European Securities and Markets Authority

Reply form for the Consultation Paper on PRIIPs Key Information Documents

10 November 2015

European Securities and Markets Authority

Date: 10 November 2015

Responding to this paper

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

Instructions

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

- use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
- do not remove the tags of type <ESMA_QUESTION_PRIIPS_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
- if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

- if they respond to the question stated;
- contain a clear rationale, including on any related costs and benefits; and
- describe any alternatives that ESMA should consider

Naming protocol

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

ESMA_ PRIIPS _NAMEOFCOMPANY_NAMEOFDOCUMENT.

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

ESMA_ PRIIPS_XXXX_REPLYFORM or

ESMA_ PRIIPS_XXXX_ANNEX1

To help you navigate this document more easily, bookmarks are available in “Navigation Pane” for Word 2010 and in “Document Map” for Word 2007.

Deadline

Responses must reach us by **29 January 2016.**

All contributions should be submitted online at www.esma.europa.eu under the heading ‘Your input/Consultations’.

Publication of responses

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

Data protection

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

Introduction

Please make your introductory comments below, if any:

<ESMA_COMMENT_PRIIPS_1>
CFA Institute appreciates the opportunity to respond to the Joint Consultation Paper JC 2015 073 on PRIIPs Key Information Documents.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. CFA Institute has more than 134,000 members in 148 countries and territories, including more than 128,000 Chartered Financial Analyst® charterholders, and 148 member societies.

By reason of the technical input sought by the joint European Supervisory Authorities (ESAs), CFA Institute has responded to selected sections of the consultation paper, focusing primarily on the questions relating to the disclosure of performance scenarios, and the disclosure of costs.

In general terms, the overall presentation of the Key Information Document as outlined in the annexes and appendices to the draft Regulatory Technical Standards included in the consultation paper is agreeable. The templates, methodologies, and example disclosures mostly strike a fair balance between simplicity and accuracy overall (so as to meet the objective of being "accurate, fair, clear and not misleading"). Whilst we recognise that producing a standardised disclosure document for such a wide range of products carries limitations and necessarily involves some computational or methodological compromises, we believe some refinements could be made to improve the presentation or the accuracy of the information presented. Specific comments are provided in the relevant sections of this response form.
<ESMA_COMMENT_ PRIIPS_1>

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

<ESMA_QUESTION_PRIIPS_1>
We would see merit in the ESAs clarifying further the criteria mentioned in Recital 18 if, in making the criteria more prescriptive, it ensured consistency for the investor as to which products receive a comprehension alert and which do not. We would avoid clarifying to the extent that manufacturers could interpret Recital 18 as providing an exhaustive list.
<ESMA_QUESTION_PRIIPS_1>

Question 2
(i) Would you agree with the assumptions used for the proposed default amounts? Are you of the opinion that these prescribed amounts should be amended? If yes, how and why?
(ii) Would you favour an approach in which the prescribed standardised amount is the default option, unless the PRIIP has a known required investment amount and price which can be used instead?

<ESMA_QUESTION_PRIIPS_2>
The consultation proposes to use standardised amounts for the presentation and calculation of performance scenarios and costs. The amounts proposed – EUR 1000 for investment funds and PRIIPs other than insurance-based investment products; EUR 15000 for single premium insurance-based investment products or EUR 1000 per annum for regular premium insurance products – seem fair and reasonable and enable straightforward comparison.
<ESMA_QUESTION_PRIIPS_2>

Question 3
For PRIIPs that fall into category II and for which the Cornish Fisher expansion is used as a methodology to compute the VaR equivalent Volatility do you think a bootstrapping approach should be used instead? Please explain the reasons for your opinion?

<ESMA_QUESTION_PRIIPS_3>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPS_3>

Question 4
Would you favour a different confidence interval to compute the VaR? If so, please explain which confidence interval you would use and state your reasons why.

<ESMA_QUESTION_PRIIPS_4>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPS_4>

Question 5
Are you of the view that the existence of a compensation or guarantee scheme should be taken into account in the credit risk assessment of a PRIIP? And if you agree, how would you propose to do so?

