

ESAs CONSULTATION Amendments to the PRIIPs KID

AMAFI's comments

EXECUTIVE SUMMARY

Scope of the review

AMAFI considers that PRIIPs revision should include the Level 1 text. Indeed, it seems impossible to resolve some issues (for example regarding the RiY) without making some amendments to the Level 1. To avoid any more disruptive effect, AMAFI considers that all texts should be revised at the same time.

Objectives of PRIIPs Revision

AMAFI outlines that PRIIPs Revision should meet 2 objectives:

- (1) **Improve the quality of information provided to retail investors**
- (2) **Simplify the regime**, to make the KID more understandable by retail investors and less complex for manufacturers to implement and comply with, while preserving some continuity with the current Version 1 KID.

To that end, amendments should be targeted to what is necessary to improve and avoid any over complicated and costly changes for all stakeholders (including avoiding any overflow of information provided within the KID). Indeed, the transition should not be too disruptive versus the existing KID, to which advisors and distributors are now used to. The key area of focus should be a change of the methodology of calculating performance scenarios as well as simplification of the cost tables.

Timeline for application of PRIIPs RTS “version 2” and “grandfathering clause”

In AMAFI's view, to facilitate the understanding of the changes for all stakeholders including investors, all the amendments proposed in the consultation paper should entry into force **in one time and at the beginning of 2022 for all PRIIPs**.

It is also essential that **ESAs should provide a “grandfathering period”**, no longer that **one year**, for Category 3 PRIIPs issued before the entry into force of the new DR that will still be available to investors.

Performance scenarios

AMAFI is strongly opposed to any use of illustrative scenarios both on stand-alone and combined with probabilistic scenarios for many reasons and **particularly for derivatives and structured products (for Category 1 and 3 PRIIPs)**.

- **Illustrative scenarios deprive investors from relevant and reliable information** on performances (such as potentially low exit values or low stress scenarios) and raise significant issues of comparability and consistency between PRIIPs and among manufacturers.
- **Such scenarios are impossible to implement in a unified way due to the diversity of products** across the EU. Defining regulatory guidelines that would limit discrepancies among product categories and/or among manufacturers of the same type of product and updating them regularly would also be an extremely complex exercise. This may result in goldplating by NCA.
- **They cannot be automatized** which is very problematic when a high number of products and a large spectrum of payoffs are involved, as is the case for structured products and derivatives.
- They might **not rightfully reflect the behaviour of complex path-dependent products**.
- This will lead to **a major inconsistency** for structured products which are wrapped within an insurance wrapper turning it into an IBIP: **the same product would be treated completely differently (illustrative vs. probabilistic)**.

AMAFI supports the exclusive use of probabilistic scenarios and ESAs' proposal to remove the historical drift that indeed should be replaced by a reference rate and an asset specific risk premium. With the objective of comparability in mind, such approach is the most relevant one and seems granular enough to provide good information to investors. Probabilistic scenarios are indeed the best option for derivatives and structured products (Category 1 and 3 PRIIPs).

However, AMAFI has some divergences with the ESAs proposals for identifying the reference rate and the risk premium. We especially **disagree with a decomposition of risk-free rate per country**, and per sector. **A risk premium per asset class, fixed and provided by the ESAs is the best solution.**

Regarding the presentation of performance scenarios, **AMAFI is opposed to introducing the mention "this is the maximum/minimum you can get"** as it represents a huge technical challenge because this is impossible to implement in a unified and consistent way across the same product category (e.g. for autocalls, the maximum return depends on the early redemption date). Moreover, it would not be relevant in some cases where losses or gains are potentially unlimited.

AMAFI is of the view that the IHP used in performance scenarios and costs tables should be the same to be consistent for the sake of retail investor's understanding.

Cost presentation

AMAFI supports combining the Table 1 of the Option 1 (and, ideally, not use a RiY but a TER) and the Table 2 of the Option 2 considering that:

- (1) Cost table should be simplified and not complexified by providing investors more and more figures;
- (2) RiY indicator should be removed, both because most investors do not understand it and because it is not consistent with MiFID 2.

On the contrary, **AMAFI rejects Option 3 which contains to many data points (33 data points)** and is even more complex to understand than the current regime. AMAFI also rejects Option 4 because costs are not displayed in percentage and some of them may be repeated several times which is not easily understandable.

About AMAFI

Association française des marchés financiers (AMAFI) is the trade organisation working at national, European and international levels to represent financial market participants in France. AMAFI members consist of investment firms and credit institutions (French, European and global firms), operating in and/or from France (corporate and investment banks (CIBs), brokers-dealers, exchanges, and private banks). **AMAFI is deeply involved in all regulatory matters that concern financial instruments** (MiFID, PRIIPs, intervention measures and product bans, AMF framework on product complexity, etc.). **As far as financial products are concerned, we mostly represent all issuers/manufacturers of products (CIBs) and, through our private bank members, distributors as well.** AMAFI has more than 150 members operating in equities and fixed-income and interest rate products, as well as commodities, derivatives and structured products for both professional and retail clients.

AMAFI welcomes the opportunity to give feedbacks on ESAs' Joint Committee's (hereafter "ESAs") proposed amendments to the PRIIPs KID. Indeed, AMAFI is particularly attentive to this regulation which has a considerable impact on its members. This is why AMAFI previously provided several feedbacks to the main stakeholders about issues encountered by members since the entry into application of PRIIPs.

Taking into account the typology of its members, the developments formulated below by AMAFI only concern structured and derivatives products (Category 1 and 3 PRIIPs).

Please find here below our detailed answer as presented in the ESAs CP.

CONTEXT AND APPROACH TO THE REVIEW

- **Scope of the current review**

Q1 Are there provisions in the PRIIPs Regulation or Delegated Regulation that hinder the use of digital solutions for the KID?

None that AMAFI is aware of.

Q2 Do you agree that it would be helpful if KIDs were published in a form that would allow for the information to be readily extracted using an IT tool?

AMAFI considers that such development might be helpful but should be undertaken in closed cooperation with distributors that would play a pivotal role in the effective dissemination of this information to the end investors.

In that context, we may outline that for exchange of data contained in the KIDs between manufacturers and distributors, there are already existing platforms and templates, such as the EPT (“European PRIIPs Template” – drafted by FinDaTex – ex-European Working Group).

However, it may be important to note as well that the narrative section (e.g. product description) cannot really be considered as a meta-data given the large diversity of possible structured payoffs.

- **Intended timeline and next steps**

Q3 Do you think that the amendments proposed in the consultation paper should be implemented for existing PRIIPs as soon as possible before the end of 2021, or only at the beginning of 2022?

In AMAFI’s view, **all products captured by PRIIPs (both UCITs and existing PRIIPs) should apply the revised RTS on the same application date on beginning of 2022** for the following reasons:

- Investors are used to the current KID and will need time to adapt to the new one.
- Distributors will also need to be trained on the changes. We believe it will be easier to explain changes if all products switch to the new version at the same time.
- For structured products, technically the KID generation set-up under the current RTS are very heavy IT workflows: manufacturers will need appropriate time to implement and test the required changes to adapt their set-up.

Moreover, AMAFI considers as important that amendments **should be finalized after and taking into account conclusions of consumers testings** to ensure that the future KID meets investors’ needs.

It is also important to note that "existing PRIIPs" (i.e. Category 1 and 3 PRIIPs) made available to retail investor before the entry into force of RTS V2 need a **“grandfathering clause” for a period of 1 year**.

Indeed, from the entry into force of the revised DR (1st January 2022), KIDs would be produced taking into account the numerous changes. For “existing PRIIPs” already available to retail investors before this date, it would be difficult to change all the existing KIDs as it will represent a huge volume of products. Manufacturers need the “grandfathering” period to have the time to make those changes.

More importantly, without this “grandfathering clause”, consumers investing in the same PRIIP either just before or after 1st January 2022 will not have the same KID and so will have different information which is not compliant with the principle of treating fairly clients.

During this period, for “existing PRIIPs”, manufacturers will be allowed either to use the initial template (“KID V1”) or, if they are ready switch their existing products to the new template (“KID V2”).

Moreover, this “grandfathering period” is consistent with the requirement to review at least annually the information contained in the KID (*PRIIPs DR, art. 15.1*). It makes no sense to oblige manufacturers to review their KID earlier if they have no reason to do so (i.e. if there is no change that (is likely to) significantly affects the information contained in the KID).

From the end of the “grandfathering” period (1st January 2023), all PRIIPs still made available to retail investors will have the same template (the revised one).

Q4 Do you think that a graduated approach should be considered, whereby some of the requirements would be applied in a first step, followed by a second step at the beginning of 2022?

No, in AMAFI’s view a graduated approach should not be considered for the reasons detailed below:

- Both retail investors and distributors will need to be trained and explained the new version of the KIDs. In our view, **amending the format several times would only be a source of confusion** for both.
- For manufacturers, **considering the technical implementation challenges, a single application date for all changes is necessary** (e.g. it would make no sense to present costs tables with new IHP rules while keeping the current rules for performance scenarios).

OVERVIEW OF THE CONSULTATION PAPER AND NEXT STEPS

Q5 Are there material issues that are not addressed in this consultation paper that you think should be part of this review of the PRIIPs Delegated Regulation? If so, please explain the issue and how it should be addressed.

1. Grandfathering period

As mentioned in our answer to Q3, it seems essential to provide a “grandfathering period” for PRIIPs issued before the entry into force of the new RTS.

2. Scope

2.1. Bonds

Like ICMA says in its response to this consultation, “*Vanilla bonds’ scope is still problematic*”. Notwithstanding the 24 October Joint ESA Supervisory Statement ([JC-2019-64](#)), differing views and so uncertainty endure in the market as to what may be interpreted as ‘packaged’ or not. “*Should the European Commission feel that EEA retail investors should be generally able to directly invest in vanilla bonds, then it would need to ensure the PRIIPs legislation itself is clearly understood to exclude vanilla bonds*”.

2.2. Vanilla derivatives (physically settled)

AMAFI also wishes to clarify the application of PRIIPs to vanilla derivatives which are physically settled. In our view, such products do not fall within the scope of PRIIPs because the amount repayable to retail investor is not subject to fluctuation (as all cash flows are known in advance) so they do not fall within the scope of Article 4.1 of PRIIPs.

Nevertheless, some competent authorities believe that a KID is required for those products. To avoid distortion between countries, a clarification from the ESAs or the Commission is welcome.

3. Taking into account PRIIPs with special features

3.1. PRIIPs with RHP of less than one year

Regarding PRIIPs with a RHP of less than one year, AMAFI fully approves the solution provided by the ESAs in their Q&A document. Nevertheless, this solution does not comply with the requirement as provided in the DR. Therefore, **AMAFI proposes to amend the DR accordingly.**

On this point, to ensure the comparability of KIDs and to facilitate their reading, it would seem preferable that the narratives to be added be prescribed in order to avoid national distortions. AMAFI proposes to prescribe the following narrative: *“However, since the reference period of the product you are considering purchasing is less than one year, the estimated returns and costs are presented on a non-annualised basis. As they stand, these figures are not comparable with those obtained for products with a recommended holding period of at least one year, for which data would be calculated on an annualised basis”.*

AMAFI would also like to note that the ESAs seemed to forget proposing amendments to the DR to allow manufacturers:

- (1) to delete, in those situations, the inaccurate sentence *“You can compare them [the illustrations on how your investment could perform] with the scenarios of other products”*, below the table presenting performance scenarios results; and
- (2) to amend accordingly the sentence above the cost tables: *“The amounts shown here are the cumulative costs of the product itself, for [one holding period / two different holding periods / three different holding periods]. They include potential early exit penalties. The figures assume you invest [EUR 10 000 (OR EUR 1 000 each year for regular premium PRIIPs)]. The figures are estimates and may change in the future”.*

3.2. Calculating costs for products when the moderate scenario shows a total loss of capital invested or more

AMAFI thanks the ESAs for taking into account the issue¹ of calculating costs for products when the moderate scenario shows a total loss of the capital invested or more (i.e. is less than or zero) for the moderate performance scenario (*ESAs Q&A, “Calculation of the summary cost indicators”, Question 4*). Nevertheless, AMAFI considers that the answer provided (replacing the return by 3%) does not solve the problem. Indeed, it creates a sudden threshold effect with product delivering very low returns and significantly undermines the comparability between products. This threshold effect is detrimental and difficult to justify to investing retail clients.

Also, applying the 3% growth assumption to all PRIIPs regardless of the moderate scenario results would bring confusion and misunderstandings as the whole KID would lack consistency, not to mention that such rough assumption would be very hard to explain to retail investors.

For these reasons, AMAFI feels that it should be possible to apply alternative solutions in such cases. For example, a cost floor could be determined that would replace or that would be added to zero values where a product generates a zero or negative return.

¹ This issue may be addressed if the “Option 1” of costs presentation is retained by the ESAs (not if it is the “Option 3”).

Finally, AMAFI wishes to highlight that this issue will be solved if the ESAs decide to remove any reference to the RiY in the costs section and disclose only the TER (in this point, see our answer to Q36).

3.3. Products with an autocallable feature

To address the issue of “autocallable products”, AMAFI proposes the following solutions:

- (1) not accruing time values of auto-call payments² (including coupons) and follow Recommendation 4 from the September 2018 recommendations document published by EUSIPA ([link](#)); and/or
- (2) optionally, add a symbol, for example an asterisk, in the boxes for which the product would be called before the end of the calculation period and adding a short narrative below the table explaining the results;
- (3) in any cases, compute the performance scenarios (negative 10% percentile, moderate 50% percentile and favourable 90% percentile) of each holding period independently of results of subsequent holding periods (which is the current methodology used by the industry and promote by EUSIPA).

4. Fulfilling the KID of derivatives

4.1. Performance scenario modelling

AMAFI notes that the PRIIPs methodology for scenario modelling was designed with funded products in mind. Therefore, the future performance of unfunded derivatives (Category 1 PRIIPs) must be simulated using a fictitious initial investment that is repaid at maturity. In the absence of a more appropriate methodology, we believe that such fictitious initial investment should be clarified. For example it is not clear to decide what to use for options (premium – actual cash flow or notional – for consistency with swaps?) and for interest rate swap with amortized/accreting/rollercoaster notionals (initial notional or average notional? – to answer this question it should be born in mind the fact that scenarios results must be presented for an initial/average “investment” of [EUR 10,000]).

