

Call for evidence on the European Commission mandate regarding the PRIIPs Regulation

Fields marked with * are mandatory.

1. General Information

* Please indicate the desired disclosure level of the comments you are submitting:

- Confidential
 Public

* Stakeholder

Finance Denmark

* Sector

- Investment management
 Insurance
 Banking (structured products/ derivative products)
 Other

* Contact person (name and surname)

* Contact person email

Contact person phone number

2. Introduction

In the September 2020 new Capital Markets Union Action Plan, the European Commission (Commission) announced its intention to publish a strategy for retail investments in Europe in the first half of 2022.

In May 2021, as part of its evidence gathering, the Commission launched a three-month public consultation on a wide array of aspects related to retail investor protection. [1] The Commission is also undertaking an extensive study that was launched in 2020, which involves analysis of the PRIIPs Key Information Document (KID), as well as other disclosure regimes for retail investments. This study will involve extensive consumer testing and mystery shopping, with the aim to ensure that any future changes to the rules will be conceived from the perspective of what is useful and necessary for consumers.

On 27 July 2021, the Commission sent to the JC of the ESAs a request for advice asking the ESAs to assist the Commission in the preparation of legislative proposals implementing aspects of the retail investment strategy, and more specifically regarding a review of Regulation (EU) 1286/2014 on packaged retail and insurance-based investment products (PRIIPs) [2]. The deadline for the ESAs to provide their advice is 30 April 2022.

The Commission invited the ESAs to provide advice on the following main areas:

- A general survey on the use of the KID
- A general survey on the operation of the comprehension alert in the KID
- A survey of the practical application of the rules laid down in the PRIIPs Regulation
- An assessment of the effectiveness of the administrative sanctions, measures, and other enforcement actions for infringements of the PRIIPs Regulation
- An assessment of the extent to which the PRIIPs Regulation is adapted to digital media
- An examination of several questions concerning the scope of the PRIIPs Regulation

For most of the areas set out above, additional more specific elements to be addressed were identified in the mandate; for instance for the general survey on the use of the KID there are four sub-elements, including to provide evidence on the extent to which marketing information aligns with the information in the KID.

Notwithstanding the mandate provided by the Commission, the information collected and analysis conducted by the ESAs since 2018 would indicate that changes to the PRIIPs Regulation are needed in other areas, besides those addressed in the mandate, in order to achieve the optimal outcomes for retail investors. Indeed, the ESAs have previously provided their views on the need for changes to the PRIIPs Regulation in a number of areas. [3] Consequently, this call for evidence requests feedback on a range of other issues, where the ESAs are considering the relevance to additionally provide advice to the Commission.

In parallel with sending the call for advice on the PRIIPs Regulation to the ESAs, the Commission also sent separate calls for advice individually to EIOPA [4] and ESMA [5] regarding other aspects of retail investor protection, as part of the work to develop a retail investment strategy. The ESAs are seeking to coordinate the work undertaken for these different mandates.

The ESAs acknowledge that the importance and complexity of the topics set out in the Commission's request for advice call for a thorough involvement of stakeholders to ensure that they can adequately contribute to the formulation of the advice from the beginning of the process. At the same time, the short timeframe available to prepare this advice, places constraints on the type of consultation and time that can

be given for responses. Taking into account these constraints, as well as the nature of the request from the Commission, which seeks various different types of evidence regarding current market practices, the ESAs have decided to launch a call for evidence. The responses provided will be used to shape the technical advice to the Commission. The ESAs also plan to hold a stakeholder event in Q1 2022 before finalising the advice. Further details about this event and how to register will be available via the relevant sections of the ESAs' websites in due course.

Where questions in this call for evidence ask for respondents' "experiences" regarding a certain issue or topic, **please provide information regarding the basis for the views provided**. This might include whether the views are based on actual experiences, such as selling, advising on, or buying PRIIPs, a survey of market participants, academic research undertaken etc. Manufacturers of products, which currently benefit from an exemption to produce a KID, such as fund managers, are not precluded from sharing evidence or experience under this call, but should clarify the context in which they would provide comments.

[1] EU strategy for retail investors (europa.eu)

[2] Call for advice

[3] See for example the Joint ESA Supervisory Statement – application of scope of the PRIIPs Regulation to bonds (JC 2019 64), or the Final Report following consultation on draft regulatory technical standards to amend the PRIIPs KID (JC 2020 66).

[4] Call for advice to EIOPA regarding certain aspects relating to retail investor protection | Eiopa (europa.eu)

[5] Call for advice to the European Securities and Markets Authority (ESMA) regarding certain aspects relating to retail investor protection (europa.eu)

1. Please provide any general observations or comments that you would like to make on this call for evidence, including any relevant information on you/your organisation and why the topics covered by this call for evidence are relevant for you/your organisation.