<ESMA_QUESTION_PRIIPS_5>

We believe that it is most appropriate to exclude the existence of a compensation or guarantee scheme from the assessment of credit risk (as part of the overall risk assessment) of the PRIIP. As the consultation paper implies, external compensation schemes may vary from one Member State to another, may change over time, and their existence and scope may be unrelated to the specific risk profile of a product. It is therefore more appropriate only to consider credit risks inherent to the product concerned – this will result in a cleaner and more consistent assessment of credit risk from product to product and from market to market. Moreover, as the consultation paper also notes, information on the existence of external compensation or guarantee schemes is already covered under the section of the KID entitled "What happens if [name of PRIIP manufacturer] is unable to pay out?" This should provide adequate information to retail investors on their potential exposure to default of an entity and the protections provided thereon.
<ESMA_QUESTION_PRIIPS_5>

Question 6
Would you favour PRIIP manufacturers having the option to voluntarily increase the disclosed SRI? In which circumstances? Would such an approach entail unintended consequences?

<ESMA_QUESTION_PRIIPS_6>
We do not favour allowing PRIIP manufacturers to voluntarily assign a higher risk class to their PRIIP than would be the case from applying the Summary Risk Indicator (SRI) methodology. To allow such discretion would reduce the utility of having a standardised methodology for the SRI. Further, by introducing this layer of subjectivity into the SRI, it would conflict with the objective of delivering a consistent and comparable approach for estimating risk. <ESMA_QUESTION_PRIIPS_6>

Question 7
Do you agree with an adjustment of the credit risk for the tenor, and how would you propose to make such an adjustment?

<ESMA_QUESTION_PRIIPS_7>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPS_7>

Question 8
Do you agree with the scales of the classes MRM, CRM and SRI? If not, please specify your alternative proposal and include your reasoning.

<ESMA_QUESTION_PRIIPS_8>
In annex II, part 3, para. 69, no distinction occurs within the SRI table between credit risk classes 1 and 2 which in turn corresponds with values of 0, 1 and 2 in Annex II para. 68. Given this, it would seem simpler to define CR1 to include the credit quality steps currently assigned to CR2, and reduce the SRI table accordingly (by removing a row). The same applies for CR4 and CR5; overall the SRI table can be reduced to a 4x7 table without loss of specificity. If, however, it is required to have an SRI 6x7 table, distinguishing between the credit quality steps represented by CR1 and CR2, and CR4 and CR5, respectively, should be provided to justify the CRM class granularity.
<ESMA_QUESTION_PRIIPS_8>

Question 9

Are you of the opinion that for PRIIPs that offer a capital protection during their whole lifespan and can be redeemed against their initial investment at any time over the life of the PRIIP a 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?

<ESMA_QUESTION_PRIIPS_9>
The assignment of PRIIPS that provide capital protection to MRM class 1 based on a qualitative assessment and only for those PRIIPS that have a tenor up to five years should be permitted. The 5 year limit is important as we believe that many investors fail to recognise that capital protection does not equate to a purchasing power protection or inflation protection. Therefore, if all capital protected products, regardless of tenor, were to be included in MRM class 1, investors in products with longer tenors could experience a significant erosion in purchasing power despite the capital protection.
<ESMA_QUESTION_PRIIPS_9>

Question 10
Are you aware of other circumstances in which the credit risk assessment should be assumed to be mitigated? If so, please explain why and to what degree it should be assumed to be mitigated?

<ESMA_QUESTION_PRIIPS_10>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPS_10>

Question 11
Do you think that the look through approach to the assessment of credit risk for a PRIIP packaged into another PRIIP is appropriate?

<ESMA_QUESTION_PRIIPS_11>
The look through approach to the assessment of credit risk for a PRIIP that holds other PRIIPS appears to be a rational and appropriate way of assigning the necessary credit risk classification to the 'parent' PRIIP.
<ESMA_QUESTION_PRIIPS_11>

Question 12
Do you think the risk indicator should take into account currency risk when there is a difference between the currency of the PRIIP and the national currency of the investor targeted by the PRIIP manufacturer, even though this risk is not intrinsic to the PRIIP itself, but relates to the typical situation of the targeted investor?

