Luxembourg, 17 February 2015

Response to the ESA's discussion paper on key information documents for packaged retail and insurance-based investment products (PRIIPs)

Introduction

The Association of the Luxembourg Fund Industry (ALFI) is the representative body of the Luxembourg investment fund community. Created in 1988, the Association today represents over 1300 Luxembourg domiciled investment funds, asset management companies and a wide range of service providers such as custodian banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax experts, auditors and accountants, specialist IT providers and communication companies. The Luxembourg Fund industry is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg-domiciled investment structures are distributed on a global basis in more than 70 countries with a particular focus on Europe, Asia, Latin America and the Middle East.

We thank the ESAs for the opportunity to participate in this consultation on PRIIPs.

We support the submission of the European Fund and Asset Management Association (EFAMA).

Response to the discussion paper

1. **Do you have any views on how draft RTS for the KID might be integrated in practice with disclosures pursuant to other provisions?**

   The Packaged Retail and Insurance-based Investment Products (PRIIPs) regulation was enacted on 9 December 2014 and came into force on 29 December 2014, in order to improve the transparency of pre-contractual information to retail investors seeking to invest in PRIIPs.

   We think it is essential to ensure that implementation of the PRIIPs regulation is aligned with the implementation of other European Union legislation having the same purpose, i.e. MiFID II, IMD, the UCITS Directive and the AIFMD. According to recital 5 of the PRIIPs regulation, the latter is "complementary to measures on distribution in Directive 2014/65/EU of the European Parliament and of the Council. It is also complementary to measures taken on the distribution of insurance products in Directive 2002/92/EC of the European Parliament and of the Council." The ESAs and the European Commission should ensure that all provisions are aligned and do not conflict or contradict each other.

   Consequently, a product manufacturer should not be required to produce more than one disclosure document, such as the UCITS KIID, which is deemed to fulfil the requirements set by the PRIIPs regulation. Disclosure of information in separate documents would be misleading for the retail investor. Please also see our answer to question 57.

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A few areas of discrepancy that would need to be gapped, as mentioned in the discussion paper, are:

1) Disclosure on costs and charges in the PRIIPs KID should be aligned with the UCITS KIID rules and MiFID II. The same should apply to the risk section.

   For example, the following costs would have to be disclosed in the PRIIPs KID or MiFID II, but not in the UCITS KIID:

   - Transaction costs;
   - Interest on borrowing;
   - Payments to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset for the UCITS' portfolio, whether those costs are explicit or implicit;
   - Payments incurred for the holding of financial derivative instruments, and the value of goods or services received by the management company or any connected person in exchange for placing of dealing orders.

   As a result and for a period of at least three years, managers of alternative investment funds (AIFs) sold to retail investors will be required to disclose more information than managers of UCITS funds.

   Considering the disclosure of information on risks there is no certainty that the risk and reward indicator of the PRIIPs KID will be the same as the SRRI figure presented in the UCITS KIID, notably due to the variety of PRIIPs, and their differences compared to UCITS funds. As much as possible, we believe the UCITS KIID and PRIIPs KID should be aligned. This would create a uniformed approach and in turn enhance investor protection.

2) In relation to the interaction between the PRIIPs regulation and the AIFMD, the pre-sale disclosures required by article 23 of the AIFMD in the case of AIFs marketed to retail investors are not necessarily aligned with the content of the PRIIPs KID.

3) In relation to the interaction between the PRIIPs regulation and the IMD, it is not possible to make an assessment at this stage as the review of the legislative text is still ongoing.

4) Article 3 of the PRIIPs regulation provides that for insurance-based investment products both Solvency II and the PRIIPs regulation will apply, leaving in particular an open question on whether the PRIIPs KID may or may not satisfy all information items outlined in article 185 of Solvency II.

2. Do you agree with the description of the consumer´s perspective on risk expressed in the Key Questions?

Overall, the Key Questions address the main considerations an investor would have when investing. However, small considerations, especially if Key Questions are used for consumer testing, are following.

- We think the term "win" used in the question of "How much can I win?" & "How much am I likely to win?" gives a misleading impression of the nature of investment and evokes the

idea of gambling. It should be expressed as “How much can I get?” & “How much am I likely to get?”.
- The follow-up question “Any protection and/or guarantee?” should include protection under national law if applicable, not just product attributes.
- Regarding the question “Can I get my money back at any moment?” we think the PRIIPs KID should include a clear advice on any early withdrawal/penalty fees which would materially affect the return on investment and give clarity on the settlement period of redemption.

3. Do you agree that market, credit and liquidity risk are the main risks for PRIIPs? Do you agree with the definitions the ESA’s propose for these?

Overall, we agree that market, credit and liquidity risk are the three key risks. However, depending on the product, other risk disclosures as for example operational risk (if considered material) or counterparty risk might be appropriate. In this context, it is unclear how the credit risk of the manufacturer is anticipated, rather than just the underlying.

In addition, to enable meaningful comparisons between different types of PRIIPs, it is essential to enable off-balance products such as funds to highlight that they provide no or little credit risk as the investor is not exposed to the product provider itself or any other one obligor.

From a fund perspective, the terminology used in this discussion paper differs considerably from the notion of market and liquidity risk applied for the purpose of risk management/calculation for investment limits and, most importantly, described in the fund prospectus in accordance with the UCITS Directive. We are concerned that the Level-2 measures should not lead to contradicting information being disclosed in the UCITS prospectus and the PRIIPs KID that would create issues in terms of coherence and liabilities, and therefore confusion for investors.