4.2. Computation of the SRI

AMAFI finds damaging that for all derivatives (Category 1 PRIIPs) – whatever their level of risk and complexity – manufacturers must systematically put the risk indicator (SRI) at 7 (*PRIIPs RD, Annex II, Paragraph 8*). Indeed, this requirement does not allow the retail investor to discriminate between derivative products bearing different risks, for example: a short position versus a long position or an IRS versus an IRS with a floor where the potential loss for the fixed rate payer is limited. Also, retail investors do not understand why a product which is supposed to hedge their risk is presented as so risky in the KID (derivatives may be used to hedge risks incurred by retail investors, especially small companies which cannot be considered as professional clients).

Also, AMAFI proposes that the amended text allows manufacturers to add an **optional narrative for hedging products** explaining that the SRI disclosed in the KID is determined independently of any other position that investors may intend to hedge through such products.

4.3. Adapt the prescribed wording of KIDs

To avoid legal uncertainty, AMAFI proposes to insert within the DR the derogations allowed for derivatives by the ESAs in their Q&A regarding the prescribed wording in the KID template (*ESAs Q&A, “Derivatives”, Question 5*).

² Indeed, it should not be assumed that the investor reinvests the auto-call payment for the remainder of the term of the product.

5. Issues raised from the proposed amendments to the RTS in the Consultation Paper

5.1. Presentation of performance scenarios

AMAFI totally disagrees with introducing the mentions “*this is the maximum/minimum you can get*” in the performance scenarios section. The dynamic text in the performance scenarios table in case of maximum return displayed is impossible to implement in a unified and consistent way for structured products since there is a variety of payoffs and features. In addition, when early redemption is possible (e.g. callable and autocallable products), it is unclear what is the maximum return (i.e. IRR/annualised return? Maximum absolute return?). The challenge is the same regarding the “minimum return”, should it be considered at 0 every time (considering the default risk of the manufacturer)? Also, this information is not relevant for products for which investors may bear unlimited losses (e.g. short position in derivatives) or may get unlimited gains (e.g. uncapped payoffs).

5.2. Rounded data

More anecdotally, contrary to what is proposed in the “new” Paragraph 22 of Annex IV, AMAFI believes that rounding the performance to the nearest 10 EUR is not precise enough (for instance for a coupon of 3.15% per annum, we would need to round 10 315 EUR to either 10 320 EUR or 10 310 EUR). Hence, we propose to **round the numbers to the nearest euro** to avoid misleading data between EUR and percentage return.

CONSUMER TESTING

Q6 Do you have comments on the modifications to the presentation of future performance scenarios being considered? Should other factors or changes be considered?

AMAFI strongly rejects the proposal to use “only illustrative scenario” for structured products or a “combination of probabilistic and illustrative scenarios”. For derivatives and structured products (Category 1 and 3 PRIIPs), those proposals raise significant issues:

- Purely illustrative scenarios **do not comply with Level 1 text** that indicates “*the format and content of the key information document to be drawn up by PRIIP manufacturers and on the provision of the key information document to retail investors in order to enable retail investors to understand and compare the key features and risks of the PRIIP*” (PRIIPs, Article 1).
- Indeed, this solution would lead to a great heterogeneity in the performance scenario presentation both among the various product categories and within manufacturers of a same type of product.
- Illustrative scenarios are **impossible to implement and automate in a consistent and unified manner because of the diversity of structured products return profiles across EU countries**.
- Comparability is fully lost within Category 3 PRIIPs as it is not probabilistic based, every manufacturer can have different rules, which leaves the door open to deviations or “misuse”.
- Illustrative scenarios on their own **hide information to investors such as potential dispersion of the product valuations**, or low potential valuation in case of stress at intermediate holding periods.
- Sometimes structured products are wrapped within an insurance wrapper turning it into an IBIP. As described in Section 6.1.3 of the CP, illustrative scenarios are not considered at this stage for IBIPs. This will lead to a major inconsistency: the **same product would be treated completely differently (illustrative vs. probabilistic) in case it is offered under a different wrapper**.

- Illustrative scenarios would not be able to capture all the subtleties of complex path dependent products.
- Finally, the use of illustrative scenarios in the KID is the **most disruptive way to go further**. It would require significant changes in manufacturers' process in place since 2018, including notably training again distributors and advisors.

As a result, AMAFI wants to keep only probabilistic scenarios in the KID of Category 1 and 3 PRIIPs.

This solution has several advantages such as the ones described in Section 5.2 of this consultation paper: it allows investors to compare all products and it does not require manufacturers to use or create complex models.

Regarding other modifications proposed:

- We believe that one intermediate holding period can be kept (the 1 year) for the reason developed in Q7. Nevertheless, whatever the solution adopted by the ESAs, it is essential that it applies to the performance scenario and the costs tables so that the information is consistent and easier for the investor to understand.
- We are against the addition of the estimated probability of each scenario as percentile can be misinterpreted as deterministic outcomes by some retail investors.
- We are neither strongly in favour nor against deleting the stress scenario (on this point, please see our answer to Q8).
- **We are totally against adding a row showing the minimum (or the maximum) investment return.** Dynamic tables are very difficult (or even impossible) to implement and the information could easily be misunderstood by retail investors as implying a degree of certainty, despite all possible narratives. If the minimum scenario has to take into account credit risk of the issuer or the repackaged asset, then all products would have a minimum scenario of 0, so this would not bring relevant information.
- We are against the addition of past performance especially for Category 3 PRIIPs as structured products do not have past performance. The same is true for exotic derivatives in Category 1 PRIIPs.

FUTURE PERFORMANCE SCENARIOS

- **Impact of changes in the presentation of probabilistic performance scenarios on the methodology**

Q7 If intermediate scenarios are to be included, how should they be calculated for Category 3 PRIIPs (e.g. structured products)? If intermediate scenarios are not shown in the performance section, which performance assumption should be used for the 'What are the costs?' section?

AMAFI's preference would be to keep one IHP (the current 1 year) and to delete the RHP/2 for the reasons developed below:

- Fully principal protected long dated products are common in some markets (France, Belgium, UK), and investors need to be aware of the dispersion of the product valuations if they decide to exit at an early date notably to show the absence of capital protection prior to the RHP. It would be misleading to remove the IHP and hide the negative and stress valuations in the course of the life of a product.
- Deleting all IHPs makes it more difficult to visualize the assumptions taken for autocallables (even if explanatory notes are added).

RHP	Cost table	Scenario table
RHP <= 1Y	displaying scenario @RHP	displaying costs @RHP
1y < RHP	displaying scenario @ 1Y, RHP	displaying costs @ 1Y, RHP

Nevertheless, AMAFI is not strongly opposed to the deletion of all IHP, for the sake of simplifying information provided to investors.

The most important point on this issue is to ensure a consistency between what is presented within the performance scenario and costs section of the KID.

AMAFI is of the view that such sections should be totally consistent for the sake of retail investor's understanding. Indeed, if IHPs are removed in the performance scenarios table they also should be deleted in the costs table. Costs are already difficult to understand for retail investors (due to the use of RiY – on this point see our answer to Q36), if they are computed using data (i.e. performance) which are not shown to investors, those investors will never understand how the manufacturer has determined the costs presented.

If the ESAs decide to keep one (or several) IHP, AMAFI recommends keeping the current calculation methodology and still incorporate exit costs for intermediate holding period results. Indeed, the current issue of performance scenarios results is linked to the principal methodology (used of 'historical drift') and not to the adaptation for IHP.

Q8 If a stress scenario is included in the presentation of future performance scenarios, should the methodology be modified? If so, how?

AMAFI understands the necessity to limit the number of information and data communicated to retail investors in order to focus of the most relevant ones. Nevertheless, AMAFI believes that, in some situations, the stress scenario can be useful for investors especially where the negative scenario does not show any capital loss (for example for principal at risk products with low barriers). Also, in our experience, the current stress scenario methodology leads to quite appropriate results and not many questions from clients.

That is why AMAFI is neutral about its deletion.

If the ESAs decide to keep this scenario, like in the current DR, it should have the same methodology (i.e. drift and percentile) as the others (besides the focus on volatility). However, to avoid any confusion on the investors' side AMAFI recommends a simple adjustment in the new DR to specify that the three other scenarios (unfavourable, moderate and favourable) **should be floored** at the level of the stress scenario.

- **Explanation of proposed dividend yield methodology for probabilistic performance scenarios**

Q9 Do you agree with how the reference rate is specified? If not, how should it be specified?

AMAFI is in favour of keeping the probabilistic methodology to compute performance scenarios results. As mentioned by the ESAs, to correct the current inappropriate expectations some adjustments should be made to the methodology. **AMAFI agrees with the ESAs conclusions which consider that this issue is caused using an “historical drift” which should be replaced by the sum of a reference rate and an asset specific risk premium.**

Nevertheless, **AMAFI has some divergences with the ESAs proposals for identifying the reference rate and the risk premium.**

Regarding the reference rate, this cannot be the “*interest rate curve derived from sovereign bond prices of the country of the asset*” as many PRIIPs have multi-country components notably the ones that have for underlying multi-countries or thematic benchmarks (e.g. which rate should be used for products based on Eurostoxx 50?).

To solve this issue, **AMAFI proposes that for equity, FX and rate linked structured products the risk-free rate (T=RHP) should be derived from the swap curve of the relevant currency of the underlying.**

To find this rate, manufacturers should be allowed to use the risk-free swap curve from a reliable external source of market data (e.g. Bloomberg, Reuters, etc.).

Q10 The revised methodology specifies that the risk premium is determined by future expected yields. The methodology further specifies that future expected yields should be determined by the composition of the PRIIP decomposed by asset class, country and sector or rating. Do you agree with this approach? If not, what approach would you favour?

Once again, AMAFI agrees with the ESAs idea to use a risk premium as it permits to improve the quality of the results shown to investors compared to the use of historical drift.

AMAFI also agrees with:

- (1) the methodology proposed by the ESAs to determine the risk premia for Bonds, Commodities and FX products (although we would also include Rates products, using the same methodology as FX); and
- (2) the choice to use a “0” risk premium for price return products (on Equity and Cash).

However, for Equity total return products, **AMAFI disapproves the ESAs choice to use the “dividend rate” taking into account the asset class but also country, sector and rating.**

For the same reason as developed in Q9, for many PRIIPs it would be impossible to determine only one sector and/or one country and/or one rating. Moreover, this proposal opens the door to interpretation as to what should the yield be for structured products linked to mutual fund underlyings. Lastly, this proposal seems over complicated and do not meet the general objective of simplifying the framework.

To avoid these issues, for **equity instruments AMAFI proposes to use a fixed risk premium determined by the ESAs.**

For other products, AMAFI agrees with the ESAs proposal. This solution has the advantage of being granular enough (thanks to the split per asset class and the remaining dependence of the specific asset's return distribution to its volatility, skewness and kurtosis), implementable (by deleting the split per country, sector or rating) and harmonised.

As the rate is determined – and updated – by the ESAs, the data used by manufacturers will be the same, the results would thus be comparable for retail investors. **Indeed, this solution allows perfect comparability since all manufacturers will use the same data.**

As mentioned by the ESAs, we think the risk premium provided by the ESAs should also be **split between total return products (dividends received) and price return products (no dividend received)** and may be presented as below:

	PRICE RETURN PRODUCTS			TOTAL RETURN PRODUCTS		
	Reference rate	Risk premium	Expected return	Reference rate	Risk premium	Expected return
Equities	Swap rate of the relevant currency and for the relevant designated maturity	0%	Swap rate of the relevant currency and for the relevant designated maturity	Swap curve of the relevant currency	Fixed Published and updated by ESAs	Swap curve of the relevant currency + fixed rate
Bonds		Coupon rate less the reference rate	Coupon rate	Not applicable (no dividend received)		
Cash		0%	Swap rate of the relevant currency and for the relevant designated maturity			
Commodities		Expected forward rate less the reference rate	Expected forward rate			
FX / Rate		Expected forward rate less the reference rate	Expected forward rate			

Q11 The ESAs are aware that historical dividend rates can be averaged over different time spans or that expected dividend rates can be read from market data providers or obtained from analyst reports. How should the expected dividend rates be determined?

As we are not in favour of using dividend rates to determine the risk premium (see our answer to Q10) and we prefer to have a fixed risk premia determined by the ESAs, this question will not be applicable if the ESAs retain our proposals.

That being said, the choice of historical vs. projected dividends should not have any substantial impact in scenarios, because the gap between the 2 levels is usually quite narrow. At present, we are aware of manufacturers using either historical or estimated future yield (from appropriate and reliable external sources), and this does not lead to comparability issues.

Q12 How should share buyback rates be estimated?

Buybacks rates are difficult to compute (there is no common reliable and consistent data source as this concept is not used in structured products industry) and, thus, would not be harmonised between manufacturers.

Again, such proposal would over complicate the understanding of performance scenarios. With the AMAFI proposal to have a fixed risk premium for equity, there is no issue of buyback rates.

Q13 Do you agree with the approach for money-market funds? Are there other assets which may require a similar specific provision?

Not applicable to structured products.

Q14 The methodology proposes that the future variance be estimated from the 5-year history of daily returns. Should the volatility implied by option prices be used instead? If so, what estimate should be used if option prices are not available for a particular asset (equities namely)?

No. For equities and other “spot assets” (FX spot, commodities spot), the 5-years period to estimate the volatility under the bootstrapping method is appropriate and has not led to problems in scenarios: it is well understood and allows comparability.

- **Compensatory mechanism to address potential methodological faults**

Q15 Do you think compensatory mechanisms for unforeseen methodological faults are needed? If yes, please explain why.

We think compensatory mechanisms are not needed for structured products and derivatives (Category 1 and 3 PRIIPs). Such mechanism would over complicate the understanding of performance scenarios. For structured products, we trust that 63 different structured payoffs tested by ESA using the new probabilistic methodology result in satisfactory outcomes, without any need for compensatory scenario mechanisms.

Q16 Do you favour any of the options above? If so, which ones? How would you ensure that the information in the KID remains comparable for all products?

As mentioned above in Q15, we are not in favour of the addition of compensatory mechanisms as it is not easy to determine the situations in which they must be used so this will result in a lack of harmonisation.

Regarding the proposals of the ESAs: the two first³ are not implementable for structured products as there is no data available on past performance – the third⁴ remains too subjective (“*manufacturer expectations*” - “*unrealistic*”) and thus is not implementable in a consistent way by all manufacturers at the expense of the comparability for retail investors.

³ “Lowering the favourable scenario to match the maximum return observed in the past” and “raising the unfavourable scenario to match the minimum return observed in the past”.