<ESMA_QUESTION_PRIIPS_12>
We do not think it is appropriate to include currency risk in the determination of the SRI where the investor's currency of domicile differs from the currency denomination of the PRIIP. As the consultation paper notes, this type of currency risk is not intrinsic to the PRIIP itself so its inclusion in the SRI could obfuscate the risk assessment and hinder comparability across products or markets. Excluding this dimension of currency risk allows for a cleaner and more reliable SRI estimation. Indeed, the inclusion of currency risk in the determination of the SRI could lead to a different SRI being assigned than is appropriate for the underlying product.

Moreover, as stipulated under Annex II paragraph 77 in the consultation paper (and illustrated in appendix 1 of Annex II), the KID provides for a narrative description under the SRI when the currency denomination of the product differs from the currency of the Member State in which the product is being marketed. This should provide sufficient disclosure to retail investors on their potential foreign currency exposure to the product.
<ESMA_QUESTION_PRIIPS_12>

Question 13
Are you of the opinion that the current Consultation Paper sufficiently addresses this issue? Do you it is made sufficiently clear that the value of a PRIIP could be significantly less compared to the guaranteed value during the life of the PRIIP? Several alternatives are analysed in the Impact Assessment under policy option 5: do you see any additional analysis for these assessment?

<ESMA_QUESTION_PRIIPS_13>
As the consultation paper notes, the current methodology for the SRI is based on the assumption that the investor holds the product to its maturity or recommended holding period. Products that have a capital guarantee at maturity may be worth significantly less than face value during the life of the product (for example, many capital-protected structured products have this feature, as there may be no liquid secondary market for the product or its underlying components which may include derivatives or zero-coupon bonds). As noted under policy option 5 in the accompanying Impact Assessment, for investors that wish to invest for shorter holding periods than maturity, the SRI will underestimate the risk. Narrative disclosures underneath the SRI are provided to account for this possibility – as illustrated in appendix 1. These narrative disclosures include that “the summary risk indicator shown assumes that you keep the product for the recommended holding period”, and that “the risk score does NOT take into account whether you can take your money out early or the costs you might incur for doing so.”

In our view, these narrative disclosures are adequate. In addition, the alternative policy options set out in the Impact Assessment (namely, using short and standardised holding periods for all products, or using multiple time frames) are also subject to drawbacks as made clear in the Impact Assessment. Taking into consideration these factors, the suggested approach is acceptable.
<ESMA_QUESTION_PRIIPS_13>

Question 14
Do you agree to use the performance fee, as prescribed in the cost section, as a basis for the calculations in the performance section (i.e. calculate the return of the benchmark for the moderate scenario in such a way that the return generates the performance fee as prescribed in the cost section)? Do you agree the same benchmark return should be used for calculating performance fees for the unfavourable and favourable scenarios, or would you propose another approach, for instance automatically setting the performance fees to zero for the unfavourable scenario? Please justify your proposal.

<ESMA_QUESTION_PRIIPS_14>
We find the instructions concerning the performance fee and the calculations suggested confusing. The terms of the performance-based fee should be presented in a schedule that includes all aspects of the performance fee structure (hurdle rate, underwater provisions, absolute or relative targets etc.) In terms of illustrating the impact of the performance fee on the product returns, the calculation as described in Annex VI Part 1 para.29 is clear. However the provision for performance fees in Annex IV para. 17, and this question, are not easy to understand. In particular, it is more likely than not that no performance fee would be invoked for either the unfavourable or even moderate scenarios. Why, then, should an enhanced fee

be applicable for average / moderate performance? (Indeed, why should an investor be willing to pay a performance fee for that level of performance?) Performance fees are most likely to apply under the "favourable" performance scenario and the performance fee deducted under that scenario should be based on the return for the favourable outcome, not the moderate outcome, so as not to overstate the expected net return. Similarly, no performance fee should be deducted from the return under the "unfavourable" scenario, so as not to understate the expected return (and provide a potentially misleading or overly pessimistic performance scenario presentation).

It would be valuable to provide more clarity on the application of performance fees. For example, an illustration using a performance fee schedule, including what assumption needs to be made regarding the benchmark, possibly addressing both an absolute return objective as well as a benchmark against which the product outperforms in order to invoke the performance fee schedule, and an indication of how these benchmark returns are applied to the moderate, favourable and unfavourable scenarios (as directed in the RTS) would be valuable.
<ESMA_QUESTION_PRIIPS_14>

Question 15
Given the number of tables displayed in the KID and the to a degree mixed consumer testing results on whether presentation of performance scenarios as a table or a graph would be most effective, do you think a presentation of the performance scenarios in the form of a graph should be preferred, or both a table and a graph?