Finance Denmark is a business association for banks, mortgage institutions, asset management, securities trading and investment funds in Denmark. Our members are mortgage institutions, banks, savings banks, cooperative savings banks, Dan-ish branches of foreign banks, asset managers, Danish securities dealers and in-vestment funds.

As it will follow from our answers to the more specific questions, we are struggling to see the purpose of the PRIIPs Regulation and KID fulfilled with the current set up. We find the KIDs hard to read for the majority of retail investors and that the information in the KIDs in many ways fall between two chairs as the information is too detailed for most retail investors while the level of the information will not be sufficient for the more sophisticated retail investors. One could also argue that the purpose of the PRIIPs KID – to be able to compare products across – never will be possible to achieve as some products will have so distinctive features that they cannot be compared. The intention behind the KID is good and we support the intention, but in practice the KID adds very little value to a very small group of retail investors.

We would also like to highlight the fact, that the shift from UCITS KIID to PRIIP KID is currently mobilising significant resources in order to prepare for the implementation by 31 December 2022.

UCITS and most AIFs marketed to retail investors have been exempted from the PRIIPs regulation's scope so far. UCITS are the most common investment product distributed to retail investors. It is important to remember that many retail investors will encounter the PRIIP KID for the first time, when UCITS transition to

the PRIIP KID. For that reason, it is essential to ensure a certain stability in the foreseeable future in order to ensure investor confidence and avoid unnecessary costs of constantly changing the PRIIPs KID, which are in the end borne by the investors.

We believe that investor protection should always be based on empirical evidence and customer testing in order to ensure that any amendments or new legislation benefits retail investors' financial wellbeing. This also applies to the PRIIPs regulation.

3. Call for evidence

3.1 General survey on the use of the KID

Extract from the call for advice

A general survey on the use of the PRIIPs KID across the Union, including, to the extent feasible, evidence on:

- *The number and type of products and their market share for which PRIIPs KIDs are produced and distributed.*
- *The recent developments and trends on the market for PRIIPs and other retail investment products.*
- *The extent to which PRIIPs KIDs are used by product distributors and financial advisors to choose the products they offer to their clients.*
- *To the extent feasible, the extent to which marketing information aligns with or differs from the information in the PRIIPs KIDs.*

In terms of this general survey, it can be relevant to clarify that regarding the third bullet point in the mandate above, the ESAs understand that evidence is sought on the extent to which the information in the KID is used by persons advising on, or selling, PRIIPs separate from the obligation to provide the KID to the retail investor. This might include, for example, identifying if a product is suitable for the retail investor. For this topic, the ESAs would like to ask for feedback to the following questions:

2. Do you have, or are you aware of the existence of, data on the number, type and market share of different types of PRIIPs? If you have such data, would you be in a position to share it with the ESAs?

No. Unfortunately we neither have nor are aware of the existence of that kind of data.

3. In your position as product distributor or financial advisor, to what extent do you make use of KIDs to choose or compare between the products you offer to your clients? In case of trading online, does your platform offer an automatised tool that can help the retail investor in making comparisons among products, for instance using KIDs?

Our members provide the KID to their clients, but they generally do not use them themselves to choose or compare between the products that they offer to their clients. The KIDs is generally not used for such purpose as the they are not seen as either fit or relevant for this. In our view, the content is too technical for

most re-tail clients. The standardised format and content (including the narrative) is not readily accessible for retail clients

4. If this is the case, what is preventing distributors or financial advisors from using the KID when they choose a product for a client?

Our members provide the KID to their clients, but they do not use them for such purpose as the KIDs are not seen to be fit and relevant for this.

5. In your experience, e.g. as a retail investor or association representing retail investors, to what extent are KIDs used by distributors or financial advisors to support the investment process? Is marketing material used instead or given greater emphasis?

Not relevant (question to investors).

6. What are your experiences regarding the extent of the differences between marketing information and the information in the KID? What types of differences do you consider to be the most material or relevant in terms of completeness, plain language, accuracy and clarity? What do you think might be the reason(s) for these differences?

With reference to the answer to Q3 and Q4 it is our assessment that there are better possibilities to address information in marketing material to the customers in a more relevant manner and a less technical language. At the same time, marketing material/information material provide the possibility to emphasise matters (both positive and negative) of importance to the relevant target market. We do not have the same possibilities with the KID due to the standardised format.

3.2 General survey on the operation of the comprehension alert

Extract from the call for advice:

A general survey on the operation of the comprehension alert, taking into account any guidance developed by competent authorities in this respect, the survey should gather data on the number and types of products that include a comprehension alert in the PRIIPs KIDs, and to the extent feasible, evidence on whether retail investors and financial advisors consider the comprehension alert in their investment decisions and/or advice.

For this topic, the ESAs would like to ask for feedback to the following questions:

7. What are your experiences regarding the types of products that include a comprehension alert?

The comprehension alert in itself does not make any difference. What is relevant is to follow the MiFID-rules regulating appropriateness tests and suitability assessments. Moreover, if a product is highly complex the product governance rules in MIFID II should also be kept in mind, as they should ensure that such product is only sold to a target market for whom it is suitable.