We note that depositary risk and operational risk are not mentioned. Mitigation of both risk types is an overhead for the UCITS industry, and the same should in our view apply to other industries to ensure a level playing field.

Moreover, investment management or investment style risks are missing from each of the categories.

It is also worth stressing that funds have to provide redemptions through fund regulation (namely the UCITS Directive and the AIFMD), which reduces liquidity risk.

4. Do you have a view on the most appropriate measure(s) or combinations of these to be used to evaluate each type of risk? Do you consider some risk measures not appropriate in the PRIIPs context? Why? Please take into account access to data.

ALFI thinks consumer testing is key here to understand the preferences and interpretation of the retail investor.

We prefer a multi-risk indicator because a single risk indicator might embed the risk of being over simplistic and misleading. In the interests of a level playing field with UCITS products, a combined/single indictor may not have the granularity to reflect a like for like comparison of market, credit and liquidity risk. UCITS are carrying a higher market risk as opposed to PRIIPs carrying a higher credit and liquidity risk. A combined indicator could dilute this difference between products, and it would be of little value for consumers if they were not aware of the different risks.

However, it is not clear how the aggregate indicator would be calculated. If all risks are equally weighted, then the aggregate risk indicator for a UCITS would essentially depend only on one-third of the risk measure (market risk) since the value of credit and liquidity risk measures will be at or close to zero.

If a multi-risk indicator was adopted, we think it would be helpful for both the investor's understanding and the manufacturer to complete it by narrative explanations. However, as the PRIIPs KID cannot be longer than three pages, it should be possible for the product manufacturer to refer in this regard to a website providing further details.

5. How do you think market, credit and liquidity risk could be integrated? If you believe they cannot be integrated, what should be shown on each in the KID?

For the reasons explained in our answer to question 4, we recommend considering the results of consumer testing and the adoption of a multi-risk indicator. Nonetheless, should consumer tests demonstrate the need for a single integrated risk indicator, we would advocate assigning equal weightings to each market, credit and liquidity risk.

6. Do you think that performance scenarios should include or be based on probabilistic modelling, or instead show possible outcomes relevant for the payouts feasible under the PRIIP but without any implications as to their likelihood?

Possible outcomes relevant for the payouts do only make sense for certain specific, methodology based insurance products. This option would thus create an unlevel playing field with the investment funds industry.

On the other hand, probabilistic modelling does entail the risk of providing misleading information to the investor as no scenario can validly describe the future. Moreover, worst case scenarios such as an important market turmoil would not be captured (e.g. the "black swan").

We are also against standardised scenarios that provide the same level of returns for all PRIIPs (e.g. 5%). This would make all PRIIPs appear to provide the same returns (which they do not) and the only feature of differentiation would be the level of costs, which is already covered by the costs section.

Both options (probabilistic modelling / possible outcomes) would be relatively onerous in terms of numbers to be produced and maintenance at share class level (e.g. in case of different currencies or a currency hedging policy).

As a result, ALFI thinks that past performance remains the most reliable indicator with validated/confirmed numbers which accurately disclose to the investor how the product behaves under specific conditions. For funds, the determination would have to be made at share class level. Rules similar to the UCITS KIID regulation should apply to new products having no past performance. Finally, it would make it easier for the investor to compare products if practitioners could refer to a past performance model developed by the ESAs.

7. How would you ensure a consistent approach across both firms and products were a modelling approach to be adopted?

In the event a modelling approach was adopted, consistency could only be achieved with a prescribed methodology similarly applicable to all PRIIPs manufacturers. This would fundamentally prevent discretion and ensure uniformity/comparability. In case historical data are not available or deemed not representative for future outcomes, modelling in line with the blueprint used for the SRRI calculation by UCITS should be allowed.

8. What time frames do you think would be appropriate for the performance scenarios?

Generally, we think that time frames should be linked to the cost scenarios.

If past performance was retained, the current UCITS KIID criteria would be appropriate (i.e. normally 5 years).

In case of a probabilistic or a possible outcome model, for investment funds a maximum projection of 5 years would make sense, which would have to be updated on a yearly basis.

9. Do you think that performance scenarios should include absolute figures, monetary amounts or percentages or a combination of these?

Subject to the outcome of consumer testing (and taking account of consumer testing analyses done for the UCITS KIID), ALFI is of the view that percentage figures are preferable. Monetary amounts may very easily result in a crystallisation of expected returns without disclosing all costs pertaining to the product.

10. Are you aware of any practical issues that might arise with performance scenarios presented net of costs?

Performance scenarios have to be net of costs, provided that costs are clearly captured/defined by the ESAs to ensure a consistent application by the PRIIPs manufacturers and an undebatable level playing field.

We reiterate that past performance remains the most reliable indicator with validated and confirmed figures that accurately disclose how the product behaves under specific market conditions. Moreover most funds do not offer capital guarantees and are heavily dependent on the volatility of underlying assets, which cannot be predicted with any accuracy. We do note that the rules will need to include some flexibility to cover situations where there has been a material change to the fund's composition as a result of a merger or change of investment objective.

For funds, the determination would have to be made at share class level and rules similar to the UCITS KIID regulation (see additional third page of the UCITS KIID for structured UCITS) should apply to new products that do not yet have any past performance data.

