is that information on past performance shows where the product is in the risk-return hierarchy and whether the product manager has reached its stated investment objectives in the past. The condition is – as it is currently the case for the UCITS KIID – that the information on the product’s past performance is accompanied by both a clear warning that “past performance is not an indication of future performance” and past performance information for the market index benchmark.

The specifications for a regulatory information document like the KID require that the information and data it contains be “accurate” (i.e., should reflect either the reality or known facts), and regulatory authorities have a duty to uphold and enforce this obligation. By including elements of (possible) future performance but not (actual) past performance, the KID would fail to meet the regulatory accuracy obligation, providing instead a reduced “reasonableness obligation”. Thus, FPSB Europe believes information on past performance relative to a relevant benchmark must be provided in the KID, whenever it exists.

The only exception to this rule would be for structured products which do not allow the retail investor or the product manufacturer to sell or buy before maturity.

**Q27: Would your answer to the previous question be different if it were possible to amend Article 6(4) of the PRIIPs Regulation?**

No, including information on past performance is not inconsistent with the provisions of Article 6§4 PRIIPs Regulation, which require the KID to be short and concise, easy to read and to focus on the key information that the retail investor needs.

**Q29: Do you have any comments on the statement that would supplement the display of past performance (e.g. with regard to the presentation of costs which are not included in the net asset value (NAV))?**

FPSB Europe agrees with the text used in the KIID regulation, considerations on market conditions and use of past performance excepted (which are confusing). The prominent warning should read: “Past performance is not a reliable indication of future performance”.

**Q30: Are you of the opinion that an additional narrative is required to explain the relationship between past performance and future performance scenarios?**

No additional narrative of this kind is required if illustrative scenarios are used to help the investor form an idea of future performance of PRIIPs and are positioned relative to the distribution of past returns.

**Q31: Do you see merit in further specifying the cases where the UCITS/AIF should be considered as being managed in reference to a benchmark, taking into account the provisions of the ESMA Questions and Answers on the application of the UCITS Directive<sup>5</sup>?**

The April 2019 ESMA Q&As on UCITS (in relation to the past performance shown in the KIID), which address the issue (raised by article 7§1(d) of the KIID Regulation) of when a UCITS/AIF is managed in reference to a benchmark, seem sufficiently clear and prescriptive.

**Q33: Do you agree that a fixed intermediate time period / exit point should be used instead of the current half the recommended holding period to better facilitate comparability?**

Yes, see FPSB Europe’s answer to question 7.

**Q34: In this case (of a fixed intermediate time period), do you agree to show costs if the investor would exit after 5 years for all PRIIPs with a recommended holding period of at least 8 years? Or do you prefer a different approach such as:**

FPSB Europe’s answer to question 7 addresses this issue.

<sup>5</sup> See “Section II – Key Investor Information Document (KIID) for UCITS” (in particular, Q&A 8) of the Q&A document available at: [https://www.esma.europa.eu/sites/default/files/library/esma34-43-392\\_qa\\_ucits\\_directive.pdf](https://www.esma.europa.eu/sites/default/files/library/esma34-43-392_qa_ucits_directive.pdf)

**Q35: Do you think it would be relevant to either (i) use an annual average cost figure at the recommended holding period, or (ii) to present both an annual average cost figure and a total (accumulated) costs figure?**

FPSB Europe believes that the ESAs should consider standardizing the RHP (recommended holding periods) or define an intermediary point common to all products.

Presenting an average cost figure would not support product comparability and could misguide retail investors to favor longer-term products at the expense of more suitable products (because of costs dilution over time).

FPSB Europe agrees with the ESAs about the risk of information overload for retail investors, and suggests not to present both an annual average cost figure and a total (accumulated) costs figure.

**Q36: Do you think that it would be helpful, in particular for MiFID products, to also include the total costs as a percentage of the investment amount?**

Yes, FPSB Europe believes costs should be presented to the retail investor both in monetary terms and as a percentage (%), following the provisions of article 8§3 (f) of the PRIIPs Regulation.

Currently, MiFID II requires disclosure of costs deducted from the investment; PRIIPs regulation requires disclosure of the impact of costs on returns, measured by a “Reduction-in-Yield”. The misalignment is not addressed by including costs in percentage terms.

FPSB Europe welcomes the ESAs intention to work on eliminating these differences in disclosure requirements.

**Q39: Do you agree with the ESAs’ preferred option 3 to revise the cost tables?**

FPSB Europe has a preference for option 4.

Maintaining disclosure of costs in monetary terms for all PRIIPs is preferable, given the generally low level of understanding of percentages and composition of change rates among retail investors.

Given that option 3 presents more information on the breakdown of costs, FPSB Europe believes this increases the risk of information overload for the retail investor, as outlined by the ESAs (in page 36).

**Q40: If not, which option do you prefer, and why?**

FPSB Europe prefers option 4 because the purpose of the KID is to be simple and concise, and understandable by the retail investor. If product manufacturers wish to provide additional, more in-depth information, they can make a cross reference underneath the table to the PRIIP Prospectus.