⁴ “Lowering the unfavourable scenario to match the manufacturer’s expectation of an unfavourable outcome, if the unfavourable scenario is considered to be unrealistic”.

Q17 Are there any other compensatory mechanisms that could address unforeseen methodological faults? If yes, please explain the mechanism; explain how it ensures that scenario information in the KID allows investors to compare PRIIPs, and explain how the information for similar products from different manufacturers remains sufficiently consistent.

In AMAFI's view, compensatory mechanisms are not required for structured securities and should not be added.

- **Other probabilistic methodological approaches**

Q18 What are your views on the use of a simplified approach such as the one detailed above, instead of the use of probabilistic methodologies with more granular asset specific requirements?

As mentioned by the ESAs, this methodology is simpler than the current one but – in our view – less adequate than our counterproposal developed in our answer to Q10 **as it is not granular enough** and does not take into consideration specificities of each product. This will result in communicating to the investor a general information which would not be useful to understand and select between the different products.

The good point of this simplified approach is that it does not take into account the country, the sector or the rating of the underlying (criteria which are highly challenging to be implemented). Again, for us and contrary to what is mentioned by the ESAs, it is not a drawback not to make distinction by country.

Q19 Do you consider the use of a single table of growth rates appropriate? If no, how should the methodology be amended?

As mentioned above in Q18, we do not think this solution is appropriate as, for us, **expected returns should be computed by using a reference rate (the swap curve of the relevant currency) and a risk premium.**

Nevertheless, as proposed in this simplified solution, we are in favour of **using table with data determined by the ESAs but only to determine the risk premium** rather than to determine the whole expected return. To be consistent, as developed in Q10, this table should be split per asset classes and between price return products and total return products.

Q20 More generally, do your views about the use of a probabilistic methodology vary depending on the type of product (e.g. structured products vs non-structured products, short-term vs long-term products)? For which type of products do you see more challenges to define a probabilistic methodology and to present the results to investors?

We consider that, subject to minor adjustments, the probabilistic methodology should not vary depending on the type of product. **The same assumptions on growth rates of probabilistic method should apply to Category 1 (e.g. OTCs), Category 2 (linear structured products) and Category 3 (non-linear structured products) PRIIPs.** The methodology should be designed in a consistent and unified way that is implementable for all these PRIIPs.

Q21 Do you think these alternative approaches should be further assessed? If yes, what evidence can you provide to support these approaches or aspects of them?

If we have to choose, we would choose the solution (c) (i.e. a fixed risk premia for equities) but we consider that this solution needs some minor improvements to reach what we think is the best solution as exposed in our answer to Q10. For instance, solution (c) of the volatility-based risk premia for equities could be made more granular by providing fixed figures through a table of risk premia as a function of historical volatility buckets (this alternative idea could be further examined).

In any cases, AMAFI considers that the best solution is for the ESAs to provide fixed risk premium figures to allow perfect comparability since all manufacturers will use the same data.

Q22 Are there any other approaches that should be considered? What evidence are you able to provide to support these other approaches?

No. We believe the alternative approaches that you listed in the consultation paper are a fair summary of possible growth rate methodologies.

ALTERNATIVE APPROACH TO PERFORMANCE SCENARIOS - USE OF ILLUSTRATIVE SCENARIOS

- **Structured products – option of only showing illustrative scenarios**

Q23 Do you think illustrative scenarios should be included in the KID as well as probabilistic scenarios for structured products?

As mentioned in Q6, **we strongly disagree with the use of an “illustrative approach” both in replacement of and in combination with a “probabilistic approach”.**

The use of the illustrative approach will lead to the issues mentioned below:

- Comparability is fully lost within Category 3 as it's not probabilistic based, everyone can have different rules which leaves the door open to deviations or “misuse” (e.g. two structured products using the same pay-out formula but with different underlying assets may show the same “illustrative scenarios”, although they could have very different probabilistic outputs).
- Purely illustrative scenarios do not comply with Level 1 text that indicates: “*the format and content of the key information document to be drawn up by PRIIP manufacturers [...] in order to enable retail investors to understand and compare the key features and risks of the PRIIP*” (PRIIPs, Article 1).
- Illustrative scenarios are impossible to implement and automate because of the diversity of structured products return profiles across EU countries (e.g. single and multiple underlying, cross asset classes, etc.). To be relevant, the scenarios would need to be defined according to each product's features, which opens the door to inconsistencies across manufacturers.
- Illustrative scenarios would not allow to properly illustrate the possible output of a range of structured products. A number of parameters impacting the valuation of a structured product during the course of its life are ignored (interest rates, volatility, dividends, etc.).

- Finally, the use of illustrative scenarios in the KID is the most disruptive way to go further. It would require significant changes in manufacturer' process in place since 2018, including notably training again distributors and advisors.

Regarding the combination of the two approaches, two other issues may be added:

- Displaying both illustrative and probabilistic scenarios would **create confusion** as it would **overload clients with information** in a document which is already quite long and somewhat difficult to understand.
- It is already **challenging to fit within the 3-pages** constraint for a significant range of structured products.

For all the issues mentioned above, we consider that the high difficulties to implement, the numerous disadvantages and the costs take over the potential benefits, contrary to what is exposed the cost/benefit table (page 121 of the CP).

Q24 If not, do you think illustrative scenarios should replace probabilistic scenarios for structured products?

For all the reasons mentioned in Q23, **AMAFI strongly rejects the proposal to use only illustrative scenario for structured products**. On the contrary, **AMAFI wants to keep only the probabilistic scenarios** for both Category 2 (linear structured securities) and Category 3 (non-linear structured securities).

- **Structured products – scope and methodology**

Q25 Do you agree with this approach to define PRIIPs which would show illustrative performance scenarios using the existing definition of Category 3 PRIIPs? If not, why not? Where relevant, please explain why this approach would not be appropriate for certain types of Category 3 PRIIPs?

As we do not support the use of illustrative (or the combination of probabilistic and illustrative) scenarios at all, we do not agree to apply this new requirement to current Category 3 products nor to an extended definition for products which would show illustrative scenario for all the reasons mentioned in Q23.

INCLUSION OF INFORMATION ON PAST PERFORMANCE

Q26 Would you be in favour of including information on past performance in the KID?

We agree with the ESAs that past performance is not applicable to structured products Category 3, since those do not have historical NAVs.

Q27 Would your answer to the previous question be different if it were possible to amend Article 6(4) of the PRIIPs Regulation?

As exposed in Q26, this question is not applicable to structured products.

Q28 Do you think that it can be more appropriate to show past performance in the form of an average (as shown in the ESA proposal for consumer testing) for certain types of PRIIPs? If so, for exactly which types of PRIIPs?

As exposed in Q26, this question is not applicable to structured products.

Q29 Do you have any comments on the statement that would supplement the display of past performance (e.g. with regard to the presentation of costs which are not included in the net asset value (NAV))?

As exposed in Q26, this question is not applicable to structured products.

Q30 Are you of the opinion that an additional narrative is required to explain the relationship between past performance and future performance scenarios?

As exposed in Q26, this question is not applicable to structured products.

Q31 Do you see merit in further specifying the cases where the UCITS/AIF should be considered as being managed in reference to a benchmark, taking into account the provisions of the ESMA Questions and Answers on the application of the UCITS Directive25?

As exposed in Q26, this question is not applicable to structured products.

Q32 Do you see the need to add additional provisions for linear unit-linked insurance-based investment products or linear internal funds?

As exposed in Q26, this question is not applicable to structured products.

COSTS

- **Methodology and presentation of costs and summary cost indicators (except transaction costs)**

➤ *ESA proposals and areas where feedback is requested*

Q33 Do you agree that a fixed intermediate time period / exit point should be used instead of the current half the recommended holding period to better facilitate comparability?

Yes, AMAFI agrees with the proposal to keep only one IHP instead of the current RHP/2 as this would enhance the comparability. Indeed, with the current RTS, the IHP varies according to the product's RHP and comparing products with different IHPs does not make much sense for retail investors. Nevertheless, AMAFI is not totally opposed to the deletion of all IHP.

By determining this IHP, **the most important point for the AMAFI is to remain consistent between the IHP used in the costs section and the one used in the performance scenarios section.**

If the ESAs decide to keep one IHP, ideally, **we would keep the current 1-year IHP** for products with a RHP longer than 1 year.

Q34 In this case (of a fixed intermediate time period), do you agree to show costs if the investor would exit after 5 years for all PRIIPs with a recommended holding period of at least 8 years? Or do you prefer a different approach such as:

- Applying this approach (i.e. showing also the costs of exit at 5 years) only for PRIIPs with a longer recommended holding period, for example at least 10 years
- For longer term products (e.g. above 15 years) showing exit costs at a different fixed time period (e.g. 10 years instead of 5 years)?

As mentioned above in Q33, AMAFI's preference is to simplify the table and keep only one IHP at 1 year (applicable for product with a RHP higher than 1 year).

Yet, if the ESAs wish to keep 2 IHPs, then we do agree to the use of a 5 years IHP for all products having a RHP of 8 years or more, provided that same rules of IHP and RHP are used for the scenario.

Once again, an important thing **for the KID to be understandable for investors, is to have a consistency between the IHPs of the costs table and the IHPs of the performance scenarios table.**

Q35 Do you think it would be relevant to either (i) use an annual average cost figure at the recommended holding period, or (ii) to present both an annual average cost figure and a total (accumulated) costs figure?

Our understanding of the ESAs proposals is:

- annual average cost figure at the RHP = Total costs accumulated over RHP, divided by RHP;
- both an annual average cost figure and a total (accumulated) costs figure = present to the investor the indicator mentioned just above and a total accumulated costs figure.

If our understanding is correct, **AMAFI is in favour of the first proposition (i.e. communicate only annual average costs)** as it is easier for them to understand and facilitate the comparison notably between products with different RHP. Indeed, the second proposition will lead to communicate an overflow of information, which would be difficult to understand for retail investors.

Q36 Do you think that it would be helpful, in particular for MiFID products, to also include the total costs as a percentage of the investment amount?

For AMAFI, **it is very important to have a consistency between PRIIPs and MiFID II information**, especially the ones concerning costs which are difficult for investors to understand. That is why we always have been in favour of **replacing the reduction in yield (RiY) by a total expense ratio (TER)** indicator to eliminate communication of too many confusing information to the retail investor.

By presenting in the KID costs expressed both as a TER and – as proposed by the ESAs in this question – as a percentage, this will lead to have in the KID data consistent with MiFID II requirement (which is not the case when costs are expressed as a RiY).

Q37 In this context, are there PRIIPs for which both performance fees and carried interests are applied?

Not applicable to structured products.

Q38 Do you agree with this analysis from the ESAs? If yes, what are your views on the extent to which fees related to the management of the underlying real estate assets, i.e. the properties themselves, should be taken into account in the calculation of the cost indicators?

Not applicable to structured products.

➤ *Preferred and alternative options to restructure the current cost tables*

Q39 Do you agree with the ESAs' preferred option 3 to revise the cost tables?

No, AMAFI disagrees with the ESAs' preferred Option 3 as this option has a lot of disadvantages. **Our preferred option is a combination of Options 1 and 2.**

The first table of Option 3 only displays RiY in percentage, which is not well understood by investors (both percentage and RiY – retail investors better understand costs expressed in EUR and as a TER) and are not consistent with MiFID II requirements. Indeed, the RiY is derived from cost in monetary terms, so displaying a RiY on its own is not easy to understand.

The **second table of Option 3 is too complex**. It also displays costs over time but in monetary terms and split by type of costs.

- Retail investors will not easily link the information provided by each table (percentages in Table 1 vs. monetary terms in Table 2).
- The “description of cost” for the entry costs mixes percentage and monetary terms, which is confusing.
- It introduces **a significant technical challenge for manufacturers**: for fixed term products, when KIDs are updated, the number of columns to be displayed will need to be adjusted according to the remaining time to maturity.

Moreover, **Option 3 causes an overflow of information** with providing retail investors 33 different numbers! (against 12 numbers in the current KID which are already difficult to explain).

Option 3 does not meet the objective of simplifying the KID and make it more understandable for investors.

Q40 If not, which option do you prefer, and why?

The combination of Table 1 of Options 1 and Table 2 of Option 2 is our favourite choice for the following reasons:

- It presents the more convergence with MiFID II both in Table 1 of Option 1 (total costs in EUR) and in Table 2 of Option 2 (breakdown of costs in percentage).
- It has a more reasonable amount of data (up to 17 numbers) than the Option 3.

Nevertheless, **we would have preferred RiY replaced by TER in Table 1 to be consistent with MiFID II requirements** and not to give various incomprehensible data to retail investors. As such, results exposed in Table 1 (of Option 1) and in Table 2 (of Option 2) can be linked by retail investors.

If we must choose one single Option, we will choose **Option 1** as it is the one which presents the greatest number of benefits mentioned above (more convergence with MiFID II, link between Tables 1 and 2, lowest amount of data with 22 data points). Nevertheless, the percentage expressed in Table 2 are still RiY which are (1) not understandable for retail investors and (2) not aligned with MiFID II requirements. That is why we propose to combine the Table 1 of the Option 1 (ideally by replacing the RiY by a TER) and the Table 2 of the Option 2.

Our third choice would be **Option 4** even if the fact that costs are not displayed in percentage and not explained in a second table raises questions whether it complies with PRIIPs Level 1 text. This presentation saves space, assisting not to exceed 3 pages. But it has drawbacks:

- Showing an entry cost in euros in several columns (IHP and RHP) in Option 4 **looks like the entry cost can be paid several times**. It also opens the door to different interpretations as to how this should be filled, (e.g. for a one-off 4% entry cost:
 - 400 EUR at 1 year, 400 EUR at 5 years and 400 EUR at RHP; or
 - 400 EUR at 1 year, 0 EUR at 5 years and 0 EUR at RHP.
- **Option 4 has too much information with up to 27 numbers displayed** (versus 17 for the combination of Table 1 of Option 1 and Table 2 of Option 2 and 12 for the current presentation).

We believe both Options 2 and 3 are totally incomprehensible for retail investors and cause an overflow of information with respectively up to 32 and 33 numbers displayed:

- In Option 2 there are too many numbers in Table 2 which will be impossible to explain to and to understand by retail investors.
- In Option 3 there is no cost expressed in euro which is the most easily understandable information for retail investors and, as for Option 2, there are too many numbers in Table 2.

Moreover, as mentioned by the ESAs, one of the issues encountered by investors (and distributors) is the “*overload of information*”. As shown in the table below, the options proposed by the ESAs increase significantly the number of data points communicated to retail investor and therefore do not solve this problem, on the contrary.

