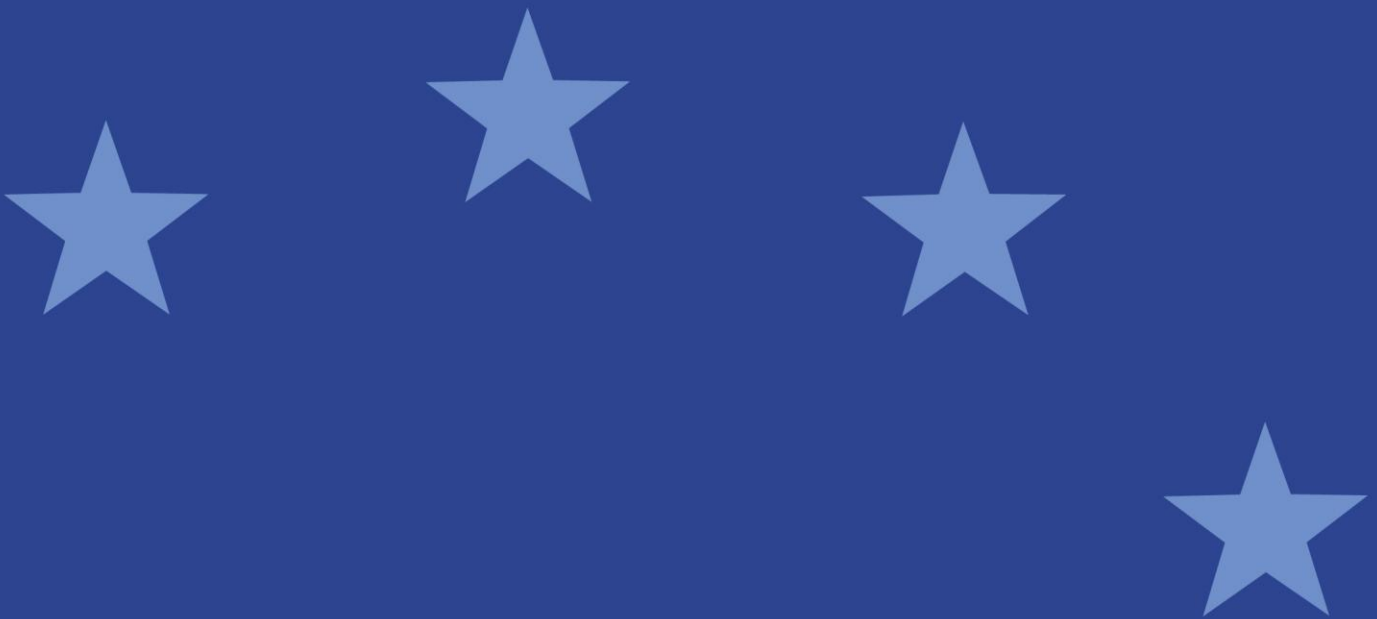




European Securities and
Markets Authority

Reply form for the Consultation Paper on PRIIPs Key Information Documents



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>

The Current Consultation Paper and the Draft RTS have been studied by the team of *Arfima Financial Solutions*. Besides the responses to the consultation questions, we would like to point out an issue regarding the Cornish-Fisher methodology exposed in Annex II, Part 1, points 20-28. Our concerns are twofold.

First, in our view, the methodology itself might not be appropriate for certain products as the Cornish-Fisher method becomes highly inaccurate as probability distributions move away from the normality assumption (for example distributions with high kurtosis or skewness), a feature that is not strange at all in financial time series.

Second, if the Cornish-Fisher methodology would finally be retained, unless we are mistaken, the description provided in the Draft RTS (Annex II, Part 1, points 20-28) contains important misspecifications. Following that methodology step by step would lead to significant errors. Should it be useful for the Committee, we provide a proposal for correction of the mentioned methodology (see attached document ESMA_PRIIPS_ARFIMAFINANCIALSOLUTIONS_ANNEX1).

<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 see merit in the ESAs clarifying further the criteria set out in Recital 18 in order to avoid divergence in practice

<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>

We agree with the assumptions used for the proposed default amounts. We do not favour an approach in which a known required investment amount is used, as it would reduce comparability.

<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>

Bootstrapping methodology should be preferred against Cornish-Fisher expansion for the following reasons:

- It unifies the methodology with Category III.
- Cornish-Fisher expansion is both unreliable and unstable for distributions which are not close to the normal distribution, for example for big skewness or kurtosis.
- The way the Cornish-Fisher is specified in the draft RTS includes the use of the square root scaling to annualize daily volatility. Square root scaling for volatility may cause large errors and should be avoided if possible.