**Q41: In particular, do you think that the proposed changes to the presentation of the impact of costs on the return in percentage terms (i.e. including reduction in return before and after costs) is an improvement on the current presentation?**



FPSB Europe believes that a more meaningful manner to present the impact of costs would have been to display the cumulative reduction of the gross return due to costs, such as: gross performance (before costs): 175%; net performance (after costs): 125% => cumulative reduction due to costs of 50 percentage points out of the total profit, which represents 66%, or 6€ out of 10€.

This approach would give retail investors a better understanding of the scale size of the costs than what they would likely understand from being presented with the difference between the annualized gross and net returns at different periods.

**Q42: Do you have other comments on the proposed changes to the cost tables?**

Yes, for the benefit of retail investors, and in the interest of clarity and simplicity, FPSB Europe suggests to remove the confusing and difficult to understand Reduction-in-Yield (RiY) measurement at different holding periods, based on an undisclosed performance scenario, and replace it with actual costs, as is currently the case with UCITS KIID, or with the contractual costs. For those products whose costs are unknown before conclusion of the contract, the KID should clearly indicate the costs are “unknown” rather than presenting cost estimates.

The introduction of the RiY does not require a Level 1 review as it is a discretionary choice on the part of the EC and of the ESAs. According to the relevant provision in the PRIIPs Regulation, the KID must only disclose costs “by means of summary indicators and [...] total aggregated costs”. As such, modifying the manner to calculate and present costs may prove the simplest task of the ESAs in this Level 2 review process.

**Q44: If UCITS would fall in the scope of the PRIIPs Regulation, do you agree that the coexistence of the UCITS KII (provided to professional investors under the UCITS Directive) and the PRIIPs KID (provided to retail investors under the PRIIPs Regulation) would be a negative outcome in terms of overall clarity and understandability of the EU disclosure requirements? Are you of the view that the co-legislators should therefore reconsider the need for professional investors to receive a UCITS KII, as the coexistence of a PRIIPs KID together with a UCITS KII (even if not targeted to the same types of investors) would indeed be confusing, given the differences in the way information on costs, risks and performance are presented in the documents? Alternatively, are you of the view that professional investors under the UCITS Directive should receive a PRIIPs KID (if UCITS would fall in the scope of the PRIIPs Regulation)?**

FPSB Europe advises the ESAs to keep the UCITS KIID as the required pre-contractual information document on an investment product for professional investors, and that professional investors receive only the UCITS KIID.

FPSB Europe suggests that the ESAs introduce a provision in the PRIIPs Level 2 regulation by which retail investors can opt out of the PRIIPs KID in favor of being provided, instead, with the UCITS KIID.

The ESAs could introduce the right to opt out for UCITS while the Level I PRIIPs review is being completed, and make it permanent after that.



**Q45: What are your views on the issue mentioned above for regular savings plans and the potential ways to address this issue?**

FPSB Europe believes that the difference in wording between the Guidelines for UCITS and Article 13(4) of the PRIIPs Regulation is justified from the point of view of retail investors: whereas the UCITS KIID focuses on past data – which the investor receives before entering the contract – the PRIIPs KID shows future costs and returns, requiring the financial adviser or financial planner to discuss these with the retail investor. In addition, if substantial changes are made to either the KIID or KID, the retail client shall be informed of them and receive again a KIID or KID.

FPSB Europe believes that, considering the nature of the information disclosed in the PRIIPs KID (based on assumptions), changes in the initial subscription plan that do not affect the investment choice/ the composition of the product or its costs/ the risk profile/ the sector or focus of assets should not oblige the product manufacturer to send the retail investor a new PRIIP KID.

**Q46: Do you agree that these requirements from Article 4 should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIFs?**

Yes.

**Q47: Do you agree that this requirement should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIF?**

Yes, the KID is supposed to be a comprehensible and easy to read document for the average retail investor. Including reference to a glossary of terms will help enhance retail investors' understanding of the document, especially for complex products.

Concerning the other requirements clarified by questions 5 & 7 of Section II of the UCITS Q&A, FPSB Europe is in favour of their inclusion for all PRIIPs.

**Q50: Do you think this proposal would be an improvement on the current approach?**

For the new approach to be an improvement, the retail investor must receive an explanation/be warned that:

- The full cost is shown for the most commonly used combinations of options;
- Other combinations make sense and can usefully be discussed with a competent and ethical adviser (acting in the best interest of the retail investor), in order to find the most suitable combination for the said investor;
- The actual cost of the combination selected by this retail investor may/will differ from the cost of given combination examples.

**Q52: Do you see any risks or issues arising from this approach in relation to consumer understanding, for instance whether the consumer will understand that other combinations of investment options are also possible?**

The main risk is that the retail investor is biased towards the selected combination of options if the precautions/warnings suggested above are not in place.

-- END --