In general, it is our members experience that investors request more information, when trading these types of products.

8. Do you have or are you aware of the existence of data on the number and type of products that include a comprehension alert? If you have such data, would you be in a position to share it with the ESAs?

We do not have a total number for all our members.

9. What are your experiences regarding the extent to which retail investors take into account the inclusion of the comprehension alert?

We are referring to our answer to Q7. The comprehension alert does not make a difference in itself – what is relevant is the product governance rules in MiFID together with rules on appropriateness and suitability.

10. As a retail investor or association representing retail investors, are you aware of the existence of a comprehension alert for some PRIIPs?

Not relevant (question to investor).

11. What are your experiences regarding the extent to which financial advisors consider the comprehension alert?

Not relevant (question to investor).

3.3 Survey on the practical application of the rules

Extract from the call for advice:

A survey of the practical application of the rules laid down in the PRIIPs Regulation, taking due account of developments in the market for retail investment products, which should include practical evidence on:

- *To the extent feasible, the amount and nature of costs per PRIIP to various market participants of complying with the requirements of the PRIIPs Regulation, including the costs of manufacturing, reviewing, revising, and publishing PRIIPs KIDs, including as a proportion of total PRIIP costs.*
- *To the extent feasible, the extent to which the PRIIPs Regulation is applied in a consistent manner across the EU for the most commonly sold types of PRIIPs.*
- *The supervision of the PRIIPs KID, including the percentage of cases where inaccurate PRIIPs KIDs were identified by NCAs.*
- *The number of relevant mis-selling events before and after the introduction of the PRIIPs KID, including through data on the number of complaints received, number of sanctions imposed, and other relevant data.*

Concerning this topic, the ESAs would like to ask for feedback to the following questions:

12. For PRIIP manufactures or sellers:

12. a) Please describe the different types of costs incurred to comply with the PRIIPs Regulation.

As this is a request for data on costs related to compliance with the PRIIPs Regulation, we as a trade organization are not able to collect and share such data.

12. b) Can you provide an estimate of the average costs per PRIIP of complying with the requirements of the PRIIPs Regulation? Where possible, please provide a breakdown between the main types of costs, e.g. manufacturing, reviewing, publishing, etc.

As this is a request for data on costs related to compliance with the PRIIPs Regulation, we as a trade organization are not able to collect and share such data.

12. c) Can you provide an estimate of what proportion of the total costs for the product are represented by the costs of complying with the PRIIPs Regulation?

As this is a request for data on costs related to compliance with the PRIIPs Regulation, we as a trade organization are not able to collect and share such data.

13. What are your experiences regarding the extent to which the PRIIPs Regulation is applied in a consistent manner across the EU for the most commonly sold types of PRIIPs? What are the main areas of inconsistencies?

The inconsistencies we have experienced are linked to the uncertainties in relation to the scope of the PRIIPs rules, especially in relation to corporate bonds. See also answers provided to the questions in section 3.5 about the scope of the PRIIPs Regulation.

3.4 Use of digital media

Extract from the call for advice

An assessment of the extent to which the PRIIPs Regulation is adapted to digital media. This survey shall include an evidence-based assessment of:

- *To the extent feasible, the actual use of various types of physical and digital media for delivering or displaying the PRIIPs KID to retail investors.*
- *To the extent feasible, the preferred digital or physical media for retail investors to access and read PRIIPs KIDs, and the appropriateness of the PRIIPs Regulation for allowing access to and readability of PRIIPs KID on such platforms.*
- *The appropriateness of the approach taken in the PEPP Regulation 2019/1238 for displaying the PEPP KID on digital media for the PRIIPs KID.*

Article 14 of the PRIIPs Regulation lays down rules regarding the types of media that can be used to provide the KID to the retail investor. It is specified that the use of paper format should be the default option where a PRIIP is offered on a face-to-face basis, but that it is also possible to provide the KID using a

durable medium other than paper or by means of a website, if certain conditions are met. These conditions include, for example, that the retail investor has been given the choice between paper and the use of another durable medium or website.

The PEPP Regulation[1] provides rules regarding the distribution of the PEPP KID either electronically or via another durable medium in Article 24. For the PEPP KID, electronic distribution can be seen as the “default” approach, but customers need to be informed about their right to request a copy on another durable medium, including paper, free of charge.

For PEPP KIDs provided in electronic format, the PEPP Regulation also allows for the layering of information (Article 28(4)). This means that detailed parts of the information can be presented through pop-ups or through links to accompanying layers. In general terms, layering allows the structure of the information to be presented in different layers of relevance: for example from the information “at a glance” that is essential for all audiences, to more detailed information being readily available in a subsequent layer for those interested, and so forth.

