

EFAMA'S EVIDENCE ON THE PRIIP KID'S SHORTCOMINGS

Executive Summary

The disclosures made in the PRIIP KIDs (Packaged Retail Investment and Insurance Products Key Information Document) are causing serious investor detriment by mandating figures, particularly in relation to performance and costs, that at best confuse investors and at worst mislead them. In this paper EFAMA is presenting widespread evidence, based on its members' "real life" data that highlight the PRIIP KID's shortcomings.

We urge EU policymakers to support investors by working urgently with the industry and relevant stakeholders to rectify the serious issues highlighted throughout our paper. In the meantime, policymakers and regulators also need to help explain the nature of the figures given to investors. It is vital that trust in investment products, and in the information to be provided to investors, is maintained and enhanced. This needs to be achieved through providing investors with truly reliable and not misleading product disclosures on which to base their investment decisions.

Introduction

The PRIIPs Regulation became applicable on 31 December 2017. As a result, from the start of 2018, manufacturers of financial products (in scope of the PRIIPs Regulation) have to produce a 3-page KID that must be delivered to retail investors ahead of any sale to them.

EFAMA's¹ members are in scope of this Regulation, but all UCITS and (a large number of) AIFs that produce the UCITS KIID are currently exempt from producing a PRIIP KID until December 2019, as the UCITS KIID was only introduced a few years ago and is performing its purpose in a satisfactory manner for fund products².

While fund managers are thus legally forbidden from providing prospective clients with a PRIIP KID instead of a UCITS KIID almost all fund managers are, in fact, already having to produce the underlying PRIIP data because funds are the underlying investments of other PRIIPs (such as, but not limited to, unit-linked insurance products), which do not benefit from the UCITS exemption. The manufacturers of these PRIIPs therefore need additional data (i.e. the PRIIP data) from fund managers in order to produce their own KIDs.

¹ EFAMA is the representative association for the European investment management industry. EFAMA represents through its 28 member associations and 62 corporate members close to EUR 23 trillion in assets under management of which EUR 15.6 trillion managed by more than 60,000 investment funds at end 2017. Just over 32,000 of these funds were UCITS (Undertakings for Collective Investments in Transferable Securities) funds, with the remaining 28,100 funds composed of AIFs (Alternative Investment Funds). <http://www.efama.org>

This results in our industry currently producing data for both the UCITS KIID and the PRIIP KID, which puts our industry in a unique position to compare the two existing regimes and to draw appropriate conclusions. Furthermore, in order to comply with their new MiFID II obligations, distributors need to receive product cost data from fund managers compliant with the MiFID II regime. This is leading to a third set of figures/data from many funds that are the source of further confusion for end investors.

EFAMA's evidence-gathering exercise

While EFAMA has been raising concerns on the calibration of the PRIIPs rules for a number of years, our current assessment is made on the basis of now available "live" data that our members either delivering to other PRIIP manufacturers or, in a few markets, are using to produce PRIIP KIDs or PRIIP data for their own funds. If this continuing exercise is showcasing further areas of concerns that are not yet addressed in this paper, EFAMA may wish to do so at some stage in the future. In the meantime, EFAMA stands ready to discuss this evidence in further (technical) detail with regulators and lawmakers at any time.

Immediate support for the industry and changes to the relevant legal frameworks to provide legal clarity

First, EFAMA restates its strong support for the overall principles of the PRIIPs Regulation in terms of providing investors with meaningful, comprehensive and comparable information. In this regard, we consider the Level-1 Regulation to be, mostly, a well-balanced piece of legislation.

However, our members' experience in implementing the Level-2 rules and Level-3 guidance leads us to the firm conclusion that the issues our industry is facing with the PRIIP KID can be fixed only by revisiting targeted areas of the PRIIPs Delegated Regulation and its Annexes (Commission Delegated Regulation (EU) 2017/653). That being said, it is clear that not all issues can be addressed through targeted changes of the Level-2 framework. Fundamental issues relating to whether funds should provide a PRIIP KID or a UCITS KIID require Level-1 intervention before 31 December 2019 (i.e. the current legal framework will require funds to produce a PRIIP KID and UCITS KIID simultaneously)³. Given the evidence presented, we strongly insist that the exemption for funds producing a UCITS KIID should be extended until these issues are satisfactorily resolved. Also, issues around past performance disclosure can only be adequately resolved through changes to the PRIIPs Regulation.

In the meantime however, we think that the European Commission and the ESAs have an equally important, immediate, role to play in avoiding confusion (which is already evident) among such investors and avoiding damage to the reputation of the sector as managers adapt to the new, experimental regime.

