ASSOGESTIONI
associazione del risparmio gestito

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Assogestioni's reply to ESAs' Technical Discussion Paper on Risk, Performance Scenarios and Cost Disclosures in Key Information Documents for Packaged Retail and Insurance-based Investment Products (JC/DP/2015/01)

Assogestioni[1] welcomes the opportunity to respond to the ESAs' Technical Discussion Paper on Risk, Performance Scenarios and Cost Disclosures in Key Information Documents for Packaged Retail and Insurance-based Investment Products (JC/DP/2015/01).

Firstly, we would like to express our appreciation for the work realized by the ESAs to identify and propose valuable approaches and options, practical for different types of PRIIPs. It is a significant challenge to formulate an appropriate and accurate approach for all PRIIPs as well as to ensure consistent application across different firms and products.

Unfortunately, both the timing of release of, and the short deadline for response to this technical discussion paper (hereinafter, TDP) make it difficult to provide the ESAs with the in-depth and fulsome feedback that this subject requires.

As a first note, we would like to draw the ESAs' attention to the following preliminary comments - for them to consider when designing the draft regulatory technical standards for the PRIIPs KID that will be consulted upon in the course of the next autumn. These comments will form the object of a more detailed response in the different replies to the TDP:

[1] Assogestioni is the trade body for Italian investment management industry and represents the interests of members who manage funds and discretionary mandates around € 1,714 billion (as of June 2015).

- **maintain, to the extent possible, the principles developed for the UCITS KIID.** A balanced, stable and realistic representation of risk, cost and performance has been reached and consumer-tested with the UCITS KIID. We believe that the UCITS methodology behind such indicators has proven valuable and practical over the years and helped investors understand the essential characteristic of a UCITS fund in a simple way. In general, investment funds differ from the majority of other PRIIPs, in so much as they are characterized by the asset management activity and by the segregation of the portfolios. To the extent possible and with due adjustments to take also specificities of other products into account, the principles of the UCITS KIID should be maintained. In particular:

    - the risk indicator - we believe that an investor should understand the market risk and the credit risk separately, where the market risk (and the credit risk of the underlying investment) should be the closest representation possible of the existing UCITS risk indicator (SRRI) and the credit risk of the PRIIPS product should rely on the creditworthiness of the counterparty. In our opinion, investors need to be aware of the effect of the risk of a PRIIPs counterparty's default, bearing in mind that investment funds, especially UCITS, have a negligible counterparty risk, if any;

    - costs - in line with the Level 1 text and the UCITS KIID, we recommend that sufficient granularity is maintained within the representation of the summary cost indicator to ensure that investors are not deprived of the information they need, to make the KID not misleading. The KID is a pre-contractual document that should help investors in their investment choices. It may be difficult for investors to understand that the summary cost indicator (and the simulation of the effect of costs on the investment) not only includes known fees but also incidental costs (i.e. transaction costs and performance fees), which reflect the asset management strategy and cannot be exactly asserted in the ex-ante disclosure;

    - historical performance – as said, it seems that a great emphasis is put on costs and their diminishing effect on return on the investments. However, when costs are incurred, one also has to look at the benefits received in exchange for them. As Level 1 requires appropriate performance scenarios to be shown, we believe that they should be based on historical time series (in line with the TDP's proposed "what if – historical scenario"), as they are the most appropriate representation of the positive contribution of active asset management.

- **Probabilistic modeling should be avoided because it is likely to vary significantly from one manufacturer to another and will increase complexity**. Even if consensus were reached on a model, its calibration, where feasible (as in the case of liquid asset classes), could still differ from a manufacturer to another, leading to different outcomes. This is not in line with the purpose of achieving a consistent application across firms and products expressed in the Regulation. Should the ESAs be in favor of a modeling

approach, we deem it necessary to estimate real-world risk premium. The model should also take into consideration the added value of an active management.

- **Find the right balance between the benefit for the investors and the cost borne by manufacturers**. The use of a new risk indicator or probabilistic modeling to forecast returns will require an extensive implementing effort with high costs for manufacturers, excessively disproportionate for relatively smaller manufacturers, as asset management companies. Such models may also be different from the one already internally adopted. Pending the results of the European consumer testing, from an investor point of view, we believe that forecast returns are not likely to be considered retail-friendly concepts and would be difficult to be explained in a simple way, especially because of the assumptions that need to be established.

- **Be consistent with MIFID II.** It is essential that requirements such as those on cost disclosure in the MiFID II implementing measures, yet to be published at the time of writing, are consistent with and directly based on the PRIIPs KID.

- **Provide more assessments for PRIIPs whose underlying is not represented by financial instruments and/or is not liquid (e.g. real estate**). We appreciate the reference made by the ESAs in some part of the TDP to the specificities of real estate funds. However, we believe that additional considerations should be made on these specific PRIIPs, especially when it comes to assessments on risks and on performance scenario.

Q1: Please state your preference on the general approach how a distribution of returns should be established for the risk indicator and performance scenarios' purposes. Include your considerations and caveats.

We think that option a) "*distribution returns directly obtained from historical data*" should be used to estimate the (market) risk indicator, as currently required in the standard UCITS SRRI.

This approach is simple and could also be applied to PRIIPs products different from investment funds. Moreover, it is relatively easy to supervise. Even if historical data may not be the most accurate(future does not necessarily reflect the past), nor may be forecast simulations whose results are also model-dependent.

As mentioned in our preliminary comments, the use of historical data better suits products with an active asset management whose pay-off is not implied in the product itself or linked to market volatility only. Furthermore, option a) ensures more stable results, while the other approaches can provide different results on the basis of the model used.

Option a) could also be used for performance scenarios' presentation (time series).

This option also offers an easier solution compared to the forward stochastic modeling options. Indeed, the use of historical times series would overcome the

problem related to the estimation of real-world risk premium and of the effects of alpha implied by active asset management.

Should an option from b) to e) be selected, we believe that results from different manufacturers would be difficult to compare effectively. Even if consensus were reached on a model, its calibration, where feasible (as in the case of liquid asset classes), could still differ from a manufacturer to another leading to different outcomes. This is not in line with the purpose of the Regulation to reach a consistent application across firms and products.

Finally, the use of historical data would help avoiding the significant costs (both in time and money) of implementing sophisticated modeling, which may also be different from the one used by manufacturers for internal purposes.

Should the ESAs nonetheless be in favor of a modeling approach for the estimation of distribution of return for performance scenarios, we would then suggest option b), namely "*the stochastic modeling based on parameters estimated from historical data*".

Q2: How should the regulatory technical standards define a model and the method of choosing the model parameters for the purposes of calculating a risk measure and determining performance under a variety of scenarios?
What should be the criteria used to specify the model? Should the model be prescribed or left to the discretion of the manufacturer?
What should be the criteria used to specify the parameters? Should the parameters be left to the discretion of the manufacturer, specified in accordance with historical or current market values or set by a supervisory authority?