Concerning this topic, the ESAs would like to ask for feedback to the following questions:

[1] REGULATION (EU) 2019/1238 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 June 2019 on a pan-European Personal Pension Product (PEPP) (OJ L 198, 25.7.2019, p. 1)

14. Do you have or are you aware of the existence of data on the use of different media? If you have such data, would you be in a position to share it with the ESAs?

This is a request for data on the use of different media. We do not have or are aware of such data.

15. What are your experiences as a product manufacturer or product distributor or financial advisor regarding the preferred media for retail investors to access or read the KID? Are there challenges for retail investors to receive the KID in their preferred media, such as due to a certain medium not being offered by the distributor?

In general, in the Nordics most retail investors are used to receiving information digitally and signing agreements digitally. However, the way that the KID is represented or accessed by the retail investor differs between our members. E.g., one member has informed us that the PRIIPs KID is handed to retail investor in a face-to-face meeting, in practice the KID is displayed on a monitor alongside other documents and all documents are delivered digitally to the client after the meeting.

More and more retail investors are solely or at least predominantly using their mobile phones when they interact with investment firms. This should be taken into account when drawing up new legislation. The use of mobile phones pushes for better possibilities to divide information into high level information of significant importance to the customers and then giving the customer a possibility to access further details in a next step if the customer wants this information.

16. How do you as a retail investor, or association representing retail investors, prefer to receive or view the KID?

Not relevant (question to investor).

17. What are your experiences regarding the preferred media for product distributors and financial advisors when using the KID?

Generally, product distributors prefer digital versions of the PRIIPs KID.

18. Should changes be made to the PRIIPs Regulation so that the KID is better adapted to use on different types of media?

Yes. Also, we support the recent MiFID “quick fixes”, which establish electronic disclosure by default, while allowing investors to request paper disclosure. We find that this principle should be extended to all disclosure requirements so that distributors of financial products are required to make pre-contractual disclosure documents available in electronic format by default, but on paper by upon request.

19. Do you think it would be appropriate to apply the approach taken in the PEPP Regulation 2019 /1238 (highlighted above) to the PRIIPs KID?

Yes. The PEPP approach would be a much preferred improvement. Investors increasingly require interactive digital formats with information layered to render it more accessible.

3.5 Scope of the PRIIPs Regulation

Extract from the call for advice:

An examination of the following questions concerning the scope of the PRIIPs Regulation:

- *whether the exemption of the products referred to in Article 2(2) points (d), (e), and (g) of the PRIIPs Regulation from the scope of PRIIPs should be maintained, in view of sound standards for consumer protection, including comparisons between financial products.*
- *whether the scope of the PRIIPs Regulation should be extended to additional financial products.*

The points referred to Article (2) of the PRIIPs Regulation concern:

(d) securities as referred to in points (b) to (g), (i) and (j) of Article 1(2) of Directive 2003/71/EC;
(e) pension products which, under national law, are recognised as having the primary purpose of providing the investor with an income in retirement and which entitle the investor to certain benefits;
(g) individual pension products for which a financial contribution from the employer is required by national law and where the employer or the employee has no choice as to the pension product or provider.

In 2019 the ESAs published a Supervisory Statement on the application of the scope of the PRIIPs Regulation to bonds (JC 2019 64). In this statement it was stated that:

Ultimately, in order to fully address the risk of divergent applications by NCAs, the ESAs recommend that during the upcoming review of the PRIIPs Regulation, the co-legislators introduce amendments to the Regulation in order to specify more precisely which financial instruments fall within the scope of the Regulation. We would also recommend to reflect more expressly the stated intention of the PRIIPs Regulation[1] to address packaged or wrapped products rather than assets which are held directly, to avoid any legal uncertainty on this point.

Taking this Statement into account, the ESAs are interested in feedback on a number of additional issues besides those specified in the mandate from the Commission. Thus, concerning the topic of scope, the ESAs would like to ask the following questions:

[1] This is stated in recitals 6 and 7.

20. Do you think that the scope of the PRIIPs Regulation should be extended to any of the products referred to in Article 2(2), points (d), (e) and (g)? Please explain your reasoning.

No, we do not see a need for including the products referred to in the mentioned points. Including more products in the scope of the PRIIPs Regulation will just add on to the complexity of the scope and to the number of products for which manufacturers make PRIIPs KIDs and distributors are to provide PRIIPs KIDs to customers without adding much value to the retail investors. The primary purpose of the PRIIPs KID – to make it possible for the retail investor to compare between different products and types of products – does not seem relevant for the listed products, which also must have been the reason for leaving out the products when the scope was initially defined.

21. Do you think that the scope of the PRIIPs Regulation should be changed with respect to other specific types of products and if so, how?

