Call for Input: PRIIPs Regulation – initial experiences with the new requirements

July 2018
We are asking for responses to this Call for Input by 28 September 2018.

You can send them to us using the form on our website at: www.fca.org.uk/priips-call-for-input-response-form

Or in writing to:
Retail Distribution Policy
Strategy & Competition
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Telephone: 020 7066 1000

Email: PRIIPsCfI@fca.org.uk
Chapter 1

Summary

Why we are issuing this Call for Input

1.1 We are seeking input from firms and consumers about their initial experiences of the requirements introduced by the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation\(^1\) and the related PRIIPs Regulatory Technical Standards (RTS)\(^2\) (together, the PRIIPs legislation). The PRIIPs legislation took effect in January 2018.

1.2 The PRIIPs legislation requires those who produce, advise on or sell PRIIPs to retail investors in the European Economic Area (EEA) to prepare and provide investors with standardised key information documents (KIDs). It aims to improve consumer understanding and outcomes by standardising the disclosures retail investors receive, giving them the ability to compare competing products. It is directly applicable and applies to a wide range of products.

1.3 We would like to hear from those who are producing, advising on, or distributing PRIIPs (and preparing and providing KIDs), and from consumers now using KIDs to decide whether to invest in these investment products.

1.4 We are aware there is some industry uncertainty about the scope of the PRIIPs Regulation – in particular, whether certain products are in or out of scope. We invite input on this in Chapter 2.

1.5 We also understand that there are concerns about the practical aspects of certain cost and risk disclosure requirements in the PRIIPs legislation, and in the resulting KIDs. In Chapter 3, we remind firms of what is required under the legislation, and invite input from firms and consumers about their experiences of the required disclosures. We also invite input on any other practical experiences with the remaining elements of the PRIIPs legislation.

Broader regulatory context

1.6 Alongside the PRIIPs legislation, there has been a series of recent reforms in the investment product market at both domestic and EU level. These are described more fully below in 1.8. Different legal and regulatory rule-sets apply to different types of investment products; there are different, and overlapping, disclosure requirements for manufacturers and distributors;\(^3\) and there are some differences in the timing, interaction and implementation of these various disclosure requirements.

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1 Regulation (EU) No 1286/2014.
3 Based on the definitions in the FCA Handbook Glossary: (i) firms that create, develop, issue and/or design investments, including when advising corporate issuers on the launch of new investments, are considered to be manufacturers; and (ii) firms that offer, recommend or sell investments or provide investment services to clients are considered to be distributors.
Despite the differences, the reforms have consistent aims: to improve the information that consumers get about products, and to deliver improved oversight and standards among product manufacturers and distributors.

The rules (like the PRIIPs legislation) include requirements for firms to provide consumers with information about indirect costs, including transaction costs (which are often referred to as the ‘hidden costs of investing’):

- The recast Markets in Financial Instruments Directive (MiFID II) took effect on 3 January 2018. In general terms, the MiFID framework applies to firms offering services in relation to, or dealing in, financial instruments. It includes new transparency and disclosure requirements, requiring firms to provide clients with information about aggregate costs and charges.

- The Insurance Distribution Directive (IDD) will take effect on 1 October 2018. It will introduce new standards for the distribution of general insurance and life insurance, including insurance-based investment products. Like MiFID II and the PRIIPs Regulation, the IDD includes an obligation on firms to disclose all costs and related charges when distributing insurance-based investment products.