We understand that the Commission and the ESAs may believe that the industry is simply facing "teething problems" after the introduction of such an important piece of legislation and that arising problems can be resolved by simply providing further guidance to the industry or that the issues will be reduced as more market data becomes available on the underlying assets (e.g. in the fixed income

³ During the course of this exercise, as required by Article 32 of the PRIIPs Regulation, the European Commission is meant to assess whether (a) the UCITS exemption shall be extended, (b) the UCITS KIID should remain in place with any required adjustments or if the UCITS KIID should be replaced by the PRIIP KID altogether. This future intervention is an essential prerequisite, as the current PRIIPs Regulation did not amend the UCITS Directive, thus fund managers will be required to produce both a UCITS KIID and a PRIIP KID after 31 December 2019.

markets). Especially on the latter, we understand that “more precise” market data may reduce the current symptoms being observed (i.e. negative transaction costs), but it will not solve the fundamental underlying problems resulting from its prescribed methodology.

We are therefore firmly of the view that “quick fixes” in the form of Q&As (or other types of communication) cannot be sufficient, as they cannot be in contradiction with the legal texts. Also, more market data will not eradicate the issues with the cost methodology.

Moreover, additional Level-3 guidance will not provide the legal clarity that is absolutely necessary for product manufacturers. In particular, it has become evident that product manufacturers are providing data that – while being calculated according to the prescriptive methodologies laid out in the PRIIPs Delegated Regulation – clearly infringe the overarching principle enshrined by MiFID II, IDD and PRIIPs that any information provided to clients must be “fair, clear and not misleading”. Fund managers must make a choice whether to disregard the PRIIP methodology and calculate costs in a different manner or face the risk of serious legal liabilities where their products are distributed under the MiFID or IDD regimes.

Time is of the essence, as investors are currently presented with misleading information

We consider that the ESAs and the European Commission should immediately plan targeted revisions to the PRIIPs Delegated Regulation, ahead of the European Commission's deadline in December 2018 (as set out in Article 33 of the PRIIPs Regulation).

There is no time to wait as European investors are being provided with erroneous and sometimes misleading information, which, in particular, do not achieve the desired outcome of comparability. This can and will result in negative implications for investors and for the industry going forward. We therefore believe that urgency is justified and we call on the ESAs and the European Commission to take swift action in order to stop systematic misinformation of investors.

We appreciate that revisions to the Delegated Regulation can require a lengthy legal process, including approval by the European co-legislators (both in terms of a new mandate for the revision of the Delegated Regulation as well as their final approval). However, we consider it **essential that these issues are fixed as soon as possible to avoid further consumer detriment.**

Misleading transaction costs

Background

It is important to make clear that the UCITS KIID already provides an all-inclusive cost figure (called the “ongoing cost figure” or OCF) to clients. At the time of its inception and in line with the (at the time) applicable MiFID I regime, the European co-legislators consciously decided against the disclosure of costs that are hard to predict on an ex-ante basis (such as performance fees and transaction costs). The simple reason for their exclusion was that such costs are highly dependent on unknown future factors such as the performance of the fund and overall market conditions. Also, no standards existed to estimate such costs. Up until now fund investors were informed about these costs only on an ex-post basis through the fund’s annual reports⁴.

However, when drafting the PRIIPs Regulation (and MiFID II) lawmakers decided to reconsider (i) what should be considered a cost and (ii) how it must be disclosed to clients on an ex-ante basis⁵. This new “all costs” figure now includes the ex-ante disclosure of transaction costs (and performance fees).

Transaction costs consist of “explicit” costs (such as broker commissions, transaction taxes, etc.) and “implicit” costs. While there is no disagreement over what constitutes explicit costs, it was never fully clear how to calculate this implicit cost element. The MiFID II Directive tried to provide further clarity by stating that “underlying market risks” (i.e. market movements) should not be considered a cost⁶.

Ignoring this essential clarification, the ESAs designed a completely new and complex approach (in the course of the Level-2 implementation process) on how to estimate these implicit costs. This method is known throughout the industry as the “arrival price” methodology⁷. As EFAMA has consistently pointed out from the outset, this methodology contains a systematic flaw. In essence, the ESAs decided that when calculating transaction costs, market movements (also called “slippage” – i.e. the time between the order and its execution) should also be considered a cost and should be added to the market spread. Therefore, any movement of the market between the time of the order and the time of the execution is to be considered a “cost” to clients. The PRIIP KID therefore equates such implicit costs that mostly capture a measure of the best-execution of a trade as an explicit cost to investors and equate them to all other types of costs (such as management fees) incurred by investors.

This methodology results in consistently under- or overestimating transaction costs. The first is particularly relevant if the fund manager executes trades in opposing moving markets (i.e. sells in an

⁴ Please note that all these costs are included on an ex-post basis in a fund’s net asset value (NAV). Even implicit transaction costs – while not easily quantifiable – are deducted from a fund’s NAV costs. On ex-ante basis, performance fees are given separately from OCF and based on the figures for the preceding year.

