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>
The DDV appreciates the opportunity to comment on the Joint Consultation Paper on PRIIPs Key Information Documents (the "**Consultation Paper**") published by EBA, EIOPA, and ESMA (the "**ESAs**"). In particular, the DDV appreciates the work undertaken by the ESAs to prepare draft Regulatory Technical Standards ("**RTS**"), setting out the ESAs' views on the presentation and content of the key information document ("**KID**").

The DDV and its members agree that improving the transparency of PRIIPs offered to retail investors is an important investor protection measure and a precondition for rebuilding the confidence of retail investors in the financial market. To prevent divergence, it is necessary to establish uniform rules on transparency at Union level which will apply to all participants in the PRIIPs market and thereby enhance investor protection. The DDV and its members have, consequently, a strong interest in a common standard for the KID and harmonised format and content of those documents.

The DDV would, hence, like to use this opportunity to respond to the specific questions listed below, but would also highly appreciate the opportunity to share its further thoughts on RTS related questions, which have not been specifically addressed in the Consultation Paper. In this context, the DDV would like to, in particular, highlight the following:

Recognition of a KID across EEA Member States: In order to establish uniform rules on transparency at Union level which will apply to all participants in the PRIIPs market, it is in the DDV's view key that a KID prepared in the context of offering a PRIIP to e.g. investors in Germany, and notified to the German BaFin may then also be used for an offer of such PRIIP in other Member States, without the relevant national competent authorities being able to request amendments going beyond a translation of the KID in accordance with Article 5 of the Regulation (EU) No 1286/2014 of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) (the "**KID Regulation**"). To effectively achieve such process of mutual recognition, the DDV proposes to introduce the "home member state" principle (as, e.g. embedded in the Prospectus Directive) and to explicitly clarify that where a KID has been prepared in accordance with applicable European and national law of the home Member State, such KID (i) shall be valid for offerings of PRIIPs in any number of host Member States and that (ii) the competent authorities of host Member States shall not undertake any approval or administrative procedures relating to the KID.

Interaction with other EU legislation / Overall Timing: In addition, as recognized by regulators as well as the European Commission in connection with both MiFID II/MiFIR and PRIIPs, we would like to stress the strong thematic interconnections between some of the new investor protection rules in MiFID II – such as cost disclosure, performance scenarios, target market and some other specific product governance requirements – and PRIIPs. We strongly agree with the ESAs that consistency in approach will need to be considered carefully, to avoid legal uncertainty and to reduce potential confusion for retail investors. This, in particular, applies to the interaction with MiFID II. In light of the European Commission's decision to postpone the implementation of MiFID II, the DDV is of the view that the implementation of the KID Regulation should also be postponed accordingly, since the PRIIP manufacturers are likely to not having sufficient clarity on all content details for providing all required KIDs until the end of this year.

Transitional provision: In the context of potential clarifications and guidance by the ESAs, we would like to stress the enormous importance, in particular for PRIIP manufacturers, that all RTS or other detailed guidance are issued and published in final form in sufficient time before the KID Regulation becomes applicable. In our view, a period of substantially more than nine months before the KID Regulation becomes applicable seems to be reasonable in order to allow PRIIP manufacturers to arrange for an appropriate implementation.<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 consider the guidance given in Recital 18 sufficiently clear and do, consequently, not see any merit in clarifying them further. In fact, any further (detailed) guidance given by the ESAs might even prevent PRIIP manufacturers from being able to properly address peculiarities in national markets and investors and to help retail investors to compare different products. Detailed guidance could, hence, reduce flexibility for adapting the KID to the precise features of different PRIIPs, potentially reducing the effectiveness of the KID for retail investors in respect of some PRIIPs.<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>
(i) We are of the opinion that the investment amounts have to be aligned across all types of PRIIPs. The differentiation between investment funds and insurance based products for instance is not needed and is not in line with the aim of comparability. In general, we favour a consideration of one single unit or the minimum denomination, the calculation amount or the minimum trading size of the relevant PRIIP due to the fact that specific amounts or standard figures are typically not investable in total within one PRIIP. In case a standard investment amount has to be defined, we prefer an amount of 10.000 EUR or any other amount to the power of 10 alternatively.
(ii) As pointed out in our answer to the previous question i), we indeed recommend using the PRIIP's price per unit / required minimum amount as default.
<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>
In general, we support the overall aim of the regulation to achieve comparability among all PRIIPs. The existence of different methodologies for different PRIIP categories is clearly contrary to this aim, so we strongly support a harmonization of methodologies. Referring to the comparison between Cornish Fisher and the bootstrapping approach, our test calculations so far indicate similar but not equal results, so we can accept the usage of the Cornish Fisher approach.
<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>
As the VaR level only serves as a basis to calculate the VEV, the confidence interval is of low importance. More important is the prescribed methodology for calculating the VaR itself. Due to the fact that different