- For defined contribution pension schemes, under the UK’s Pensions Act 2014, firms that operate workplace personal pension schemes (including group SIPPs established under trust) have been required since 6 April 2015 to establish and maintain an independent governance committee (IGC). An IGC must have at least 5 members, each with a clear duty to act independently of the firm. The Pensions Act also places a duty on the FCA to make rules requiring governance bodies to disclose information about transaction costs to scheme members. We are currently developing this, and expect to consult on our proposals before the end of the year.
### Table 1: Summary of disclosure frameworks applying to different sectors

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<th>Sector</th>
<th>Regulatory framework</th>
<th>Summary of requirements</th>
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<tr>
<td>Savings &amp; investments</td>
<td>• MiFID II (distributors)</td>
<td>Distributors need to:</td>
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<td></td>
<td>• PRIIPs (disclosure for packaged investment, insurance and banking products)</td>
<td>• understand customers’ needs</td>
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<td>• understand product features</td>
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<td>• disclose all costs as one number</td>
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<td>Manufacturers need to explain the product’s features including:</td>
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<td>• what is the product</td>
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<td>• what are the risks and potential reward</td>
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<td>• what is the cost (all costs)</td>
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<td>Workplace pensions</td>
<td>• Pensions Act 2014</td>
<td>Independent governance bodies need to:</td>
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<td></td>
<td>• COBS 19.5 / 19.8</td>
<td>• oversee that products are being managed fairly in the interests of consumers</td>
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<td>• assess whether charges and transaction costs represent value for money</td>
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<td></td>
<td>Manufacturers must:</td>
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<td></td>
<td></td>
<td>• charge no more than 0.75% admin charges</td>
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<td>• provide info to a governance body (on request) about admin charges and transaction costs</td>
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<td>Insurance-based investments</td>
<td>• IDD</td>
<td>Distributors need to:</td>
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<td></td>
<td>• PRIIPs (disclosure for packaged investment, insurance and banking products)</td>
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1.9 As well as these initiatives, our Asset Management Market Study (AMMS),\(^4\) which was finalised last year, found that there is weak price competition in several areas of the industry. It also found that investors’ awareness of and attention to charges is mixed and often poor. To address this, we are introducing, or have proposed, remedies focused on (i) providing protection for investors who are not well placed to find better value for money, (ii) driving competitive pressure on asset managers, and (iii) improving the effectiveness of intermediaries.\(^5\) This includes requiring asset management firms to focus on their value proposition, and to disclose how they are doing this.\(^6\)

1.10 Up to and since the PRIIPs legislation came into force, through the European Supervisory Authorities (ESAs), we have contributed to the development of EU-level guidance to support industry’s implementation of the PRIIPs legislation. And, at national level, we have published information to help firms with implementation. In addition to our ongoing supervisory activity, we are undertaking a thematic supervision project which includes assessment of compliance with the PRIIPs Regulation.

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\(^5\) [www.fca.org.uk/publications/market-studies/asset-management-market-study](http://www.fca.org.uk/publications/market-studies/asset-management-market-study)

1.11 Since the PRIIPs (and related MiFID II) legislation took effect, we understand there may be issues which could have an impact on the effectiveness of the requirements. This Call for Input seeks feedback on the following aspects of the PRIIPs legislation:

- scope
- cost disclosure
- risk disclosure
- other experiences of preparing information in, or using, a KID

Who should read this paper

1.12 This Call for Input will be of interest to:

- consumers and their representative bodies
- those who manufacture PRIIPs and those who advise on or distribute PRIIPs, including but not limited to:
  - issuers of securities that are classed as PRIIPs (including businesses that do not require Part 4A authorisation under FSMA)
  - life companies
  - discretionary investment management firms
  - firms providing services in relation to insurance-based investments
  - fund managers
  - wealth managers
  - stockbrokers and other firms that provide advice to retail clients on funds, structured products and derivatives
  - financial advisers
  - firms operating retail distribution platforms

Next steps

1.13 Please send us your input and accompanying evidence by 28 September 2018.

1.14 We will review the responses and aim to publish a feedback statement on this Call for Input in early 2019. The responses will also inform our future engagement on the PRIIPs legislation with the ESAs and other national competent authorities.
2 Scope of the PRIIPs Regulation

2.1 The PRIIPs Regulation applies to all PRIIP manufacturers, and advisers or distributors offering PRIIPs to consumers in the EEA, irrespective of whether the business is engaging in financial services activities requiring authorisation. This means that some firms doing business in the UK are subject to the PRIIPs Regulation even though they are not carrying out regulated activities and do not need to be authorised by the FCA under Part 4A of FSMA.