⁵ Specifically:

- PRIIPs Regulation Article 8(3)(f) – states that the costs associated with the investment comprising both direct and indirect costs must be disclosed, and
- MiFID Article 24(4)(c) – states that all costs and charges in connection with the investment service and the financial instrument (which are not caused by the occurrence of underlying market risk) must be disclosed.

⁶ MiFID Article 24(4)(c). Compounding this issue is that despite MiFID rules referring to costs “not caused by the occurrence of underlying market risk” ESMA’s Q&As state that firms may comply with MiFID requirements by using PRIIPs cost methodology which includes market risk. So not only may figures not be comparable due to the different data points used by different managers under PRIIPs rules, some figures may be different as firms capture only the market spread and not “slippage” while following the MiFID Level-1 rules.

⁷ To be precise, this model has been developed for funds operating for more than three years. An intermediate methodology called “new PRIIPs” exists for funds which operate for less than three years.

upward market and vice versa). This behaviour automatically results in negative transaction costs which is a highly misleading information. Thus, funds displaying overall negative transaction costs (see example below) are therefore simply the most visible outliers of this systemic flaw, but one must consider that incorrect costs are captured for each single transaction being recorded.

[Real-life feedback from a corporate EFAMA member](#)

"We use a third party [data] vendor to provide us with the mid-market prices. Out of 104,704 equity trades between July and December 2017 36,329 resulted in negative transaction costs at a trade level (35%). Over the same period 702 out of 2,365 (30%) of our bond trades resulted in negative transaction costs."

This exposes another flaw of the arrival price methodology, as it also assumes that the same high level of transparency (i.e. availability of price data) inherent in some liquid equity markets for all other financial markets. This is not the case. Due to the less transparent nature of trading in, for example, the bond markets or less liquid markets it is much more difficult to uncover the necessary arrival prices. It is instrumental to note that this issue of insufficient transparency in the non-equity markets is already being addressed by MiFID II and MiFIR through extensive changes to the EU's market structures, but these changes have only become (partly) applicable from 03 January 2018 onwards and will take years to take effect in order to arrive at the envisioned transparency regime.

[Real-life feedback from a corporate EFAMA member](#)

"We have received a number of example for negative transaction costs, in particular for cash and bonds funds. Furthermore, transaction costs are fluctuating very widely in cases of emerging market funds where there is generally less market transparency."

In the meantime, information needed for the PRIIPs transaction cost calculation is either not available, inappropriate or very hard and expensive to come by. The very theoretical and analytical nature of the methodology requires the development of extensive operational procedures and controls that result in extensive cost for all fund managers which are especially hard to bear for smaller companies that cannot leverage on larger economies of scale. As can be seen from our examples below, these costs are not proportional to the very limited added value of the information for the end investors, when other methods can provide more realistic cost estimates for much less money (please see our suggestions below).

[Real-life feedback from a corporate EFAMA member](#)

"We estimated the cost to receive the [arrival] prices of each single security at the time the order is transmitted between 60 and 90 Eurocents. The cost for a fund that has an average of 10 daily transactions would be around between EUR 4,500 and EUR 6,750 (i.e. 3 [years] x 250 [days] x 10 [daily transactions] x EUR 0.6 to 0.9 [single price cost]). Please keep in mind that these costs are only part of the overall expense to calculate the overall cost figures as required by the Regulation."

[Real-life feedback from a corporate EFAMA member](#)

"The service providers we are using for arrival prices are also providing other services for us. The price we are being charged is an all-in-price so we cannot separately identify the element that relates to transaction costs. However, we are incurring significant internal costs as multiple people have been working on the project full-time for months."

Examples of negative transaction cost disclosures in the PRIIP KIDs

Our concerns have now proved correct. While our remarks so far are very technical, their results are easily understandable: Investors are being presented with a confusing and misleading picture of the real costs of the product which results in them not being able to compare PRIIPs based on the actual costs they are incurring.

To illustrate this problem, please find below the cost table, included in a “live” PRIIP KID⁸. In essence, it showcases negative transaction costs, erroneously suggesting that investors are making money by a fund trading on their behalf.

[Real-life example from a corporate EFAMA member](#)

COMPOSITION OF COSTS The table below shows:

- the impact each year of the different types of costs on the investment return you might get at the end of the recommended holding period;
- the meaning of the different cost categories.