As a general remark, it is our opinion that methodologies, assumptions or approaches within the different targeted sections should be prescribed. However, we also believe that in case a modeling approach is used, an appropriate balance should be reached between a fully prescribed and a fully discretionary approach. Probabilistic modeling is highly subjective and its outcomes are likely to vary depending on the different firms' model assumptions and pricing parameters, which are not necessarily due to opportunistic behaviours. Conversely, in the case of a fully prescribed approach, the scenarios might not be suitable for all PRIIPs and, as a result, would offer little or no added-value for the end-investor.

An appropriate balance should take into account the specific characteristics of a product, such as, for actively managed products, the added value of active management. The approach should also not be too complex, in order to allow implementation and supervision.

Q3: Please state your view on what benchmark should be used and why. Are there specific products or underlying investments for which a specific growth rate would be more or less applicable?

With regard to the benchmark to be used to measure performance, for sake of simplicity, we are in favor of option a) "*amount invested without any adjustment*".

In case a long term holding period is recommended, a narrative disclaimer indicating the longer term effect of inflation could be indicated in the KID.

In any case, should a correction be made, the estimation of the growth rate should be prescribed by the ESAs as a centralised way.

Q4: What would be the most reasonable approach to specify growth rates? Would any of these approaches not work for a specific type of product or underlying investment?

If a stochastic model is chosen, the risk premium should be included to transfer the results from a risk-neutral to a real world environment. In our opinion, the most reasonable approach to specify growth rates is option b) "*free risk rate adjusted for an asset specific risk premiums – with the hypothesis that the risk premium is different from zero and constant*".

We believe that a risk-neutral hypothesis does not suit the estimation of future value of assets. It is not meaningful to assume, for example, that a stock price grows at the riskless rate, as it is instead acceptable for pricing of derivatives. This would wrongly imply that investors require no compensation for the risk when buying long-term products.

When one evaluates risks or performance over very short-time periods, it may be acceptable to set the risk premium to zero. However, we are of the opinion that this approach is not correct when performances are valued over longer time periods, where the drift represents a much relevant element of the product. In this regard, it is important to highlight that a great number of PRIIPs would have a time horizon longer than few days.

Hence, should the ESAs decide to use stochastic models, these should be calculated assuming that investors demand a risk premium to hold risky assets, such as shares or long-term bonds (so-called "real-world" probabilities).

We are aware that this requirement introduces the need to estimate the risk premium. For this reason and in order to ensure comparability, we believe that its estimation should be made by the ESAs in a centralized way.

We would like to reiterate that the use of historical time series would overcome the problem of risk premium estimation.

Q5: Please state your view on what time frame should the Risk Indicator and Performance Scenarios be based.

We share the ESAs' view on the importance to present the changes in the risk and performance due to the interaction of the product characteristics with the time the product will be held.

We are therefore in favour of option a) "*show the risk indicator and performance scenarios for several intermediate times as well as the recommended holding period*".

We believe that two time horizons should be considered: the recommended time horizon and a short-term time horizon (i.e. one year or a shorter period for products with one-year time horizon) to give investors an indication of what the conditions would be like in case of early redemption.

Specific assessment should then be made for products, as closed-end funds, where investors cannot usually redeem their investment before the end of the time horizon indicated in the fund rules, neither via the secondary market.

Q6: Do you have any views on these considerations on the assessment of credit risk, and in particular regarding the use of credit ratings?

In general, we share the ESAs' consideration on credit risk and, in particular, the view that credit risk can be the most important risk investors face when investing in some PRIIPs. For this reason, its assessment is important for PRIIPs where an entity has a direct contractual obligation to pay the investor certain amount(s), depending or not on the evolution of the underlying assets.

In particular, we share the view that for the credit risk linked to the underlying assets in which the PRIIP is invested in, as in investment funds, such credit risk is reflected in the PRIIP's market risk.

In addition, we would like to express some remarks on the ESAs indication with regards to the possibility, in some cases, to assess the credit risk attached to the underlying investment independently from market risk (i.e. for capital-protected structured investment funds, where the proceeds are to a large extent invested in a bond portfolio that should deliver the repayment of the invested amount at maturity or an investment fund that makes use of efficient portfolio management techniques or financial derivatives contracts such as total return swaps).

For UCITS funds and more in general for investment funds that are characterised by the segregation of the portfolio assets and adopt similar prudential rules on diversification and counterparty risk, including collateral requirements for reducing counterparty risk([2]), we believe it is not appropriate to consider the credit risk as similar to the one of an insurance or bank product: in general, the counterparty risk for UCITS should be considered negligible, if any.

In the light of the definition of credit risk contained in the Discussion Paper on Key Information Document for PRIIPS (JC/FP/2014/02) ("*the risk of loss on investment*

[2] Please refer to ESMA Guidelines on ETFs and other UCITS issues (ESMA/2012/832).

arising form the obligor's failure to meet some/all his contractual obligations. The obligor could include the issuer of the PRIIP"), we suggest to explicitly ascertain that some credit risk mitigation features neutralize or reduce the credit risk on the original obligor.

As regard credit risk determination, if, according to our understanding, investments funds have negligible counterparty risk, it is not necessary for funds to measure such a risk through a third party credit rating or through a quantitative measure: the third party credit rating for funds is not a appropriate measure to assess the credit risk being an indicator of the asset management.

Finally, as stated in our preliminary comments above, we believe that investors should assess market risk and credit risk separately, where the market risk (and the credit risk of the underlying investment) should be the closest representation possible of the existing UCITS SRRI and the credit risk of the PRIIPS product should rely on the creditworthiness of the counterparty.

Q7: Do you agree that liquidity issues should be reflected in the risk section, in addition to clarifications provided in other section of the KID?

The definition of liquidity risk contained in the former Discussion Paper (JC/DP/2014/02) ("*(i) the absence of a sufficiently active market on which the PRIIP can be traded out or (ii) the absence of equivalent arrangement*") raises the question as to whether the PRIIP can be cashed-in during its life in a reasonable time and/or at its investment value.

To answer this question, we propose to include, where appropriate, a narrative description in the risk section, in addition to the information that needs be given under the section "how long should I hold it and can I take money out early".

Q8: Do you consider that qualitative measures such as the ones proposed are appropriate or that they need to be supplemented with some quantitative measure to some extent?
Should cost and exit penalties for early redemptions be considered a component of a liquidity risk and hence, be used to define a product as liquid or not for the KID purpose?

N/A.

Q9: Please state your views on the most appropriate criteria and risk levels definition in case this approach was selected.