2.2 The PRIIPs Regulation is focused on helping consumers compare investments and make informed investment decisions. It requires a product manufacturer to prepare a KID, produced in a standardised format, which explains, in clear and simple language:
   - what the product is
   - the risks and potential rewards
   - the costs

2.3 We know there is some industry concern about how to correctly interpret the scope of the PRIIPs Regulation. We want to hear more about the impact of this on firms and consumers, particularly if a lack of clarity has changed behaviour in the markets.

PRIIPs definition

2.4 The PRIIPs Regulation sets out a broad definition of what kind of investment is a PRIIP. In summary, it defines a PRIIP as a product that, regardless of its legal form or construction, is:
   - an investment product where the amount repayable to the retail investor is subject to fluctuations because of exposure to reference values or to the performance of one or more assets that are not directly purchased by the retail investor, or
   - an insurance-based investment product which offers a maturity or surrender value that is wholly or partially exposed, directly or indirectly, to market fluctuations

2.5 Some products, such as non-life insurance products, certain life insurance contracts, deposits other than structured deposits, certain securities and pensions, among others, are specifically excluded from the scope of the PRIIPs Regulation.

2.6 Manufacturers of retail investment and insurance products, and persons advising on or selling those products to retail investors, are responsible for assessing which products are within the scope of the PRIIPs Regulation. The European Commission’s (Commission) guidelines on the application of the PRIIPs Regulation state that the

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7 See Article 4(1), (2) and (3), read together with Recital 6.
8 See Article 2.
assessment must consider the specific economic features and contractual terms and conditions of each product.

2.7 Consistent with the legislation and the Commission’s guidelines, we have published non-exhaustive lists of products that we consider fall within, or outside, the definition of a PRIIP.\textsuperscript{10} We consider that the following products fall within the PRIIPs definition:

- investment funds (whether regulated or not)
- structured products and structured deposits
- derivatives
- certain non-pension annuities
- several insurance-based investment products

2.8 Reports from market participants suggest it may not always be clear whether certain investment products are PRIIPs – in particular, whether certain corporate bonds (such as corporate bonds with ‘make-whole’ clauses or callable bonds)\textsuperscript{11} are in or out of scope. There are penalties for non-compliance with the legislation. To manage this non-compliance risk, recent bond market data indicate that:

- firms might be avoiding issuing certain corporate bonds to retail investors in the primary market
- distributors are stopping sales of certain corporate bonds to retail investors in the secondary market

2.9 If retail investors are less able to access the primary and secondary corporate bond markets, this limits both the depth and diversity of corporate funding sources. It also limits the ability of retail investors to roll-over or divest from existing corporate bond investments.

2.10 We understand concerns in relation to the European bond market have also been brought to the attention of other European regulators. The ESAs have recently written to the Commission about this. Separately, we will continue to engage with other European regulators, the ESAs and the Commission.

2.11 We have also received industry reports suggesting there is uncertainty whether other products, such as UK real estate investment trusts and certain foreign exchange contracts, are in or out of scope.

2.12 We would like to know more about these scope issues, from providers, distributors and investors, to assess their nature, extent, and possible impacts on the behaviour in the markets. More generally, we would like to understand the responses by market participants to uncertainties (whether perceived or actual) relating to their assessment of the scope of the PRIIPs Regulation. This information will inform our regulatory responses and enable us to support any future work carried out by the ESAs in this area.