THIS TABLE SHOWS THE IMPACT ON RETURN PER YEAR			
One-off costs	Entry costs	0.13 %	The impact of the costs you pay when entering your investment.
	Exit costs	0.00 %	The impact of the costs of exiting your investment when it matures.
Ongoing costs	Portfolio transaction costs	-1.02 %	The impact of the costs of us buying and selling underlying investments for the product.
	Other ongoing costs	0.80 %	The impact of the costs that we take each year for managing your investments.
Incidental costs	Performance fees	0.88 %	The impact of the performance fee. We take these from the investment if the product outperforms its benchmark.
	Carried Interests	0.00 %	not applicable

It is important to underline that such negative costs are not simply fringe cases and we could have supplied a very large number of similar KIDs. Asset managers throughout Europe are providing us with similar examples on a continuous basis, highlighting that these examples are not purely anecdotal in nature, but are exposing a wider structural problem inherent to all PRIIP KIDs. For example, some Luxembourg asset managers report that about 19% of their ISINs are reporting negative transaction costs.

[Real-life example from a corporate EFAMA member](#)

“Out of the 63 transaction cost calculations eleven result in negative transaction costs (17.5%). 43 of our funds are between 0% and 0.50%, eight are between 0.50% and 1.00% and one is over 1%. These range from -0.51% to 1.21%. Although these TCs are negative and definitely would be considered misleading we follow the same methodology for all of our funds. There is therefore no readily explainable reason why these TCs would be negative while others are positive and we believe that the problem lies within the methodology itself. To say that certain funds have accurate transactions costs while others have misleading costs, when both follow the same calculation methodology, just because the result happens to fallen within a range that may be considered ‘reasonable’ is in itself potentially misleading.”

In some cases, negative transaction costs can become so substantial that the whole fund shows negative costs (by offsetting the other product costs).

⁸ The example is sourced from an AIF, a UK Investment Trust (a closed-ended, listed company whose shares are actively traded on the secondary market), which is a good example as it did not provide a UCITS KIID until now and does not benefit from the UCITS exemption.

The availability of market prices at the time of the order (“arrival prices”) is not expected to solve the over- and underestimation of transaction costs caused by the arrival price methodology

We understand that over the last couple of weeks, when initial evidence based on recent data was presented by EFAMA members to national regulators and the ESAs, their concerns were quickly dismissed. It was argued that due to the widespread absence of historic arrival prices (such data was not systematically captured in the past), fund managers needed to reference either that day's opening or previous day's closing prices, as is required in the PRIIPs rules in the absence of market prices at the time of the order but may result in larger market movements.

The ESAs have consistently argued that such negative prices will eventually disappear once more arrival prices become available. While smaller market movements may be a result of this future availability – for the time being – fund managers are using the exact methodology prescribed in the Level-2 Delegated Regulation which leads to misleading figures being presented to its investors. On the outstanding question whether an availability of arrival prices will indeed resolve these issues, the feedback EFAMA has so far received from its members does not support this view, especially in case of fixed income markets or markets with little liquidity.

Real-life feedback from a corporate EFAMA member

“We have PRIIPs methodology results for 12 months because we [internally decided to] implement the full arrival methodology [early] from 01 January 2017. We are using this calculation for our MIFID universe to produce the 12 month ex-post data. We therefore have insight across a broad ranges of asset classes on whether the costs challenges are solved by full implementation. They are not...

Out of our total universe of funds 35 produce negative transaction costs. 22 of the 35 are bond funds (as may be expected), but there are equity funds in there as well – typically ones investing in less liquid markets.

We are using proprietary data for trade price and arrival time and we are getting mid-prices at the arrival time from one of the leading vendors (one that was referenced in the ESAs PRIIPS Q&A). I suspect that ESAs have made assumptions about the quality, utility and availability of market data – and that we are one of the first to test them.

For some funds we find that the coverage is down to 50 or 60% of the securities traded, meaning that market movement from opening or previous closing prices will not go away. In the case of bond funds, the markets are inefficient and the market data shows that we are improving the market prices and producing negative slippage.”

Substantial differences between “arrival price” and spread (“new PRIIPs”) methodology

While negative transaction costs are the most visible outliers of this flawed methodology, one has to keep in mind, as mentioned earlier, that this methodology consistently over- or underestimates costs as it classified market movements as costs to be paid by the client.

Interestingly, the PRIIPs Delegated Regulation allows new PRIIPs, i.e. funds operating for less than three years of past data, to estimate their transaction costs based on historic half-spreads (this approach is called the “new PRIIPs” methodology). The differences between the two approaches (based on the below evidence) show that the transaction costs calculated following this method

provides much more realistic figures. While so far comparison of calculation results is only possible on the basis of closing reference prices for the "arrival price" calculations, some EFAMA members will probably be ready to use actual mid-market prices for their calculations by Q2 2018. EFAMA stands ready to supplement the evidence available so far by any new insights based on these data.