As a general note, we believe that it will be beneficial for the investors' understanding of the product to look at market and credit risk separately. For this reason and as further explained below, we support Option 2 out of the options presented by the ESAs in the TDP and we deem that Option 1 can well represent a possible alternative. Differently, in our opinion, Option 3 (forward looking simulation model) should be considered as the least favourable option.

As far as Option 1 is concerned, we believe that such a model provides a clear and simple approach for the calculation of the Risk Indicator and gives an indication of the risk taken into account at the recommended investment horizon. It has the merit of using simple criteria and allow comparability and seems to be of easy comprehension.

However it should also be highlighted that, when comparing products, this approach may result not to be correct and "fair", as it can lead to the conclusion that products with explicit/implicit guarantee would always be classified in the lowest risk category. For example, it is true that deposit guarantee schemes offer a supplementary protection for depositors, however this should not be regarded as the essential feature, because the guarantee applies to the investor's total deposit and thus is capped.

We also fear that level playing field will be put at risk in case short-term money market UCITS will also be excluded from the lowest risk category.

Should the ESAs opt for Option 1, we believe the following adjustments/clarifications should be inserted to the base six class model shown at pp. 33-34 of TDP:

1. Risk class 1/2: it should be clarified that this class only comprehends guaranteed products, thus, not including capital protection. According to our understanding, a guaranteed PRIIP is a product in which the guarantee of repayment of the initial capital, possibly increased by a minimum return, is ensured thanks to specific agreements with a third party. This clarification would only specify what already indicated in the part referring to market risk in the market risk box (i.e. "*explicit/implicit undertaking to reimburse 100% initial investment […]*");
2. Risk class 1: in order to better differentiate Risk class 1 from Risk class 2, Risk class 1 should only include PRIIPs with a guarantee of repayment of the initial capital increased by a minimum return different from zero (i.e. risk-free or inflation rate);
3. Risk class 1-5: it should be clarified that guaranteed investment funds may also be included as "*PRIIP with a… guarantee*";
4. Risk class 2-4: the meaning of domestic currency should be specified, in particular whether it refers to the nominal currency of the PRIIP or to the currency exposure of the underlying.

As regards the method of calculation of the "risk of loss" at the recommended investment horizon, we express our favor for the third alternative ("*UCITS – SRRI*"), this having the benefit of being already extensively and efficiently used in the UCITS world. In this case, the relative scale should be modified as follows:

- low risk: SRRI 1-2
- medium risk: SRRI 3-4
- high risk: SRRI 5-6
- very high risk: SRRI 7.

As a secondary option, we suggest the first alternative ("*average loss*"): such an alternative provides a way to define and measure levels of loss which seem suitable for all non-structured PRIIPs. However, although we understand the logics behind the choice, we deem that the proposed recommended investment horizon is too long and propose an investment horizon shorter than 20 years (i.e. 5/10 years). This because if such a long horizon is kept, the indicator may be less representative of the risk of the product: while a long investment horizon is able to ensure uniformity and stability of the data, at the same time it risks not to correctly represent the riskiness of the product, influenced by correlation with volatility of different asset classes and markets.

Q10: Please state your views on the required parameters and possible amendments to this indicator.

We favor Option 2 "*Indicator separating assessment of market risk - quantitative measure based on volatility - and credit risk - qualitative measure, external credit ratings*", as this option assesses market and credit risks separately, which is of extreme importance to distinguish between different types of PRIIPs and to enable investors understand the creditworthiness of the counterparty. To allow this comparison, both market risk and credit risk should be displayed as separate two-dimensional risk indicators with seven buckets.

In our view the following aspects should be better specified and clarified:

- Should the ESAs assess that the UCITS risk indicator (SRRI) is not applicable to different type of PRIIPs, we believe that it should be clarified that the delta approach, as illustrated in the section, only applies to structured funds (as defined in the UCITS KIID Regulation) while the SRRI methodology applies for the other types;
- In line with our answer to Q6, it should be specified that: (i) no external rating requirement needs to be provided for investment funds, and (ii) in general, funds should be classified in the lowest credit risk category;
- The exception referred to in the last paragraph of p. 38 of TDP for those PRIIPs for which volatility-based measure does not seem relevant because of the specific volatility cycle (e.g. real estate) should be better explained, in particular in the part relating to normalized values of the risk measure/indicator, in order to clearly indicate how to calculate the risk measure/indicator.

Q11: Please state your views on the appropriate details to regulate this approach, should it be selected.

As stated above, our clear preference is for Option 2 or 1, as they are, easier to implement and bring added value to investors. Nevertheless, we would like to provide some comments on Option 3, as well.

As already expressed in different parts of our reply, in our opinion forward looking simulation models should be avoided as they are likely to vary significantly from

manufacturer to manufacturer and increase complexity. Even if consensus could be reached on a model, model calibration could still differ because of differing business models between manufacturers and different modeling capacities, leading to different outcomes. The more complex the model a manufacturer uses, the greater the risk of manipulation.

Such type of modeling, in the several alternatives proposed, will also require an extensive implementing effort with significant costs (both in time and money) for manufacturers, excessively disproportionate for relatively smaller entities, and may lead players to adopt different (more sophisticated) models for the Risk Indicator calculation compared to the internal risk model used.

With specific regard to the first approach, while the zero drift hypothesis (which is embedded in the majority of the Monte Carlo simulation models) can be well applied for very short investment horizon products (e.g. daily VaR portfolios), it is not conceivable for products with medium- or long-term investment horizons, where the drift represents a much relevant element of the product.

In addition, we would like to stress that a full evaluation approach, as proposed, should also take the added value of active management into consideration.

Q12: Please state your views on the general principles of this approach, should it be selected. How would you like to see the risk measure and parameters, why?

As regards the proposed "extensions" of this approach, we are of the view that proportionality should be applied: Option 3 is already very difficult to implement and the proposed "extensions" would further disproportionally increase the costs of implementation, especially in case the resulting figure will be presented in a simple and short linear scale.

Q13: Please state your views on the potential use of a two-level indicator. What kind of differentiators should be set both for the first level and the second level of such an indicator?

The two-level indicator proposed is too generic. We believe that the consumer testing will indicate the level of differentiation required.

Q14: Do you have suggestions or concrete proposals on which risk scale to use and where or how the cut-off points should be determined?

We are in favor of using the current 1-to-7 bucket scale used in the UCITS risk indicator: this scale was already consumer-tested and proved practical and of easy comprehension for investors and should be maintained.

When feasible, we suggest an additional level 8 in order to highlight the risk of losing more than capital. The same result may also be achieved with a specific disclaimer in the risk section, as this risk may not be adequately captured by the summary risk indicator alone.

Q15: Please express your views on the assessment described above and the relative relevance of the different criteria that may be considered.