\textsuperscript{10} https://www.fca.org.uk/firms/priips-disclosure-key-information-documents
\textsuperscript{11} A make whole call provision is a type of call provision on a bond that allows the issuer to pay off all or part of the debt early.
We would be interested to know whether there are any other products about which firms are unclear as to whether they fall in or out of the scope of the PRIIPs Regulation. We would also like to know about any difficulties firms may have faced in seeking to resolve the uncertainty.

Q1: Are you experiencing problems with clarifying the scope of the PRIIPs Regulation? Please provide examples of product types where you believe there is uncertainty as to whether they are in scope.

Q2: Have you tried to resolve this uncertainty and faced difficulties in doing so? If so, please provide details and examples of the difficulties you have faced.
3 Contents of the KID

3.1 This chapter invites manufacturers of PRIIPs to provide evidence of the practical challenges involved in calculating information to be disclosed in the KID. It also invites investors to describe their experience of using KIDs when making investment decisions.

3.2 The PRIIPs Regulation contains several specific requirements for the disclosure of aggregate costs and charges, investment risk, and performance scenarios. The PRIIPs RTS set out the methodologies that must be followed in calculating, assessing and presenting the information to be disclosed.

3.3 We have already received some feedback from firms, trade associations and service providers suggesting there may be a degree of confusion, in certain contexts, about what the new disclosure requirements entail in practice. In this chapter, we look at these potential issues.

3.4 We would like to better understand industry experience of complying with their disclosure obligations under the PRIIPs legislation.

3.5 For the purposes of complying with the PRIIPs Regulation, firms must consider the actual requirements as set out in the PRIIPs Regulation and detailed in the PRIIPs RTS, and should not regard what is said here as a summary of, or guide to, these requirements or their application to their circumstances.

Portfolio transaction costs

3.6 Firms operating in the PRIIPs market are now required to calculate and disclose transaction costs in the KID. This includes implicit transaction costs which are included in the price of a transaction. The PRIIPs RTS prescribe methodologies to calculate these costs. These methodologies include, in general terms:

- An ‘actual transaction costs’ methodology.\(^{12}\) We describe this as ‘slippage’. The slippage methodology must be followed where the PRIIP has been operating for at least 3 years, and invests in underlying assets (which are transferable securities and other instruments for which there are frequent trading opportunities and publicly available pricing information). Typically, these PRIIPs are investment funds, including insurance investments.

- An ‘estimated costs’ methodology.\(^{13}\) This must be followed for PRIIPs investing in underlying assets other than liquid instruments (which would bring a PRIIP into the slippage methodology).

- A ‘new PRIIPs’ methodology.\(^{14}\) This may be followed where a product has been in operation for less than 3 years.

\(^{12}\) PRIIPs RTS Annex VI points 12–18.
\(^{13}\) PRIIPs RTS Annex VI points 19–20.
\(^{14}\) PRIIPs RTS Annex VI points 21–23.
3.7 We are aware of concerns from firms about the practical application of the slippage methodology.

3.8 Slippage is the difference between the price at which a trade is executed and the ‘arrival price’ when the order to trade is transmitted to the market. It captures the bid-ask spread, as well as what is called the market impact, which is the effect that an order has on the price during the time that it is in the market. It assumes that any element of market fluctuation during the time that the order is being executed is random. The PRIIPs legislation requires slippage to be calculated across all transactions for a product over a 3-year period. When slippage is calculated over many transactions, this random element should average out to approximately zero.

3.9 This methodology is comparable to other widely used metrics in the investment industry. For example, to estimate the risk of a portfolio relative to an index, investors use a measure called tracking error: this assumes that correlations between the returns of investments are stable over time. Like slippage costs, the tracking error approach is more accurate at the level of a portfolio over a long period of time than at the level of an individual security.

3.10 Many firms use systems that calculate slippage costs. But, for many other firms, we recognise that this is an entirely new area of disclosure, and one where firms might be facing unexpected technical issues.

3.11 We are aware that some funds are disclosing negative transaction costs, and firms have raised concerns about doing this. We have analysed these. The charts below illustrate our findings.