holding periods are taken into account, comparable results cannot be achieved. Furthermore, the proposed methodology enables gambling / regulatory arbitrage, for instance in the case of products with a protection feature / barrier. Only small adjustments in barrier levels can have huge impacts on the summary risk indicator. For instance, a one year barrier reverse convertible on an underlying with a volatility below 20 % p.a. and a barrier level of 60 % at the end of maturity will be categorised in risk class 1 whereas the same product with a barrier of 65 % will be in risk class 6.
The confidence level here has an impact on the threshold value for the barrier in order to “produce” low risk indicators, but this methodological problem cannot be solved with an adjustment of confidence level.
<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>
Due to the individual structure of guarantee schemes on national levels / localities it is not possible to prescribe a standardized approach for covering this issue. From our point of view, only a narrative explanation of potential add-on guarantee schemes can be included in the KID. <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>
A voluntarily adjustment would even more reduce comparability of products; similar products from two manufactures could have different SRIs.
However, there are some cases in which an adjustment of the calculated SRI could be meaningful for the investor. One case is if the product risk is higher for horizons shorter than end of maturity or recommended holding period (see also answer to question 13). Another case is a UCITS funds investing into bonds. A look-through approach, which is not intended by the Consultation Paper, could yield in an adjustment for credit risks not reflected in the funds’ NAV history. But these adjustments should be mandatory and not voluntarily.
<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>
Referring to the credit risk assessment proposed in the Consultation Paper a further adjustment for tenors does not seem to be a sound approach. Of course, credit risk in general increases with increasing tenors, but there is no linear relation between tenor and credit risk, so such an adjustment could produce misleading results.

In an alternative approach that we propose the credit risk relies on the tenor (see answer to Question 8).
<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>
As mentioned we do not agree with the scale of the classes for the MRM and CRM respectively. Referring to the MRM we believe that the scale is way too conservative and does not reflect the investment reality respectively. According to the proposed methodology for the SRI, popular standard investments fall into the highest risk categories. From our point of view, a well diversified equity investment (e.g. EURO STOXX 50 index) should be allocated somewhere in the middle of the classification scheme in order to allow for a differentiation among different PRIIPs. With the proposed scheme these investments are allocated in the highest risk classes. For a proposal with a more balanced scheme please see DDV's PRIIPs-Report 3 which you can access under the following link:
http://www.derivateverband.de/DE/PRIIPsReport3

Referring to the CRM we are of the opinion that the gap of 2 SRI classes resulting from a one notch rating difference is not meaningful. In practice a capital guaranteed structure from an A issuer (S & P scale) would have an SRI of 1 (MRM 1, CRM 2) while the same product from a BBB rated issuer would be allocated in SRI class 3 (MRM 1, CRM 3). The gap of 2 classes is not comprehensible at all.

An alternative approach for the assessment of credit risk could solve a lot of problems. 1. Credit risk is assessed on the basis of rating specific default probabilities / curves, hence also reflecting the tenor (see question 7). 2. The rating specific default probability determines the VaR at the 97.5 % confidence. This figure only reflects the credit risk. 3. Add this credit risk VaR to the market risk VaR in order to get the total VaR. As the risks are added a perfect positive correlation is assumed, hence this approach is very valuable. 4. The risk class depends on the VEV of the total VaR. The proposed approach is very simple, depending on the tenor and realistic default rates. As the rating specific default rates are known, calibration is not a problem. In addition, the aggregation of market and credit risk in straightforward.