We strongly believe that probability-based scenarios should not be required in the KID. Instead, a what if approach based on historical scenario should be preferred.

In our view, the manufacturer should provide appropriate explanation on the product's structure, risks and rewards through historical-based scenarios and not assess the appropriateness and suitability of the product for the investor. A manufacturer does not know an investor's market view but may only provide what the performance of the product for a determinate period has been and what the performance would have been like if the product was launched x years ago. Historical returns also help investors understand the benefits received in exchange of the cost of acquisition/holding the PRIIPs. Thus, this is extremely important for the specific characteristics of an actively managed fund.

It is our view that requiring the manufacturer to narrate the likelihood of scenarios moves the KID away from an objective description of the product to a description which necessarily involves a market view, which could thus be seen as a promise by investors.

Pending the European consumer testing, it is our view that investors will be unlikely to understand the significant limitations of probabilistic modeling. These are highly technical, subjective and ultimately only indicative. We are concerned that end investors will find it difficult to appreciate the limitations of probability modeling.

As indicated above, from the manufacturer's point of view, probabilistic modeling is highly subjective and its outcomes are likely to vary significantly depending on the different firms' model assumptions and pricing parameters which are not necessarily due to opportunistic behaviours. Conversely, in the case of a fully prescribed approach, the scenarios might not be suitable for all PRIIPs and, as a result, would offer little or no added-value for the end-investor.

Finally, one should duly consider whether "the benefit" of a probability-based approach could justify the significant costs (both in time and money) of implementing such modeling.

Nevertheless, should probability-based scenarios be adopted, realistic assumptions on risk premium should be realized. In any case, as expressed in other parts of the document, the model chosen should take the characteristics of active management into due account.

Q16: Do you think that these principles are sufficient to avoid the risks of manufacturers presenting a non-realistic performance picture of the product? Do you think that they should be reinforced?

N/A.

Q17: Do you think the options presented would represent appropriate performance scenarios? What other standardized scenarios may be fixed?

As mentioned in reply to Q15, we have a clear preference for the proposed what-if prescribed scenario of option a) "*historical scenario*" with slight changes in the representation. It is our strong view that validated past performance figures represent the most reliable source of performance-related information and should therefore be used as a basis for the purpose of simulating possible future performance outcomes (please also refer to our reply to Q1).

In line with the UCITS KIID, we recommend a graphical presentation of historical outcome in different periods. This representation should not answer the question as suggested in the TDP "*what would have been the performance of the product if it had been launched weekly in the last 10 years?*". Rather, it should give an answer to the following question: "what would have been the yearly performance of the product if it had been launched at the 1st of January of 10,9,8….1 year(s) ago?".

Should the ESAs find it not appropriate to have 10 different periods (years), we suggest to use 1,3,5,10 years in addition to the recommended holding period.

In our view, option b) "*set a predefined growth rate/performance of the underlying investments*" is useful to explain how the pay-off of the product works in different market condition (e.g. structured funds), but it does not seem feasible to correctly describe active management. Should this approach be applied, all PRIIPs focusing on similar selection of assets would probably represent similar performance scenarios regardless of the strategy used. This option would not enable investors to understand the difference between different PRIIPs. In our opinion, the "*what-if prescribed scenario - option b) predefined growth rate/performance of the underlying instruments*", may only be used as an alternative representation to the historical what-if scenario for structured PRIIPs, in coherence with the UCITS KIID representation that foresees two different types of presentation.

In case the probability approach is preferred, we recommend that investment funds with a sufficient performance history should also be allowed to show historical performance, as this seems to be the relevant information on performance to be included in the KIID according to recital 15 of the PRIIPs Regulation.

Q18: Which percentiles do you think should be set?

We do not have particular observations on this aspect and would support the three scenarios suggested: a pessimistic scenario as the 10th percentile of the distribution, a neutral scenario as the 50th percentile and an optimistic scenario as the 90th percentile.

Q19: Do you have any views on possible combinations?

Generally speaking, combining different methodologies for presenting scenarios may increase complexity for investors. For structured products, in line with our answer to Q17, the decision to add the "*what if - predefined growth*

rate/performance of the underlying investments scenarios" to the "what if – historical scenario" can be left to the manufacturer.

Where a "*probabilistic scenario*" is used, we recommend to also present a scenario that also showcases historical performance.

Q20: Do you think that credit events should be considered in the performance scenarios?

We think that credit events should not be considered in the performance scenarios. In case they are nonetheless included, only a qualitative description should be provided.

Q21: Do you think that such redemption events should be considered in the performance scenarios?

We are of the view that the representation of performance scenarios, net of costs, should sufficiently show the impacts on the yield in case of redemption events of PRIIPs.

Q22: Do you think that performance in the case of exit before the recommended holding period should be shown? Do you think that fair value should be the figure shown in the case of structured products, other bonds or AIFs? Do you see any other methodological issues in computing performance in several holding periods?

We believe that our proposal to consider two time horizons (the recommended holding period and a shorter term, such as one year or a shorter period, for products with one year time horizon) would allow to capture such cases (please refer to our reply to Q5).

Q23: Are the two types of entry costs listed here clear enough? Should the list be further detailed or completed (notably in the case of acquisition costs)? Should some of these costs be included in the on-going charges?

We believe that the reference contained in (a) to upfront initial costs is sufficiently clear and detailed.

As for (b), we ask the ESAs to clarify what is meant by acquisition costs. We understand that this term does not refer to the acquisition costs of the fund's underlying assets as these costs should be indicated as transaction costs (point k) below).

Q24: How should the list be completed? Do you think this list should explicitly mention carried interest in the case of private equity funds?

Before providing an answer on the specific question, we would like to make some preliminary comments on the proposed list of costs.

The PRIIPs Regulation foresees that the KID should include, amongst other, the cost associated with an investment in the PRIIP, comprising both direct and indirect costs. Therefore, the costs listed in the TDP enlarge the list of costs indicated in "CESR Guidelines on the methodology for calculation of the on-going charges figure in the UCITS KIID" (CESR/10-674). Amongst other, performance fees (subparagraph h)) and transaction costs (subparagraph k)) are now included.

The ESAs are aware that such incidental fees cannot be exactly asserted in the ex-ante disclosure. We believe that the fact that they cannot be exactly asserted can lead to provide investors misleading information. To better enhance investors' understanding, we propose that such incidental costs/fees should be excluded from the on-going charge figures and disclosed separately. Such a separate representation, in our understanding, is in line with Level 1 and also with ESMA's Technical Advice on MiFID II. We therefore recommend that sufficient granularity is maintained to ensure that investors are not deprived of the information they need to make the KID too simple.