<ESMA_QUESTION_PRIIPS_15>
We believe that Appendix 1 of Annex V is an effective presentation. A tabular presentation is sufficient.
<ESMA_QUESTION_PRIIPS_15>

Question 16
Do you agree with the scope of the assets mentioned in paragraph 25 of Annex VI on transaction costs for which this methodology is prescribed? If not, what alternative scope would you recommend?

<ESMA_QUESTION_PRIIPS_16>
Exchange-traded funds (ETFs) and other exchange-traded products appear to be absent from the list of asset classes in para.25 Annex VI. We suggest these products be included in the list of assets and associated standardised transaction cost assumptions.
<ESMA_QUESTION_PRIIPS_16>

Question 17
Do you agree with the values of the figures included in this table? If not, which values would you suggest? (please note that this table could as well be included in guidelines, to allow for more flexibility in the revision of the figures)

<ESMA_QUESTION_PRIIPS_17>
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<ESMA_QUESTION_PRIIPS_17>

Question 18
Do you agree that the monetary values indicated in the first table are a sum of costs over the respective holding periods? Or should the values reflect annualized amounts? If you prefer annualized amounts, which method for annualisation should be used (e.g. arithmetic average or methods that consider discounting effects)?

<ESMA_QUESTION_PRIIPS_18>
We agree that the monetary values indicated should be the sum of costs over the respective holding periods indicated and should not be annualised amounts. Given that the cost disclosures are shown in columns for one, three, and five years, it would be potentially misleading to use annualised costs in the respective columns, as this approach would mask the variation in costs over time (and mask the expected build-up of costs over longer holding periods).
<ESMA_QUESTION_PRIIPS_18>

Question 19
Do you think that estimating the fair value of biometric risk premiums as stated in paragraph 55(b) of Annex VI would raise any technical or practical difficulties?

<ESMA_QUESTION_PRIIPS_19>
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<ESMA_QUESTION_PRIIPS_19>

Question 20
Knowing that the cost element of the biometric risk premium is included in the total costs calculation, how do you think the investor might be most efficiently informed about the other part of the biometric risk premium (i.e. the fair value), and/or the size of biometric risk premium overall? Do you consider it useful to include the fair value in a separate line in the first table, potentially below the RIY? Or should information on the fair value be disclosed in another part of the KID (for instance, the "What is this product?" section, where the draft RTS currently disclose biometric risk premiums in total, and/or in the performance section)? What accompanying narrative text do you think is needed, and where should this be placed, including specifically narrative text in the cost section?

<ESMA_QUESTION_PRIIPS_20>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPS_20>

Question 21
Given evidence as to the difficulties consumers may have using percentage figures, would you prefer an alternative presentation of the second table, solely using monetary values instead? As with the first table, please also explain what difficulties you think might arise from calculating monetary values, and whether this should be on an annualized basis, and if so, how?

<ESMA_QUESTION_PRIIPS_21>

We believe it would be most concise and expedient to have a single table for costs. This could be achieved by expanding the first table (Reduction In Yield) to show the monetary amounts attributable to each cost component within each cost category (i.e. each row in the RIY table) for each holding period shown. The total costs line and RIY line (the final two rows of the table) should be retained.

Further, this expanded first table should include an additional column on the right-hand side with the descriptions of each cost component (which are currently shown in table 2) – thereby bringing together the cost information into a single table.

Expanding the RIY table to show this more granular presentation of costs would make the second table redundant. This proposed solution also eliminates the problems referred to in the question with regard to the comprehension of percentages. Moreover, a single table as described also alleviates any difficulties regarding the ability of an investor to reconcile cost information between two different tables.

Finally, presenting non-annualised values (i.e. costs over the holding periods shown) would be the most prominent way to distinguish between equivalent products that have different cost structures.
<ESMA_QUESTION_PRIIPS_21>

Question 22
Given the number of tables shown in the KID, do you think a more graphic presentation of the breakout table should be preferred?