Costs table option	Number of data points displayed (i.e. count of cells with numbers in % or EUR)
<i>Current regime</i>	12
Option 1	22
Option 2	32
Option 3	33
Option 4	27
Table 1 of Option 1 & Table 2 of Option 2	17

Q41 In particular, do you think that the proposed changes to the presentation of the impact of costs on the return in percentage terms (i.e. including reduction in return before and after costs) is an improvement on the current presentation?

Despite all the disadvantages of the use of the RiY (compared to the use of a TER) if the ESAs decided to keep the RiY, we agree that the presentation proposed in the consultation paper is easier to understand for retail investors than the current presentation.

Q42 Do you have other comments on the proposed changes to the cost tables?

As mentioned above, **there must be consistency on the IHP used between performance scenarios and costs tables.**

Regarding the titles of columns:

- The header of the column in the Table 2 should allow 2 possible wordings:
 - “if you exit at the [recommended holding period]” (for products with a RHP before their maturity – example: warrants with 1 day RHP); or
 - “if you exit at maturity” (for products where RHP is the maturity date). This would avoid decimals issues as RHP is not always an exact number of years, and it varies according to the remaining time to maturity when the KIDs are updated.

- For the third column of Table 2 (of Option 1):
 - it would be more consistent to name it “Costs if you exit **at** 1 year” (rather than “after 1 year” which is not clear and could be 1 year but also a latter point in time);
 - as mentioned in Q5, it would be important not to forget specificities of product **with RHP shorter than one year**, for those the column should be named: “Cost if you exit at the recommended holding period” and the costs mentioned would not be annualised.

- **Transaction costs**

Q43 What are your views on the appropriate levels of these thresholds? Please provide a justification for your response.

Not applicable to structured products.

AMENDMENTS ARISING FROM THE END OF THE EXEMPTION IN ARTICLE 32 OF THE PRIIPs REGULATION

Q44 If UCITS would fall in the scope of the PRIIPs Regulation, do you agree that the coexistence of the UCITS KII (provided to professional investors under the UCITS Directive) and the PRIIPs KID (provided to retail investors under the PRIIPs Regulation) would be a negative outcome in terms of overall clarity and understandability of the EU disclosure requirements? Are you of the view that the co-legislators should therefore reconsider the need for professional investors to receive a UCITS KII, as the coexistence of a PRIIPs KID together with a UCITS KII (even if not targeted to the same types of investors) would indeed be confusing, given the differences in the way information on costs, risks and performance are presented in the documents? Alternatively, are you of the view that professional investors under the UCITS Directive should receive a PRIIPs KID (if UCITS would fall in the scope of the PRIIPs Regulation)?

Not applicable to structured products.

Q45 What are your views on the issue mentioned above for regular savings plans and the potential ways to address this issue?

Not applicable to structured products.

Q46 Do you agree that these requirements from Article 4 should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIFs?

No, AMAFI totally disagrees, funds requirements should not be extended to other PRIIPs.

For structured securities, we do not think the UCITS Regulation 583/2010 Article 4 paragraphs 6 & 12 should be applied, because these are fund specific elements, which are not relevant to structured securities (e.g. relating to name of the management company, share classes, etc.).

Q47 Do you agree that this requirement should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIF?

No, as mentioned in Q46, we are not in favour of extending funds requirement to other PRIIPs.

Q48 Do you agree that these requirements should be extended to all types of PRIIPs, or would you consider that they should be restricted to the Management Company of the UCITS or AIF?

No, as mentioned in Q46, we are not in favour of extending funds requirement to other PRIIPs.

Q49 Do you have any comments on the proposed approaches in relation to the analysis and proposals in this Section, and in particular on the extent to which some of the abovementioned requirements should be extended to other types of PRIIPs?

Generally, AMAFI is opposed to the inclusion of fund-specific concepts for other PRIIPs like structured products Category 3 or structured linear products Category 2 (e.g. management companies, investment policy, share classes, fund languages... of UCITS directive) because structured products have already implemented the current PRIIPs Regulation correctly, and are subject to Prospectus Regulation, not UCITS rules.

PRIIPs OFFERING A RANGE OF OPTIONS FOR INVESTMENT

- **New approach for the most commonly selected options**

Q50 Do you think this proposal would be an improvement on the current approach?

Not applicable to structured products.

Q51 Do you envisage significant practical challenges to apply this approach, for example for products which allow the investor to choose between a wide range or large number of options?

Not applicable to structured products.

Q52 Do you see any risks or issues arising from this approach in relation to consumer understanding, for instance whether the consumer will understand that other combinations of investment options are also possible?

Not applicable to structured products.

- **Use of ranges within the generic KID**

Q53 Do you think this proposal would be an improvement on the current approach?

Not applicable to structured products.

Q54 Are there other approaches or revisions to the requirements for MOPs that should be considered?

Not applicable to structured products.

PRELIMINARY ASSESSMENT OF COSTS AND BENEFITS

Q55 Do you have any comments on the preliminary assessment of costs and benefits?

Yes AMAFI has some comments on the assessment of costs and benefits made by the ESAs as some costs and drawbacks have not been fully assessed.

The primary problems and blocking points of the proposal are below:

- **Annex VIII: illustrative scenario (12.2) or illustrative and probabilistic (12.3) for all Category 3**, while only Category 2 gets the probabilistic treatment is an unacceptable non-level playing field, and raise question of compliance with Level 1 text. The costs and the mere impossibility to implement this for structured securities have not been accurately presented, and they far outweigh any benefit. As explained above, some of the drawbacks have been omitted too (such as the fact that such illustrative scenarios would not allow to properly show the possible negative output or early exit risks, that they are open to mis-use, and that there is no consistent way to implement them for the same product across different manufacturers).
- **Growth rates based on country specific risk-free rate**: the cost and complexity of implementation is omitted: It is impossible to implement consistently between manufacturers of the same product (e.g. which risk-free rate to use for multi country equity indices, underlying stocks with dual country listing GB/NL, or EU/US, CLNs with equity upside, ...).
- **The dynamic text in the performance scenarios table in case of maximum return displayed is impossible to implement in a consistent and unified way** for structured products since there is a variety of payoffs and features. In addition, when early redemption is possible (e.g. callable and autocallable products), it is unclear what is the maximum return (i.e. IRR/annualised return, or absolute return).

Second order problems are, in our view:

- Removal of stress scenario is a problem for low barriers products where the 10% worse case shows 100% principal returned, while actually the product is principal at risk and would have a very low stress scenario.

The ESAs' proposal to display the minimum scenario (i.e. 0 euro) in this case is a possible alternative, but it loses comparability and hides the differences between various barrier levels, and also disregards the impact of the volatility of the underlying, which is the second most important risk factor (after spot move) of a structured equity product.

- The equity risk premium set to 0 (price return) or to the dividend yield (total return): this is not ideal; we prefer an alternative of a fixed equity risk premium as mentioned in our answer to Q10. Yet, the assumption of 0 risk premia on price return products can be easily implemented.

Q56 Are you able to provide information on the implementation costs of the proposed changes, in particular regarding, (1) the proposed revised methodology for performance scenarios (using a reference rate and asset specific risk premia), and (2) the overall changes to the KID template?

The changes proposed by the ESAs will cost several million euros for each of the stakeholders (manufacturers, distributors, investment advisers, ...) which amounts to tens or even hundreds of millions for the whole chain. Also, it is important to limit the changes to the ones necessary meaning and that clearly improve the accuracy and the understanding of information contained in the KID.

For structured products, illustrative scenarios would not even be possible to implement consistently due to the diversity of payoffs across the various EU markets. In addition to the unfeasibility, the costs would be humongous both in terms of implementation costs (probably multiple millions of euros per manufacturer, related to IT systems updates, data vendors costs, internal staff costs, training of distributors and IFA, and legal fees, and so on...), and also in terms of the many drawbacks of such approach.

Q57 Are there significant benefits or costs you are aware of that have not been addressed?

Yes. **A gradual implementation of the revised DR will even multiply the costs of adaptation at each step** due to multiple releases required in IT systems, and the complexity of re-training distributors at each step/release.

We support a single application date on or after 1st January 2022 for all PRIIPs, which is less costly, and clearer for investors.



ANNEX

AMAFI’S ADDITIONAL AMENDMENTS PROPOSALS

To translate AMAFI’s proposals on amendments to the PRIIPs Delegated Regulation the table below displays changes that should be made in our view to ESAs draft amendments as presented in section 12 of the Consultation Paper.

AMAFI’s proposed changes appear as follows:

- AMAFI proposes to keep the current text or the ESAs proposals when the font is kept “normal”;
- AMAFI proposes to remove ~~the parts in red and crossed out~~;
- AMAFI proposes to add **the parts in red, bold and underlined**.

	ESAs Proposal	AMAFI Proposals	AMAFI Comments
LEVEL 1			
Article 2		<p>2. This Regulation shall not apply to the following products:</p> <p>(a) non-life insurance products as listed in Annex I to Directive 2009/138/EC;</p> <p>(b) life insurance contracts where the benefits under the contract are payable only on death or in respect of incapacity due to injury, sickness or infirmity;</p> <p>(c) deposits other than structured deposits as defined in point (43) of Article 4(1) of Directive 2014/65/EU;</p> <p>(d) securities as referred to in points (b) to (g), (i) and (j) of Article 1(2) of Directive 2003/71/EC;</p>	

(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;

(f) officially recognised occupational pension schemes within the scope of Directive 2003/41/EC of the European Parliament and of the Council (1) or Directive 2009/138/EC;

(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;

(h) vanilla derivatives physically settled;

(i) bonds which present the flowing features:

- **Perpetual bonds;**
- **Subordinated bonds;**
- **Fixed rate bonds;**
- **Variable rate bonds with pre-defined increases in the coupon rate or with a direct link to an interest rate index;**
- **Puttable bonds;**
- **Callable bonds for which the mechanism to calculate the discount rate is known in advance to the retail investor.**

[...]

AMAFI proposes to list in Level 1, bonds which are considered as out of scope in the 24 October Joint ESA Supervisory Statement ([JC-2019-64](#)).

<p>Article 8</p>		<p>[...]</p> <p>3. f) under a section titled ‘What are the costs?’, the costs associated with an investment in the PRIIP, comprising both direct and indirect costs to be borne by the retail investor, including one-off and recurring costs, presented by means of summary indicators of these costs and, to ensure comparability, total aggregate costs <u>shall be expressed both as a cash amount and as a percentage in the form of a total expense ratio expressed as a percentage cost annualized over the recommended holding period (or a non-annualized percentage for PRIIPs of up to 1 year RHP)</u> in monetary and percentage terms, to show the compound effects of the total costs on the investment.</p> <p>The key information document shall include a clear indication that advisors, distributors or any other person advising on, or selling, the PRIIP will provide information detailing any cost of distribution that is not already included in the costs specified above, so as to enable the retail investor to understand the <u>total of these aggregated costs and be able to compare the total expense ratio between products</u> cumulative effect that these aggregate costs have on the return of the investment;</p> <p>[...]</p>	
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LEVEL 2

<p>Recital 13</p>		<p>Given that the impact of different kinds of cost on returns can vary tThe key information document should also provide a breakdown of the different kinds of costs. The breakdown of costs should be expressed in standardised terms and as a percentage so that the amounts for different PRIIPs can be easily compared.</p>	
<p>Article 3</p>	<p>1. In the section entitled ‘What are the risks and what could I get in return?’ of the key information document, PRIIP manufacturers shall apply the methodology for the presentation of risk as set out in Annex II, include the technical aspects for the presentation of the summary risk indicator as set out in Annex III and comply with the technical guidance, the formats and the methodology for the presentation of performance scenarios, as set out in Annexes IV and V <u>for Category 1, 2 and 4 PRIIPs, and comply with the technical guidance and methodology for the presentation of illustrative scenarios as set out in Annex VIII for Category 3 PRIIPs.</u></p> <p>[...]</p> <p>3. PRIIP manufacturers shall include three four appropriate performance scenarios, as set out in Annex V in the section entitled ‘What are the risks and what could I get in return?’ of the key information document. Those three four performance scenarios shall represent a stress scenario, an unfavourable scenario, a moderate scenario and a favourable scenario.</p>	<p>1. In the section entitled ‘What are the risks and what could I get in return?’ of the key information document, PRIIP manufacturers shall apply the methodology for the presentation of risk as set out in Annex II, include the technical aspects for the presentation of the summary risk indicator as set out in Annex III and comply with the technical guidance, the formats and the methodology for the presentation of performance scenarios, as set out in Annexes IV and V for Category 1, 2 and 4 PRIIPs, and comply with the technical guidance and methodology for the presentation of illustrative scenarios as set out in Annex VIII for Category 3 PRIIPs.</p> <p>3. PRIIP manufacturers shall include four appropriate performance scenarios, as set out in Annex V in the section entitled ‘What are the risks and what could I get in return?’ of the key information document. Those four performance scenarios shall represent <u>a stress scenario</u>, an unfavourable scenario, a moderate scenario and a favourable scenario.</p>	<p><i>AMAFI is opposed to illustrative scenario for the various reasons explained in our answer to CP 2019-63. We would keep the Article 3 point 1 and 6 unchanged.</i></p> <p><i>As mentioned in our answer to Q8, AMAFI sees some value in preserving stress scenario for products which are principal at risk but where the negative scenarios does not show any capital loss.</i></p>

	<p>[...]</p> <p><u>6. For Category 3 PRIIPs, performance scenarios shall be included in the form of illustrative scenarios as set out in Annex VIII in the section entitled ‘What are the risks and what could I get in return?’ of the key information document.</u></p>	<p>6. For Category 3 PRIIPs, performance scenarios shall be included in the form of illustrative scenarios as set out in Annex VIII in the section entitled ‘What are the risks and what could I get in return?’ of the key information document.</p>	
<p>Article X</p>		<p><u>Wording prescribed in this delegated regulation should be adjusted if not appropriate to the characteristic of some specific products such as swap and similar OTC derivatives. Amendments should be limited to those necessary to avoid that verbatim use might create a risk that the retail investor will be misinformed about the characteristics of the products.</u></p> <p><u>ESAs may adopt guidelines to precise those eligible amendments.</u></p>	
<p>Article Y</p>		<p><u>AMAFI proposal for a grandfathering clause</u></p> <p><u>This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.</u></p> <p><u>It shall apply from 1st January 2022.</u></p> <p><u>For Categories 1 and 3 PRIIPs manufactured before 1st January 2022 that are still made available to retail investors from 1st January 2022 until 31 December 2022,</u></p>	