To respond to this specific question, we do not have specific remarks on the list of payments provided in subparagraph (a):these are payments already taken into account under the CESR Guidelines for the calculation of the on-going charge figure in the UCITS KIID. We would only suggest to clarify that the payment of performance fees to the management company or other persons identified in the list is excluded from subparagraph (a).

Finally, we would like to draw the ESA's attention to the reference made in question to "*carried interest in the case of private equity funds*". If carried interest are tobe interpreted as variable remuneration, we believe that such a figure should then be treated as performance fee and be included in the relevant subparagraph.

Q25: Should these fees be further specified?

We agree with the level of specification provided in subparagraph (b) and suggest to include payments to securities lending agents in the list of relevant payments.

~~Q26: Should these fees be further specified? The "recovering fees" cover the following situation: when an investor receives income from foreign investments, the third-country government may heavily tax it. Investors may be entitled to reclaim the difference but they will still lose money in the recovering process (fee to be paid).~~ [Supposedly this question should deal with lit (c) "registration fees, regulatory fees and similar charges, including passporting fees"]

N/A.

Q27: Should these fees be further specified? The "recovering fees" cover the following situation: when an investor receives income from foreign investments, the third-country government may heavily tax it. Investors may be entitled to reclaim the difference but they will still lose money in the recovering process (fee to be paid).

It is our view that "*recovering fees for specific treatment of gains and losses*" should not be included in the calculation of the ongoing charges figure. According to our understanding, recovering fees as described by the ESAs, would be incurred in the tax recovery process initiated by the individual investor. Thus, such fees do not apply at the level of the fund and cannot be ascertained by the product manufacturer. Moreover, the amount of fees might considerably vary depending on the fund investor's domicile, the foreign tax rules and the specificities of the recovery procedure applicable in the relevant third country

For the reasons above, we suggest subparagraph (d) should be deleted from the list of ongoing charges.

Q28: This list is taken from the CESR guidelines on cost disclosure for UCITS. What is missing in the case of retail AIFs (real estate funds, private equity funds)?
In the case of private equity funds, would it be relevant to include a breakdown of flows, distinguishing those ("out") paid by the fund for the proper functioning of its financial portfolio management from those ("in") paid by the target company for the provision of advisory services. This breakdown would allow to clarify real costs for investors (instead of only indicating the net amount), knowing that "in" will be deducted from "out").
In the case of costs of distribution, would this need to be detailed depending on the type of costs of distribution? To what extent are these costs different from the distribution fees mentioned in the Entry costs above?

N/A.

Q29: Is it relevant to include this type of costs in the costs to be disclosed in the on-going charges? Which are the specific issues in relation to this type of costs? Which definition of costs for capital guarantee or capital protection would you suggest? (Contribution for deposit insurance or cost of external guarantor?)

As a general consideration, we believe that interests on borrowing (subparagraph (i)) should not be considered as costs, as they are linked to the investment strategy and used to maximize returns.

Q30: Is it relevant to include this type of costs in the costs to be disclosed in the on-going charges? Which are the specific issues in relation to this type of costs? Which definition of Costs for capital guarantee or capital protection would you suggest? (Contribution for deposit insurance or cost of external guarantor)?

As regards subparagraph (j) ("*costs of capital guarantee or capital protection*") it should be clarified that this type of cost only applies to guaranteed funds. Indeed, for these funds, the capital guarantee is an obligation to achieve guaranteed results and this obligation of results requires explicit costs for the guarantee. In this case the cost may be the sum of the premiums paid or the positive difference between the sum of the "pure" premiums paid and the option premium made by the third party bank to offer the guarantee.

For the sake of clarity and to avoid possible misaligned interpretations, we also suggest to include a definition of what is meant by "guarantee"/"guaranteed fund".

Q31: Which are the specific issues in relation to this type of costs? Should the scope of these costs be narrowed to administrative costs in connection with investments in derivative instruments? In that respect, it could be argued that margin calls itself should not be considered as costs. The possible rationale behind this reasoning would be that margin calls may result in missed revenues, since no return is realized on the cash amount that is deposited, and that:
i) no actual amount is paid to a third party. Hence one could argue whether these should be defined as costs of investing from a fundamental point of view.
ii) it would be very challenging to quantify the actual missed revenue amount. Assumptions would be needed on the rate of return that would be realized on the deposited cash amount. Daily fluctuations in margin account balances will add to the complexity of required calculations.

We agree with the consideration that margin calls should not be considered as costs.

The list included in section 3 (costs) of the Technical Discussion Paper uses the CESR's *Guidelines on the methodology for calculation of the on-going charge figure in the Key Investor Information Document* (CESR/10-674) as a starting basis for indication of costs, to create a more comprehensive list of costs to be included. It is true that Level-3 measures give margin calls as an example when referring to "payments incurred for the holding of financial derivative instruments". However, it is our opinion that such reference needs to be interpreted as to mean administrative costs due to margin calls and not margin calls themselves.

Q32: Which are the specific issues in relation to this type of costs? Should this type of costs be further detailed/defined?

N/A.

Q33: How to deal with the uncertainty if, how and when the dividend will be paid out to the investors? Do you agree that dividends can be measured ex-post and estimated ex-ante and that estimation of future dividends for main indices are normally available?

Before providing an answer to the specific question, we would like to draw the ESAs' attention to some points for which no questions was foreseen.

Subparagraphs (n) – the cost of acquiring or disposing of units in UCITS or AIFs.
We welcome the general approach to use the existing CESR Guidelines (CESR/10-674) as a starting point, confirming the methodology for the calculation of on-going costs with specific reference to the portfolio assets at the relevant date. According to our understanding, such indications should be used independently from the method of aggregation that will be defined (i.e. Total Cost Ratio or Reduction in Yield) even though its reference is included only in the Total Cost Ratio Section.

With regards to the types of investments funds foreseen in subparagraphs (n), we also suggest to include investment funds that are not subject to the PRIIPs Regulation (such as non-retail AIF), in line with CESR/10-674 which differentiates procedures for funds that are in and outside the scope of the UCITS KIID Regulation.

On a more general note, we would like to highlight that the use of the new single indicator aggregator (TRC/RIY) in place of the existing UCITS on-going cost may lead to a higher cost estimation. This is particularly the case for funds of funds, when the target fund has no institutional share class. In such a case, the inclusion of (historical) estimation of incidental costs such as transaction costs and performance fees and the maximum entry or/and exit fee will create a disadvantage for fund of funds in comparison to the actual costs of investment.

Finally, we deem it of extreme importance that the TRC/RIY should represent multiple time horizons in the KID to show the effect of early redemptions. For this reason, we suggest to consider the recommended time horizon. Investment funds, as institutional investors, should be considered long-term investors.

