| Comments Template for Joint Consultation Paper concerning amendments to the PRIIPs KID (JC 2018 60) | | Deadline<br>6 December 2018<br>23:55 CET |
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| Name of Company: | Dorey Ltd (Dorey Financial Modelling) | |
| Disclosure of comments: | Please indicate if your comments should be treated as confidential: | Public |
| | Please follow the following instructions for filling in the template:<br>⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool<br>⇨ Leave the last column empty.<br>⇨ Please fill in your comment in the relevant row. If you have no comment on a question or a cell, leave the row empty.<br>⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below.<br>**Please send the completed template, in Word Format, to CP-18-005@eiopa.europa.eu**<br>**Our IT tool does not allow processing of any other formats.** | |
| **Reference** | **Comment** | |
| General Comments | | |
| Q1 | **Do you agree that information on past performance should be included in the KID where it is available?**<br>Yes, but using only recent past performance data means that both the MRM and performance scenarios that are generated from this will only be ex-post and therefore limited and possibly misleading, particularly if the data used does not cover an entire economic cycle.<br>Some scenario testing could allow the MRM and performance scenarios to have a become ex-ante indicators. | |

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| Q2 | **Are there challenges to include past performance information for certain types of PRIIPs?**<br>Yes: where Funds do not have a history there ar challenges in finding an apprioate benchmark, though in most cases there is an easy solutions to this, in terms of using a benchmark, or similar risk level index.<br>However at the moment, the KID doesn not make it clear when a benchmark or proxy has been used.<br>If a proxy has been used in creating the performance scenarios and MRM it is not clearly stated so. We feel this can create misinterpretation by retail investors to PRIIPs like this, such as new PRIIPs. The use of a proxy isn't the problem its not clearly stating so. A clear statement of to say a proxy has been used for creating the performance scenarios or MRM should be included in the regulations.<br>For example a PRIIPs which are brand new, may use a benchmark index to model its performance scenarios. Such as a sector proxy in the same country. All that is needed would be to say something such as ' The proxy "name" has been used to model the MRM and performance scenarios'. | |
| Q3 | **Do you agree that it is appropriate for this information on past performance to be based on the approach currently used in the KII? If not, please explain your reasons and if an alternative presentation would be more appropriate and for which types of PRIIPs?**<br>Using the Format of KI would be expected to show the return of a PRIIP in similar light to the moderate scenario, but actually only focusing on actual return of the fund. This would be much clearer for a retail investor to understand. And then a separate future performance can looking at the range of possiblitys under stresses.<br>The performance scenarios do not support the original objective of creating greater clarity and | |

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| | transparency for clients as they are too backwards-looking. Also, the specified timescales are flawed – and give a misleading view of potential performance/downside risk in prolonged bull markets. Need ex-ante calculations and also max drawdown figures.<br>Splitting past performance from future scenarios is a good idea.<br><br>Whilst a consistent template is to be welcomed, it is still complex and wordy and could do with further simplification/more use of graphics rather than words | |
| Q4 | **Do you think that information on simulated past performance should be included in the KID where actual past performance is not available? If not, please explain your reasons.** | |
| Q5 | **If you think that information on simulated past performance should be included in the KID, what approach do you think should be used to simulate the past performance, and how should this be presented in the KID?** | |
| Q6 | **Do you consider these amendments to the narrative explanations to be an improvement on the current performance scenario approach?**<br>Yes. More concise. | |
| Q7 | **Do you have any comments on the analysis set out in this Section of other possible options to improve the future performance scenarios?** | |
| Q8 | **Do you have any views on how the presentation of the performance scenarios could otherwise be improved?** | |