		<p><u>the key information document can be provided in compliance with Regulation 2017/653 of 8 March 2017 or with this Regulation.</u></p> <p><u>From 1st January 2023, all key information documents should be provided in compliance with this Regulation.</u></p>	
Annex III – Paragraph h 7		<p>An example explanation: This rates the potential losses from future performance at a [1='very low'/2='low'/ 3='medium-low'/4='medium'/5='medium-high'/6='high'/7='very high'] level, and poor market conditions [1, 2='are very unlikely to'/3='are unlikely to'/4='could'/5='will likely'/6='are very likely to'/<u>7='are highly likely to'</u>] impact [our] [the] capacity [of X] to pay you</p>	<p><i>AMAFI proposes to add a prescribed wording for PRIIPs with a SRI = 7.</i></p>
Annex III – New Paragraph h		<p><u>[Where applicable, at the discretion of the manufacturer for some Category 1 PRIIPs:] Notwithstanding SRI indicated in this document, one possible purpose of this product is to hedge a risk.</u></p>	
Annex IV – Number of scenario s	<p>1. The three four performance scenarios under this Regulation which shall show a range of possible returns, shall be the following:</p> <ul style="list-style-type: none"> a) a favourable scenario; b) a moderate scenario; c) an unfavourable scenario; d) a stress scenario. <p>2. The stress scenario shall set out significant unfavourable impacts of the product not covered in the unfavourable</p>	<p>1. The <u>four</u> three performance scenarios under this Regulation which shall show a range of possible returns, shall be the following:</p> <ul style="list-style-type: none"> a) a favourable scenario; b) a moderate scenario; c) an unfavourable scenario; <u>d) a stress scenario.</u> <p><u>2. The stress scenario shall set out significant unfavourable impacts of the product not covered in the</u></p>	<p><i>As mentioned in our answer to Q8, AMAFI is strongly opposed to introducing the mention “this is the maximum/minimum you can get” and would rather keep instead the stress scenario.</i></p>

	<p>scenario referred to in point 1(c) of this Annex. The stress scenario shall show intermediate periods where those periods would be shown for the performance scenarios under point 1(a) to (c) of this Annex.</p> <p><u>The minimum investment return shall also be shown. This case shall not take into account the situation where the manufacturer or party bound to make, directly or indirectly, relevant payments to the investor is not able to pay.</u></p>	<p><u>unfavourable scenario referred to in point 1(c) of this Annex. The stress scenario shall show intermediate periods where those periods would be shown for the performance scenarios under point 1(a) to (c) of this Annex.</u></p> <p><u>In any cases, the possible returns showed for the stress scenario shall not be higher than the ones of the three other scenarios (unfavourable, moderate and favourable).</u></p> <p>The minimum investment return shall also be shown. This case shall not take into account the situation where the manufacturer or party bound to make, directly or indirectly, relevant payments to the investor is not able to pay.</p>	
<p>Annex IV – Calculati on of scenario values for the recomme nded holding period</p>	<p>4. The scenario values under different performance scenarios shall be calculated in a similar manner as the market risk measure. The scenarios values shall be calculated for the recommended holding period.</p> <p>4. The unfavourable scenario shall be the value of the PRIIP at the 10th percentile <u>of the estimated distribution of outcomes over the recommended holding period less all applicable costs.</u></p> <p>5. The moderate scenario shall be the value of the PRIIP at the 50th percentile <u>of the estimated distribution of outcomes over the recommended holding period less all applicable costs.</u></p>	<p>4. The scenario values under different performance scenarios shall be calculated in a similar manner as the market risk measure. The scenarios values shall be calculated for the recommended holding period.</p> <p>4. The unfavourable scenario shall be the value of the PRIIP at the 10th percentile of the estimated distribution of outcomes over the recommended holding period less all applicable costs.</p> <p>5. The moderate scenario shall be the value of the PRIIP at the 50th percentile of the estimated distribution of outcomes over the recommended holding period less all applicable costs.</p>	

<p>6. The favourable scenario shall be the value of the PRIIP value at the 90th percentile <u>of the estimated distribution of outcomes over the recommended holding period less all applicable costs.</u></p> <p>7. The stress scenario shall be the value of the PRIIP that results from the methodology outlined in points 10 and 11 of this Annex for Category 2 PRIIPs and in points 12 and 13 of this Annex for Category 3 PRIIPs.</p> <p>7. For Category 2 PRIIPs <u>where there is a single amount invested in the PRIIP at the start of the recommended holding period, the estimated distribution of the returns over the recommended holding period are given by a Cornish-Fisher expansion of a log-normal distribution.</u> The expected values at the end of the recommended holding period shall be:</p> <p>where N is the number of trading periods in the recommended holding period, and where the other terms are defined in point 12 of Annex II.</p> <p><u>(a) The unfavourable scenario:</u></p> $\text{Exp}[g T + \sigma \sqrt{N} * (-1,28 + 0,107 * \mu_1 / \sqrt{N} + 0,0724 * \mu_2 / N - 0,0611 * \mu_1^2 / N) - 0,5 \sigma^2 N]$ <p><u>(b) The moderate scenario:</u></p> $\text{Exp}[g T - \sigma \mu_1 / 6 - 0,5 \sigma^2 N]$ <p><u>(c) The favourable scenario:</u></p>	<p>6. The favourable scenario shall be the value of the PRIIP value at the 90th percentile of the estimated distribution of outcomes over the recommended holding period less all applicable costs.</p> <p><u>7. The stress scenario shall be the value of the PRIIP that results from the methodology outlined in points 10 and 11 of this Annex for Category 2 PRIIPs and in points 12 and 13 of this Annex for Category 3 PRIIPs.</u></p> <p>7-8. For Category 2 PRIIPs where there is a single amount invested in the PRIIP at the start of the recommended holding period, the estimated distribution of the returns over the recommended holding period are given by a Cornish-Fisher expansion of a log-normal distribution. The expected values at the end of the recommended holding period shall be</p> <p>where N is the number of trading periods in the recommended holding period, and where the other terms are defined in point 12 of Annex II.</p> <p>(a) The unfavourable scenario:</p> $\text{Exp}[g T + \sigma \sqrt{N} * (-1,28 + 0,107 * \mu_1 / \sqrt{N} + 0,0724 * \mu_2 / N - 0,0611 * \mu_1^2 / N) - 0,5 \sigma^2 N]$ <p>(b) The moderate scenario:</p> $\text{Exp}[g T - \sigma \mu_1 / 6 - 0,5 \sigma^2 N]$ <p>(c) The favourable scenario:</p>	
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	<p><u>$\text{Exp}[g T + \sigma \sqrt{N} * (+ 1,28 + 0,107 * \mu_1 / \sqrt{N} - 0,0724 * \mu_2/N + 0,0611 * \mu_1^2/N) - 0,5 \sigma^2 N]$</u></p> <p><u>Where g is the expected annual return of the PRIIP as specified in point 12 below, T is the length of the recommended holding period in years and where the other terms are defined in point 13 of Annex II unless noted differently in point 14 of this Annex. The expected return, g, is calculated from the weighted sum of the expected returns of the different assets that compose the PRIIP.</u></p> <p><u>8. For Category 2 PRIIPs where the invested amount accrues over time, the 10th, 50th and 90th quantiles shall be read from an estimated distribution of values at the end of the recommended holding period generated using a Monte Carlo simulation. The Monte Carlo simulation shall consist of a minimum of 50,000 paths. The methodology for constructing each path is specified in points 9-10 below.</u></p>	<p>$\text{Exp}[g T + \sigma \sqrt{N} * (+ 1,28 + 0,107 * \mu_1 / \sqrt{N} - 0,0724 * \mu_2/N + 0,0611 * \mu_1^2/N) - 0,5 \sigma^2 N]$</p> <p>Where g is the expected annual return of the PRIIP as specified in point 12 below T is the length of the recommended holding period in years and where the other terms are defined in point 13 point 12 of Annex II unless noted differently in point 14 of this Annex.</p> <p><u>Note: where the PRIIPs holds different assets, the expected return, g, is calculated from the weighted sum of the expected returns of the different assets that compose the PRIIP. For the avoidance of doubt, the weighting in the weighted sum corresponds to the value of the asset held divided by the total value of the assets as computed by the manufacturer).</u></p> <p>8-9. 8-9. For Category 2 PRIIPs where the invested amount accrues over time, the 10th, 50th and 90th quantiles shall be read from an estimated distribution of values at the end of the recommended holding period generated using a Monte Carlo simulation. The Monte Carlo simulation shall consist of a minimum of 50,000 paths. The methodology for constructing each path is specified in points 9-10 below.</p>	
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	<p><u>9. Each path shall be composed of the number of periods defined by the product. The value of the product at the end of the recommended holding period is calculated by sequentially adding the additional investment amount at the start of each period to the value of the product at the end of the preceding period and calculating the amount at the end of the period.</u></p> <p><u>10. For each period, the expected return of the period is calculated as follows:</u></p> <p><u>(a) select a random value, y, from a uniform distribution on the interval [0,1].</u></p> <p><u>(b) calculate x such that the probability of obtaining a number less than x from a normal distribution with mean zero and unit standard deviation is y.</u></p> <p><u>(c) the expected return for the period is given by:</u></p> $r = \text{Exp}[g T + \sigma \sqrt{N} * (x + P_1(x) * \mu_1 / \sqrt{N} + P_2(x) * \mu_2/N + P_3(x) * \mu_1^2/N) - 0,5 \sigma^2 N]$ <p><u>Where:</u></p> <p><u>g, σ, μ₁ and μ₂ are the expected growth, volatility, skew and excess kurtosis as defined in point 6 above</u></p> <p><u>T is the length of the period in years</u></p> <p><u>N is the length of the period in days</u></p>	<p><u>9-10.</u> Each path shall be composed of the number of periods defined by the product. The value of the product at the end of the recommended holding period is calculated by sequentially adding the additional investment amount at the start of each period to the value of the product at the end of the preceding period and calculating the amount at the end of the period.</p> <p><u>10-11.</u> For each period, the expected return of the period is calculated as follows:</p> <p>(a) select a random value, y, from a uniform distribution on the interval [0,1].</p> <p>(b) calculate x such that the probability of obtaining a number less than x from a normal distribution with mean zero and unit standard deviation is y.</p> <p>(c) the expected return for the period is given by:</p> $r = \text{Exp}[g T + \sigma \sqrt{N} * (x + P_1(x) * \mu_1 / \sqrt{N} + P_2(x) * \mu_2/N + P_3(x) * \mu_1^2/N) - 0,5 \sigma^2 N]$ <p>Where:</p> <p>g, σ, μ₁ and μ₂ are the expected growth, volatility, skew and excess kurtosis as defined in point 6 above</p> <p>T is the length of the period in years</p> <p>N is the length of the period in days</p>	
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	<p> $P_1(x) = (x^2 - 1) / 6$ $P_2(x) = (x^3 - 3*x) / 24$ $P_3(x) = (5*x - 2*x^3) / 36$ </p> <p><u>(d) the value at the end of the period is the value at the start of the period multiplied by the return r.</u></p> <p><u>11. For Category 3 PRIIPs, the method shall be identical to the method specified in Annex II, points 19-23 with the adjustments specified in paragraphs 12-13 below.</u></p> <p><u>12. For Category 3 PRIIPs, the historical sample of the logarithm of daily returns of each asset is shifted by a constant factor. The mean of the shifted historical sample of the logarithm of daily returns of the asset is the appropriate expected return g for that asset.</u></p> <p><u>13. The expected annual return of equity assets, real estate assets, commodity assets or credit assets is the sum of a reference rate, Rf, and an asset specific risk premium.</u></p> <p><u>(a) The reference rate shall be read from the accepted market-standard interest rate curve for the currency and country of the asset derived from the prices of sovereign bonds of the country.</u></p> <p><u>(b) Each asset class listed below shall have a risk premium:</u></p>	<p> $P_1(x) = (x^2 - 1) / 6$ $P_2(x) = (x^3 - 3*x) / 24$ $P_3(x) = (5*x - 2*x^3) / 36$ </p> <p>(d) the value at the end of the period is the value at the start of the period multiplied by the return r.</p> <p>44-12. For Category 3 PRIIPs, the method shall be identical to the method specified in Annex II, points 19-23 with the adjustments specified in paragraphs 12-13 below.</p> <p>42-13. For Category 3 PRIIPs, the historical sample of the logarithm of daily returns of each asset is shifted by a constant factor. The mean of the shifted historical sample of the logarithm of daily returns of the asset is the appropriate expected return g for that asset.</p> <p>43-14. The expected annual return of equity assets, real estate assets, commodity assets or credit assets is the sum of a reference rate, Rf, and an asset specific risk premium.</p> <p>(a) The reference rate shall be read from the accepted market-standard <u>swap curve of the relevant currency of the underlying as computed by the manufacturer using appropriate sources</u> interest rate curve for the currency and country of the asset derived from the prices of sovereign bonds of the country.</p> <p>(b) Each asset class listed below shall have a risk premium:</p>	
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	<p><u>(i) Equity assets: shares or indexes formed from the weighted sum of equity share prices.</u></p> <p><u>The risk premium shall be composed of:</u></p> <p><u>Dividend rate of the appropriate country/sector of the company estimated from an appropriate source if the dividend is received by the holder of the PRIIP.</u></p> <p><u>Share buyback rate if shares are expected to be bought back by the issuer.</u></p> <p><u>(ii) Real estate assets: shares or index levels that reflect the value of property.</u></p>	<p>(i) Equity assets: shares or indexes formed from the weighted sum of equity share prices.</p> <p>The <u>Equity Risk Premium (ERP)</u> risk premium shall be composed of <u>determined as below:</u></p> <p>Dividend rate of the appropriate country/sector of the company estimated from an appropriate source if the dividend is received by the holder of the PRIIP.</p> <p>Share buyback rate if shares are expected to be bought back by the issuer.</p> <p><u>ERP set to 0 if the dividend is not received by the holder of the PRIIP.</u></p> <p><u>ERP set to a fixed rate if the dividend is received by the holder of the PRIIP. That fixed rate should be determined and regularly reviewed by the European Supervisory Authorities.</u></p> <p>(ii) Real estate assets: shares or index levels that reflect the value of property.</p>	
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	<p><u>Dividend rate of the PRIIP estimated from an appropriate source if the dividend is received by the holder of the PRIIP.</u></p> <p><u>Share buyback rate if shares are expected to be bought back by the issuer.</u></p> <p><u>(iii) Commodity assets: indexes or shares that reflect the price of raw materials:</u></p> <p><u>Implied annual yield implied by the expected forward price of the commodity if available on a liquid market less the appropriate reference rate.</u></p> <p><u>(iv) Credit assets: bonds which promise the repayment of capital and interest over a fixed time period in return for the use of capital paid.</u></p> <p><u>Implied annual yield implied by the current price and coupon rate of the bond less the reference rate.</u></p>	<p>Dividend rate of the PRIIP estimated from an appropriate source if the dividend is received by the holder of the PRIIP.</p> <p>Share buyback rate if shares are expected to be bought back by the issuer.</p> <p>(iii) Commodity assets: indexes or shares that reflect the price of raw materials:</p> <p>Implied annual yield implied by the expected forward price of the commodity if available on a liquid market less the appropriate reference rate.</p> <p>(iv) Credit assets: bonds which promise the repayment of capital and interest over a fixed time period in return for the use of capital paid. Implied annual yield implied by the current price and coupon rate of the bond less the reference rate.</p> <p><u>(v) FX and rates assets: Implied annual yield implied by the expected FX/Rates forward from appropriate market sources, less the reference rate.</u></p>	
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14. The volatility, σ , for all assets is defined to be the standard deviation of the natural logarithm of daily returns measured over the past 5 years. For PRIIPs which target the replication of a specific interest rate (e.g. Money-market funds), the volatility, σ , shall be the at-the-money implied volatility of 1 year European options on a similar rate.