<ESMA_QUESTION_PRIIPS_22>
No. As noted in our response to question 21, we believe it would be most concise and expedient to have a single table for costs. This could be achieved by expanding the first table (Reduction In Yield) to show the monetary amounts attributable to each cost component within each cost category (i.e. each row in the RIY table) for each holding period shown. The total costs line and RIY line (the final two rows of the table) should be retained.

Further, this expanded first table should include an additional column on the right-hand side with the descriptions of each cost component (which are currently shown in table 2) – thereby bringing together the cost information into a single table.

Expanding the RIY table to show this more granular presentation of costs would make the second table redundant. This proposed solution also eliminates the problems with regard to the comprehension of percentages. Moreover, a single table as described also alleviates any difficulties regarding the ability of an investor to reconcile cost information between two different tables.

Finally, presenting non-annualised values (i.e. costs over the holding periods shown) would be the most prominent way to distinguish between equivalent products that have different cost structures.
<ESMA_QUESTION_PRIIPS_22>

Question 23
The example presented above includes a possible way of showing the variability of performance fees, by showing the level for all three performance scenarios in the KID, highlighting the 'moderate' scenario, which would be used for the calculation of the total costs. Do you believe that this additional information should be included in the KID?

<ESMA_QUESTION_PRIIPS_23>
We are confused as to how a moderate scenario relates to the performance fee. Indicating that a moderate return is sufficient to invoke a performance fee may well lead an investor to think that those levels of

returns and the associated fees are probable outcomes. This view would be reinforced under the suggestion – illustrated in the consultation – that the performance fees under the “moderate” outcome are highlighted or emphasized in a larger font size than the equivalent fees under the unfavourable or favourable scenarios. Consequently, we do not consider the additional information suggested and illustrated in the consultation to be useful.

As noted in our response to question 21, we believe it would be most concise and expedient to have a single table for costs. This could be achieved by expanding the first table (Reduction In Yield) to show the monetary amounts attributable to each cost component within each cost category (i.e. each row in the RIY table) for each holding period shown. The total costs line and RIY line (the final two rows of the table) should be retained.

Further, this expanded first table should include an additional column on the right-hand side with the descriptions of each cost component (which are currently shown in table 2) – thereby bringing together the cost information into a single table.

Expanding the RIY table to show this more granular presentation of costs would make the second table redundant. This proposed solution also eliminates the problems with regard to the comprehension of percentages. Moreover, a single table as described also alleviates any difficulties regarding the ability of an investor to reconcile cost information between two different tables.

Finally, presenting non-annualised values (i.e. costs over the holding periods shown) would be the most prominent way to distinguish between equivalent products that have different cost structures

However, further guidance is needed on how to incorporate performance fees into the RIY table showing total costs over 1, 3 and 5 years, having regard to the aforementioned confusion over the invocation of performance fees under the “moderate” scenario. Rather than introducing additional tables or graphics to show the variability of performance fees, the issue could be addressed through a narrative explanation (such as a footnote) to qualify the disclosures shown in the incidental cost category row in the RIY table. A narrative explanation underneath the RIY table that incidental costs are based on the assumption of the moderate scenario, but that actual incidental costs could amount to zero under the unfavourable scenario, or more than X (where X is the fee under the moderate assumption) under the favourable scenario, would serve this purpose.
<ESMA_QUESTION_PRIIPS_23>

Question 24
To reduce the volume of information, should the first and the second table of Annex VII be combined in one table? Should this be supplemented with a breakdown of costs as suggested in the graphic above?

<ESMA_QUESTION_PRIIPS_24>
As noted in our response to question 21, we believe it would be most concise and expedient to have a single table for costs. This could be achieved by expanding the first table (Reduction In Yield) to show the monetary amounts attributable to each cost component within each cost category (i.e. each row in the RIY table) for each holding period shown. The total costs line and RIY line (the final two rows of the table) should be retained.

Further, this expanded first table should include an additional column on the right-hand side with the descriptions of each cost component (which are currently shown in table 2) – thereby bringing together the cost information into a single table.

Expanding the RIY table to show this more granular presentation of costs would make the second table redundant. This proposed solution also eliminates the problems with regard to the comprehension of percentages. Moreover, a single table as described also alleviates any difficulties regarding the ability of an investor to reconcile cost information between two different tables.