[Real-life example by a corporate EFAMA member comparing their internal "new PRIIPs" to the "arrival price" \(previous day's close\) methodologies⁹](#)

ISIN	Fund name	"new PRIIPs"	"Arrival price" (prev day close)
1	a	0,37%	1,81%
2	b	0,44%	5,96%
3	c	0,10%	1,04%
4	d	0,10%	1,39%
5	e	0,26%	1,05%
6	f	0,17%	-0,36%
7	g	0,19%	1,49%
8	h	0,12%	-1,37%
9	i	0,26%	2,24%
10	j	0,17%	1,05%
11	k	0,14%	1,50%
12	l	0,14%	1,80%
13	m	0,89%	2,44%
14	n	0,29%	2,63%
15	o	0,33%	2,37%
16	p	0,12%	-0,26%
17	q	0,51%	1,83%
18	r	0,59%	2,23%
19	s	0,38%	3,44%
20	t	0,07%	-0,04%

21	u	0,49%	-2,72%
22	v	0,12%	-1,37%
23	w	0,89%	2,44%
24	x	0,33%	2,41%
25	y	0,26%	2,24%
26	z	0,14%	1,80%
27	aa	0,37%	1,81%
28	bb	0,66%	1,34%
29	cc	0,24%	1,24%
30	dd	0,29%	2,41%
31	ee	0,12%	-1,37%
32	ff	1,39%	4,17%
33	gg	0,18%	-0,02%
34	hh	0,21%	1,26%
35	ii	0,49%	2,01%
36	jj	0,26%	1,27%
37	kk	0,13%	-0,07%
38	ll	1,38%	3,99%
39	mm	0,79%	-3,62%
40	nn	0,33%	2,84%
41	oo	0,49%	2,01%
42	pp	0,79%	-1,51%

[Real-life example from a corporate EFAMA member of PRIIPs and MiFID II disclosures for the same funds](#)

	PRIIPs	MIFID II
German equity fund	-0,034%	0,057%
European equity fund	1,108%	0,300%
International equity fund	-0,348%	0,246%
International balanced fund (flexible)	-0,224%	0,063%
European equity fund	0,408%	0,825%

⁹ Again, we understand that the ESAs may suggest that "true" arrival price data may provide other results, but this example provides an accurate and true example of the type of cost information that is now being provided to PRIIPs manufacturers investing into funds.

Misleading performance scenarios

The calculation of transaction costs is not the only area of grave concern. In the drafting of the PRIIPs rules it was decided to replace the current (standardised) past performance disclosures in the UCITS KIID with future performance scenarios. This in turn required the ESAs to come up with detailed prescriptive methodologies on how these future scenarios need to be calculated.

The resulting formulas now in place for most funds are, in essence, using the previous five years of past performance and projecting them into the future (based on a product's recommended holding period). For non-structured funds, this means that the good market performance of the last five years is indiscriminately projected into the future, no matter whether the recommended holding period is 1 year, 5 years or 40 years.^{10 11} Such overly optimistic scenarios correspondingly lead to unrealistic cost disclosures for products with very long holding periods (e.g. cost in the hundreds of thousands of Euros over a 40-year holding period).

In the example below¹², which is based on the performance of a fund invested in the Chinese equities market, it is clear that the suggested investment outcomes are overly overoptimistic. Only the "stressed" scenario suggests the potential for (drastic) losses, ranging from -81% in one year to -75% over five years. The other scenarios show a much different picture, as even the unfavourable scenario suggests a return of 48% over five years, followed by the moderate scenario suggesting a return of 278%, with the potential of earning 521% in the favourable scenario. It is also questionable whether such huge ranges are providing any additional value to retail investors (who are in effect being told that they can either make a lot of money or lose most of it) in informing their investment decision.

It is important to note that the Delegated Regulation does not provide any flexibility for the product manufacturer to lower the estimates if it considers they yield overly-optimistic results. Furthermore, the narrative under the performance scenario table is prescribed, meaning that no additional commentary trying to put these figures into perspective can be provided by the KID producer. Please note that some NCAs are aware that the performance scenarios can be misleading, but have little leeway given the prescriptiveness of the EU Regulation¹³. They have therefore been able to suggest little more than additional narrative. This is not, strictly, in line with the Regulation and it is questionable whether most retail investors will pay due attention to these warnings.

[Real-life example by a corporate EFAMA member](#)

¹⁰ While stand-alone funds usually do not have a recommended holding period of 40 years, this timeframe is important for insurance products that are using UCITS or AIFs as underlyings.

¹¹ EFAMA noted at the time that it found it highly questionable that past performance was considered as misleading, whereas the now required performance scenarios are based on these very data without providing investors with this additional information.