For Category 2 PRIIPs, the calculation of the stress scenario has the following steps:

Identify a sub interval of length w which corresponds to the following intervals:

	1 year	> 1 year
Daily prices	21	63
Weekly prices	8	16
Monthly prices	6	12

Identify for each sub interval of length w the historical lognormal returns rt , where $t=t_0, t_1, t_2, \dots, t_N$.

Measure the volatility based on the formula below starting from $t_i = t_0$ rolling until $t_i = t_{N-w}$

Where M_w is the count of number of observations in the sub interval and $\frac{t_i+w}{t_i} M_i$ is the mean of all the historical lognormal returns in the corresponding sub interval.

Infer the value that corresponds to the 99th percentile for 1 year and the 90th percentile for the other holding periods. This value shall be the stressed volatility σ_s^w .

4415. The volatility, σ , for all assets is defined to be the standard deviation of the natural logarithm of daily returns measured over the past 5 years. For PRIIPs which target the replication of a specific interest rate (e.g. Money-market funds), the volatility, σ , shall be the at-the-money implied volatility of 1 year European options on a similar rate.

For Category 2 PRIIPs, the calculation of the stress scenario has the following steps:

Identify a sub interval of length w which corresponds to the following intervals:

	1 year	> 1 year
Daily prices	21	63
Weekly prices	8	16
Monthly prices	6	12

Identify for each sub interval of length w the historical lognormal returns rt , where $t=t_0, t_1, t_2, \dots, t_N$.

Measure the volatility based on the formula below starting from $t_i = t_0$ rolling until $t_i = t_{N-w}$

Where M_w is the count of number of observations in the sub interval and $\frac{t_i+w}{t_i} M_i$ is the mean of all the historical lognormal returns in the corresponding sub interval.

Infer the value that corresponds to the 99th percentile for 1 year and the 90th percentile for the other holding periods. This value shall be the stressed volatility σ_s^w .

	<p>For Category 2 PRIIPs, the expected values at the end of the recommended holding period for the stress scenario shall be: where z_{α} is a proper selected value of the PRIIP at the extreme percentile that corresponds to 1% for 1 year and to 5% for the other holding periods.</p> <p>For Category 3 PRIIPs, the following adjustments shall be made to the calculation of favourable, moderate and unfavourable performance scenarios: the expected return for each asset or assets shall be the return observed over the period as determined under point 6 of Annex II; the expected performance shall be calculated at the end of the recommended holding period, and without discounting the expected performance using the expected risk-free discount factor.</p> <p>For Category 3 PRIIPs, the following adjustments shall be made for the calculation of the stress scenario: Infer stress volatility $\frac{W}{\sigma_S}$ based on methodology defined in point 10(a) to (c) of this Annex; Rescale historical returns r_t, based on the formula set out below;</p> $r_t^{adj} = r_t * \frac{W \sigma_S}{\sigma_S}$ <p>Conduct bootstrapping on r_t^{adj} as described in point 22 of Annex II;</p>	<p><u>For Category 2 PRIIPs, the expected values at the end of the recommended holding period for the stress scenario shall be:</u> <u>where z_{α} is a proper selected value of the PRIIP at the extreme percentile that corresponds to 1% for 1 year and to 5% for the other holding periods.</u></p> <p><u>For Category 3 PRIIPs, the following adjustments shall be made to the calculation of favourable, moderate and unfavourable performance scenarios:</u> <u>the expected return for each asset or assets shall be the return observed over the period as determined under point 6 of Annex II;</u> <u>the expected performance shall be calculated at the end of the recommended holding period, and without discounting the expected performance using the expected risk-free discount factor.</u></p> <p><u>For Category 3 PRIIPs, the following adjustments shall be made for the calculation of the stress scenario:</u> <u>Infer stress volatility $\frac{W}{\sigma_S}$ based on methodology defined in point 10(a) to (c) of this Annex;</u> <u>Rescale historical returns r_t, based on the formula set out below;</u></p> $r_t^{adj} = r_t * \frac{W \sigma_S}{\sigma_S}$ <p><u>Conduct bootstrapping on r_t^{adj} as described in point 22 of Annex II;</u></p>	
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	<p>Calculate the return for each contract by summing returns from selected periods and correcting these returns to ensure that the expected return measured from the simulated return's distribution is as below</p> $E^*[r_{bootstrapped}^-] = -0.5^W \sigma_S^2 N$ <p>where $E^*[r_{bootstrapped}^-]$ is the new simulated mean.</p> <p>For Category 3 PRIIPs, the stress scenario shall be the value of the PRIIP at the extreme z_α percentile as defined in point 11 of this Annex of the simulated distribution as set out in point 13 of this Annex.</p> <p>15. For Category 4 PRIIPs, the method under point 27 of Annex II shall be used in respect of those factors that are not observed in the market, combined as necessary with the method for Category 3 PRIIPs. The relevant methods for Category 2 PRIIPs set out in points 9 to 11 of this Annex and the relevant methods for Category 3 PRIIPs set out in points 12 to 14 of this Annex shall be used for the relevant components of the PRIIP where the PRIIP combines different components. The performance scenarios shall be a weighted average of the relevant components. Product features and capital guarantees shall be taken into consideration in the performance calculations.</p> <p>16. For Category 1 PRIIPs as defined in point 4(a) of Annex II, and Category 1 PRIIPs as defined in point 4(b) of Annex II that are not futures, call options and put options traded on a regulated market or on a third-country market considered to</p>	<p><u>Calculate the return for each contract by summing returns from selected periods and correcting these returns to ensure that the expected return measured from the simulated return's distribution is as below</u></p> $E^*[r_{bootstrapped}] = -0.5^W \sigma_S^2 N$ <p><u>where $E^*[r_{bootstrapped}]$ is the new simulated mean.</u></p> <p><u>For Category 3 PRIIPs, the stress scenario shall be the value of the PRIIP at the extreme z_α percentile as defined in point 11 of this Annex of the simulated distribution as set out in point 13 of this Annex.</u></p> <p><u>15 16.</u> For Category 4 PRIIPs, the method under point 27 of Annex II shall be used in respect of those factors that are not observed in the market, combined as necessary with the method for Category 3 PRIIPs. The relevant methods for Category 2 PRIIPs set out in <u>points 9 to 11 points 10 to 15</u> of this Annex and the relevant methods for Category 3 PRIIPs set out in <u>points 12 to 14 points 10 to 15</u> of this Annex shall be used for the relevant components of the PRIIP where the PRIIP combines different components. The performance scenarios shall be a weighted average of the relevant components. Product features and capital guarantees shall be taken into consideration in the performance calculations.</p> <p><u>16. 17.</u> For Category 1 PRIIPs as defined in point 4(a) of Annex II, and Category 1 PRIIPs as defined in point 4(b) of Annex II that are not futures, call options and put options traded on a regulated market or on a third-country market</p>	
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	<p>be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) 600/2014, performance scenarios shall be calculated in accordance with points 12 to 14 of this Annex.</p> <p>17. For Category 1 PRIIPs, that are futures, call options and put options traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) 600/2014, performance scenarios shall be shown in the form of pay-off structure graphs. A graph shall be included to show performance for all scenarios for the different levels of the underlying value. The horizontal axis of the graph shall show the various possible prices of the underlying value and the vertical axis shall show the profit or loss at the different prices of the underlying value. For every price of the underlying value, the graph shall show the resulting profit or loss and at which price of the underlying value the profit or loss shall be zero.</p> <p>18. For Category 1 PRIIPs as defined in point 4(c) of Annex II a reasonable and conservative best estimate of the expected values for the performance scenarios set out in point 1(a) to (c) of this Annex at the end of the recommended holding period shall be provided.</p> <p>The scenarios selected and shown shall be consistent with and complement the other information contained in the key information document, including the overall risk profile for the PRIIP. The PRIIP manufacturer shall ensure the consistency of the scenarios with internal product governance conclusions, including amongst other things, any stress-testing undertaken by the PRIIP manufacturer for the PRIIP,</p>	<p>considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) 600/2014, performance scenarios shall be calculated in accordance with points 12 to 14 points 10 to 15 of this Annex.</p> <p>17. 18. For Category 1 PRIIPs, that are futures, call options and put options traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) 600/2014, performance scenarios shall be shown in the form of pay-off structure graphs. A graph shall be included to show performance for all scenarios for the different levels of the underlying value. The horizontal axis of the graph shall show the various possible prices of the underlying value and the vertical axis shall show the profit or loss at the different prices of the underlying value. For every price of the underlying value, the graph shall show the resulting profit or loss and at which price of the underlying value the profit or loss shall be zero.</p> <p>18. 19. For Category 1 PRIIPs as defined in point 4(c) of Annex II a reasonable and conservative best estimate of the expected values for the performance scenarios set out in point 1(a) to (c) of this Annex at the end of the recommended holding period shall be provided.</p> <p>The scenarios selected and shown shall be consistent with and complement the other information contained in the key information document, including the overall risk profile for the PRIIP. The PRIIP manufacturer shall ensure the consistency of the scenarios with internal product governance conclusions, including amongst other things, any stress-testing undertaken by the PRIIP manufacturer for the PRIIP,</p>	
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	<p>and data and analysis used for the purposes of producing the other information contained with the key information document.</p> <p>The scenarios shall be selected to give a balanced presentation of the possible outcomes of the product in both favourable and unfavourable conditions, but only scenarios that can be reasonably expected shall be shown. The scenarios shall not be selected so as give undue prominence to favourable outcomes at the expense of unfavourable ones.</p>	<p>and data and analysis used for the purposes of producing the other information contained with the key information document.</p> <p>The scenarios shall be selected to give a balanced presentation of the possible outcomes of the product in both favourable and unfavourable conditions, but only scenarios that can be reasonably expected shall be shown. The scenarios shall not be selected so as give undue prominence to favourable outcomes at the expense of unfavourable ones.</p>	
<p>Annex IV – Calculati on of expected values for intermedi ate holding periods</p>	<p><i>Calculation of expected values for intermediate holding periods</i></p> <p>For PRIIPs with a recommended holding period between 1 and 3 years, performance shall be shown at 2 different holding periods: at the end of the first year and at the end of the recommended holding period.</p> <p>For PRIIPs with a recommended holding period of 3 years or more, performance shall be shown at 3 holding periods: at the end of the first year, after half the recommended holding period rounded up to the end of the nearest year, and at the end of the recommended holding period.</p> <p>For PRIIPs with a recommended holding period of 1 year or less, no performance scenarios for intermediate holding periods shall be shown.</p> <p>For Category 2 PRIIPs, the values to be shown for the intermediate periods shall be calculated using the formulas in point 9 to 11 of this Annex with the N defined to be the</p>	<p><i>Calculation of expected values for intermediate holding periods</i></p> <p>For PRIIPs with a recommended holding period of more than 1 year, performance shall be shown at 2 different holding periods: at the end of the first year and at the end of the recommended holding period.</p> <p>For PRIIPs with a recommended holding period of 3 years or more, performance shall be shown at 3 holding periods: at the end of the first year, after half the recommended holding period rounded up to the end of the nearest year, and at the end of the recommended holding period.</p> <p>For PRIIPs with a recommended holding period of 1 year or less, no performance scenarios for intermediate holding periods shall be shown.</p> <p>For Category 2 PRIIPs, the values to be shown for the intermediate periods shall be calculated using the formulas in point 9 to 11 of this Annex with the N defined to be the</p>	<p><i>If ESAs decide to keep one (or all) IHP, AMAFI wants to keep the current methodology with some minor adjustments.</i></p>