Yes, we think the PRIIPs Regulation should be changed so that it does not apply to manufacturers' issues of bonds that are issued for the purpose of obtaining financing in the debt capital markets even though such bond may have call/put option features, interest rate step-ups, perpetual maturities and/or be subordinated. We have seen a significant drop in the distribution of bonds to retail investors due to the uncertainty of the scope of the PRIIPs Regulation which means that manufacturers restrict their distribution of bonds to be to non-retail investors only to mitigate the risk of the instrument later being deemed a PRIIP. The ESA Supervisory Statement although helpful in some areas still leaves some doubt on some areas of scope such as make-whole call options and changes to interest rate structures. We therefore suggest to generally carve out "plain vanilla bonds" from the scope of the PRIIPs Regulation. By "plain vanilla" we mean bonds where the interest rate and/or the payment of principal is not linked to a structural feature, but depends on the issuer's credit, and where the bonds are issued for the purpose of raising funding and not with the primary purpose of providing investors with an investment product such as a structured note.

Also, it should be considered whether derivatives that are not embedded in other products should be exempt from the PRIIPs KID requirement as most figures in the KID are more misleading than giving information to the client.

22. Do you think changes should be made to specify more precisely which types of financial instruments fall within the scope of the PRIIPs Regulation? Please specify the amendments that you think are necessary to the Regulation.

Yes. Not only because the scope has led to uncertainty in the market, but also because it has created an uneven playing field. Clients do not understand, why they cannot trade a product that lacks a KID at one distributor, but they can trade it with other distributors, because they interpretate the PRIIPs KID requirement differently. We experience the most problems with different types of bonds and products from outside the EU. The regulation needs to specify more precisely, which criteria within a product that triggers the PRIIPs KID requirement.

We suggest to generally carve out “plain vanilla bonds” from the scope of the PRIIPs Regulation. This should be done by either amending the definition of “packaged retail investment product” in Article 4(1) of the PRIIPs Regulation or by introducing an exemption in Article 2(2) of the PRIIPs Regulation to the overall scope of the PRIIPs Regulation.

23. Do you have specific suggestions regarding how to ensure that the scope of the PRIIPs Regulation captures packaged or wrapped products that provide an indirect exposure to assets or reference values, rather than assets which are held directly?

Making the PRIIPs Regulation applicable to products with an indirect exposure to assets or reference values not directly held by the retail investor would add a significant layer of uncertainty to the scope of the PRIIPs Regulation since it would be difficult to assess exactly what an indirect exposure would be and the number of exposures that could be deemed indirect is likely far higher than the number of direct exposures. If the scope of the PRIIPs Regulation is broadened by including indirect exposures, it is very likely that manufacturers will restrict distribution of their products to professional clients and eligible counterparties only to mitigate the risk of accidentally distributing a product which is later deemed a PRIIP.

24. Do you agree with the ESA Supervisory Statement relating to bonds and what are your experiences regarding the application of the Statement?

The ESA Supervisory Statement has been helpful, but the statement’s references to specific product features are in their nature backward-looking and hence do not address later or future product features such as e.g., interest rate step-up features linked to ESG targets in sustainability-linked bonds. We therefore suggest to generally carve out “plain vanilla bonds” from the scope of the PRIIPs Regulation.

25. Do you think that the definitions in the PRIIPs Regulation relating to the scope should take into account other elements or criteria, e.g. relating to the maturity of the product, or relating to a product only having a decumulation^[1] objective, or where there is not active enrolment^[2]?

[1] For example an annuity.

[2] This might include, for example, employment based incentive schemes

We suggest to generally carve out “plain vanilla bonds” from the scope of the PRIIPs Regulation as per the Q21-24 above.

26. Do you think that the concept of products being “made available to retail investors” (Article 5(1) of the PRIIPs Regulation) should be clarified, and if so, how?

The wording in PRIIPs (“made available to”) differs from the wording in other similar legislation (MiFID II uses the wording “recommend or market”), which give rise to confusion and misalignment between the scope of the different legislation all aimed at protecting the retail investors. Therefore, as the first priority we see a need for alignment across the legislation. If this is not a possibility a clarification in the Q&A or similar is a must.

27. Do you think it would be beneficial to develop a taxonomy of PRIIPs, that is, a standardised classification of types of PRIIPs to facilitate understanding of the scope and that could also be used as a basis for the information on the “type of the PRIIP” in the ‘What is this product?’ section of the

KID (Article 8(3)(c)(i) of the PRIIPs Regulation)? If yes, do you have suggestions for how this could be done?

We are skeptical towards the development of a taxonomy of PRIIPs, primarily as we see a risk of such taxonomy leading to conflicts towards the definitions in Mi-FID of financial instruments. It is important to avoid a risk for different definitions of the same products in PRIIPs and MiFID. We suppose the same risk will be relevant to highlight in relation to Solvency II.