Subparagraphs (n) to (p) – cost of acquiring or disposing / holding
We would like to draw the ESAs' attention to the wording of subparagraphs from (n) to (p). Such subparagraphs refer to "costs of acquiring or disposing" certain investments ("*UCITS and AIF*" (n), "*PRIIP other than UCITS and AIF*" (o), "*investment products other than PRIIP*" (p)), whereas the explanatory text implies that it is the costs of holding those investments that should be taken into account.

Having said that, we deem it appropriate to differentiate the criteria in order to include the cost of the acquisition and holding of an "*investment fund*" (n) from the one for holding a "*PRIIP other than UCITS and AIF*" (o) or an "*investment product other than PRIIP*" (p) depending on whether the "payment" to any persons is one-off or recurring. Only when these are recurring one should take them into account in the TRC/RIY.

For buying/selling and holding an "*investment fund*" (n), a manufacturer should count the possible entry/exit charges and its TRC/RIY, avoiding double counting (TCR/RIY also includes entry/exit charge). Implicit transaction costs in investment funds should not be taken into account (please see our answer to Q40).

For "*PRIIPs other than UCITS and AIF*" (o) or for "*investment product other than PRIIP*" (p), only their transaction costs would be accounted, independently from their TCR/RIY.

We therefore recommend that a proportionality criterion should apply.

In case the ESAs decide to also include these costs, we believe that not appropriate costs will be included in the KID. Furthermore higher costs will be incurred for manufacturers: initial costs to collect the new information and recurring costs for updating them. To mitigate such shortcomings, we suggest that all PRIIPs KIID will be made available in an central repository free of charge.

Q34: Is this description comprehensive?

As stated in our preliminary remarks and as a general note, we would like to highlight that it may be difficult for investors to understand that the summary cost indicator not only includes known fees but also incidental costs, such as transaction costs, that reflect the asset management strategy and cannot be exactly asserted in the ex-ante disclosure.

To better enhance investors' understanding, we propose that transaction costs, and more in general all incidental costs, like performance fees, should be excluded from the on-going charge figure and be disclosed separately instead. Such a separate representation, in our understanding, is in line with MiFID II Level 1 and also with ESMA's Technical Advice on MiFID II. Furthermore, we support the possibility to exclude transaction costs from the total cost indicator, in coherence with the ESA's proposal of exclusion of performance fee from such summary indicator (please, refer to our answer to Q44).

In addition, we would also like to draw the ESA's attention to the fact that the disclosure of transaction costs may create an incentive not to trade when trading might be in clients' best interests. In the absence of a clear link between transaction costs and performance, it also creates an inequality by making active management appear to be more expensive than other PRIIPs that are not actively managed. This difference would only be due to the characteristics of the active management, which are in any case driven to produce added value. Please refer also to our answer to Q24 for further general consideration.

Finally, since the basis for ex-post reporting is different from the ex-ante assumption in the KID, there could be (substantial) differences between the two figures. In order to properly assess such misalignments, the ESAs should give due consideration to this aspect in the coming consultation on the revision of the PRIIPs KID.

As regard the description, we do not agree with the inclusion of market impact costs and implicit costs coming from investments in other funds as transaction cost (please refer to our answers to Q39 and 40).

Q35: Can you identify any difficulties with calculating and presenting explicit broker commissions? How can explicit broker commission best be calculated ex-ante?

In general, we believe that a simple system of implementation and supervision would best fulfil the purpose of the effort made by the ESAs in the TDP and before that the objectives of the Regulation. Where possible, it should be based on historical data (broker commissions paid during the previous financial year or an average of a longer period to have more stable estimation). For new funds, or when the investment strategy changes materially some estimation should be made.

Q36: How can the total of costs related to transaction taxes best be calculated? How should this be done to give the best estimate ex-ante? Are there other explicit costs relating to transactions that should be identified? Do you think that ticket fees (booking fees paid to custody banks that are billed separately from the annual custodian fee paid for depositing the securities) should be added to this list?

As for broker commission (Q35), in general, we believe that simple system of implementation and supervision would best fulfil the purpose of the effort made by the ESAs in this TDP and before that the objectives of the Regulation. Where possible, it should be based on historical data (transaction taxes paid during the previous financial year or an average of a longer period to have a more stable estimation). For new funds, or when the investment strategy changes or a country introduces/changes transaction taxes that may have a materiality, some estimation should also be made.

Q37: As regards the abovementioned estimate, can the fair value approach be used?

The TDP proposes that "*portfolio managers make their own estimate of the broker commissions incurred in the spread of the transaction (the manager should keep records of the methodology used to make the estimates - this could be based on a statistically significant sample of trades)*".

The TDP also argues that "*all fund managers either have their own dealing desk or sub-contract this to other dealing desks*"; and "*since the principle of Best Execution is paramount, the dealers should know the typical spread in the securities with which they deal*".

In general, we recommend that the fair value approach should not be used. In our understating, the requirements of best execution ensure dealers secure "*the best possible result for their clients taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.*" The typical spread is not necessarily relevant.

Q38: Can you identify any other difficulties with calculating and presenting the bid-ask spread? Do you believe broker commissions included in the spread should be disclosed? If so, which of the above mentioned approaches do you think would be more suitable for ex-ante calculations or are there alternative methods not explored above?

We believe that bid-ask spread should not be disclosed as such, rather it should be the amount equivalent to a broker's commission to be displayed. The spread is a function of the liquidity of a stock and, as such, is caused by the occurrence of the underlying market risk.

In our opinion, including explicit broker commissions and excluding implicit broker commissions would create an imbalance between the transaction costs of different products and assets classes. For consistency, all broker commissions (both implicit and explicit) should be excluded - our suggestion - or an estimation should be done.

If the ESAs decide to also include these costs, the manufacturer should calculate the "spread" through a centrally designed table that specifies the spread considered equivalent to a broker commission, in order to ensure comparability and avoid discretionary calculations. The amount should be in basis point per transaction and the criteria used should not be a proportion of the spread.

In any case, we suggest that Level 2 measures should not include the centrally designed table. In our opinion, it is important that the ESAs have an appropriate level of flexibility to identify and, possibly, periodically update, both the list of categories and the cost in basis point per transaction. This technical need seems to better be satisfied through Level 3 guidelines.

Q39: Do you believe that market impact costs should be part of the costs presented under the PRIIPs regulation? If so, how can the market impact costs best be calculated? How should this be done to give the best estimate ex-ante?

We are of the strong view that market impact costs should not be included in the costs presented under the PRIIPs regulation, being this impact due to the market.

Part of the analysis on page 66 of TDP notes that costs such as market impact costs might sometimes be negative, such as when a small seller trades while there is a larger buyer in the market. The fact that market impact arises as a feature of the condition of the market rather than the trade demonstrates that impact is a result of underlying market risk.