<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>
As stated in the former answers, the proposal of different SRI methodologies for certain PRIIP categories and the corresponding mixture of qualitative and quantitative assessments clearly hamper comparability and understandability of products which are the main goals of the KID Regulation. As a conclusion, we recommend to use a methodology covering all relevant product characteristics of PRIIPs including an early redemption and any kind of guarantee structures. This issue could be solved by using a predefined holding period instead of using the end of maturity perspective as it was outlined in option 3 of the technical discussion paper.
<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>
In general, we agree that collateralization of credit risk should be reflected in the credit risk assessment. We propose that credit risk should be reduced for all approved cases in other regulations such as the CRR.

Referring to our answer to Question 5 about compensation and guarantee schemes, we are of the opinion that factors mitigating credit risks are hard to standardize taking into account individual, e.g. national or local, circumstances. These special characteristics from our point of view can only be addressed via narratives.
<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 generally support the look through approach for assessing credit risk. The look through principle should also apply for UCITS funds, since credit risk can be very relevant there e.g. a UCITS funds investing in a bond portfolio or OTC derivatives. The different treatments in the current risk indicator methodology reduce comparability. It leads to a discrimination of certain PRIIP wrappers, which should not be intended.
<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>
The identification of the relevant currency of a specific investor is not possible. Even a European investor can have accounts in a local currency (other than EUR), so we support the approach to calculate the SRI in the PRIIPs' currencies and in addition to have narratives explaining potential on-top currency risks.
<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>

It is correct that some products have significant higher risk before the end of maturity. Risk classes for different holding periods could illustrate the risks for different holding periods. As these calculations are also and already requested for scenario analysis, there is no additional effort. Given that consumers typically do not perceive narratives as relevant as graphical illustrations we recommend to use an additional figure. Compared to the well-designed presentation of the cost indicator, the presentation of the SRI is still simple and allows to disclose additional graphical information.

As pointed out in our previous answers (especially in response to Question 9), the problem of lower risk at the end of maturity (compared to shorter horizons) only arises because of the end of maturity perspective. In addition, it does not allow for a comparison among different PRIIPs, which counters a central aim of the regulation. This could be adjusted easily by changing the end of maturity perspective into a prescribed holding period approach for calculating the SRI. An appropriate and consistent holding period for instance could be one year, which is also used in other regulatory frameworks (e.g. Basel III). It is obvious that such a consistent holding period is not appropriate for each and every retail investor / PRIIP, but this can be neglected due to the fact that the calculated risk figure / the VEV only serves as a technical basis for deriving the overall SRI. The same applies with the current methodology because of the transformation of the end of maturity Value at Risk into an annualised volatility equivalent. In conclusion, the risk figure / VEV itself cannot be taken as a realistic value for the product risk, so we strongly recommend using one approach and one holding period in order to ensure both comparability and potential risk changes during a holding period. Such a methodology also takes into account the maturity of the product by reflecting all relevant risk factors (besides price risk also interest rate risk, volatility risk etc.) in the calculation of the SRI. Such an approach was outlined in option 3 in the technical discussion paper and is well-established for many PRIIPs across Europe.

<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>

Introductory remarks: The DDV supports the idea that performance scenarios help the investor to get a clear understanding about the PRIIPs' functionalities. Thus, we think that the performance scenario section should be as simple as possible, while providing comprehensive information for investors. For these purposes, we have a strong preference for performance scenarios only looking at the end of maturity. For structured products with unlimited maturity, a prescribed holding period (reliable for all PRIIPs) should be applied. This approach is in-line with the existing KID in Germany (Produktinformationsblatt). Our experience with the German KID is that performance scenarios with an end of maturity perspective are the most adequate way to present performance scenarios for structured products to retail investor. Retail investors get a clear and simple understanding of potential payoffs within a PRIIP.

From our point of view, the ESAs should publish more detailed guidelines for performance scenarios, similar to those for structured UCTIS (CESR-1-1318). In this context, it should be clarified that a PRIIP manufacturer may present a break-even scenario instead of a moderate scenario which is already in place in the German KID. From our point of view the intention and wording of the moderate scenario will raise misleading expectations for retail investors. Especially this is true for structured products due to their ability to participate on all possible development of capital markets.