¹² Please note that all these performance scenarios are disclosed – as required by the Delegated Regulation – net of the product's costs.

¹³ For example, FCA's statement on communications in relation to PRIIPs published on 24 January 2018: <https://www.fca.org.uk/news/statements/statement-communications-relation-priips>

Performance Scenarios

Investment: £10,000		1 year	3 years	5 years (Recommended Holding Period)
Scenarios				
Stress scenario	What you might get back after costs	£1,909.48	£3,633.68	£2,570.37
	Average return each year	-80.9%	-28.6%	-23.8%
Unfavourable scenario	What you might get back after costs	£9,258.15	£11,342.26	£14,817.17
	Average return each year	-7.4%	4.3%	8.2%
Moderate scenario	What you might get back after costs	£12,285.65	£18,493.51	£27,838.16
	Average return each year	22.9%	22.7%	22.7%
Favourable scenario	What you might get back after costs	£16,230.90	£30,019.93	£52,069.85
	Average return each year	62.3%	44.3%	39.1%

This table shows the money you could get back over the next years, under different scenarios, assuming that you invest £10,000. The scenarios shown illustrate how your investment could perform. You can compare them with the scenarios of other products. The scenarios presented are an estimate of future performance based on evidence from the past, 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. 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. 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.

To underline how important and wide-spread this issue is, we have calculated the performance scenarios for the *MSCI Emerging Markets*, *MSCI AC World*, *MSCI Europe* indices (based on data as of end of Nov 2017), in order to provide examples that are based on easily replicable data rather than specific historic data. While the performance of a fund tracking one of these indices will be lower due to its costs, the basic concern stands: that fund managers are required to portray very positive future scenarios over the next 1-40 years and across the board.

MSCI EMERGING MARKETS (N)

RHP (yrs)	40		20		5		3		1	
VEV	15.656%		15.663%		15.685%		15.699%		15.747%	
Scenarios	Ann	Amount	Ann	Amount	Ann	Amount	Ann	Amount	Ann	Amount
Favourable	7.83%	203,822.94	9.25%	58,674.79	14.25%	19,462.23	17.25%	16,120.49	27.56%	12,755.87
Moderate	4.47%	57,496.75	4.47%	23,986.03	4.48%	12,450.73	4.49%	11,408.44	4.53%	10,453.40
Unfavourable	1.21%	16,185.85	-0.11%	9,785.14	-4.49%	7,948.75	-6.95%	8,057.05	-14.51%	8,548.84
Stressed	-7.92%	368.08	-10.11%	1,187.56	-17.18%	3,896.29	-21.04%	4,922.02	-62.66%	3,734.31

MSCI AC WORLD (N)

RHP (yrs)	40		20		5		3		1	
VEV	12.752%		12.759%		12.786%		12.802%		12.856%	
Scenarios	Ann	Amount	Ann	Amount	Ann	Amount	Ann	Amount	Ann	Amount
Favourable	13.93%	1,844,462.51	15.15%	168,102.63	19.42%	24,287.32	21.97%	18,145.45	30.61%	13,061.31
Moderate	11.04%	658,500.39	11.04%	81,178.19	11.05%	16,888.92	11.06%	13,699.04	11.12%	11,111.65
Unfavourable	8.21%	234,521.39	7.06%	39,106.10	3.22%	11,715.59	1.05%	10,316.99	-5.70%	9,429.98
Stressed	-6.45%	694.25	-8.33%	1,755.04	-14.49%	4,572.90	-17.88%	5,537.61	-57.84%	4,215.97

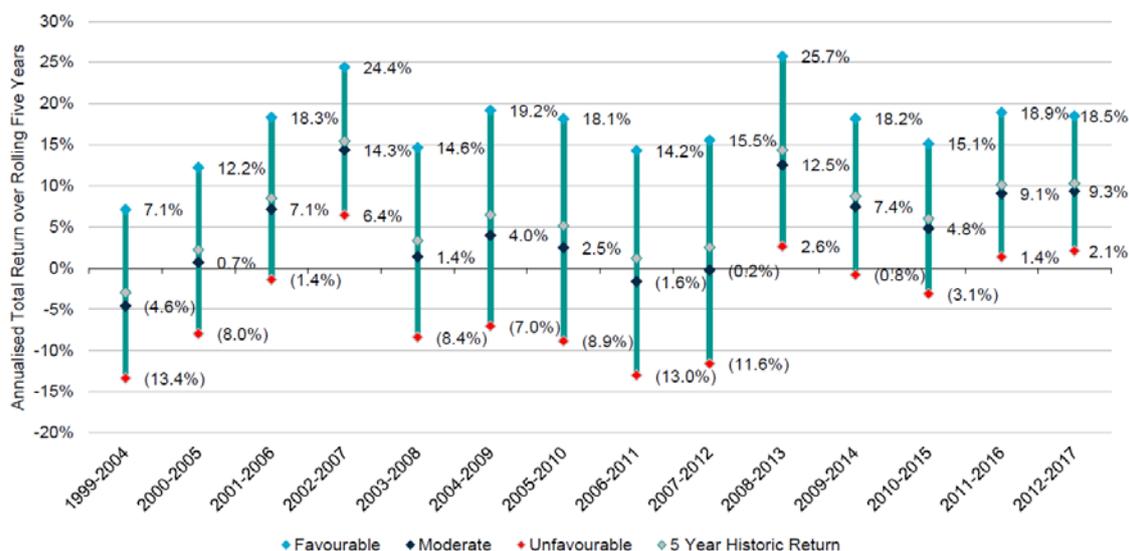
MSCI EUROPE (N)