In case the ESAs require to estimate the market impact costs, we believe that the model will be complex and will require very deep information on order books. Even where data for the modeling is available, it should be suitably tested. In our understanding, a market impact cost should be positive or zero, not negative as it appears to be in particular cases. Finally, an appropriate analysis should also be

made of the suitability of the cost of producing such information for relative smaller asset managers.

Q40: How should entry- and exit charges be calculated considering the different ways of charging these charges? How should this be done to give the best estimate ex-ante? Can you identify any other problems related to calculating and presenting entry- and exit fees?

Although we understand in principle the rationale behind the proposal, we suggest that the implicit transaction cost connected with the investment in funds whose price mechanism is built to protect existing investors form the dilutive effect of other investors entering or exiting the fund (such as dual-pricing or swing pricing) should not be taken into account.

This cost are not predictable on ex-ante basis, because it is impossible to know the flows in the fund and how this flows will impact the pricing of the fund itself. In the swing pricing mechanism there is only one price (NAV) and the estimation of this costs seems impossible. There is also the risk of double counting of transaction costs, if these cost are then not deducted from the total transaction costs paid by the fund.

Since transaction costs in the underlying assets of the fund will be taken into account, we recommend that a proportionality criteria should apply and that implicit cost included in the fund pricing mechanism should not be considered.

Q41: Which other technical specifications would you suggest adding to the abovementioned methodology? Which other technical issues do you identify as regards the implementation of the methodology?

As a general note, an assessment should be made by the ESAs to find a balance between the requirement to calculate costs and the costs to be borne by manufacturers which are necessary to obtain accurate information.

The "*actual costs model*" looks very burdensome for manufacturers, especially if applied to all portfolio transactions.

Given that some transaction costs are explicit, the estimation resulting from the "*standardised model*" only could show results inefficiently. Therefore, we support an (easy) hybrid model: adding to the explicit (historical) known costs (for example brokerage cost, taxation cost for equities) the implicit cost of financial instruments, different from investment funds (please refer to our answer to Q40), calculating the latter by multiplying the standard transaction cost for a turnover rate. The standard transactions costs should be identified by the ESAs for different categories of instruments.

Furthermore, manufacturers should be allowed not to apply standardized cost, for the areas in which they have no particular difficulties to calculate actual costs. This would enable firms to report actual costs in some areas while still being able to use

standardized costs for others. In case the ESA's consider this approach prone to possible arbitrage opportunities, we support the (easy) hybrid model.

In any case, in the absence of shared and well-tested approaches for the transaction cost estimation, we have difficulties to finalize in our response what a suitable, simple and sufficiently correct modeled cost method to use could be.

As transaction cost is a sensitive cost information, especially for open-ended funds that are actively managed, we believe that more time should be given in order to analyze and test the different feasible assumptions that should be used to provide the cost figure in the PRIIPs KID. Therefore, we recommend that Level 2 regulation identifies high criteria which will then be further developed in Level 3 guidelines after appropriate analysis and consultation with the stakeholders.

With specific regards to the methodology, we would like to focus on the following aspects:

- transaction costs: it is not clear whether a simple average or a weighted average is requested in the TDP. If a weighted average is requested, we ask more clarifications on: (i) how such a weight is to be obtained (weighted average on portfolio composition at a relevant date - the weighting may be also calculated at the level of portfolio turnover rate); and (ii) the denominator for the average (whether this should be composed of the sum of all portfolios of different asset classes [included in the standard table valued at mark-to-market at the relevant date] and whether equities and other instruments with explicit transactions costs should be excluded from the denominator); (iii) how to take derivatives instruments into account;
- portfolio turnover rate (PTR): (i) whether the PTR should be calculated for the entire portfolio or should be weighted on the basis of the asset classes at a relevant date; (ii) what the period of calculation should be (i.e. period longer than one year to smooth transaction costs and have more stable indication). Furthermore, we believe that PTR should also be adjusted taking into account the nature of the open-ended funds, where transaction costs arise not only for active management but also from subscriptions or withdrawals. We would like to recall that the definition of PTR set in 2004 at EU level for simplified prospectus has not worked well.

Q42: Do you think that an explicit definition of performance fees should be included? Do you think the definition by IOSCO is relevant in the specific context of the cost disclosure of the PRIIPs Regulation?

No, we do not think it is necessary to have an explicit definition of performance fee.

Q43: What would be the appropriate assumption for the rate of returns, in general and in the specific case of the calculation of performance fees?

The KID must include cost disclosure to show the compound impact of costs on the capital investment. This implies that an assumption on rates of return on the investment needs to be set. As regards growth rates, in general we deem it appropriate that they should be linked in some way to the information provided in

the performance scenario. In case different performance scenarios are shown, we believe that the growth rate should derive from the positive performance scenario.

Q44: Which option do you favor? Do you identify another possible approach to the disclosure and calculation of performance fees in the context of the KID?

We have a clear preference for option 3).

As this option abstains from the inclusion of performance fees in the total cost indicator, we suggest to also exclude performance fees from the calculation of the estimation in case of investments on other funds, in order to align the provisions.

In case option 3) is not preferred, our favor would then be for option 2). In this case, we suggest performance fees should be computed on the basis of historic data covering at least 3/5 years (please refer to letter a), p. 70 of the TDP).

To better enhance investors' understanding, we propose that transaction costs, as incidental costs, should also be excluded from the total cost indicator (please also refer to our answer to Q34).

Q45. Which of the above mentioned options 1 and 2 for the calculation of aggregate costs would you prefer? Do you agree with above mentioned assumptions on the specificities of the costs of life-insurance products? How should the breakdown of costs showing costs specific to the insurance cover be specified? Do you think that risk-type riders (e.g. term or disability or accident insurances) have to be disregarded in the calculation of the aggregated cost indicator? How shall risk-type rider be defined in this context? (one possible approach might be: A risk-type rider in this context is an additional insurance cover without a savings element, which has separate contractual terms and separate premiums and that the customer is not obliged to buy as a compulsory part of the product).

The biometric risk premium of an insurance PRIIPs is a cost which needs to be disclosed to investors. Costs that have effect on the performance of the PRIIP should be made transparent to the client, regardless the type of the PRIIP product.

Q80: What should be the value of x? (in the case of UCITS, x=5, but the extent to which this is appropriate for other types of PRIIPs, notably life-insurance products, is unclear)

The PRIIP manufacturer shall keep records of each calculation for a period of x years after the last date in which that version of the KID was available to be issued. We believe that the principle applying for the UCITS KID can well also apply for open-ended funds AIFs. It could be considered whether a longer period is necessary for PRIIPs that have a longer lifetime.

Q81: Should this principle be further explained/detailed? Should the terms "rank pari passu" be adopted to fit the different types of PRIIPs?

