Comments Template for Joint Consultation Paper concerning amendments to the PRIIPs KID (JC 2018 60)		Deadline 6 December 2018 23:55 CET
Name of Company:	Institute and Faculty of Actuaries	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	~~Confidential/~~Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment in the relevant row. If you have no comment on a question or a cell, leave the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to CP-18-005@eiopa.europa.eu** **Our IT tool does not allow processing of any other formats.**	
Reference	**Comment**	
General Comments	The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to provide feedback on this consultation paper. Overall, we are very supportive of future consumer testing studies (cf paragraph 4.1.4) on wording and content amendments, when the comprehensive review is underway. We acknowledge the time pressures described in the consultation paper, and appreciate the authors' desire to give manufacturers and distributors sufficient time before 1 January 2020 to implement any changes.	

	We also appreciate the desire to avoid duplicate information requirements for Undertakings for Collective Investments in Transferable Securities (UCITS) funds. It would be helpful to confirm when the next review would potentially take place. For this comprehensive review, we anticipate that it would have a longer timeframe, and involve significant amounts of consultation. The proposals in the consultation paper (especially the new past performance table) are likely to be difficult to fit into three pages – as identified on page 35.	
Q1	The proposal in the consultation paper is to include past performance wherever it is available. We agree that information on past performance should be included in the Key Information Document (KID) where it is available, as this will help to align with UCITS. However, there are a number of potential issues to highlight: • including a bar chart of annual performance will take up space, and is likely to push total KID to above three pages; • although it should be possible to provide past performance for open-ended products with no maturity date, this may be challenging where they have a short history; and • past performance rules are required where a 10 year history is not available; see UCITS rules (e.g. 10 year versus 5 year charts). *Note further comments on benchmark past performance under question 3.* We also agree that 'additional sub-headings... be added to clearly distinguish between this information on past performance and the information on potential future performance', as on page 15.	

	We appreciate the need to include a prominent statement explaining that 'Past performance is not a guide to future performance'. We support this, but wonder if it gets the message across to all consumers sufficiently without additional explanation.	
Q2	There are a number of challenges in including past performance information for certain types of PRIIPs: • as identified in the paper, past performance does not exist for some types of PRIIPs, including tranche-based structured products; • new types of assets emerging over time will not have a history e.g. alternative investments and credit derivatives used in some structured products.	
Q3	We agree it is appropriate for this information on past performance to be based on the approach currently used in the Key Investor Information (KII) for open-ended products with no maturity dates, such as UCITS funds. However, we do not think it is appropriate to **benchmark** past performance, as the choice of benchmark would need to be explained, and benchmarks may not apply to all investments. There would also need to be rules around what constitutes an appropriate benchmark. Including benchmarks would be a new feature of KIDs, as there is no reference to benchmarks already in KID, except possibly in relation to performance fees where applicable. As with UCITS, the **start date** of the fund/investment should be specified somewhere on KID too, as in the example given on page 17. Furthermore, note that the calendar annual return nature of the past performance disclosure may mean that the KID needs to be updated annually near the start of each year (when the previous year's annual performance is known). This may then imply that all KIDs require updating *at the same time*, rather than potentially staggering them for implementation reasons if projecting future performance or other aspects of the KID production is resource-intensive.	

Q4	Simulated performance: **No** • consumers may assume that the simulations reflect real performance; • actual past performance should not be combined with simulated historical performance. Simulations could be used for products with no track record, but should not be used with a product once there is a track record; and • structured products are often very dependent on interest rates at their point of issue (as higher interest rates mean that more upside potential can be included). This means that historical simulations using higher interest rates are not necessarily helpful to consumers (and can overstate the upside potential actually available now).	
Q5	*We have no points to raise on this question.*	
Q6	We agree that the amendments are an improvement to the narrative. We agree that the statement on future simulations should be more prominent, and we agree with highlighting key messages in bold. However, we wonder if the use of 'simulations' is consumer-focussed. Perhaps an alternative description would be better, e.g. 'possible'. We would suggest adding the following in bold to the narrative on page 16: 'What you will actually get back will depend on how the product performs in future. Actual future performance could be lower than described in the stressed environment or higher than described in the favourable environment.'	
Q7	Our comments on the various analyses are as follows: **Risk-free /risk-neutral approach**	