3.12 Chart 1 shows transaction costs reported by some listed investment companies under the PRIIPs Regulation. The broad picture is that most investment companies are reporting small positive transaction costs. A small number are reporting material negative transaction costs. Some of these appear to be investing in illiquid assets. As noted in 3.18 below, negative transaction costs should not be possible for products investing in illiquid assets.
3.13 We have also reviewed funds which are disclosing transaction costs under MiFID II. The requirements under MiFID II are less prescriptive than under PRIIPs in relation to the methodology for calculating these costs. We are aware that many funds are using the PRIIPs methodologies. Chart 2 shows that most funds are reporting small positive transaction costs, with around 5% of funds reporting zero transaction costs and a small number of funds reporting negative transaction costs of less than -0.1%.

Chart 2: Funds reporting transaction costs

Source: Morningstar data, FCA analysis – all funds available for sale in the UK with transaction cost data (c.6,700 funds)
3.14 Negative transaction costs are not necessarily inaccurate. Transaction costs represent the loss of value to the consumer that happens when a transaction takes place, for example the bid-offer spread or commission costs. But there can also be a gain in value in some circumstances, for example if the investor is able to buy at the bid price or sell at the offer price.

3.15 We have been undertaking supervisory work to better understand any issues with transaction cost reporting. We have reviewed example portfolios and have found significant calculation errors. When these are corrected, overall portfolio transaction costs for these portfolios are positive. That is, we have found that some firms are failing to properly disclose costs to investors as required under the PRIIPs legislation. Where we find issues during our supervisory work, we get firms to address them.

3.16 Examples of issues we have identified include situations where:

- the arrival price has been incorrectly adjusted for corporate actions, but the transaction price has not
- the arrival price for a liquid share is clearly incorrect as it is not the opening or previous closing price, and is significantly outside the high-low of the day
- the arrival price is in a different currency from the transaction price
- the transaction price for a bond includes accrued interest but the arrival price does not

3.17 These issues can be identified through data checks and controls. For example, firms might:

- check whether the transaction and arrival price is within the daily high-low
- identify the individual trades which are the largest positive and negative contributors to total transaction costs
- identify any investments which consistently make a large positive or negative contribution to transaction costs

3.18 We also understand that firms may be experiencing difficulties with calculating the transaction costs associated with transactions in OTC instruments – in particular, non-standardised OTC derivatives. Generally, for transactions in illiquid assets, the PRIIPs RTS require transaction costs to be calculated based on either the last valuation of the illiquid asset (adjusted for market movements) or the fair value. These costs must not be less than the amount of actual identifiable costs. So, there should never be a situation where a PRIIP that invests only in illiquid assets reports negative transaction costs.

3.19 The PRIIPs RTS require firms to calculate slippage based on the intra-day ‘arrival price’, using the price at the time the order is transmitted to another person for execution. Where such a price is not available, firms are permitted to use opening prices or previous closing prices. For transactions prior to 31 December 2017, the PRIIPs RTS

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15 PRIIPs RTS Annex VI point 10.
16 PRIIPs RTS Annex VI point 19.
17 PRIIPs RTS Annex VI point 20.
permit firms to consider intra-day prices as not available. We understand that, where firms use this transitional provision there may be situations where the element of random market fluctuation described in 3.8 can be somewhat more significant. But, based on examples we have seen, calculation errors have a much more significant impact than this.

3.20 We have also received questions about the deduction from transaction costs of any benefits generated by the operation of anti-dilution mechanisms. These mechanisms are used to protect the interests of ongoing investors. In an open-ended investment, anti-dilution mechanisms aim to pass the specific transaction costs of purchasing or redeeming underlying assets on to the incoming or outgoing investors, rather than having such costs borne by ongoing investors in the product. The PRIIPs RTS permit the monetary amount of any anti-dilution levy, or the benefit from pricing-based anti-dilution mechanisms, to be subtracted from the transaction costs calculated under slippage, provided the monetary amount or benefit is paid to or received by the PRIIP itself.