11. Do you have any preferences in terms of the number or range of scenarios presented? Please explain.

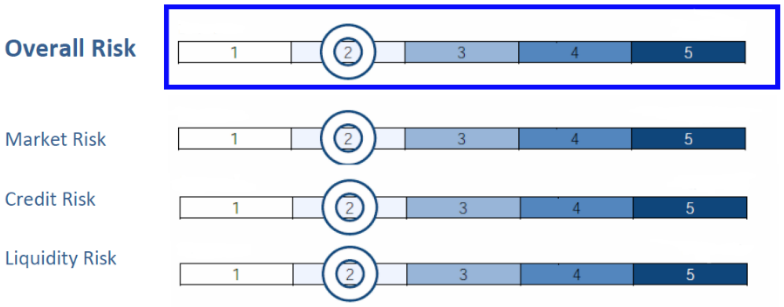
In the event of a probabilistic or a possible outcome model and subject to consumer testing, a range of three scenarios seems sufficient.

In the event of past performance, one single scenario is possible.

12. Do you have any views, positive or negative, on the different examples for presentation of a summary risk indicator? Please outline advantages and disadvantages, and provide any other examples that you are aware of that you think would be useful.

In this context, we would like to stress again the importance of considering the results of consumer testing.

The members of ALFI prefer the multi-risk indicator presented at the bottom of page 39 of the discussion paper as it is clearer compared to other options. In addition, there is a level of consistency with UCITS KIIDs and investors crossing over industries.



In general, these visual elements for risk should be supplemented by a visual element that describes the relationship between risk and return, e.g. the visual element shown on the top of page 37 of the discussion paper. It is key for each investment decision to understand that typically lower risk correlate with typically lower rewards and vice versa. In order to describe the required risk-reward profile, it must be made clear to retail investors that there is a link between risk and reward. This would be appropriately shown by this visual element, which is well-known and tested in the UCITS KIID.

In addition, for longer term holdings period products (e.g. target funds), inflation risk becomes more important. The current market implied rate (e.g. UK RPI) could be used. In the short-term Inflation can be volatile, whereas in the longer-term, it tends to cluster around central bank targets. Therefore for longer dated products a trade-off is needed between presenting longer-term inflation impact but not re-issuing KIDs simply to accommodate short-term inflation volatility.

We have the following observations regarding other options:

- The Dutch “man” example is in our view too simplistic and does not give a clear enough indication of the risk and the factors involved in the calculation of that risk. The “speedometer” approach is also unclear in its presentation;
- The Portuguese example is too cluttered with information and too definitive with the explanations of each risk value. In addition, it appears there are two definitions for risk level 4, which would be misleading for the investor;
- We think the Belgian risk indicator is not clear on “energy” products at the moment and this association would lead investors not to invest in categories D and E as the connotations from the labelling of white products would give the wrong impression.

Regarding the way of how a multi-risk indicator could be completed by narrative explanations, we refer to our answer to question 4.

13. Do you have any views, positive or negative, on the different examples for presentation of performance scenarios? Please outline advantages and disadvantages, and provide any other examples that you are aware of that you think would be useful.

ALFI has a preference for the graph presented on the top of page 43, but percentages instead of value numbers should be used. A prescribed approach will be needed to ensure comparability across different products.

Past performance, which was tested and approved by consumers during the UCITS KIID consultation process and that has been used since 2012, is a recognised and meaningful visual illustration of product performance for investors.

We very much support consumer testing in this respect.

14. Do you have any views on possible combinations of a summary risk indicator with performance scenarios?

Consumer testing will again be very important here. We see no value in combining the risk indicator with performance scenarios. There should much rather be a combination of performance scenarios and net of costs.

15. Do you agree with the description of the consumer´s perspective on costs expressed in the Key Questions?

We have as such no issue with the description of the consumer's perspective. However, comparing costs as described under n° 8 of the table ("How do these costs compare to other products?") would be difficult, onerous and disproportionate to any use for the investor. The way costs are disclosed (see our response to question 16) should enable investors to compare products.

16. What are the main challenges you see in achieving a level-playing field in cost disclosures, and how would you address them?

The Regulatory Technical Standards must be specific as to what is to be included in each cost category and how each is to be calculated if the consumer is to be able to compare 'like with like' across different products. Different products will have different costs and not all will be applicable to all products (e.g. in the UCITS KIID, look through costs in case of funds of funds are currently hinging on whether the costs are material, which has not been defined).

In addition, there needs to be a single, common understanding of costs across the various regulations, otherwise we risk some form of patchwork application in practice across Member States when the overall product is delivered to investors. MIFID II provides, for example, no clear template and the risk of leaving this to individual Member States runs the risk of developing a range of differing outcomes.

17. **Do you agree with the outline of the main features of the cost structures for insurance-based investment products, structured products, CfDs and derivatives? Please describe any other costs or charges that should be included.**

    We have no comment from a fund's perspective.

18. **Do you have any views on how implicit costs, for instance costs embedded within the price of a structured product, might be best estimated or calculated?**

    ALFI is concerned about the use of estimated costs, because they are in the end not helpful and even likely to be confusing for the investor who could consider them as actual figures. Disclosures of costs should only be done if they are meaningful for the investor.

19. **Do you agree with the costs and charges to be disclosed to investors as listed in table 12? If not please state your reasons, including describing any other cost or charges that should be included and the method of calculation.**

    Our primary concern is that the information is provided in an understandable format and not so detailed that it makes it difficult for a consumer to arrive at an informed investment decision. Too many cost categories are confusing for the investor.