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| | The method for scenario testing is simple and great in many ways, mainly estimating the range of scenarios based on a simple index, and extrapotllting ido_sincratic risks though short term volatility. However this isn't based on real life long term stress events. It moay be more apprioate to model long term stress scenarios using key economic indicators, and measung an indexes scenario stresses in a wider universe of covariance. | |
| Q9 | **Do you agree with the proposals described in this section?** | |
| Q10 | **Do you have any comments on the proposed approaches in relation to the analysis and proposals in this section?** | |
| Q11 | **Do you have any comments on the preliminary assessment of costs of benefits?**<br>1. Clearly much of the angst towards PRIIPs performance scenarios has bee aimed at specific numbers, such as only focusing on the 5 year moderate or 5 year favourable scenario, and in many cases not really paying attention to the other scenarios, often people seem to assume that the moderate scenario is the average and expected future return, when in fact this is not the case. This is evident in public opinion, such as the 'Burn before reading' literature. The aim of the performance scenarios in showing a range of outcomes in the table format has surely failed.<br>2. The moderate scenario does effectevly give the return of the last 5 years of actual PRIIP. This may anchor peoples belief this is going to happen in the future also, given the way it is presented in the KID. It may make more sense to actually show real performance in a bar chart, and the range for the future scenarios. Additonally where a PRIIP uses a benchmark to estimate the performance scenarios the moderate | |

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| | scenario is gives another layer of false truth about the specific PRIIP.<br>3. The two aims of the performance scenarios, as we can see are to show the range of scenarios that could occur, under different conditions 'Stress' to 'favourable', while also giving an indication of the actual recent return. To achieve this goal it may be worth splitting these two goals out from a single table into two parts, a. being the actual return of the fund over say the last 15 years, with a bar char. b. Show the range of scenarios that could happen going forward. This could be by showing only the stress and favourable scenarios and making it clear this is an estimated range. And additionally applying Scneario stress tests in addition, such as: ' If there was a 30% fall in ftse 100' this is an estimation of how we might see the PRIIPS performance.The scenarios to test against could be proscribed by the regulator. | |
| Q12 | **Are you able to provide information on the costs of including information on past performance for different types of PRIIPs?**<br>The most expensive, and time consuming part of completing a KID is compiling the RIY calcuclations and cost scenarios. To use the acutal past costs of a PRIIP may be difffucult for certain types of PRIIPs, such as private equity companies, which invest in a 10 year cycle. Gaining acces to past performance data likely needs a data source for a listed entity, but, where not monthly traded data is aviable for actual funds, often a proxy may be used to model the performance scenarios. | |
| Q13 | **Are there significant benefits or costs you are aware of that have not been addressed?**<br>Ambiguity in finance/ gearing/debt costs is rife in the market. It is clear from the regulations that all finance costs should be included, with the (Assoiation of investment companies) AIC reiterated this in their December 2017 guidance on KIDs. | |

However they removed this guidance in September 2018. They did this to reflect the different treatments of finance costs from PRIIP to PRIIP.It it clear finance costs can easily be interpreted in many ways, thus there is a searver lack of constituency in how it is treated.

What actually counts as PRIIPs fiancne costs is vague at best, due to specific nature of gearing in a PRIIP which distinguishes it from other types of cost which may be more clear in defining in terms of its affect on a retail investors assets.

There is extreme ambiguity to what actually constituents a finance costs vs for example a finance investment. The regulator would do good to clarify the treatment of finance costs to a higher degree.

For example some companies may list debt as part of the investment process, thus interest payed on the debt as not a cost but a negative investment return. Additionally the interest cost may be split into repayment of capital, and interest payments on outstanding capital.  There is large variance in the market in how debt is treated,  this is something we have seen from analysing a group of similar companies, seeing a swing of over 2% in ongoing costs, depending whether companies have included debt interest in there PRIIPs cost. This does not make it clear to retail investors what the cost base of a company is. As a result fair comparisons between PRIIPs is not achievable, and thus retail investors do not get a clear picture of the market place. Clarity around finance is a top priority to make PRIIPs KIDs truly comparable.

There are arguments for and against the varying treatments of finance. However it is vital the regulator clears how best to treat them.

Template comments