	<p>number of trading periods from the start date to the end of the intermediate period.</p> <p>For Category 1 PRIIPs and Category 4 PRIIPs, the values to be shown for the intermediate periods shall be estimated by the PRIIP manufacturer in a manner consistent with the estimation at the end of the recommended holding period. To this end, the method used to estimate the value of the PRIIP at the start of each intermediate period needs to produce the same value for the entire recommended holding period, as under the method prescribed in points 16 and 15 of this Annex respectively.</p> <p>For Category 3 PRIIPs, to produce the favourable, moderate, unfavourable and stress scenarios at an intermediate period before the end of the recommended holding period, the manufacturer shall pick three underlying simulations as referred to in points 16 to 24 of Annex II used for the calculation of the MRM and one underlying simulation as referred to in point 13 of this Annex, on the basis of underlying levels only and in such a manner that the simulated value of the PRIIPs for that intermediate period is likely to be consistent with the relevant scenario.</p> <p>To produce the favourable, moderate, unfavourable and stress scenarios at an intermediate period for a Category 3 PRIIP with one underlying and whose value is known to be a increasing function of its underlying level, the manufacturer shall pick three underlying simulations as referred to in points 16 to 24 of Annex II used for the calculation of the MRM and one underlying simulation as referred to in point 13 of this Annex, leading respectively to the 90th percentile level for the favourable scenario, the 50th percentile level for the</p>	<p>number of trading periods from the start date to the end of the intermediate period.</p> <p>For Category 1 PRIIPs and Category 4 PRIIPs, the values to be shown for the intermediate periods shall be estimated by the PRIIP manufacturer in a manner consistent with the estimation at the end of the recommended holding period. To this end, the method used to estimate the value of the PRIIP at the start of each intermediate period needs to produce the same value for the entire recommended holding period, as under the method prescribed in points 16 and 15 points 17 and 18 of this Annex respectively.</p> <p>For Category 3 PRIIPs, to produce the favourable, moderate, unfavourable and stress scenarios at an intermediate period before the end of the recommended holding period, the manufacturer shall pick three underlying simulations as referred to in points 16 to 24 of Annex II used for the calculation of the MRM and one underlying simulation as referred to in point 13 point 15 of this Annex, on the basis of underlying levels only and in such a manner that the simulated value of the PRIIPs for that intermediate period is likely to be consistent with the relevant scenario.</p> <p>To produce the favourable, moderate, unfavourable and stress scenarios at an intermediate period for a Category 3 PRIIP with one underlying and whose value is known to be a increasing function of its underlying level, the manufacturer shall pick three underlying simulations as referred to in points 16 to 24 of Annex II used for the calculation of the MRM and one underlying simulation as referred to in point 13 of this Annex, leading respectively to the 90th percentile level for the favourable scenario, the 50th percentile level for the</p>	
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<p>moderate scenario, the 10th percentile level for the unfavourable scenario and the percentile level that corresponds to 1% for 1 year and to 5% for the other holding periods for the stress scenario.</p> <p>To produce the favourable, moderate, unfavourable and stress scenarios at an intermediate period for a Category 3 PRIIP with one underlying and whose value is known to be an decreasing function of its underlying level, the manufacturer shall pick three underlying simulations as referred to in points 16 to 24 of Annex II used for the calculation of the MRM and one underlying simulation as referred to in point 13 of this Annex, leading respectively to the 90th percentile level for the unfavourable scenario, the 50th percentile level for the moderate scenario, the 10th percentile level for the favourable scenario and the percentile level that corresponds to 1% for 1 year and to 5% for the other holding periods for the stress scenario.</p> <p>To produce the favourable, moderate, unfavourable and stress scenarios at an intermediate period for a Category 3 PRIIP other than those mentioned in points (a) and (b) the manufacturer shall choose underlying values consistent with the 90th, the 50th, and the 10th percentile levels and the percentile level that corresponds to 1% for 1 year and to 5% for the other holding periods of the PRIIP and use these values as the seed values for a simulation to determine the value of the PRIIP.</p> <p>For Category 1 PRIIPs that are futures, call options and put options traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) 600/2014,</p>	<p>moderate scenario, the 10th percentile level for the unfavourable scenario and the percentile level that corresponds to 1% for 1 year and to 5% for the other holding periods for the stress scenario.</p> <p>To produce the favourable, moderate, unfavourable and stress scenarios at an intermediate period for a Category 3 PRIIP with one underlying and whose value is known to be an decreasing function of its underlying level, the manufacturer shall pick three underlying simulations as referred to in points 16 to 24 of Annex II used for the calculation of the MRM and one underlying simulation as referred to in point 13 of this Annex, leading respectively to the 90th percentile level for the unfavourable scenario, the 50th percentile level for the moderate scenario, the 10th percentile level for the favourable scenario and the percentile level that corresponds to 1% for 1 year and to 5% for the other holding periods for the stress scenario.</p> <p>To produce the favourable, moderate, unfavourable and stress scenarios at an intermediate period for a Category 3 PRIIP other than those mentioned in points (a) and (b) the manufacturer shall choose underlying values consistent with the 90th, the 50th, and the 10th percentile levels and the percentile level that corresponds to 1% for 1 year and to 5% for the other holding periods of the PRIIP and use these values as the seed values for a simulation to determine the value of the PRIIP.</p> <p>For Category 1 PRIIPs that are futures, call options and put options traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) 600/2014,</p>	
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	<p>performance scenarios for intermediate holding periods shall not be included.</p> <p>For favourable, moderate and unfavourable scenarios at intermediate periods, the estimate of the distribution used to read the value of the PRIIP at different percentiles shall be consistent with the observed return and volatility observed over the past 5 years of all market instruments that determine the PRIIP's value. For the stress scenario at intermediate periods, the estimate of the distribution used to read the value of the PRIIP at different percentiles shall be consistent with the simulated distribution of all market instruments that determine the PRIIP's value as set out in points 11 and 13.</p> <p>The unfavourable scenario shall be the estimate of the value of the PRIIP at the start of the intermediate period consistent with the 10th percentile.</p> <p>The moderate scenario shall be the estimate of the value of the PRIIP at the start of the intermediate period consistent with the 50th percentile.</p> <p>The favourable scenario shall be the estimate of the value of the PRIIP at the start of the intermediate period consistent with the 90th percentile.</p> <p>The stress scenario shall be the estimate of the value of the PRIIP at the start of the intermediate period consistent with the percentile level that corresponds to 1% for 1 year and to 5% for the other holding periods of the simulated distribution as set out in point 13.</p>	<p>performance scenarios for intermediate holding periods shall not be included.</p> <p>For favourable, moderate and unfavourable scenarios at intermediate periods, the estimate of the distribution used to read the value of the PRIIP at different percentiles shall be consistent with the observed return and volatility observed over the past 5 years of all market instruments that determine the PRIIP's value. For the stress scenario at intermediate periods, the estimate of the distribution used to read the value of the PRIIP at different percentiles shall be consistent with the simulated distribution of all market instruments that determine the PRIIP's value as set out in points 11 and 13.</p> <p>The unfavourable scenario shall be the estimate of the value of the PRIIP at the start of the intermediate period consistent with the 10th percentile.</p> <p>The moderate scenario shall be the estimate of the value of the PRIIP at the start of the intermediate period consistent with the 50th percentile.</p> <p>The favourable scenario shall be the estimate of the value of the PRIIP at the start of the intermediate period consistent with the 90th percentile.</p> <p>The stress scenario shall be the estimate of the value of the PRIIP at the start of the intermediate period consistent with the percentile level that corresponds to 1% for 1 year and to 5% for the other holding periods of the simulated distribution as set out in point 13.</p>	
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<p>Annex IV – General requirements</p>	<p>19. The performance of the PRIIP shall be calculated net of all applicable costs in accordance with Annex VI for the scenario and holding period being presented.</p> <p><u>20. Performance shall be calculated assuming an investment amount of 10.000 euros or an amount consistent with point 90 of Annex VI.</u></p> <p><u>21. For those PRIIPs where there is no initial investment or price paid, such as forwards, future contracts, contracts for difference or swaps, performance shall be calculated assuming a notional amount of 10.000 euros or an amount consistent with point 90 of Annex VI.</u></p> <p>22. Performance shall be presented in monetary <u>units to the nearest 10 Euros or relevant currency, showing the sum of the amounts that would be received by the investor (net of costs), during the investment period including:</u></p> <p style="padding-left: 40px;"><u>(a) the payments at the end of the period, including the capital reimbursed</u></p> <p style="padding-left: 40px;"><u>(b) the coupons or other amounts received during the investment period</u></p> <p><u>23. For those PRIIPs where there is no initial investment or price paid such as forwards, future contracts, contracts for difference or swaps, performance in monetary units shall show the profit or loss obtained in the period.</u></p> <p>24. Performance shall also be presented in percentage terms, as the average annual return of the investment. That figure shall be calculated considering net performance as</p>	<p>19. The performance of the PRIIP shall be calculated net of all applicable costs in accordance with Annex VI for the scenario and holding period being presented.</p> <p>20. Performance shall be calculated assuming an investment amount of 10.000 euros or an amount consistent with point 90 of Annex VI.</p> <p>21. For those PRIIPs where there is no initial investment or price paid, such as forwards, future contracts, contracts for difference or swaps, performance shall be calculated assuming a notional amount of 10.000 euros or an amount consistent with point 90 of Annex VI.</p> <p>22. Performance shall be presented in monetary units to the <u>nearest Euro</u> 10 Euros or relevant currency, showing the sum of the amounts that would be received by the investor (net of costs), during the investment period including:</p> <p style="padding-left: 40px;">(a) the payments at the end of the period, including the capital reimbursed</p> <p style="padding-left: 40px;">(b) the coupons or other amounts received during the investment period</p> <p>23. For those PRIIPs where there is no initial investment or price paid such as forwards, future contracts, contracts for difference or swaps, performance in monetary units shall show the profit or loss obtained in the period.</p> <p>24. Performance shall also be presented in percentage terms, as the average annual return of the investment. That figure shall be calculated considering net performance as</p>	<p><i>Like explained in our answer, AMAFI believes that 10Euros is not precise enough and would rather recommend to the nearest Euro.</i></p>
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<p>numerator and the initial investment amount or the price paid as denominator <u>in accordance with the following formula:</u> <u>(net performance/ initial investment)^(1/T) – 1, if T > 1. Where T is the length of the holding period in years</u></p> <p><u>25. For recommended holding periods shorter than 1 year, performance in percentage terms shall reflect the projected return over that period and not in annual basis.</u></p> <p>26. For those PRIIPs where there is no initial investment or price paid such as forwards, future contracts, <i>contracts for difference</i>, or swaps, the percentage shall be calculated considering the notional value of the contract and a footnote shall be added to explain that calculation. <u>The formula for the calculation shall be:</u> <u>(Net profit or loss / Notional Value)^(1/T) -1, if T>1.</u></p> <p><u>27. The footnote shall indicate that the potential return is calculated as a percentage over the notional amount.</u></p> <p>28. For an insurance based investment product, the following shall apply in addition to the methods referred above including under point 15 when calculating the performance scenarios in respect of the investment: (a) future profit participation shall be taken into account; (b) assumptions on future profit participation shall be consistent with the assumption on the annual rates of return of the underlying assets;</p>	<p>numerator and the initial investment amount or the price paid as denominator in accordance with the following formula: <u>(scenario level net performance/ initial investment)^(1/T) – 1, if T > 1. Where T is the length of the holding period in years</u></p> <p>25. For recommended holding periods shorter than 1 year, performance in percentage terms shall reflect the projected return over that period and not in annual basis. <u>In this case, a footnote in the KID shall indicate that the projected return is note annualised.</u></p> <p>26. For those PRIIPs where there is no initial investment or price paid such as forwards, future contracts, <i>contracts for difference</i>, or swaps, the percentage shall be calculated considering the notional value of the contract and a footnote shall be added to explain that calculation. The formula for the calculation shall be: <u>(Net profit or loss / Notional Valueamount)^(1/T) -1, if T>1.</u></p> <p>27. The footnote shall indicate that the potential return is calculated as a percentage over the notional amount.</p> <p>28. For an insurance based investment product, the following shall apply in addition to the methods referred above including under point 15 when calculating the performance scenarios in respect of the investment: (a) future profit participation shall be taken into account; (b) assumptions on future profit participation shall be consistent with the assumption on the annual rates of return of the underlying assets;</p>	
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	<p>(c) assumptions on how future profits are shared between the PRIIP manufacturer and the retail investor and other assumptions on future profit sharing shall be realistic and in line with the current business practice and business strategy of the PRIIP manufacturer. Where there is sufficient evidence that the undertaking will change its practices or strategy, the assumptions on future profit sharing shall be consistent with the changed practices or strategy. For life insurers within the scope of Directive 2009/138/EC, these assumptions shall be consistent with the assumptions on future management actions used for the valuation of technical provisions in the Solvency II-balance-sheet;</p> <p>(d) where a component of the performance relates to profit participation that is payable on a discretionary basis, this component shall only be assumed in the favourable performance scenarios:</p> <p>(e) the performance scenarios shall be calculated on the basis of the investment amounts set out in point 32 of this Annex.</p>	<p>(c) assumptions on how future profits are shared between the PRIIP manufacturer and the retail investor and other assumptions on future profit sharing shall be realistic and in line with the current business practice and business strategy of the PRIIP manufacturer. Where there is sufficient evidence that the undertaking will change its practices or strategy, the assumptions on future profit sharing shall be consistent with the changed practices or strategy. For life insurers within the scope of Directive 2009/138/EC, these assumptions shall be consistent with the assumptions on future management actions used for the valuation of technical provisions in the Solvency II-balance-sheet;</p> <p>(d) where a component of the performance relates to profit participation that is payable on a discretionary basis, this component shall only be assumed in the favourable performance scenarios:</p> <p>(e) the performance scenarios shall be calculated on the basis of the investment amounts set out in point 32 of this Annex.</p>	
<p>Annex V – General Presentat ion</p>	<p>1. The performance scenarios shall be presented in a way that is fair, accurate, clear and not misleading, and that is likely to be understood by the average retail investor.</p> <p>2. Where performance scenarios may be shown only at maturity or at the end of the recommended holding period, as for the PRIIPs referred to in point 21 of Annex IV, that shall</p>	<p>1. The performance scenarios shall be presented in a way that is fair, accurate, clear and not misleading, and that is likely to be understood by the average retail investor.</p> <p>2. Where performance scenarios may be shown only at maturity or at the end of the recommended holding period, as for the PRIIPs referred to in point 21 of Annex IV, that shall</p>	