RHP (yrs)	40		20		5		3		1	
VEV	15.334%		15.343%		15.373%		15.391%		15.452%	
Scenarios	Ann	Amount	Ann	Amount	Ann	Amount	Ann	Amount	Ann	Amount
Favourable	10.66%	575,351.07	12.09%	98,036.63	17.10%	22,021.72	20.12%	17,331.56	30.43%	13,043.01
Moderate	7.29%	166,696.55	7.29%	40,845.85	7.30%	14,225.38	7.32%	12,359.08	7.38%	10,737.62
Unfavourable	4.01%	48,162.37	2.68%	16,970.51	-1.73%	9,163.55	-4.21%	8,788.64	-11.85%	8,815.08
Stressed	-9.06%	223.89	-11.46%	877.14	-19.18%	3,447.23	-23.38%	4,498.88	-60.64%	3,936.10

This requirement will become most problematic in case markets start to fall and it becomes obvious that the returns of the last five years are very unlikely to be generated in future. The performance prospects displayed under the PRIIPs performance scenarios will then run the risk of misleading and misinforming investors.

It is important to also dispel any notion that these examples merely represent fringe cases and that the basic methodology to disclose future performance is sound and working. Unfortunately, we are confronted with a structural problem, as past performance is always taken as the indicator for future performance. As you can see in the below graph based on data of the FTSE All Share since 1999, future performance scenarios are always a projection of the previous 5-year historic returns. When the 5-year history is positive, projections are positive, whereas in years of negative market developments (i.e. financial crisis), future projections are very pessimistic.

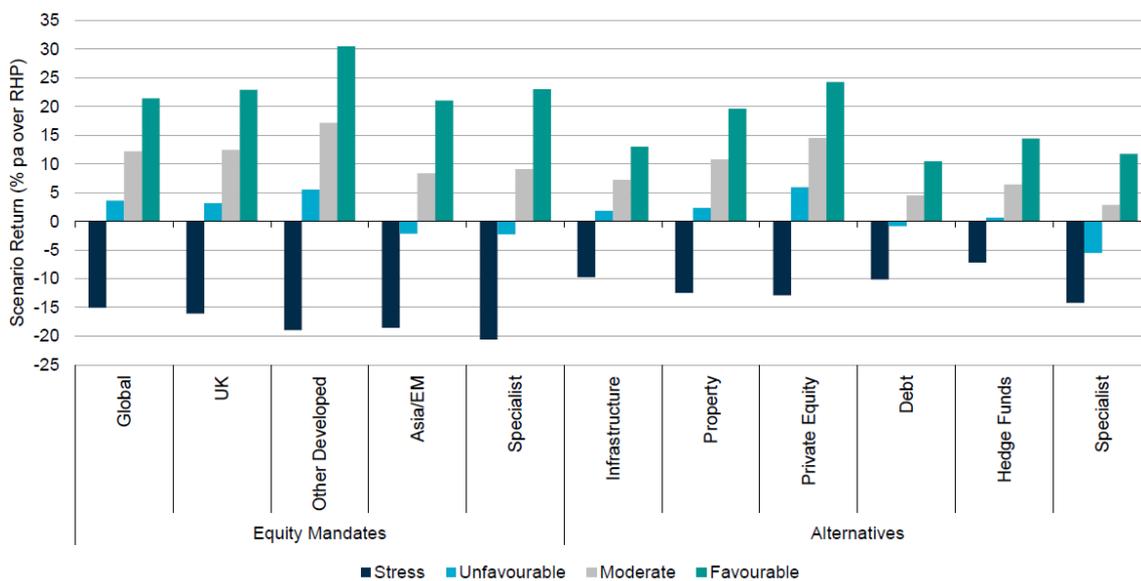
Figure 6: Rolling Five Year Projections for FTSE All Share based on PRIIPs Calculations



Source: Numis Securities Research, Bloomberg

The below overview represents performance scenarios by asset class, which again shows that even the moderate performance scenarios seem too favourable for many sectors.