	• while necessary when pricing products that have non-linear features/options, using risk-free assumptions to project over long time periods can understate the return expectations for consumers taking on risk; • at the extreme, this may encourage conservatism by retail consumers, which can have a detrimental impact on long-term investment outcomes e.g. saving for retirement. **Two future scenarios: stress/ favourable** • one drawback of this approach is that it could lead retail investors to assume that the returns between these scenarios are linear / uniformly distributed, which may not be the case; • showing more scenarios (even though only four) helps to demonstrate this better: ◦ e.g. if a product had an 80% chance of losing all your money and a 20% chance of doubling your money, the proposal would show two points of -100% return and 100% return, even though the second is far less likely; ◦ consumers may incorrectly assume from these two points that the average is your money back (i.e. 0% return); • the example in 6.1.2 implies that the stress scenario is determined using the same model but different percentile (5th), while 4.1.2 says it is a different model. **Use of graphs** • the same drawback of the consumer assuming returns between the lower and upper points are evenly distributed applies; • graphs for regular premiums, if the monetary axis is used, will visually imply 'growth' for longer holding periods, so further thought would be needed on an appropriate axis for regular premium products; • another form of graph i.e. return distribution for a given point in time would probably be too complex (in line with the first phase of consumer testing described);	

	• depending on outcomes of consumer testing, a graph could be used to show all four scenarios (i.e. visual representation could still be used to show stress, unfavourable, moderate and favourable, perhaps with shading to indicate percentiles/likelihood). **Longer historical period used to determine simulation parameters** We agree with the conclusion that improvements are not material, relative to the drawbacks. Overall, we feel that proposals in this area would benefit from consumer testing to assess how they are interpreted in practice, and should form part of the more comprehensive review.	
Q8	Again we would encourage the use of consumer testing to identify how best information could be shared with retail consumers, so that it is understandable and comparable.	
Q9	Our comments on the proposals here are as follows: **Market Risk Measure (MRM) calculation for regular investment/premiums** • conceptually, we feel that the MRM for a regular premium product should be the same as for a single premium, or lower due to euro-cost averaging effects (which dampen volatility experienced by the investor); • it is conceivable that the credit risk could be dampened as the size of the investment increases as the investor approaches the specific holding period horizon. Unlike with single premiums, default before the holding period would only impact part of the total e.g. any loss given default halfway through the holding period would only be half of the total; • we have not reviewed the technical descriptions on page 24. **Autocallables** • the suggestions make sense;	

- note also that assuming the product is held until the recommended holding period means that the *annualised* costs are likely to be lower, even though all potential product costs are taken into account;
    - i.e. if it autocalls, the annualised costs then are likely to be higher (as the time period is shorter, perhaps substantially).

Summary Risk Indicator narrative

The suggestions here make sense.

Performance fees narrative

Again, the suggestions here make sense.

Growth assumption for RIY calculation

- we presume the proposal is to use a rate of 3% *per annum;*
- using a fixed number would address the concerns about negative moderate scenarios but presents other issues;
- wording changes would be needed to explain this ‘fixed assumption’ to consumers;
- it is unclear to us how the benchmark for performance fees would be determined in this context;
    - we presume it would also need to be fixed, rather than based on the benchmark’s moderate scenario?
    - furthermore, and depending on what it was fixed at, it might significantly understate or overstate the performance fee;
- if the methodology used to determine moderate returns is accepted as reasonable for predicting future returns, using a fixed rate potentially penalises products with anticipated higher returns.

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Q10	It would be helpful to provide guidance on which sections of the KID the information should go into. For example, presumably the categories of instruments, asset allocation targets, issuers et al would be covered under 'Objectives'?	
Q11	Six months to implement (per page 8) seems reasonable given scale of changes i.e. no changes to methodology to generate future performance scenarios. If changes to figures are required (per 4.1.6), more time would be needed. We haven't commented on the costs and benefits of using the risk-free rate / risk neutral projections or using only stress and favourable scenarios as we don't agree with those approaches. Displaying existing information as a graph (if supported by consumer testing) would have implementation costs and would need more time to implement, as identified on page 37.	
Q12	*We have no points to raise on this question.*	
Q13	*We have no points to raise on this question.*	