3.6 Differentiation between different types of PRIIPs

Following a targeted consultation on PRIIPs towards the end of 2018, the ESAs' Final Report published in February 2019 (JC 2019 6.2), which proceeded further work on a review of the PRIIPs Delegated Regulation, stated (page 14):

- Differentiation between different types of PRIIPs: *taking into account information regarding challenges to apply the KID to specific product types, for example very short-term products or specific types of insurance or pension products, it is intended to analyse if it is appropriate to introduce some additional differentiation in how the rules apply to different types of products, while still adhering to the overarching aim of comparability between substitutable products.*

This aspect was considered during the review of the PRIIPs Delegated Regulation initiated in 2019, but this work was conducted within the constraints of the existing PRIIPs Regulation. In the context of reviewing the PRIIPs Regulation, consideration could be given to the following types of approaches:

- The development of broad product groupings or buckets of similar products. A more tailored approach could be taken for each of these groupings, with the aim to ensure the meaningfulness of the information and prioritising comparability within these groupings. This might also ease the comparability between the PRIIPs Regulation and sectoral legislation (such as MiFID, IDD) on certain disclosure requirements;
- A reduced degree of standardisation in the KID template;
- Provisions that would allow for supervisory authorities to grant exemptions or waivers from the requirements in duly justified cases.

28. Do you think that the current degree of standardisation of the KID is detrimental to the proper understanding and comparison of certain types of PRIIPs? If so, which products are concerned?

Reference is made to our answers to Q2 and Q3. We do believe that the standardisation is detrimental to the proper understanding of the products. As mentioned above we do not believe that the KIDs are easy to read for retail investors and the standardisation hinders that the information in the KID can be specified for each product or at least type of product. This means that we cannot specify the parts that are relevant to highlight for the investors in the way that would have been possible if the KIDs were less standardised.

Another issue is as mentioned the fact that the PRIIPs KID shall be used for very different kinds of products i.e., the intention is that the KID shall be used to compare different products which in practice can be hard to compare.

For some product this is very problematic e.g., for AIFs investing in private equity where the scenario analysis will be misleading due to the so-called J-curve for investments in such funds.

One of the fundamental problems of the PRIIPs KID stems from its inherent conflict to provide clear, fair and not misleading information and at the same time comparability between widely different types of investment products. In their current iteration, the rules are overly focused on comparability which has come at the cost of misleading information. The regulation should distinguish between products having the aim of capital accumulation and products that are used for hedging or speculation like derivatives.

29. Do you think that greater differentiation based on the approaches highlighted above, is needed within the PRIIPs Regulation? If so what type of approach would you favour or do you have alternative suggestions?

Greater differentiation between different types of PRIIPs could accommodate some of the concerns and challenges described above. It would make the KIDs more directly targeted to the specific type of product.

A suggestion would be to keep some of the fields in the KID as mandatory i.e., the key information about the product. For these fields will a strict guidance be kept on how to fill them out in accordance with the legislation. The rest of the fields should not be mandatory or at least should the content not be regulated as strict and standardised as today.

30. Do you have suggestions for how a product grouping or product buckets could be defined?

It is important that any product grouping or buckets take outset in the categorisation of products in MiFID and Solvency 2.

As we see it, a possibility could be to make some subgroups to the main categories in MiFID/Solvency 2 and then describe the features of such subgroups.

The most important division should be between products which are used for savings and products that are used primarily for hedging/speculation (derivatives).

3.7 Complexity and readability of the KID

Taking into account the views previously expressed by some stakeholders that the information in the KID is overly complex and contributes towards an information overload for the retail investor, the ESAs would like to ask for suggestions on how the KID could be improved in this respect.

There can also be a link between this issue and the use of techniques such as layering as referred to above in the context of the digital KID (see Section 3.4), as well as other design techniques, such as the inclusion of visual icons or dashboards at the top of documents[1].

[1] Dashboards can include the most essential information at the top of the document. This is the approach taken, for example, for the PEPP KID - "PEPP at a glance" in Annex I of PEPP Delegated Regulation 2021/473 point 4 and the template in part II.

31. Would you suggest specific changes to Article 8 of the PRIIPs Regulation in order to improve the comprehensibility or readability of the KID?

We refer to our answers to Q3 and Q4 as well as Q7.

32. How could the structure, format or presentation of the KID be improved e.g. through the use of visual icons or dashboards?

We refer to our answers to Q3 and Q4 as well as Q7.

3.8 Performance scenarios and past performance

In the ESAs' draft regulatory technical standards (RTS) to amend the PRIIPs Delegated Regulation submitted to the Commission in February 2021[1] (and adopted by the Commission on 7 September 2021 [2]), the ESAs included a proposed new requirement for certain types of investment funds and insurance-based investment products to publish information on the past performance of the product and refer to this within the KID. This approach was taken so that the availability of this information would be known, and the information would be published in a standardised and comparable format.