3.21 We have received examples of calculations of transaction costs where net transaction costs are negative after adjusting for gains to the product from anti-dilution mechanisms. We believe this should not generally happen in practice. If an anti-dilution mechanism generates enough gains to significantly exceed all the product’s transactions costs, then this may be evidence that the mechanism is being misused for purposes other than to offset the impact of dilution from transactions in the PRIIP itself. Anti-dilution mechanisms may only be used by UK authorised funds to reduce dilution. We note that the PRIIPs rules (and, in the context of workplace pension schemes, COBS 19.8.21R) permit firms to subtract any gains from anti-dilution from aggregate transaction costs, but do not require them to do so.

3.22 We would like to hear about your experiences and any concerns with the calculation methodology.

Q3: Have any of your calculations of transaction costs under the slippage methodology led to negative, zero or unexpectedly large transaction costs? If so, please provide examples, together with the full calculation of how the output has been obtained, and explaining any assumptions that have been made.

3.23 Subject to our findings, and if appropriate, we will consider running workshops to support firms with their compliance activities in relation to these requirements.

3.24 Where we see non-compliance with the requirements we will consider appropriate supervisory and enforcement action.

3.25 Public disclosure of transaction costs, using the PRIIPs methodologies, is a new requirement. We have heard from consumer groups that consumers may be struggling to understand the significance of this information. We believe that, over time, greater familiarity with transaction costs should encourage consumers to better understand the transactions being carried out on their behalf, and the related costs.

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18 PRIIPs RTS Annex VI point 15.
19 PRIIPs RTS Annex VI point 11.
20 See COLL 6.3.8R.
Q4: If you are an investor (or represent investors), what has been your experience with disclosures of transaction costs? Have you found these disclosures helpful in making your investment decision? Conversely, have you come across disclosures of costs which you found difficult to understand, or which you felt unable to rely on? Please provide supporting examples and evidence.

Risk disclosure

3.26 The PRIIPs Regulation requires the KID to include a section titled ‘What are the risks and what could I get in return?’. This must include a summary risk indicator (SRI), supplemented by a narrative explanation of that indicator, its main limitations and a narrative explanation of the risks which are materially relevant to the PRIIP and which are not adequately captured by the summary risk indicator.²¹ The PRIIPs RTS²² set out a prescribed presentation of, and methodology for calculating, risk in the KID. This has 2 main elements.

- The first is the SRI. This is a standardised risk score between 1 and 7, which is based on a quantitative analysis.

- The second is a narrative disclosure of the main risks associated with the investment, including required and optional elements.

3.27 The SRI uses different methodologies to calculate the risk score, depending on the characteristics of the product and whether the product has a performance history. The main methodologies estimate the risk based on historical changes in the price of the product, or on some other factor on which the product’s return is based or may be assumed to be based. Firms are also required to describe the other main risks that are not included in the SRI, but this is limited to 200 characters.

3.28 Some product providers have raised concerns with us that the SRI might, in some cases, be misleading. This may be because either the risk of the product does not appear to be adequately captured by the SRI, or the product has a significantly different SRI from other economically equivalent products.

3.29 The risk scale of the SRI is like the Summary Risk and Reward Indicator (SRRI) scale for the UCITS Key Investor Information Document (KIID). Both score products on a scale of 1-7, where 1 is the lowest risk and 7 the highest. But because there is a much wider range of products, with a much wider range of risks, within the scope of PRIIPs, the PRIIPs SRI is calibrated differently from the UCITS SRRI. This means that the risks of a PRIIP and a UCITS cannot be directly compared by reference to the SRI/SRRI. We consider this to be a temporary issue which will be addressed when all UCITS funds start producing the PRIIPs KID. At present, firms offering UCITS are required to issue KIIDs instead of PRIIPs KIDs under a transitional exemption due to expire at the end of 2019.

