

ESA'S JOINT CONSULTATION PAPER ON AMENDMENTS TO THE PRIIPS KID

Summary of AMAFI's answer

AMAFI (The French Association for financial markets) has always paid a close attention to discussions about the elaboration and the implementation of PRIIPs. In particular, the Association has published a Q&A on the implementation of the legislation which is regularly updated. It is keen to provide its input once more to the debate being held around the ESAs Joint Committee consultation on amendments to the PRIIPs KID.

Overall, the implementation of PRIIPs required heavy investments from manufacturers. Therefore, it seems essential **the amendments proposed to correct the dysfunctions of PRIIPs are limited to the necessary ones**. The necessary changes are, in AMAFI's view, **the ones that could mitigate the risk to provide investors misleading or confusing information via KIDs resulting from performance scenarios and information on costs**. Reflecting activities of its membership, AMAFI concentrates its feedback on structured and derivatives products as illustrated by the table page 2 summarizing the technical feasibility of the proposed amendments as well as our assessment of their impact for manufacturers and for the information provided to retail investors.

Summary:

Performance scenarios

- **Methodology of calculation** – Partial support for the proposed approach :
 - In the short run, the ESAs should allow manufacturers, where relevant, to remove the historical drift for all the scenarios or just for the unfavourable one;
 - In the long run, the proposal to move to risk neutral drift should be completed by a risk premium, for which methods of calculation would be fully defined in the level 2 text and per asset class.
- **Narrative explanations** – Full endorsement of the proposal as it would be clearer for retail investors.
- **Presentation** – Adding a graph and removing 2 of the 4 scenarios would be highly detrimental for retail investors understanding.
- **Introduction of past performance in the KID** – As past performance does not exist for derivatives and structured products, there is a high risk that it could result in providing retail investors with misleading information.

Other key proposals

- **Products with autocallable features & RiY calculation** – The proposed approaches would reduce the comparability of KIDs between products and create uncertainty for retail investors. AMAFI proposes alternative solutions for RiY calculation on page 2.
- **No retroactivity** – Any change made in the Delegated Regulation (DR) should only be applicable for the KIDs issued once the amended DR would enter into force.
- **Regulatory harmonisation and legal certainty** – All the proposed amendments should be tabled in the new DR through level 2 measures as level 3 Q&As do not have legal value or can supersede level 1 or 2 texts.

IMPACT ASSESSMENT OF PROPOSED AMENDMENTS FOR STRUCTURED & DERIVATIVES PRODUCTS

AMENDMENT	TECHNICAL FEASIBILITY	IMPACT ON MANUFACTURERS	IMPACT ON INVESTORS	CONCLUSION
Information on past performance	No for derivatives and structured products	Very high	Negative	NO
Narrative explanations	Yes	Low	Positive	YES
Presentation of performance scenario (graph vs. table)	Very difficult	Very high	Negative	NO
Methodology to derive future performance scenario figures	Difficult	High	Positive (addressed also via narratives)	Alternative* solution preferred
Suppression of two performance scenarios	Yes	High	Negative	NO
Extend the historical period	Difficult	High	Neutral	NO
Autocallable products	Yes	Moderate	Negative	Alternative* solution preferred
Growth assumption for the RIY	Difficult	High	Negative	Alternative* solution preferred

ALTERNATIVE SOLUTIONS FOR RIY CALCULATION

AMAFI proposes two additional amendments to tackle the issues raised by the RiY concept:

- Reword “total costs” by “impact on return” within KIDs to be more accurate and less confusing.
- Add an optional row in the current costs table or an optional annex to present to investors, the **raw costs** incurred (calculated using the total expense ratio method - TER).



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 140 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.

* See complete AMAFI answer (AMAFI 18-69)