<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>

There are not confidence levels favoured a priori by theory. VaR confidence level should be thus chosen on the basis of best fitting other regulatory requirements across member countries.

<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 are of the view that it is enough to include information about any compensation or guarantee scheme in the section 'What happens if [the name of the PRIIP manufacturer] is unable to pay out?'

<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>

Voluntarily increasing of the disclosed SRI could lead to loss of comparability among manufacturers, and in extreme cases would cause the SRI to be meaningless, for example if all manufacturers decided to set the SRI equal to 7 for all their products. The only advantage we find is that the manufacturer could limit the commercialization of certain products to certain collectives.

<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>

As long as the approach to compute credit risk remains qualitative, it would be difficult to include a tenor adjustment in a consistent way.

<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>

It seems that a typo or error is found aggregating Credit Risk Measure 4, since the corresponding SRI is 5 for MRM classes between 1 and 4. Also note that distinguishing CRM 1 and 2 does not make sense since they have the same aggregated SRI.

<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>

If the reason for the criteria of the 5 year tenor is to account for potential losses due to inflation, our opinion is that this is rather arbitrary. As inflation rate changes, a 5 year tenor could become irrelevant, and the criteria would need to be changed.



<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>

We are not aware of any further circumstances that should be included.

<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>

We think that the look through approach is appropriate.

<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 are of the opinion that currency risk should be integrated and aggregated to the SRI. Exchange rate fluctuations could derive into substantial losses if the product is denominated in foreign currency, a fact that could be hardly evaluable for retail investors. Foreign exchange rate can be integrated in VaR computations in a standard way. For qualitative assessments of market risk, a rule for increasing the MRM should be specified. <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>

We believe that the Consultation Paper has addressed this issue efficiently enough within the global spirit of the Draft Regulatory Technical Standards.

<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>
TYPE YOUR TEXT HERE
<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 a table is preferred for the sake of clarity.
<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>
TYPE YOUR TEXT HERE
<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>
TYPE YOUR TEXT HERE
<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 believe that a sum of costs over the holding period is better understood by retail investors.

<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>

TYPE YOUR TEXT HERE

<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 that both, monetary and percentage, figures should be presented. In addition monetary figures should be annualized as long as the table reflects the costs only for the holding period in order to improve comparability with the first table of costs (in that case it should be clearly specified that the amounts are annualized to avoid confusion). The amounts should be annualized dividing by the number of years in the holding period. This way these amounts would be easily handled by retail investors.

<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>

A table is preferred for the sake of clarity..<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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 there is a second table, we believe that the simpler the better for the investor.

<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>

We think that RIY figures are more illustrative for investors.

<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>

We have a comment regarding policy issue 7: choice of performance scenarios. As stated in previous Discussion Papers, there are three main objectives when prescribing the methodology for the calculation of the performance scenarios:

- To reduce manufacturer discretion as far as possible.
- To increase comparability as far as possible.
- To present helpful information to consumers.

The following table shows how the different options (what if-manufacturer' choice, what if-prescribed scenarios, and the probabilistic approach) fulfils those objectives:

	Reduces manufacturer discretion	Increases comparability	Helpful information
What if-manufacturers' choice	NO	NO	YES
What if-prescribed scenarios	YES	YES	NO
Probabilistic approach	YES	YES	Probabilities are difficult to understand

The retained option (what if-manufacturers' choice) only complies with one objective. Moreover, it maximizes manufacturer discretion while minimizes comparability. On the positive side, it is the cheapest option for both manufacturer and regulators. The second option (what if-prescribed scenarios) have a

major drawback which is impossible to overcome, namely, it is impossible to prescribe meaningful scenarios for the whole spectrum of PRIIP's. Regarding the third option, the only drawbacks are the higher costs and the fact that investors have difficulties when dealing with probabilities.

In view of this situation we would favour a hybrid approach, where unfavourable, moderate, and favourable scenarios are based on the percentiles of the losses distribution (probability approach), but the corresponding probabilities are not disclosed to investors. We believe that this approach maximizes the three mentioned objectives and it means no new costs for manufacturers (as the computations are carried out for the SRI). The only drawback is the cost for the supervisor. In the attached document ESMA_PRIIPS_ARFIMAFINANCIALSOLUTIONS_ANNEX2 we provide a detailed description of this proposed approach.

<ESMA_QUESTION_PRIIPS_28>