3.30 Some product providers and distributors have raised concerns with us that the risks of certain products may be significantly greater than the SRI appears to show. For example,
some managers of venture capital trusts and real estate investment trusts have raised concerns that the SRI may be giving a misleading impression of the risks of investing in the product as the SRI is required to be calculated based on price volatility. This means that a product that trades infrequently might appear less risky than one that trades frequently.

3.31 We have also heard concerns that there can be some inconsistencies between the SRI for broadly similar products, such as venture capital trusts and enterprise investment schemes, depending on whether the product has a frequently available published price.

Q5: Please provide your views, supported by evidence, on the SRI and on the extent to which the required and optional sections of the risk narratives enable the risks of a product to be adequately explained to consumers.

Q6: Do you have any examples of products where the prescribed methodology for assessing and presenting risk leads to a counter-intuitive or potentially misleading SRI? If so, please provide examples.

Performance scenarios

3.32 Firms are required to include appropriate performance scenarios in the KID, together with information about the assumptions made to produce them. This is done by presenting 4 possible scenarios for the performance of the product, calculated according to the method set out in the PRIIPs RTS.

3.33 A similar calculation model is prescribed for the calculation of performance scenarios as for assessing risk for the purposes of the SRI. The model simulates possible outcomes by considering the returns, and fluctuations in those returns, over the previous 5 years.

- The moderate performance scenario is based on the average return.
- The favourable and unfavourable scenarios reflect the 90th and 10th percentile returns, respectively, from the simulation.
- The stress scenario is calculated according to a slightly different model.

3.34 We are aware of 2 issues about performance scenarios.

- Examples where a product has experienced returns over the previous 5 years that are above the long-run average return, or what might be a reasonable expectation of future return. In this case, the moderate performance scenario can give an unrealistic picture of the likely future return of the product. And even the unfavourable scenario might also show an optimistic outcome. It is also possible, when previous performance has been very poor, that the moderate, or even the favourable, scenario might show a material loss of capital over the recommended holding period (RHP).

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24 This disclosure is an area where there is a significant difference with the UCITS KIID which discloses historical performance.
• Examples where a product has a short RHP, particularly when it is very short (for example, 1 day). The PRIIPs RTS require the scenario to be presented as an annualised number (by compounding the return over a year). In practice, it may be unlikely, or impossible, for an investor to experience compound returns in this way. For this reason, the compounded return may give a misleading impression of the potential outcome of the product.

3.35 The presentation of the scenarios, and the accompanying narrative, explains that they are not a forecast of future return, and that they are intended to be illustrative. Even so, there is a risk that a consumer might assume that they are at least, to some extent, indicative of the potential return that might be derived from the product, and form the wrong impression of potential rewards on offer.

3.36 We published a statement\(^{25}\) in January 2018 saying that:

- where a PRIIP manufacturer is concerned that performance scenarios in their KIDs are too optimistic, such that they may mislead investors, we are comfortable with them providing explanatory materials to put the calculation in context and to set out their concerns for investors to consider
- where firms selling or advising on PRIIPs have concerns that the performance scenarios in a particular KID may mislead their clients, they should consider how to address this, for example by providing additional explanation as part of their communications with clients

Q7: Have you experienced any practical issues with the calculation and presentation of performance scenarios in the KID? If so, please provide details so that we can identify any further practical difficulties not fully contemplated in our statement of January 2018.

Q8: Have consumers who are using KIDs to make investment decisions encountered any issues with the performance scenarios presented to them?

3.37 In addition to the matters discussed in detail in this chapter, we would welcome feedback from firms and consumers about their overall experience preparing, providing or using the KID. Areas for feedback might include:

- how the KID is presented
- the prominence of information in it
- examples where the mandatory wording causes issues
- how the KID is provided
- how the KID and supplementary material is working for multi-option products

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Q9: Are there any other experiences with the implementation of (and compliance with) the PRIIPs legislation that you wish to raise with us? Please include evidence to support the points you make.