Response to Question 14: No response given by the DDV, since structured products do usually not comprise any performance fees<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>
The presentation of performance scenarios as a graph will only work for linear structured products tracking an underlying as a delta 1 product. It will not be appropriate at all for other structured products. Thus, we have a strong preference for a presentation of performance scenarios in a table like it is already implemented in the German KID.
Even more important than the way of presenting the performance scenario is its content. We strongly believe that performance scenarios for structured products will only have added value if they include the dependency of the product to its underlying. In order to allow retail investors a better understanding of the product, a comparison of the underlying and the corresponding product value at the end of maturity has to be shown in the performance scenario. Otherwise investors will be confused and not be able to comprehend the characteristics of these PRIIPs.
In addition, a presentation of interim scenario values for products with fixed maturities is not reasonable at all for structured products since these products have a clearly defined payoff which is only valid at the end of its maturity. Thus, the recommended holding period for these products can only be the end of maturity and a presentation of interim scenarios will confuse investors and hamper comparability as well as understandability of these PRIIPs.
Following our proposal for performance scenarios, the narratives mentioned in the RTS have to be adjusted or at least be converted for using them in case of structured products. We recommend to leave the concrete wording of the narratives to the discretion of the manufacturers as it is for the German KID.
<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>
This question deals with transaction costs in investment funds and is not applicable for structured products.
<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>
This question deals with transaction costs in investment funds and is not applicable for structured products.
<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>
Annualized figures / amounts are common standard regarding investment products and retail investors. All relevant figures (e.g. interest rates, coupons, returns etc.) are presented that way, so we see no need to depart from this standard.
<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>
Biometric risk premiums occur in insurance based products and are not applicable to structured products.
<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>
Biometric risk premiums occur in insurance based products and are not applicable to structured products.
<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 strongly prefer a consistent presentation solely on the basis of relative / percentage figures in table 2. We are of the opinion that retail investors are used to deal with percentage values. In addition, percentage values do not cause any problems regarding the conversion of percentage figures into monetary amounts

having in mind that retail investors will of course not invest the same amount and the same lot size in one product.
<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>
We clearly reject a graphical presentation since tables are much clearer and allow for a better understandability and comparability among PRIIPs. Graphs will confuse retail investors because they are used to find tables for cost disclosures.
<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>
Although performance fees are of no relevance for structured products, we do not see any value-added in presenting costs that way. There is simply too much information presented in too many graphs which will lead to confusion at the retail investors' side.
<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>
Yes, we have a strong preference for combining both tables in one due to simplicity reasons. As pointed out in the previous answer, we see no value-added for retail investors in a further table and / or graphical breakdown of costs.
<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>
We prefer a specification / adjustment of the RTS describing the RIY calculation (paragraphs 66. and 68. of the Consultation Paper. From our point of view the RIY shall be calculated by dividing the total cost figure by the maturity / tenor of the PRIIP. The result would be an annualized figure which is comprehensible for the investor and comparable among all PRIIPs.

<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>
Yes, we have a strong preference for shortening the presentation of costs. Due to the overall length constraints in the KID and having in mind retail investors' ability to process a huge amount of information, we recommend to generally present less than more information. We are of the opinion that a disclosure of the total costs combined with the RIY figure will be most appropriate and be in-line with the level 1 requirement of a summary cost indicator being part of the KID. As the basis for calculating the total costs and the corresponding RIY figure we favor to use the Issuer Estimated Value (IEV) including hedging costs which has been established as the German industry standard for structured products. The usage of the IEV is in-line with paragraph 39 of the RTS which describes the fair value as the price that would be received in the principal market under current market conditions. Such a presentation leads to fair and clear results also for issuers who do not manufacture structured products themselves but buy it (in part or completely) from third parties.

In conclusion, we strongly recommend a presentation of costs in one table due to simplicity and comprehension reasons. As stated above we see no added value for investors in a more detailed presentation, i.e. via a second table shown at page 73 of the Consultation Paper.
<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 pointed out in our previous answer to question 26, we have a strong preference for presenting the costs in one table including total costs and the RIY figure in order to not confuse investors. Thus, we recommend no further table / breakdown for cost presentation at all.
<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>
Our views on the impacts of the regulation / the RTS are included in our answers to the previous questions (problem of comparability, methodological problems regarding the risk indicator and the performance scenarios etc.) as well as in our introductory statement.
<ESMA_QUESTION_PRIIPS_28>