	<p>be clearly explained in the narrative set out in element E in Part 2 of this Annex.</p> <p>3. In all cases, the narrative explanations set out in elements A, B, C, D and F in Part 2 of this Annex shall be included, except in the case of Category 1 PRIIPs referred to in point 17 of Annex IV, where the narrative explanations set in elements G to K shall be used instead.</p> <p><u>4. Where one of the performance scenarios shows the minimum or maximum investment return, the column ‘estimated chance this scenario occurs’ shall no longer include the estimated chance but should instead state either ‘This is the minimum you can get’ or ‘This is the maximum you can get’.</u></p> <p><u>5. Where the product is called or cancelled before the end of the recommended holding period according to the simulation, the presentation of the performance scenarios should be adjusted accordingly and explanatory notes added, in a way that it is clear whether</u></p>	<p>be clearly explained in the narrative set out in element E in Part 2 of this Annex.</p> <p>3. In all cases, the narrative explanations set out in elements A, B, C, D and F in Part 2 of this Annex shall be included, except in the case of Category 1 PRIIPs referred to in point 17 of Annex IV, where the narrative explanations set in elements G to K shall be used instead.</p> <p>4. Where one of the performance scenarios shows the minimum or maximum investment return, the column ‘estimated chance this scenario occurs’ shall no longer include the estimated chance but should instead state either ‘This is the minimum you can get’ or ‘This is the maximum you can get’.</p> <p>5. Where the product is called or cancelled before the end of the recommended holding period according to the simulation, the presentation of the performance scenarios should be adjusted accordingly and explanatory notes could be added, in a way that it is clear whether a certain scenario</p>	<p><i>AMAFI is opposed to displaying text saying “this is the maximum” or “this is the minimum you can get” because the dynamic text in the performance scenarios table in case of maximum return displayed is impossible to implement in a unified and consistent way for structured products since there is a variety of payoffs and features. In addition, when early redemption is possible (e.g. callable and autocallable products), it is unclear what is the maximum return (i.e. IRR/annualised return? Maximum absolute return?).</i></p>
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	<p><u>a certain scenario includes an early call or cancellation and any reinvestment assumption that has been applied.</u></p>	<p>includes an early call or cancellation <u>and that no</u> any reinvestment assumption should be applied.</p> <p><u>In case there are intermediate holding periods, the scenarios of each intermediate holding period should be treated independently of results of subsequent holding periods meaning for instance that the favourable scenario being the 10% best case at the intermediate holding period can be different to the favourable scenario being the 10% best case at the recommended holding period.</u></p>																		
<p>Annex V - Table</p>	<p><u>Performance Scenario Examples</u></p> <p><u>What you will get from this product depends on future market performance. Market developments in the future are uncertain and cannot be accurately predicted</u></p> <p><u>The scenarios shown are only estimates of some of the possible returns that you could get based on the long-term performance of financial markets</u></p> <p><u>Example Investment amount: [EUR 10.000 / 1.000]</u> <u>Recommended holding period: [x days / months / years]</u></p> <table border="1" data-bbox="259 1209 969 1426"> <thead> <tr> <th data-bbox="259 1209 421 1326">Scenarios</th> <th data-bbox="421 1209 568 1326">What you might get back after costs after [recommended holding period]</th> <th data-bbox="568 1209 719 1326">Average return [per year / over recommended holding period]</th> <th data-bbox="719 1209 969 1326">Estimated chance this scenario occurs</th> </tr> </thead> <tbody> <tr> <td data-bbox="259 1326 421 1426">Minimum</td> <td colspan="3" data-bbox="421 1326 969 1426">If there is no minimum guaranteed return [There is no minimum guaranteed return. You could lose some or all of your investment.] If there is a minimum guaranteed return this should be stated as a figure.</td> </tr> </tbody> </table>	Scenarios	What you might get back after costs after [recommended holding period]	Average return [per year / over recommended holding period]	Estimated chance this scenario occurs	Minimum	If there is no minimum guaranteed return [There is no minimum guaranteed return. You could lose some or all of your investment.] If there is a minimum guaranteed return this should be stated as a figure.			<p><u>Performance Scenario Examples</u></p> <p>What you will get from this product depends on future market performance. Market developments in the future are uncertain and cannot be accurately predicted</p> <p>The scenarios shown are only estimates of some of the possible returns that you could get based on the long-term performance of financial markets</p> <p>Example Investment amount: [EUR 10.000 / 1.000] Recommended holding period: [x days / months / years]</p> <table border="1" data-bbox="992 1209 1585 1417"> <thead> <tr> <th data-bbox="992 1209 1193 1310">Scenarios</th> <th data-bbox="1193 1209 1391 1310">[Eventually] What you might get back after costs after 1 year</th> <th data-bbox="1391 1209 1585 1310">What you might get back after costs after [recommended holding period]</th> </tr> </thead> <tbody> <tr> <td data-bbox="992 1310 1193 1361">Unfavourable</td> <td data-bbox="1193 1310 1391 1361">€</td> <td data-bbox="1391 1310 1585 1361">€</td> </tr> <tr> <td data-bbox="992 1361 1193 1417">Moderate</td> <td data-bbox="1193 1361 1391 1417">€</td> <td data-bbox="1391 1361 1585 1417">€</td> </tr> </tbody> </table>	Scenarios	[Eventually] What you might get back after costs after 1 year	What you might get back after costs after [recommended holding period]	Unfavourable	€	€	Moderate	€	€	<p><i>The estimated chance of scenario and the average return columns should be deleted.</i></p>
Scenarios	What you might get back after costs after [recommended holding period]	Average return [per year / over recommended holding period]	Estimated chance this scenario occurs																	
Minimum	If there is no minimum guaranteed return [There is no minimum guaranteed return. You could lose some or all of your investment.] If there is a minimum guaranteed return this should be stated as a figure.																			
Scenarios	[Eventually] What you might get back after costs after 1 year	What you might get back after costs after [recommended holding period]																		
Unfavourable	€	€																		
Moderate	€	€																		

	<p><u>Unfavourable</u></p>	<p>€</p>	<p>%</p>	<p>10 in 100 chance you do worse</p>	<p>Favourable</p>	<p>€</p>	<p>€</p>		
	<p><u>Moderate</u></p>	<p>€</p>	<p>%</p>	<p>50 in 100 chance you do worse</p>	<p><u>[Eventually] Stress</u></p>	<p>€</p>	<p>€</p>		
	<p><u>Favourable</u></p>	<p>€</p>	<p>%</p>	<p>90 in 100 chance you do worse</p>					
<p>Annex V</p>	<p>[Element A] This [table/graph] shows the money you could get back over the next [recommended holding period] years, under different scenarios, assuming that you invest EUR [...] [per year].</p> <p>[Element B] The scenarios shown illustrate how your investment could perform. You can compare them with the scenarios of other products.</p> <p>[Element C] The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies, and are not an exact indicator. What you get will vary depending on how the market performs and how long you keep the investment/product.</p> <p>[Element D] The stress scenario shows what you might get back in extreme market circumstances, and it does not take into account the situation where we are not able to pay you.</p> <p>[Where applicable][Element E] This product cannot be [easily] cashed in. This means it is difficult to estimate how much you would get back if you cash in before [the end of the recommended holding period/maturity]. You will either be unable to cash in early or you will have to pay high costs or make a large loss if you do so.</p>				<p><u>[Element C] The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies, and are not an exact indicator. What you get will vary depending on how the market performs and how long you keep the investment/product.</u></p> <p>[Where applicable][Element E] This product cannot be [easily] cashed in. This means it is difficult to estimate how much you would get back if you cash in before [the end of the recommended holding period/maturity]. You will either be unable to cash in early or you will have to pay high costs or make a large loss if you do so.</p>				

<p>[Element F] The figures shown include all the costs of the product itself, [where applicable];[but may not include all the costs that you pay to your advisor or distributor][and includes the costs of your advisor or distributor]. The figures do not take into account your personal tax situation, which may also affect how much you get back.</p> <p>[Element G] This graph illustrates how your investment could perform. You can compare them with the pay-off graphs of other derivatives.</p> <p>[Element H] The graph presented gives a range of possible outcomes and is not an exact indication of what you might get back. What you get will vary depending on how the underlying will develop. For each value of the underlying, the graph shows what the profit or loss of the product would be. The horizontal axis shows the various possible prices of the underlying value on the expiry date and the vertical axis shows the profit or loss.</p> <p>[Element I] Buying this product holds that you think the underlying price will [increase/decrease].</p> <p>[Element J] Your maximum loss would be that you will lose all your investment (premium paid).</p> <p>[Element K] The figures shown include all the costs of the product itself, but may not include all the costs that you pay to your advisor or distributor. The figures do not take into account your personal tax situation, which may also affect how much you get back.</p>	<p>[Element F] The figures shown include all the costs of the product itself, [where applicable];[but may not include all the costs that you pay to your advisor or distributor][and includes the costs of your advisor or distributor]. The figures do not take into account your personal tax situation, which may also affect how much you get back.</p> <p>[Element G] This graph illustrates how your investment could perform. You can compare them with the pay-off graphs of other derivatives.</p> <p>[Element H] The graph presented gives a range of possible outcomes and is not an exact indication of what you might get back. What you get will vary depending on how the underlying will develop. For each value of the underlying, the graph shows what the profit or loss of the product would be. The horizontal axis shows the various possible prices of the underlying value on the expiry date and the vertical axis shows the profit or loss.</p> <p>[Element I] Buying this product holds that you think the underlying price will [increase/decrease].</p> <p>[Element J] Your maximum loss would be that you will lose all your investment (premium paid).</p> <p>[Element K] The figures shown include all the costs of the product itself, but may not include all the costs that you pay to your advisor or distributor. The figures do not take into account your personal tax situation, which may also affect how much you get back.</p>	
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Annex VI		<i>To be redrafted</i>	<i>This annex should be redrafted to remove the RiY and replace it by a TER methodology.</i>
Annex VII Presentat ion of the Costs		<p style="text-align: center;">What are the costs?</p> <p>The Reduction in Yield (RIY) shows what impact the total costs you pay will have on the investment return you might get</p> <ul style="list-style-type: none"> - The total costs take into account one-off, ongoing and incidental costs that you pay - The amounts shown here are the cumulative costs of the product itself, for one or different holding periods. They include potential early exit penalties. The figures assume you invest [€10 000 (OR €1000 each year for regular premium PRIIPs)]. The figures are estimates and may change in the future. <p>[Where applicable, i.e. where possible] Be aware that the person selling you or advising you about this product may charge you additional costs</p> <p>You can use the reduction in return each year due to costs <u>total costs in percentage per annum to compare the costs of other products assuming you hold the product to the recommended holding period</u></p>	

Table 1 of Option 1 **without RiY**

When you invest [10.000 / 1.000 EUR per year] We have assumed the product performs as shown in the moderate performance scenario	If you end / exit / surrender / terminate / lapse after 1 year	[Only for PRIIPs with RHP 8 years or more] If you end / exit / surrender / terminate / lapse after 5 years	If you exit after [recommen- ded holding period] years
Costs over time			
Total costs (EUR)	€	€	€
<u>Total costs (%) per annum</u>	%	%	%

Table 2 of Option 2

Type of cost		Description of cost
One-off costs	Entry costs	[X% of the amount invested / premium paid] or [x% of the first Y premiums / investments] Where the costs are embedded in the price or premium: These costs are already included in the [price / premium] you pay. [Where distribution costs are included in entry costs] This includes [monetary value] EUR costs of distribution of your product. [Where the manufacturer only knows the maximum distribution cost]. This is the maximum you could pay. The person selling

				you the product will inform you of the exact charge.	
			Exit costs	<p>X% of the value of your investment at that time.</p> <p>Where the costs are embedded in the price: These costs will be included in the price you get.</p> <p>Where they apply only for disinvestment prior to the recommended holding period. These costs only apply in case of (explain circumstances or an example in max 100 characters: exit before maturity/termination of the product / exit out of the (monthly/...) liquidity windows). For details, refer to section "How long should I hold it and can I take my money out early?"</p>	
		Ongoing costs	Management fees and other costs	X% of (value of the investment / other basis) [per year / other time period] [where applicable] (of which % are management fees)	
			Transaction costs	X% of (value of the investment per year) This is an estimate of the costs of us buying and selling underlying investments for the product.	
		Incidental costs	[Performance fees / carried interest / other]	<p>X% of (...describe in max 100 characters). Where applicable [cross-reference to prospectus]</p> <p>[Only include row where applicable]</p>	

		[Where applicable]: different costs apply depending on the investment amount...[explain circumstances or use an example in maximum 100 characters]	
New Annex VIII	<p><i>ANNEX VIII</i> <i>(New Annex based on Article 36 of UCITS Regulation 583/2010)</i></p> <p>METHODOLOGY AND PRESENTATION OF ILLUSTRATIVE SCENARIOS</p> <p>1. The illustrative scenarios shall show at least three scenarios of the PRIIP’s potential performance. Appropriate scenarios shall be chosen to show the circumstances in which the formula or pay-off terms may generate a low, a medium or a high return, including, where applicable, a negative return for the investor.</p> <p>2. The scenarios referred to in paragraph 1 shall enable the investor to understand fully all the effects of the calculation mechanism embedded in the formula. They shall be presented in a way that is fair, clear and not misleading, and that is likely to be understood by the average retail investor. In particular, they shall not artificially magnify the importance of the final performance of the PRIIP.</p> <p>3. The scenarios referred to in paragraph 1 shall be based on reasonable and conservative assumptions about future market conditions and price movements.</p> <p>4. However, whenever the formula exposes investors to the possibility of substantial losses, such as a capital guarantee that functions only under certain circumstances, these losses shall be appropriately illustrated, even if the probability of the corresponding market conditions is low.</p>	<p><i>ANNEX VIII</i> <i>(New Annex based on Article 36 of UCITS Regulation 583/2010)</i></p> <p>METHODOLOGY AND PRESENTATION OF ILLUSTRATIVE SCENARIOS</p> <p>1. The illustrative scenarios shall show at least three scenarios of the PRIIP’s potential performance. Appropriate scenarios shall be chosen to show the circumstances in which the formula or pay off terms may generate a low, a medium or a high return, including, where applicable, a negative return for the investor.</p> <p>2. The scenarios referred to in paragraph 1 shall enable the investor to understand fully all the effects of the calculation mechanism embedded in the formula. They shall be presented in a way that is fair, clear and not misleading, and that is likely to be understood by the average retail investor. In particular, they shall not artificially magnify the importance of the final performance of the PRIIP.</p> <p>3. The scenarios referred to in paragraph 1 shall be based on reasonable and conservative assumptions about future market conditions and price movements.</p> <p>4. However, whenever the formula exposes investors to the possibility of substantial losses, such as a capital guarantee that functions only under certain circumstances, these losses shall be appropriately illustrated, even if the probability of the corresponding market conditions is low.</p>	<p><i>AMAFI is strongly against illustrative scenario and therefore opposes the new Annex VIII.</i></p>

	<p>5. The returns presented in the illustrative scenarios shall be calculated net of all applicable costs in accordance with Annex VI for the scenario and holding period presented.</p> <p>6. The scenarios referred to in paragraph 1 shall be shown under the heading 'Table 2 – illustration of performance in specific market situations.'</p> <p>7. The scenarios shall be accompanied by the following statements: 'These are only examples of what you would get in different hypothetical situations.' The information is presented to help you understand how this product works.</p>	<p>5. The returns presented in the illustrative scenarios shall be calculated net of all applicable costs in accordance with Annex VI for the scenario and holding period presented.</p> <p>6. The scenarios referred to in paragraph 1 shall be shown under the heading 'Table 2 – illustration of performance in specific market situations.'</p> <p>7. The scenarios shall be accompanied by the following statements: 'These are only examples of what you would get in different hypothetical situations.' The information is presented to help you understand how this product works.</p>	
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