    While the product may include certain costs (e.g. front-end or redemption charges on funds) these may not be payable depending on the distribution channel through which the product is purchased. It will be difficult for the product manufacturer who prepares the KID to provide details of the actual costs that a consumer may incur.

    Moreover, we would maintain the previously made (under UCITS KIID discussions) argument that the individual disclosure of certain fees, for example portfolio transaction costs, may not be meaningful to the retail consumer.

    Specifically regarding the categories mentioned, ALFI thinks that specific guidelines are needed regarding look-through costs in case of fund of funds.

    We also ask for further clarification that dividends from the underlying assets can be considered a cost to the investor only if they are withheld from the investor (and therefore indirectly form part of the manufacturer's fees). In such instances, dividends should clearly be regarded as costs. In the case of funds, where these costs are credited to the client, they should be considered as a source of income rather than costs.

    With regards to bid-ask spread & market impact costs we do not agree with the ESAs' analysis that transaction costs arising on non-equity markets have to be made transparent as part of the overall product costs separately from the market impact cost of spreads as this is inconsistent with ESMA's technical advice to the Commission on MiFID II and MiFIR. In it ESMA notes that "transactions costs should be understood as costs incurred in order to acquire and dispose of investments. ESMA acknowledges that in some markets (bond market, derivatives market, foreign exchange market) these transactions costs are embedded in the bid-ask spread" [p. 118; para. 24] and that "the underlying market risk should be understood narrowly and relates only to movements in the value of capital invested caused directly by movements in the value of underlying assets" [p. 119; para. 25]. These statements thus imply that the bid-ask spread covers market impact and may include transaction costs (i.e. the bid-ask spread is not per se transaction costs). To achieve coherence between PRIIPs and MiFID II, we ask for alignment with ESMA's technical advice.

Also given the list of cost categories that are included disclosure would only be possible on an ex-post basis. Estimated costs were also not helpful for the investor.

Last but not least, ALFI thinks that specific guidelines are needed regarding look-through costs in case of fund of funds.

20. Do you agree that a RIY or similar calculation method might be used for preparing 'total aggregate cost' figures?

The concern that we have with a RIY, or similar calculation method, is that a number of assumptions (e.g. growth rates, turnover/transaction volumes, FX rates, holding periods, etc.) must be made in order to arrive at the published figure. Such assumptions, particularly with regard to investment return, can be taken by retail consumers as an 'expectation' of future performance (re. Endowment Policies in the UK).

A RIY will not be able to include any advisory or point of sale costs that a consumer may also be charged. Generally, it would be impossible to have one single figure capturing all different kinds of costs. It is not clear how a RIY method can incorporate any 'early redemption' costs or other individual aspects.

Performance fees will often be based on the investment performance compared to a benchmark. It will be difficult to determine for the RIY calculation whether a performance fee needs to be included or not unless only ex-post figures are used. Consideration will need to be given in defining the specific calculation methodologies as to how this should be estimated for new products.

If this route is taken the ESAs will need to provide very specific calculation methodologies that will need to be mandatory across all markets and products, if a level playing field is to be achieved and a consumer able to make direct comparisons.

21. Are you aware of any other calculation methodologies for costs that should be considered by the ESAs?

Consideration should also be given to an enhancement of the current 'On-going Charge' figure disclosed in the UCITS KIID. Presenting the total aggregate costs as a percentage avoids the need to make growth, and other, assumptions which may prove to be misleading to a consumer.

22. Do you agree that implicit or explicit growth rates should be assumed for the purpose of estimating 'total aggregate costs'? How might these be set, and should these assumptions be adjusted so as to be consistent with information included on the performance scenarios?

See our response to question 20.

It will be very difficult to agree a set of assumptions that can be used across the wide range of products that the PRIIPs KID will cover. For example, is it appropriate to use the same growth assumptions for an equity fund and a fixed income fund, or an emerging market fund and a US large cap fund?

23. How do you think implicit portfolio transaction costs should be taken into account, bearing in mind also possible methods for assessing implicit costs for structured products?

Portfolio transaction costs (PTCs) are currently required to be disclosed in the annual report and accounts of UCITS funds. These should form the basis for any disclosure on the KID. This infers that figures used will be ex-post.

We would also draw attention to the UK Investment Association's comments and examples on PTCs being inseparable from the investment return and therefore the growth rate should be set net of PTCs. We believe it is important the retail investors can see the effect of costs in the context of overall performance to allow full comparability.

If transaction costs were to be disclosed separately, specific guidelines would be needed to ensure consistency and also ensure they are presented in a way that is consumer-friendly.

We would maintain the previously made (under UCITS KIID discussions) argument that the individual disclosure of certain fees, for example portfolio transaction costs, may not be meaningful to the retail consumer.

24. Do you have any views on possible assumptions that should be made, and how these might be calibrated or set?

Parameters and assumptions must be standardised across all products using the PRIIPs KID if there is to be a level playing field.

See our response to question 20 for comments on growth rates. Using a growth rate of 0% would be misleading to a consumer and out of line with their expectations.

Holding periods would need to be standardised and as packaged products are typically likely to be intended for longer term investment periods 3 and 5 years would seem appropriate. If the product is intended to have a life of less than 3 years then the planned life should be the holding period used.