The term "*pari passu*" is already used in the CESR Guidelines on the methodology for calculation of the ongoing charges figure (CESR/10-874) and we believe that no further explanation is needed.

Q82: What should be the relevant figure for the initial invested amount to be taken into account for the calculation of cost figures? Should a higher initial investment amount be taken into account not to overestimate the impact of fixed costs? How should the situation of products with regular payments be taken into account for that specific purpose? (Would an invested amount of 1000 euros per period of time be a relevant figure?

As a general note, we agree that the initial investment should be consistent amongst different types of PRIIPs to avoid opportunistic presentations. However, at the same time, we understand it's quite challenging to identify an invested amount that is consistent with the characteristics of different products.

To identify the criterion that might be used, one should keep in mind that the KID will give a generic illustration of the PRIIPs costs, and such costs are not necessarily levied on the single investor.

Some factors that influence the individual single cost of the investment are independent from the product manufacturer and will potentially vary from client to client as well as from distributor to distributor. In particular, we refer to:

- the choice of the single investors between the different opportunities foreseen for the same PRIIP: for an open-ended investment fund cost are usually different for a one-off investment or for regular payment (e.g. accumulation plan);
- the amount of the investment itself: initial charge, where applied, usually decreases as the amount invested increases;
- the incidental cost: performance fees and transaction costs are unknown ex-ante - they are, thus, estimated;
- costs eventually levied by distributors.

With specific reference to investment funds, where investment managers offer different ways (and costs) to subscribe a fund/share class, we deem that the KID should indicate the cost of a one-off investment. Similarly, when choice is left between an entry or exit fee, in the simulation of costs one should assume that investor holds the investment until the end of the investment period. The representation of costs in different periods will indeed allow to assess the effect of the exit fee on the fund.

As for the initial investment amounts to be indicated by the ESAs for all PRIIPs, we recommend that such figures should form part of Level 3 guidelines to ensure adequate flexibility. In general, we propose an amount higher than 1.000 euro: in

line with Italian average investments in open-ended funds, the amount could be of 10.000 euro or other currency, where necessary.

Q84: Do you agree with the abovementioned considerations? Which difficulties do you identify in the annualisation of costs?

We deem it important to aim at having some coherence within the KID. Therefore, we agree that the rate of return should be chosen to be consistent with the scenarios presented in the performance section.

The presentation of the effect of costs on investment should not only be limited to the recommended holding period of the PRIIP but should also take other possible scenarios into account, whatever the approach used (TCR or RIY). In our opinion, investors should be aware of the effect of cost on investments in case they decide to withdraw their investment before the recommended period.

The difficulties in the "annualisation of costs" does not seem technical but rather related to correct the definition of the different assumptions. The Level 1 text asks that the PRIIP shall disclose total aggregated costs expressed in monetary and percentage terms to show the compound effect of the total costs on the investment.

To identify the criterion that might be used, one should keep in mind that the KID will give a generic illustration of the PRIIPs costs, and that such costs are not necessarily levied on the single investor (please also refer to our reply to Q82).

As regards the methodology proposed (TCR or RIY), we are in favor of the TCR methodology. For asset managers, it represents a smoother and less complex approach.

In coherence with other parts of our reply and pending the outcome of the consumer test, for the representation of this indicator, we ask for a clear separation between those costs known ex-ante and those that are contingent and need to be estimated. Again, this separation would avoid that information is presented to investors in too aggregated form which would be misleading for them.

Q85: Which other assumptions would be needed there? In the case of life-insurance products, to what extent should the amortization methodology related to the amortization methodology of the premium calculation? To what extent should the chosen holding period be related to the recommended holding period?

For the comment on impossibility to reflect the investor's actual entry/exit costs, please refer to our answer to Q82. Should this type of cost be also included in the summary cost indicator, we agree to annualise it with the assumption proposed: amortising linearly along the time horizon. As already indicated in other parts of the document, a number of standardised time horizons will provide comparable information on product costs relating to short, medium and long term investment.

Q86: This definition of the ratio is taken from the CESR guidelines on cost disclosure for UCITS. Is it appropriate also in the case of retail AIFs? Should it be amended? Another approach to calculate these costs is to calculate the ratio of the total of these amortized costs to the invested amount in the fund. However in that case the question remains as to how to aggregate this ratio with the on-going charges ratio. Another possible approach could be to use the ratio between the total amount of costs over the holding period and the average net investment (assumed during the whole period, in order to take into account future additional investments, partial withdrawals, payments (i.e. programmed investments or disinvestments)). Do you think this approach would be appropriate?

Should entry-exit costs be included in the summary cost indicator, out of the three methodologies proposed we are in favour of the one in which the entry-exit cost ratio to be included in the TCR is the ratio of the total of these amortized costs to the average net assets of the fund.

For the reasons given in Q82, we do not find it appropriate to use the ratio between the total amount of costs over the holding period and the average net investment (assumed during the whole period - in order to take into account future additional investments, partial withdrawals, payments (i.e. programmed investments or disinvestments)).

Q89: This definition of the ratio is taken from the CESR guidelines on cost disclosure for UCITS. Is it appropriate also in the case of retail AIFs? Should it be amended? Another possible approach could be to use the ratio between the total amount of costs over the holding period and the average net investment (assumed during the whole period, in order to take into account additional investments, partial withdrawals, payments (i.e. programmed investments or disinvestments)). Do you think this approach would be appropriate?

We consider it appropriate to use principles from the CESR guidelines on cost disclosure for UCITS in the PRIIPs context.

Q90: These different aforementioned principles are taken from the CESR guidelines on cost disclosure for UCITS. It is also appropriate in the PRIIPs context?

We consider it appropriate to use principles from the CESR guidelines on cost disclosure for UCITS in the PRIIPs context.

Q93: Do you identify any specific issue in relation to the implementation of the RIY approach to funds?

The RIY approach seems to be more complex than TCR. The used formula can lead to differing results if more subscriptions and withdrawals are taken into account for the simulation.

Q95: Do you agree with the above-mentioned assessment? Should the calculation basis for returns be the net investment amount (i.e. costs deducted)? Do you identify specific issues in relation to the calculation per se of the cumulative effect of costs?

As regards the presentation of the compound impact of costs on the capital investment and on the return, we are not in favor of a 0% growth rate assumption as this is not a realistic illustration of how financial products function. To ensure consistency and as indicated in other parts of our answer, we prefer a growth rate originating from/linked to the performance scenario section.

Pending the results of the European consumer testing, we believe that this presentation should only refer to a single growth rate assumption rather than to several performance assumptions. If different performance scenarios are indicated (negative, neutral, positive), we suggest that the results should come from the positive scenario.

Yours sincerely

Director General