Comments Template for Joint Consultation Paper concerning amendments to the PRIIPs KID (JC 2018 60)		Deadline 6 December 2018 23:55 CET
Name of Company:	Schroders	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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Reference	**Comment**	
General Comments	We welcome the recognition by the ESAs of the need to rectify some of the problems with the KID that have arisen since the introduction of the new PRIIPs regulations and the fact that investors are receiving misleading information. We are, however, disappointed that the consultation does not attempt to rectify all of the concerns raised by a wide range of stakeholders, including fund operators and consumer organisations, particularly around the disclosure of transaction costs. We fully support EFAMA's additional comments on the consultation paper in relation to transaction cost methodology and RIY presentation. We provide additional comments on this in response to Question 13 regarding costs. In our view, the proposed amendments contained in this consultation to the Delegated Regulation	

	will require amendments to the Level 1 text of the UCITS Directive **and** PRIIPs Regulation to avoid two documents being provided to fund investors. We remain of the view that the more sensible approach would be to amend the PRIIPs legislation to extend the current transitional period for funds currently using the UCITS KIID. Such an amendment will reintroduce the sequencing of implementation; review; and amendment foreseen by the original PRIIPs Regulation, so a proper review of all aspects of the Regulation can be made. The current approach proposed in this consultation will mean fund operators switching to a new disclosure document with the substantial relevant costs associated with that switch. We would then have to contend with a further set of amendments once the full review is completed by the Commission, meaning further costs and potential confusion among investors as the information provided to them keeps changing.	
Q1	Yes. We would favour the approach required by the UCITS Directive, which distinguishes those funds that have past performance information available from those (structured funds) where scenarios are more relevant. As such we believe if past performance has been capable of being produced, there should not be the requirement to produce additional, future performance scenarios. If this is not acceptable we would welcome further guidance as to how specifically past performance should be disclosed in relation to existing performance scenario requirements given the limit of 3 pages. We also think that it is very important to ensure that investors are clearly able to understand the difference in nature between past performance information, which is factual, from speculative forward-looking scenarios.	
Q2	We understand that certain PRIIPs will have challenges to produce past performance. The work undertaken developing the UCITS KIID requirements should be revisited to understand when certain products may simulate past performance information and the rules surrounding those simulations.	
Q3	We agree that past performance, where available, should be included in the PRIIPs KID on the basis of KII rules. Past performance has been thoroughly tested in the context of UCITS funds and	

	is known to be something investors consider important. Clearly it cannot be a guarantee of future performance but it gives an indication of how the fund operates (for example by showing price volatility), it is factually correct and cannot be 'gamed' given its standard format. This approach is also likely to be the most cost effective and easiest to implement operationally. We would stress that it would be a backward step to change the method of presenting past performance from the tried and tested UCITS requirements.	
Q4	Yes. We suggest that the rules applicable to the use of simulated past performance in the UCITS KIID requirements should be applied to all PRIIPs products.	
Q5	See our answer to question 4.	
Q6	We do consider the amendments to be an improvement. However, we see no reason why plainer language that is more to the point could not be used explicitly pointing out that the scenarios are "a guess" about future returns.	
Q7	We have no specific comment on the analysis.	
Q8	We note why the graphical presentation of performance scenarios was rejected by the ESAs in earlier consumer testing, and would therefore favour any requirement to present future performance scenarios in the manner they are currently required to be produced. We would, however, note that to suggest that the future performance of a fund will be linear is, in itself, misleading.	
Q9	We agree with the proposal in this section to exceed the current 200 character limit for explaining that the SRI may not capture all material risks but would favour no specific limit.	
Q10	We generally agree with the analysis provided and note that the ESAs consider that many parts of the KIID Delegated Regulation need to be considered further as part of the (delayed) full review of the regime. We also note the comment regarding the provision of the UCITS KIID to professional investors as opposed to the specific retail focus of the PRIIPs KID and the need for co-legislators to consider this further. These comments only show that the current approach is flawed and adds weight to the argument for an extension to the UCITS transitional to allow for a proper review to	

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	take place. It indicates a fundamental misunderstanding of the regime. The KIID was designed for retail investors and professional investors have different, usually more bespoke, information requirements before deciding to invest.	
Q11	We have no specific comment on the preliminary analysis other than our responses to questions 12 and 13 below.	
Q12	We can only comment on the provision of past performance for non-structured UCITS. Here we would agree that the inclusion of existing information provided in the format suggested would be the least costly.	
Q13	We would highlight the current, significant cost of amending our systems to capture the "arrival price" as part of the calculation of implicit costs under the current PRIIPs Delegated Regulation. We have had to devote significant resources to seeking full compliance with the transaction costs requirements, including having at least ten full time employees at any one time devoted to checking and cleansing the data and making it useable for these purposes. Our experience is that some 150,000 transactions a month have required manual intervention to ensure that the data is fit for purpose. We calculate that this has already cost multiples of a 7-figure sum and to introduce a system that can operate "business as usual" with minimum manual interventions involves similar costs in future. It has required key business subject matter experts to be engaged. They are scarce and key resources in any business and limit the amount of effort that can be applied. We believe these skills could have been applied to other activities of potential longer-term benefit to investors in regulated funds including the development of new technology, which has the potential to reduce costs to all investors and allow us to communicate more effectively with them. We do not believe we are an outlier in spending this amount to provide a compliant service, and would stress that we would willingly write off those costs in the interests of establishing a regime	

	which provides information which investors can use and understand. We think such costs far outweigh a system based on half spreads, which is detailed in EFAMA's response to the consultation. We also believe that "arrival price" method should not be used to calculate such costs under MiFID, where market risk is explicitly carved out of the Level 1 MiFID text and where, at the level 2 Delegated Regulation, market spreads are required to be caught. ESMA advice to permit a calculation which captures market risk for MiFID disclosure is in our view incorrect and open to challenge.	