25. What do you think are the key challenges in standardising the format of cost information across different PRIIPs, e.g. funds, derivatives, life insurance contracts?

Given the detail and volume of information that is intended to be provided to the consumers the challenge will be to make the information understandable to a point that it can be used to help the consumer make an investment decision. This will include having the information in a format that is comparable across different products.

26. Do you have a marked preference or any objection for any of the presentational examples? If so, why? Please provide any alternative examples which you believe could be useful.

Costs presentation should be driven by and structured according to the UCITS KIID rules, as they represent a well-tested reference, are known by the investors and ensure the relevant information is provided in a non-discriminatory and understandable way. In any case, presentations should be realised in order not to generate miscomprehensions for investors and create artificial conception of cheap products. The presentation should be based, to the extent possible, on historical data.

Option 6 is probably the easiest for a consumer to understand. It will get more complex if other costs, such as early redemption penalties, and/or multiple growth assumptions need to be shown.

Option 7 also provides for a clear pictorial presentation of the impact of costs. The same challenges exist with how to incorporate all the relevant costs, especially on an ex-ante basis.

Certain caveats may be needed, e.g. to handle market fluctuations.

Option 10 also includes consideration of early termination impact, which is otherwise missing.

We reiterate our view that the cost requirements set by MiFID II and the PRIIPs regulation need to be aligned.

27. In terms of a possible breakdown of costs, are you aware of cost structures for which a split between entry or exit costs, ongoing costs, and costs only paid in specific situations or under specific conditions, would not work?

Even though and in line with the UCITS KIID we think some kind of disclosure might be needed, but not a too detailed split of costs as space is limited and investors might easily get confused.

28. How do you think contingent costs should be addressed when showing total aggregated costs?

We have no comment from a fund's perspective.

29. How do you think should cumulative costs be shown?

ALFI thinks that cumulative costs should be included.

30. Do you have any views on the identity information that should be included?

In our view, the following information should be included:

- Where it exists, a product identification code identifying the PRIIPs (ISIN or other identifier; for funds we would recommend to use this identification code of the respective share classes);
- Name and web site of the PRIIP manufacturer;
  Adding the address etc. of the product manufacturer would only cater for a small minority of retail investors who may not have access to the internet. Therefore, we agree with just putting the name and website of PRIIP manufacturer on the face of the KID.
- Name of the competent authority.

As the KID is composed of 3 pages, i.e. at least 2 physical pages, it will be helpful to identify the pages of the same KID and to repeat some information on each page:

- the name of the PRIIP;
- the date of the document.

In this context, it's necessary to define what the date of the document is. We think that the most common and comprehensive date for all PRIIPs is the date of production of the KID.

31. Do you consider that the criteria set out in recital 18 are sufficiently clear, or would you see some merit in ESAs clarifying them further?

ALFI does not think this comprehensive alert will be helpful for the investor.

We see merit in the ESAs clarifying the criteria further. This would promote the idea of standardisation and a product manufacturer would have clear insight into when to include the comprehension alert.

Clarification must be synchronised with definitions used in the UCITS Directive and MiFID.

32. Do you agree that principles on how a PRIIP might be assigned a ‘type’ will be needed, and do you have views on how these might be set?

Principles may be subject to interpretation and the resulting type misleading for the retail. The type of PRIIP is probably the first element for comparison.

A list of possible types which are defined (e.g. by referring to a web site) is the preferred solution based on regulatory types of PRIIPs: insurances, funds (UCITS and AIF), structured bonds, structured deposits. We believe that going beyond level 1 definitions will cause too much complexity for investors.

Classification will aid further the understanding and application of the PRIIPs regulation and also ensure accuracy in terms of application to pre-defined principles.

We think the different legal structures of investment funds is not always pertinent and has little interest for retail investors.

33. Are you aware of classifications other than by legal type that you think should be considered?

See the regulatory types of PRIIPs in Q32.

We are aware of the following other classifications. However, these are very specific and needed to be at a higher level. Retail investors understand the notion of funds broadly defined as collective investment schemes, but many are unlikely to be familiar with further details. Consumer testing should help to confirm this view.

- UCITS Directive: SRRI calculation for different types of funds.
- MiFID list of complex/non-complex financial instruments (see ESMA consultation paper “MiFID complex and non-complex financial instruments for the purposes of the Directive’s appropriateness requirements”, annex 1).
- EFAMA’s European Fund Classification Categories. This classification, only dedicated to the funds, is very detailed as it considers the composition of the portfolio, but may be useful for the retail investor and for comparison. The investment fund universe is split into six types of funds:
- Fund classification from European Central Bank (ECB): fund other than hedge fund, hedge funds, funds of funds, money market fund. There is a need to add private equity fund, real estate fund and insurance linked fund.
- The structured products classification developed by the European Structured Investments Products Association (EUSIPA). Derivative Map categories seems too complex for retail investors.

- WMDaten's EFIC (Enhanced Financial Instruments Classification): product type, product category and instrument type.
- MoneySense (a national financial education programme for Singapore): bonds, unit trusts, shares, traded life policies, ETF, real estate investment funds, structured deposits, contract for difference, investment linked insurance policies. http://www.moneysense.gov.sg/understanding-financial-products/investments/types-of-investments.aspx.

Further, we do not see any merit in using the classification of alternative investment funds according to the reporting requirements under AIFMD as many are not accessible for retail investors. Moreover, the underlying assets of the PRIIP are covered in the risk section of the KID.