Figure 3: KID Return Scenarios by Asset Class



Source: Company & Numis Securities Research

Again, it must be highlighted that cases where fund asset managers believe that the performance scenarios could be misleading are definitely not in the minority. Here is some feedback from EFAMA members that analysed the whole set of PRIIPs data that is currently available to them:

Real-life feedback from a corporate EFAMA member

“We performed an analysis of the performance scenarios, which they calculated for our PRIIPs relevant funds so far. 450 share classes were part of this analysis. The outcome of the analysis shows that performance scenarios of 370 share classes could be considered as misleading for the end investor:

- 79 share classes show an unfavourable scenario > 5%
- 284 share classes show an unfavourable scenario between 0% and +5%
- one share class (having a negative moderate performance scenario und very low volatility) has better values in the stress scenario than in the favourable scenario
- 3 share classes show favourable scenarios < 0%; out of the mentioned 3 share classes, 2 share classes show better values in the stress scenario than in the moderate scenario
- 5 share classes have a moderate performance scenario of < -5%”

Real-life feedback from a corporate EFAMA member

“We have also performed a high-level analysis of the performance scenarios on the 1665 share classes included in our current data set. As you can see in the table below the unfavourable scenario is the one that stands out the most, where 67% of our share classes show positive performance over the recommended holding period.”

	Unfavourable RHP	Moderate RHP	Favourable RHP	Stress RHP
Total Number of share classes	1665	1665	1665	1665
Number of positive	1112	1576	1656	0
Share positive	67%	95%	99%	0%
Average return	0,91%	6,36%	12,18%	-11,76%

Real-life feedback from a corporate EFAMA member

“Below are some examples from our PRIIPs data on 2267 share classes. We conclude that there is a high proportion of performance scenarios which are potentially misleading. Also, because the below figures include both equity funds and bond funds, it means that they understate the number of misleading scenarios.”

	Unfavourable scenario (greater than 5% per annum)	Unfavourable scenario (greater than 0% and up to 5% p.a.)	Moderate scenario (greater than 10% p.a.)	Favourable scenario (greater than 20% p.a.)
Number of share classes	121	1347	505	465
Number of shares classes as a %	5%	59%	22%	21%
Average	6.22%	2.09%	13.06%	24.61%
Median	5.84%	1.52%	12.50%	23.82%

Real-life feedback from a corporate EFAMA member

“Out of 215 share classes we looked at, 179 had performance scenarios we would consider as possibly misleading our clients. Specifically, 91 had unfavourable performance scenarios that resulted in more than 5% annual return, 88 showed returns between 0% and 5%.”

Real-life feedback from a corporate EFAMA member

“We’ve looked over our funds. Below are some examples (based on the 1-year performance figures as disclosed in the PRIIPs KID) that show how much latitude is being presented to investors.”

Fund	1 year favourable	1 year unfavourable	1 year stress
A	46.31%	-4.07%	-54.82%
B	68.53%	-3.46%	-71.63%
C	41.85%	-0.98%	-47.59%
D	44.72%	-13.98%	-72.30%
E	37.08%	-8.41%	-50.18%
F	55.18%	-3.30%	-64.90%
G	83.45%	-9.53%	-89.55%

Real-life feedback from a corporate EFAMA member

“We have provided some information for some of our funds using the PRIIPS methodology showing the disparity of the favourable outcome scenarios over 1 year versus the actual fund performance over 1 year. You will see that even if there are risk warnings included it would seem easy for an end investor to be misled by the outcome scenarios which show such diverse results.”

Fund #	PRIIPs Performance Scenarios		Actual Performance	
	1yr Favourable	1yr Unfavourable	1yr Stress	Historic 1 Year
1	54%	-3%	-36%	15%
2	49%	-12%	-43%	19%
3	45%	-12%	-40%	13%

4	45%	-12%	-40%	13%
5	45%	-4%	-32%	7%
6	44%	-1%	-28%	11%
7	43%	-14%	-40%	9%
8	42%	-14%	-40%	9%
9	42%	-2%	-28%	10%
10	42%	-2%	-28%	10%
11	41%	-5%	-32%	6%
12	40%	-5%	-32%	6%
13	37%	-6%	-33%	17%
14	36%	-1%	-24%	12%
15	36%	-1%	-24%	12%
16	36%	-12%	-37%	13%
17	36%	-12%	-37%	13%
18	36%	-4%	-28%	8%
19	35%	-8%	-29%	17%
20	35%	-8%	-29%	17%

Brussels, 23 March 2018

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