Q10: As a user of the KID what is your overall experience of the information provided? Please provide examples of where the information received is useful in informing investment decisions.
Questions

Q1: Are you experiencing problems with clarifying the scope of the PRIIPs Regulation? Please provide examples of product types where you believe there is uncertainty as to whether they are in scope.

Q2: Have you tried to resolve this uncertainty and faced difficulties in doing so? If so, please provide details and examples of the difficulties you have faced.

Q3: Have any of your calculations of transaction costs under the slippage methodology led to negative, zero or unexpectedly large transaction costs? If so, please provide examples, together with the full calculation of how the output has been obtained, and explaining any assumptions that have been made.

Q4: If you are an investor (or represent investors), what has been your experience with disclosures of transaction costs? Have you found these disclosures helpful in making your investment decision? Conversely, have you come across disclosures of costs which you found difficult to understand, or which you felt unable to rely on? Please provide supporting examples and evidence.

Q5: Please provide your views, supported by evidence, on the SRI and on the extent to which the required and optional sections of the risk narratives enable the risks of a product to be adequately explained to consumers.

Q6: Do you have any examples of products where the prescribed methodology for assessing and presenting risk leads to a counter-intuitive or potentially misleading SRI? If so, please provide examples.

Q7: Have you experienced any practical issues with the calculation and presentation of performance scenarios in the KID? If so, please provide details so that we can identify any further practical difficulties not fully contemplated in our statement of January 2018.

Q8: Have consumers who are using KIDs to make investment decisions encountered any issues with the performance scenarios presented to them?
Q9: Are there any other experiences with the implementation of (and compliance with) the PRIIPs legislation that you wish to raise with us? Please include evidence to support the points you make.

Q10: As a user of the KID what is your overall experience of the information provided? Please provide examples of where the information received is useful in informing investment decisions.
# Annex 2

## Abbreviations used in this document

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMMS</td>
<td>Asset Management Market Study</td>
</tr>
<tr>
<td>DWP</td>
<td>Department for Work and Pensions</td>
</tr>
<tr>
<td>EEA</td>
<td>European Economic Area</td>
</tr>
<tr>
<td>ESA</td>
<td>European Supervisory Authority</td>
</tr>
<tr>
<td>FSMA</td>
<td>The Financial Services and Markets Act (2000), as amended</td>
</tr>
<tr>
<td>IDD</td>
<td>Insurance Distribution Directive</td>
</tr>
<tr>
<td>KID</td>
<td>Key Information Document</td>
</tr>
<tr>
<td>MiFID II</td>
<td>Markets in Financial Instruments Directive (2014/65/EU)</td>
</tr>
<tr>
<td>NURS</td>
<td>Non-UCITS Retail Scheme</td>
</tr>
<tr>
<td>PRIIP</td>
<td>Packaged Retail and Insurance-based Investment Product</td>
</tr>
<tr>
<td>PRIIPs Regulation</td>
<td>Regulation (EU) No 1286/2014</td>
</tr>
<tr>
<td>PRIIPs RTS</td>
<td>PRIIPs Regulatory Technical Standards – Commission Delegated Regulation (EU) 2017/653</td>
</tr>
<tr>
<td>RTS</td>
<td>Regulatory Technical Standards</td>
</tr>
<tr>
<td>SRI</td>
<td>Summary Risk Indicator</td>
</tr>
<tr>
<td>SRRI</td>
<td>Summary Risk and Reward Indicator</td>
</tr>
<tr>
<td>UCITS</td>
<td>Undertakings for Collective Investment in Transferable Securities</td>
</tr>
</tbody>
</table>
We have developed this work in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 9644 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square London E20 1JN.