34. Do you agree that general principles and as necessary prescribed statements might be needed for completing this section of the KID?

Yes.

35. Are you aware of other measures that might be taken to improve the quality of the section from the perspective of the retail investor?

We think indirect exposure might be taken by listing the instruments that create higher exposure than simply their holding. The use of leverage which can be measured by a specific rate/indicator could be highlighted somewhere in the sections of the KID.

Moreover, the description of means (such as portfolio management techniques) must be understandable for the retail investor. In this regard, we encourage the use of plain language to communicate clearly to the retail investor. But it can be difficult for PRIIPs to avoid technical jargon. The use of a glossary or standardised sentences developed by the ESAs can ease the understanding of some terms.

36. Do you have views on the information PRIIPs manufacturers should provide on consumer types?

ALFI thinks that a list of consumer types to choose from would ease the comparison.

MiFID II only considers the term "retail investor" without any further categorisation. It is up to the person or entity at the point of sale, not to the product manufacturer, to determine the suitability of a product.

The risk of the definition of a consumer type is "misselling", in other words: what can happen if a PRIIPs is sold to a retail investors not corresponding to the consumer type defined in the KIID?

In addition, some retail products are for the mass market, requiring a level of flexibility dependent on the specific needs of particular investors. This makes the target market analysis requirements of MIFID II and the advisor's role in guiding clients to an appropriate product choice (in the context of specific client needs and risk appetite) all the more critical and relevant. This practically extends beyond the more macro scope of defined consumer types. A retiree, for example, with other assets and a life expectation of more than 20 years may, more appropriately, choose income at a later date and instead favour greater market exposure. This could be difficult to cater for within the constraints of consumer types, whilst too many types will become confusing.

The consumer type could be guided from the following other sections of the KID: "What are the risks", performance scenarios, "what is this product?" An investment horizon should only be specified in the section "How long should I hold it and can I take money out early?". It must be defined in accordance with the risk and performance scenarios.

However, we insist the consumer type stays sufficiently high level for product manufacturers to be consistent with the requirement of the "identified target market" in MiFID II and not to preclude a necessary suitability and appropriateness test being conducted during the investment advice.

37. What is the key information that needs to be given to the retail investor on insurance benefits, and how should this be presented?

We have no comment from a fund's perspective.

38. Are you aware of PRIIPs where the term may not be readily described, or where there are other issues?

We think standard sentences should be specified for fixed length or open ended funds.

If necessary, the conditions for an anticipated term could be specified or it could only be mentioned that an anticipated term is possible (e.g. open ended funds can become closed ended).

39. Are you aware of specific challenges arising for specific PRIIPs in completing this section?

There should be a level-playing field between investment funds and other products. Only banks (EU deposit guarantee scheme) and insurances (national schemes) have compensation schemes but this is because they are on-balance sheet products. UCITS and retail alternative investment funds are exempted from investor compensation schemes for a reason. Both are fully protected against the insolvency of the product provider due to the specific product set-up (namely asset segregation and the depositary's oversight). The absence of a guarantee scheme should not make them be disregarded in comparison to other products. The manufacturer should be allowed to describe this within this section.

40. Are you aware of specific challenges arising for specific PRIIPs in completing this section?

To keep the KID simple, one should only mention in the section the different possibilities, where applicable, and add an indication (web site) where details on disinvestments and/or penalties can be found.

Is it possible to capture accurately the consequences of an early exit if accuracy is based on the outcome in the future. However, this would be difficult in case the exit happened before an expected/intended future event.

41. Are you aware of specific challenges arising for specific PRIIPs in completing this section?

As the "how to complain procedure" is specific by market information and is not considered as an important element for the investor's decision and product comparison, the information should not be part of a product document, but rather of a supplementary document dedicated to each market where the PRIIPs is marketed. This supplementary document should be produced by the distributor rather than the manufacturer as the distributor is focused on one, or several, markets. The KID would only include a reference where to find "complaint" information.

Moreover, a contact at the manufacturer for complaint should be available on its web site and disclosed in section “Other relevant information”.

42. Do you agree that this section should link to a webpage of the manufacturer?

Yes, we agree once it goes to the landing page where exact documents are needed for this specific PRIIP.

43. Do you agree with the assessment of when PRIIPs might be concerned by article 6(3)?

We agree with the criteria identified by the ESAs as relevant for determining which products might be concerned by article 6(3).

44. In your market, taking into account the list of criteria in the above section, what products would be concerned by article 6(2a)? What market share do these represent?

Investment funds should not be concerned by Article 6(3) of the PRIIPs regulation.

45. Please provide sufficient information about these products to illustrate why they would be concerned?

Investment funds should not be concerned by Article 6(3) of the PRIIPs regulation.

46. Do you have views on how you think the KID should be adapted for article 6(3) products, taking into account the options outlined by the ESAs?

We consider that a generic description of the underlying investment options is not necessary for the investment in funds. However, if necessary, a generic description of the underlying investment options should only be provided via specific KIDs for each of the offered options.

47. How do you consider that the product manufacturer should meet the requirements to describe and detail the investment options available?

See our response to question 46.

48. Are you aware of further challenges that should be taken into account?

No information available.

49. Do you agree with the measures outlined for periodic review, revision and republication of the KID where ‘material’ changes are found?

The UCITS KIID should be considered as a starting point for these questions (periodic review, revision and republication). Guidelines on the meaning of material changes triggering revisions would be appreciated in this regard.

