	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:	**UNIPOL GROUP**	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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Reference	**Comment**	
General Comments		
Q1	The inclusion of information on past performances seems ad odds with the theoretical background underpinning the original PRIIPs Regulation framework. While the **performance scenarios section hinges on a forward looking approach** where the expected returns are simulated through a numerical simulation (or through a Cornish Fisher adaptation to an assumed distribution of returns, as for PRIIPS 2 Category) the **past performances information merely mirrors what happened during the past with no insights on how the financial products could work in the future taking into account different market conditions**. As for the meaningfulness of past performance and the way to reconcile this info with those provided by performance scenarios we would like to raise our concern on the capability of retail investors to understand the	

	different meaning of these two strains of information, the different assumptions on which they are built on and their different reliability. From a different angle, we also would like to highlight **some inconsistencies which stem from the proposal to include information on past performance in the KID for PRIIPs**: as well known, the drift chosen for the (expected) performance scenarios is centred on the historical average returns calculatd over 5 years. The proposed change in the explicative narrative attached to the table with (expected) performance scenarios will more deeply convey the message that the performance scenarios are based on simulations which intrinsically depend on past performance (as said, average returns over 5 years). The new histogram with past performance will instead be calculated following the UCITs approach which is based on historical average over 10 years. These two time spans for the calculation of past performances could add unnecessary heterogeneity in the information framework and end up with detrimental consequences on the retail investors understanding. As a final remark, we think that the proposed change (the inclusion of histogram with past performance) would affect the whole format and layout of the KID with some consequences on the binding constraint to keep the document in 3 pages.	
Q2	Yes, there are technical problems which should be carefully dealt with for certain type of PRIIPS with no reliable observed past performance.	
Q3	Wheter or not the information on past performance should be included in the KID – and we have some concerns on the real capability of such extra layer of information to better lead retail investors in taking decisions – we **deem it is necessary to strictly follow the approach already laid down by Regulation on UCITS and hence that set out for the KII**.	
Q4	Yes, we believe that **information on past performance should be simulated** – for the sake of comparability – for those products with no observed (actual) past performance.	
Q5	**To simulate the past performance manufacturers should be allowed to use market benchmarks or proxies (for PRIIPs itself or for their underlyings) with certain degrees of flexibility that is needed in order to cope with specific financial features of the products to be dealt with**. We refer to the approach envisaged by RTS for Category 4 PRIIPs which require the manufacturers to perform calculation in accordance with the best market practices.	
Q6	Yes, **it is an improvement cause it highlights the idea that performance scenarios are performed upon a simulation and should not be taken as a prediction but instead as a description of**	

	financial products behaviour under different market circumstances. A step further in this direction – in order to ameliorate the awareness of retail investors and reduce overreliance of investors on the performance scenarios – could be to specify the numerical value that historical drift has assumed in the past 5 years. It is an information that manufacturers already have inasmuch they need such value for starting the simulations required for Category 3 PRIIPs and even for the Cornish Fisher expansion needed for Category 2 PRIIPs.	
Q7	The performance scenarios' theoretical assumptions have been widely discussed by industry and academia. **The risk-free rate assumption is not correct for the simulation of future trajectories of returns as it is only admitted for the fair-value pricing purposes, this is a milestone not disputable.** Although historical drift – which is a real world drift, thus incorporating the risk-premium – could bring some pro-cyclicality in the estimation (and hence the well-known overly optimistic estimation after a period of market boom) due to the drift of the stochastic process, it is the only value which can be computed by looking at market data without any other discretional assumptions and able to guarantee the prescriptive approach laid down by the Regulation and the comparability among products and manufacturers. A drift equal to zero would be affected by the same problems as the risk-free rate drift. One possibility is to choose a mixed approach with a drift equal to the sum of the risk-free rate and a risk-premium that should be estimated at least for different asset classes. While this option would be the more sophisticated – and theoretically speaking correct – with respect to future performance scenarios it in fact implies the need for a further estimation of such risk-premium which is not directly observable by looking at market data, but should be extrapolated from the implicit volatility for option prices or from other underlying prices.	
Q8	**The most important problem which plagues the performance scenarios is the implicit message that the three standard scenarios (favourable, moderate and unfavourable) are equally-probable**. To hide the probability attached to the three scenarios convey the wrong message that the performances under the moderate scenario are as probable as they are under the favourable and unfavourable ones. This is misleading as the probability density function under which the expected trajectories are simulated implies that the 50° percentile is the most probable, whereas the favourable and unfavourable are under the tails of the distribution and could be exceeded only in 10 per cent of cases each. Reducing the number of performance scenarios shown in the	

	KID (as suggested) could instead worsen the problem as it would provide retail investors with a broader range of outcomes with no clues on the most reasonable expectation. Saying that the future outcome will be comprised in a range which goes from the stressed scenario to the favourable one is meaningless. On the proposal to extend the historical period used to measure performance we believe that it could indeed in part downsize the drawback represented by cyclicality in the estimation (which is embedded in the use of the historical drift) but it could be better to calculate volatility on a different time frequency as the daily time series which are at moment used incorporate too much noise. Weekly or monthly data for the calculations of volatility component could definitely represent a better approach.	
Q9	We agree with the proposed growth assumption for the reduction in yield (RIY) calculation. We are not able to express our view on the MRM calculation for regular investment or premium PRIIPs as the proposed amendments are not clear, in particular when it is stated that an adaption should be applied to the 10.000 simulated pathes for Category 2 PRIIPs since the Category 2 PRIIPs only requires a closed formula. How to reconcile this proposal with the standard approach adopted for PRIIPs with linear cash flow? Examples or clarifications are very much welcomed.	
Q10		
Q11		
Q12		
Q13		