

## Implementing measures under PRIIPs

### Committee on Economic and Monetary Affairs

#### Scrutiny Session of 20 February 2019

*This briefing has been drawn up to support ECON's work on the scrutiny of delegated acts, in particular for the discussion of 20 February on implementing measures under [Regulation \(EU\) No 1286/2014](#) on key information documents for packaged retail and insurance-based investment products (PRIIPs Regulation)<sup>1</sup>.*

#### In brief

On 8 November 2018, the joint European Supervisory Authorities (ESAs) published a [Consultation paper](#) (CP) regarding amendments to the [Commission Delegated Regulation \(EU\) 2017/653](#), on key information documents (KID) for packaged retail and insurance-based investment products ("PRIIPs Delegated Act") made under the PRIIPs Regulation. The CP aimed at addressing shortcomings in the PRIIPs framework. Per [letter](#) of 1 October 2018, the ESAs announced they would initiate such draft amendments to the PRIIPs Delegated Act (DA), in line with their mandate under Article 29(1)(d) of the ESA regulations to review the application of regulatory technical standards adopted by the Commission. The letter in particular referred to the **duplication of requirements** for the KID under PRIIPs and the KID under [Directive 2009/65/EC](#)<sup>2</sup> on undertakings for the collective investment in transferable securities (UCITS), but the CP also addressed **performance scenarios** and **other targeted amendments**. On 8 February 2019, the ESAs published their final [recommendations](#), including a decision not to propose amendments at this stage but to initiate a more comprehensive revision of the PRIIPs DA in 2019, preceded by a new consultation phase.

#### PERFORMANCE SCENARIOS IN THE PRIIPs KID

The first section of the [Consultation paper](#) (CP) issued by the joint European Supervisory Authorities (ESAs) on 8 November 2018 covers amendments to the presentation of information in the Key Information Document (KID), regarding investors' potential returns of packaged retail and insurance-based investment products (PRIIPs), through performance scenarios. The current PRIIPs DA sets out how these scenarios and information on underlying assumptions thereof are to be included in the KID, which for most PRIIPs is illustrated along four scenarios (stress, unfavourable, moderate and favourable). Further to one of the implementation challenges of the PRIIPs, namely the risk that performance scenarios may provide retail investors with

#### CONTACTS

ECON Secretariat

[econ-secretariat@ep.europa.eu](mailto:econ-secretariat@ep.europa.eu)

ECON Committee webpage

<http://europarl.europa.eu/econ>

All ECON scrutiny papers can be found on the [ECON Policies pages](#)

<sup>1</sup> Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), OJ L 352, 9.12.2014, p. 1–23.

<sup>2</sup> Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), OJ L 302, 17.11.2009, p. 32–96.

inappropriate expectations about returns, the ESAs proposed amendments to include additional information, such as information on past performances, and to change the presentation of information.

In a [supervisory statement](#) accompanying the final recommendations, the ESAs address concerns of inappropriate expectations and suggest that PRIIPs manufacturers include a warning in the KID.

The ESAs also propose including additional explanations at the pre-, or, post-contractual stage for retail investors, or putting performance scenarios in additional context, whilst assuring that any new information is complementary to the existing, and does not encourage investors to disregard the KID's information.

As for the other targeted amendments proposed by the ESAs in its CP, which are listed below, they have not been included in the final recommendations. The ESAs indicate that stakeholders considered the amendments would be of limited benefit and were generally considered not to outweigh expected implementation and compliance costs. Stakeholders also [criticised](#) the short time frame of the consultation by the ESAs, of four weeks. They consider that the amendments proposed would not replace the need for a review of the Level 1 PRIIPs regulation, as required by Article 32 thereof, which was due by December 2018. The ESAs took note of this, as well as of the interinstitutional negotiations on the [legislative proposals](#) on facilitating cross-border distribution of collective investment funds (EP Rapporteur: W. Klinz). The co-legislators have agreed Parliament's proposal to extend both the deadline for the PRIIPs review, by one year to 31 December 2019, as well as the date of the exemption for management and investment companies and persons advising on, or selling, Undertakings for collective investment in transferable securities (UCITS), to produce and provide a PRIIPs KID, by two years to 31 December 2021.

## **OTHER TARGETED AMENDMENTS PROPOSED BY THE ESAs**

### **Market risk measure (MRM) calculation for regular investment or premium PRIIPs**

In their CP, the ESAs furthermore proposed amendments concerning the MRM calculation, clarifying that Category 2 or Category 3 PRIIPs, based on a single investment or premium, should be treated in an equivalent manner when there is a regular payment schedule, including an adaptation of the formula for calculating the Value at Risk Equivalent Volatility and of the distribution function for the Category 2 PRIIP methodology.

### **Products with an autocallable feature**

For products with an autocallable feature, the CP indicates that this feature could be made more easily understandable to the retail investor through specifications on the potential impact of different holding periods, according to the different scenarios, for those products concerned.

### **Narratives for the Summary Risk Indicator (SRI)**

The ESAs flag that stakeholders are concerned that the SRI, in isolation, may be misleading. In their CP, they propose that PRIIPs manufacturers should be allowed to use more characters (from 200 to 300) in order to explain where the SRI is considered to not adequately capture material risks.

### **Narrative for performance fees - composition of costs table**

Stakeholders are furthermore concerned that the narrative text for the disclosure of the nature of any performance fees, does not allow for sufficient flexibility to reflect all possible fee structures. The ESAs suggest to amend the narrative by taking out the reference to the benchmark of the product.

### **Growth assumption for the reduction in yield (RIY) calculation**

Finally, as already indicated by the ESAs in their [Q&A document](#) of 19 July 2018, in cases where the RIY shows very low costs after using the moderate scenario outcome, the CP proposes that for its calculation, the 3% assumption for the performance is applied to all PRIIPs, instead of the moderate scenario.

---

**Disclaimer:** The content of this document is the sole responsibility of the authors and any opinions expressed therein do not necessarily represent the official position of the European Parliament. It is addressed to Members and staff of the EP for their parliamentary work. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.