50. Where a PRIIP is being sold or traded on a secondary market, do you foresee particular challenges in keeping the KID up-to-date?

As the product manufacturer is responsible for the content of the KID, the latter should not be changed in any way according to the respective distribution channel.

The question of whether the KID can be provided in good time before retail investors are bound by any contract or offer must be assessed at the point of sale.

51. Where a PRIIP is offering a wide range of investment options, do you foresee any particular challenges in keeping the KID up-to-date?

The UCITS KIID regulation should be the starting point and should be adapted to cover PRIIP potential specificities. In particular, the Regulatory Technical Standards should be specific as to what is to be considered as a material change.

52. Are there circumstances where an active communication model should be provided?

There should be no duty to actively communicate modifications of a PRIIPs KID to the existing investors. Like in case of the UCITS KIID, publication of the revised document on the manufacturer's web site ("passive communication" approach) should be sufficient.

53. Do you agree that Recital 83 of the MiFID II might be used as a model for technical standards on the timing of the delivery of the KID?

Article 13 (1) and recital 26 of the PRIIPs regulation provide that the PRIIPs KID should be provided to retail investors in good time before they are bound by any contract or offer relating to that PRIIP. This complies with rules applicable to the UCITS KIID. We agree that the rationale and logic of recital 83 of MiFID II could be used as a model for technical standards on the timing of the delivery of the KID. Retail investors should not feel pressured or coerced into making a decision on a potential investment, especially without having been supplied with all the requisite information in due time beforehand.

54. Are you aware of any other criteria or details that might be taken into account?

No information available.

55. Do you think that the ESAs should aim to develop one or more overall templates for the KID?

Yes, we agree. The use of templates or guidelines – at least for the main sections of the PRIIPs KID – would certainly be beneficial to the retail investors (as it would allow them to better compare PRIIPs of different players and to understand different investment strategies), the manufacturers (as it would help dissolve any doubts on the content requirements for the KID production) and the supervisory authorities (as it would make it easier for them to have a more consistent approach for their review). These templates or guidelines should in any case allow manufacturers to 'complete' them as proposed but also to deviate from them where necessary, in accordance with the particular complexity of their PRIIPs.

56. Do you think the KID should be adjusted to reflect the impact of regular payment options (on costs, performance, risk) where these are offered? If so, how?

Reflecting the impact of regular payment options will assist in ensuring increased transparency for retail investors. Furthermore, also as highlighted in the discussion paper, more accurate information on regular payment options and their expected impact on costs, performance and risk, may aid investors in making informed comparisons of investment products and their specifications.

However, there can be significant variety in how regular savings schemes operate, with the wrapper design driven by the distributor and views of local market norms. For this reason, it would be more appropriate for MIFID rules to cover this feature as opposed to PRIIPs.

57. Are there other cost or benefit drivers that you are aware of that have not been mentioned? Please consider both one-off and ongoing costs.

Under the UCITS IV framework, the vast majority of KIIDs is published at share class level. At the level of the EU, the total volume is estimated up to approximately one million documents.

With this number in mind, we do not agree with the ESAs' view as to the impact of the new regulation on the various industries. In section 10.1.4, the ESAs state that the PRIIPs KID is likely to impact more the insurance and the structured product sectors than the fund sectors, both in absolute and proportionate terms. Even if the PRIIPs KID is a new requirement for the insurance and structured product sectors, the volumes of documents that these firms will have to manage and publish will only be a tiny fraction of those in the UCITS world. These sectors may even be able to manage and publish the documents in a less automated way. In contrast, fund manufacturers, most of whom have had to implement some form of automated production systems for their UCITS KIIDs, will now have to rebuild their automation systems. Considering that the PRIIPs KID will have to provide other information than the UCITS KIID, and has a different format and length, the amount of change to the automated systems will be significant and cost intensive.

We believe there will also be substantial costs for keeping the PRIIPs KIDs – which will be three pages long – up to date. Many of the performance scenarios provided by the PRIIPs regulation will require ongoing review.

While we understand the objective of offering consumers identical formats to enable comparisons between different types of financial products, which is also a question of good information design, we believe that UCITS KIIDs should in the end not be required to be replaced by the PRIIPs KID, which would result in significant costs for fund managers. The main reasons:

- We think information which is key for the investor is provided by the UCITS KIID, and it is comparable to the requirements of the PRIIPs regulation. Consumers will be able to compare aspects such as objectives, strategies, costs, and risks. In our view, it is not necessary to have an identical format for this to be done.
- The differences between the UCITS KIID and the PRIIPs KID may be necessary because funds are different from other products. The information provided by the UCITS KIID was also based on the outcome of intensive consumer testing.
- The UCITS KIID is better adapted to the presentation and understanding of a UCITS fund, and it is easier for investors to compare different UCITS funds with each other, which is one of the main purposes of the UCITS KIID. For example, in comparing various types of equity funds, the scenarios required by the PRIIPs KID regulation would likely all be the same.

On the other hand, should UCITS management companies and others benefitting from the transitional provision of article 32 of the PRIIPs regulation anyway have to comply with the new set of rules at a later stage, we believe they should have the option to produce on a voluntary basis PRIIPs KIDs instead of UCITS KIIDs already before they are required to do so. This would avoid for many practitioners to work with two different systems that have the same purpose.

58. Do you have any evidence on the specific costs or benefits that might be linked to the options already explored earlier in this Discussion Paper? Please provide specific information or references broken down by the specific options on which you wish to comment.