Finally, presenting non-annualised values (i.e. costs over the holding periods shown) would be the most prominent way to distinguish between equivalent products that have different cost structures.

As noted in our response to question 23, we do not consider an additional graphic as suggested in the consultation to be useful.
<ESMA_QUESTION_PRIIPS_24>

Question 25
In relation to paragraph 68 a) of Annex VI: Shall the RTS specify that for structured products calculations for the cost free scenario have always to be based on an adjustment of the payments by the investor?

<ESMA_QUESTION_PRIIPS_25>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_PRIIPS_25>

Question 26
Regarding the first table of the cost section presented in Annex VII, would you favour a detailed presentation of the different types of costs, as suggested in the Annex, including a split between one-off, recurring and incidental costs? Alternatively, would you favour a shorter presentation of costs showing only the total costs and the RIY?

<ESMA_QUESTION_PRIIPS_26>
As noted in our response to question 21, we believe it would be most concise and expedient to have a single table for costs. This could be achieved by expanding the first table (Reduction In Yield) to show the monetary amounts attributable to each cost component within each cost category (i.e. each row in the RIY table) for each holding period shown. The total costs line and RIY line (the final two rows of the table) should be retained.

Further, this expanded first table should include an additional column on the right-hand side with the descriptions of each cost component (which are currently shown in table 2) – thereby bringing together the cost information into a single table.

Expanding the RIY table to show this more granular presentation of costs would make the second table redundant. This proposed solution also eliminates the problems with regard to the comprehension of percentages. Moreover, a single table as described also alleviates any difficulties regarding the ability of an investor to reconcile cost information between two different tables.

Finally, presenting non-annualised values (i.e. costs over the holding periods shown) would be the most prominent way to distinguish between equivalent products that have different cost structures.

We believe our proposed solution provides for a full, fair, and transparent presentation of costs.
<ESMA_QUESTION_PRIIPS_26>

Question 27
Regarding the second table of the cost section presented in Annex VII, would you favour a presentation of the different types of costs showing RIY figures, as suggested in the Annex, or would you favour a presentation of costs under which each type of costs line would be expressed differently, and not as a RIY figure - expressed as a percentage of the initial invested amount, NAV, etc.?

<ESMA_QUESTION_PRIIPS_27>
As noted in our response to question 21, we believe it would be most concise and expedient to have a single table for costs. This could be achieved by expanding the first table (Reduction In Yield) to show the monetary amounts attributable to each cost component within each cost category (i.e. each row in the RIY table) for each holding period shown. The total costs line and RIY line (the final two rows of the table) should be retained.

Further, this expanded first table should include an additional column on the right-hand side with the descriptions of each cost component (which are currently shown in table 2) – thereby bringing together the cost information into a single table.

Expanding the RIY table to show this more granular presentation of costs would make the second table redundant. This proposed solution also eliminates the problems with regard to the comprehension of percentages. Moreover, a single table as described also alleviates any difficulties regarding the ability of an investor to reconcile cost information between two different tables.

Finally, presenting non-annualised values (i.e. costs over the holding periods shown) would be the most prominent way to distinguish between equivalent products that have different cost structures.

We believe our proposed solution provides for a full, fair, and transparent presentation of costs.
<ESMA_QUESTION_PRIIPS_27>

Question 28
Do you have any comments on the problem definition provided in the Impact Assessment?

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

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

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

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

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

<ESMA_QUESTION_PRIIPS_28>
The problem definition captures the issues that need to be addressed so that investors can compare products and understand the returns that can be obtained whilst addressing what risks may accompany the investment decision and at what cost. Another problem that is mentioned in the response document is that

to describe these concepts, investors should have a base-line knowledge of financial concepts, for example to understand the concept of percentages and the time-value of money. The KID does not have the space to provide this technical education along with the technical specifications that adequately describe the PRIIPs so that the investor is able to judge the suitability of the PRIIP to his/her situation and needs. Consequently, the KID – and the issue of disclosure - should not be considered in and of itself as sufficient for investors to make appropriate decisions. Financial literacy and/or the provision of high-quality financial advice are also necessary components toward ensuring suitable and appropriate investment decisions.
<ESMA_QUESTION_PRIIPS_28>