However, the ESAs also stated in the Final Report[3] accompanying the RTS that (on page 4):

the ESAs would still recommend, as a preferred approach, to include past performance information within the main contents of the KID on the basis that it is key information to inform retail investors about the risk-reward profile of certain types of PRIIPs. Since it has been argued that the intention of the co-legislators was for performance scenarios to be shown instead of past performance, it is understood that a targeted amendment to Article 8 of the PRIIPs Regulation would be needed to allow for this. A consequential amendment is also considered necessary in this case to allow the 3 page limit (in Article 6(4)) to be exceeded to 4 pages where past performance information would be included in the KID;

Besides the issue of past performance, the ESAs' work under the empowerment in Article 8(5) regarding the methodology underpinning the performance scenarios has raised significant challenges. Since the ESAs first started to develop these methodologies from 2014 onwards, it has proved very difficult to design appropriate performance scenarios for the different types of products included within the scope of the PRIIPs Regulation that would allow for appropriate comparisons between products, avoid the risk of generating unrealistic expectations amongst retail investors and be understandable to the average retail investor. In particular, no academic consensus has been reached on how to develop common performance scenarios that would be equally appropriate for all types of PRIIPs, proving the inherent difficulty of such an approach.

In this context, the ESAs would like to ask for feedback on:

[1] EIOPA's Board of Supervisors agrees on changes to the PRIIPs key information document | Eiopa (europa.eu).

[2] Implementing and delegated acts | European Commission (europa.eu)

[3] JC 2020 66 (30 June 2020)

33. Do you agree with the ESAs' assessment in the Final Report (JC 2020 66) regarding the treatment of past performance?

We agree with the ESAs' assessment that the preferred approach is past performance. This should also be seen in the light of the challenges with performance scenarios that is in risk of misleading rather than

informing the investors. As mentioned in answers above, it is a challenge for PRIIPs KID that it is supposed to make the investor able to compare very different products, which has proven not doable.

34. Would you suggest changes to the requirement in Article 8(3)(d)(iii) of the PRIIPs Regulation concerning the information on potential future performance, and if so what would you specifically change in the Regulation?

The performance scenarios are at risk of misleading rather than informing potential investors. See reply to Q40 below for suggestions.

3.9 PRIIPs offering a range of options for investment (Multi-Option Products (“MOPs”))

In the ESA Consultation Paper of October 2019 on proposed amendments to the PRIIPs KID (JC 2019 63), the ESAs stated that their analysis of the implementation of the rules for MOPs indicated some significant challenges regarding the clarity and usefulness of the information provided to retail investors. In particular, it was stated that (page 51):

Where a generic KID is used (in accordance with Article 10(b) of the PRIIPs Delegated Regulation), it is difficult for the investor to identify the total costs related to a particular investment option. This arises because the generic KID shows a range of costs, but does not always identify which costs are specific to an investment option and which costs relate to the insurance contract. At the same time, it is understood that the information on the underlying investment option (in accordance with Article 14 of the PRIIPs Delegated Regulation), does not usually include the total costs of investing in that option. Therefore, it is often not possible for the investor to identify from the generic KID the costs that may apply in addition to those shown in the option-specific information.

One of the proposals in the Consultation Paper was to introduce a differentiated treatment for the ‘most commonly selected investment options’ (page 52). In the final draft RTS following the consultation, the proposals relating to the most commonly selected investment options were not included taking into account various implementation challenges raised by respondents to the public consultation.

However, the ESAs introduced some specific changes to the approach for MOPs, for example to require the separate disclosure in certain cases of the costs of the insurance contract or wrapper. It was considered that these changes would result in material improvements to the current KID. At the same time, despite these proposed changes, there are still considered to be material issues that were not possible to address within the constraints of the review of the PRIIPs Delegated Regulation.

In the Final Report (JC 2020 66), the ESAs also stated at that stage that they consider the optimal way to address the challenges for MOPs is to use digital solutions, but that this would require changes to the PRIIPs Regulation.

As part of the May 2021 consultation from the Commission on the Retail Investment Strategy, feedback was also requested on the approach for MOPs to require a single, tailor-made KID, reflecting the preferred underlying investment options of each investor, to be provided.

In this context, the ESAs would like to ask for feedback on the following questions regarding potential alternative approaches for MOPs that might require a change of the PRIIPs Regulation:

35. Would you be in favour of requiring a KID to be prepared for each investment option (in accordance with 10(a) of the PRIIPs Delegated Regulation) in all cases, i.e. for all products and for all investment options[1]? What issues or challenges might result from this approach?

[1] This approach assumes complete investment in a single investment option and requires the KID to include all costs.

We do not have any MOPs in the Danish market.

36. Would you be in favour of requiring an approach involving a general product information document (along the lines of a generic KID) and a separate specific information document for each investment option, but which avoids the use of cost ranges, such as either:

- A specific information document is provided on each investment option, which would include inter alia all the costs of the product, and a generic KID focusing more on the functioning of the product and which does not include inter alia specific information on costs?; or
- The costs of the insurance contract or wrapper would be provided in a generic KID (as a single figure) and the costs of the underlying investment option (as a single figure) would be provided in the specific information document?