Article	Feature	Cost	PRIIPs KID vs. UCITS KIID benefits	Comments/issues
Art 8(3)(i)	Summary risk indicator + narrative explanation	Zero to high	Zero or even counter-productive	- Zero cost if the SRRI can be kept as currently for UCITS KIID; - Flawed and confusing definitions of risks; - Risks like credit risk and liquidity risk will prove hard, if not impossible, to measure for some PRIIPs; - Aggregation of such risks is not feasible; - Although preferred when considering the options presented in the discussion paper, displaying three levels of risks (one for each risk) can be confusing for investors, as they will not know how to combine these. For instance, an investor may think that a product with zero credit and liquidity risk and a high market risk may average the risks together to conclude that the investment is only moderately risky.
Art 8(3)(ii)	Possible maximum loss	Low to medium	Low	- Defining maximum loss might be complex to calculate and to communicate in a clear manner. In almost every case, the actual maximum possible loss is 100%, as there can be no possible assurance that the guarantor of any loss limit will be able to meet their commitments. Moreover, products that are in fact comparable could be described as having very different maximum loss levels, depending on whether the firm offering the product wished to make it look appealing or wished to disclose the maximum possible risk in order to avoid possible future liability.
Art 8(3)(iii)	Perfor-mance scenarios	Medium to high	Low	- Can be useful for structured products and some PRIIPs, but the value is questionable for UCITS funds; - The way of how to define a common methodology (variable assumptions, likelihoods, time frames, payment structures, visual presentation, etc.) that is relevant for all types of PRIIPs is a complex question that may have no truly satisfactory answer; - The PRIIPs KID is not supposed to replace valuable performance indicator documents like fact sheets for UCITS; - It is unclear whether a one-size-fits-all approach is feasible. In any case, it will be difficult to meet the page limit prescribed in the PRIIPs regulation.
Art 8(3)(iv)	Perfor-mance caps	Low	Low	- Explanations of a performance fee are likely to be quite lengthy.
Art 8(3)(iv)	Tax rule disclaimer	Low	Low	

Art 8(3)(f)	What are the costs? Presenta-tion of costs in monetary figures over a period of time (compound effect)	Low to medium	Medium to high	- From a fund perspective, the cost section is an area that can be improved in the UCITS KIID; - Detailed cost breakdowns are both confusing and unnecessary. The focus should be on what the investor pays, not on the different components that go into that cost.
Art 8(1) and (2)	Title + disclaimer	Zero	Zero	
Art 8(3)(a)	PRIIP ID	Zero to low	Zero	
Art 8(3)(b)	Compre-hension alert	Low	Low	- We believe one should not look at the type of the underlying instruments but at the end result of those instruments and techniques for the investors. The investor is not buying the individual instruments, but the aggregate performance of the portfolio.
Art 8(3)(c)	What is this product?			
5.4.2.1	Type of PRIIP	Low	Low	- Instead of being part of the main section we think it is sufficient for the type being part of the PRIIPs ID.
5.4.2.2	Objectives and means	Low to medium	Low	- The distinction between indirect and direct investment in assets and the description of how the return is determined are new requirements and might require further clarification and guidance.
5.4.2.3	Consumer types	Low to medium	Low	- The risk of the definition of a consumer type is “misselling”, in other words: what can happen if a PRIIPs is sold to retail investors not corresponding to the consumer type defined in the KIID?
5.4.2.4	Term	Low	Low	- We think standard sentences should be specified
Art 8(3)(e)	What if the product manufactu-rer is unable to pay?	Low	Low	- Not relevant for UCITS funds.
Art 8(3)(g)	How long should I hold it and can I take my money early?	Low to medium	Low	- May include a product comparison for exit fees; - Maybe redundant with cost information (early exit fees)
Art 8(3)(h)	How can I complain?	Low to medium	Zero or counter-productive	- In most cases, there is not enough space to disclose information on each distributor; - A supplementary document should be produced by the distributor rather than the manufacturer as the distributor is focused on one, or several, markets. The KID would only include a reference where to find “complaint” information; - A contact at the manufacturer for complaint should be available on its web site and disclosed in section “Other relevant information”.

Art 6(3)	Product offering many options			- Not relevant to UCITS funds.
Art 10	Review, revision and republica-tion	Zero to high	Zero	- We think there will be substantial costs for keeping the PRIIPs KIDs – which will be three pages long – up to date
Art 13	Timing of delivery	Zero to high	Zero	- The rules of the PRIIPs regulation comply with the provisions of the UCITS Directive.
Art 6(3)	General presenta-tion	Zero to high	Zero	- Any set of guidelines or templates which were drafted for the UCITS KIID would also be welcome for the PRIIPs KID.
	Single payment and regular payments	Zero	Zero	- No change for single class KIIDs.

59. Are you aware of situations in which costs might be disproportionate for particular options, for instance borne by a specific group of manufacturers to a far greater degree in terms relative to the turnover of that group of manufacturers, compared to other manufacturers?

Some of the proposed approaches to standardise the risks and return information may prove to be extremely complex and costly to implement. Furthermore, regarding some of the proposed approaches the benefits for PRIIPs clients are questionable. These approaches include:

- The measurement of credit risk of the manufacturer;
- The aggregation of the three main risks (market, credit and liquidity);
- The presentation of performance scenarios with a standardised approach.