What issues or challenges might result from these approaches?

We do not have any MOPs in the Danish market.

37. Do you see benefits in an approach where KIDs are prepared for certain investment profiles or standard allocations between different investment options, or for the most commonly selected options? In this case, what type of information could be provided regarding other investment options?

We do not have any MOPs in the Danish market.

38. Do you have any other comments on the preferred approach for MOPs and or suggestions for changes to the requirements for MOPs in the PRIIPs Regulation?

We do not have any MOPs in the Danish market.

3.10 Alignment between the information on costs in the PRIIPs KID and other disclosures

In the final draft RTS amending the PRIIPs Delegated Regulation submitted to the Commission in February 2021 (and adopted by the Commission on 7 September 2021), the ESAs sought to introduce changes to the way that cost information is presented in the KID, in particular for non-insurance packaged retail investment products (PRIIPs)[1]. One of the aims of these changes is to achieve a better alignment with disclosure requirements in MiFID and IDD.

At the same time, the ESAs have received representations from stakeholders that there might still be inconsistencies or misalignment between the PRIIPs KID and disclosure requirements in other legislative frameworks. This issue is also related to the issue of appropriate differentiation between different types of PRIIPs (see Section 3.7).

Since the issue of consistency between different disclosure requirements for retail investment products is also addressed in the calls for advice to ESMA and EIOPA, the ESAs will, in particular, coordinate the work on this aspect, and consider the appropriate mandate within which to address any issues that arise.

[1] As defined in point (1) of Article 4 of the PRIIPs Regulation

39. Taking into account the proposals in the ESAs’ final draft RTS, do you consider that there are still other inconsistencies that need to be addressed regarding the information on costs in the KID and information disclosed according to other retail investor protection frameworks?

A very important point is that the cost disclosures must be aligned with the MiFID II requirements. Otherwise, disclosures will be misleading and retail investors will be confused.

The transaction cost methodology is difficult to follow and the value for the investors is questionable. Some flexibility in the methodology would make preparing PRIIPs KID easier, which in terms of costs also is an advantage for the investors. The more cumbersome documents etc. are to produce, the higher costs.

The transaction cost methodology in the revised RTS is flawed with regards to investment funds using antidilution mechanisms due to the new artificial floor on the transaction costs which is introduced as in Annex VI point 8a as:

“A minimum of explicit transaction costs, as referred to in point 11s of this Annex, shall be disclosed”

And in Annex VI point 11.1.c:

“The Anti-dilution benefit shall only be taken into account to the extent that the benefit does not take the total transaction costs below explicit transaction costs.”

The problem is that all antidilution mechanisms (i.e. swing, double pricing, dilution levies) are designed to cover BOTH implicit AND explicit transaction costs. So, in some cases the anti-dilution income – which is entirely real and fair – cannot be fully deducted. There is no theoretical argument for why this floor is introduced. Guesswork is that this is an attempt to fix the more general problem with negative transaction costs sometimes coming out of an arrival price model. This “fix” however does not repair the arrival price model, but instead it does wreck some funds using the new PRIIPs methodology having antidilution mechanisms.

This will harm any fund with equities and a lot of client in- or out-flows, and an anti-dilution mechanism. These funds will have to report wrongfully high transaction costs numbers to clients. Especially Exchange Traded Funds with equity are harmed and out of those especially the index funds, which often trade very little by themselves, but often have significant client flows needing to be traded, but here the anti-dilution

mechanism covers the flow transaction costs. They have in reality close to zero total transaction costs due to antidilution but will now be forced to report an artificially high number.

The problem for the Danish market is that almost all Danish funds are listed on Copenhagen Stock Exchange and these are Exchange Traded Funds with double pricing.

If the intention was to avoid confusion from getting any negative results at all from the total transaction costs – regardless of model, then a Fix could be the following

- Refrain from introducing Annex VI, point 8a and 11.1.c
- Introduce a requirement that says that the total Transaction costs must always be non-negative, and should be rounded up to 0, in case it is negative

3.11 Other issues

40. Do you think that other changes should be made to the PRIIPs Regulation? Please justify your response.

Costs: important that there is alignment between the legislation on how to calculate costs in MiFID and PRIIPs. It is misleading when the rules for PRIIPs can lead to negative transaction costs – no one get paid for investing and it leads to a risk that the investors mistrust the product and investment in general. The new artificial floor on transaction costs introduced in the revised RTS however introduces new flaws for funds using antidilution mechanisms.

Scenario analysis: we are concerned that the customers misunderstand the analysis and see this as the absolute best and worse scenarios i.e., they do not expect that the results could be better or worse than stated in the scenario analysis. We suggest that the KID instead could include information about the dependencies towards the underlying assets and how these dependencies will affect the returns. That would be more relevant and easier to understand for the retail investor.

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