



JOINT COMMITTEE OF THE EUROPEAN  
SUPERVISORY AUTHORITIES

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## **PRIIPs KID Level 2 Review - proposed performance scenario options for consumer testing**

Dear Mr Guersent,

Further to your e-mail on 6<sup>th</sup> May 2019 and the discussions at the Joint Committee meeting on 7 May 2019, we are sending you, annexed to this letter, our proposed options for presenting information on performance scenarios to be tested during the upcoming consumer testing exercise by the Commission under the Level 2 Review of the PRIIPs KID Regulation.

We have developed two main types of alternative presentation of performance information:

- (1) A revised presentation and structure of the existing future performance scenario table (i.e. probabilistic scenarios); and
- (2) The addition of information on past performance (where appropriate).

Option 1 for each of the three products (Fund, Structured product, Insurance-based investment product) is the current KID.

In addition to these two main types of alternative presentation of performance information, we also propose an additional approach showing “illustrative” (so-called “what-if”) scenarios for Structured products (options 3 and 4), testing the inclusion of illustrative scenarios together with probabilistic scenarios, as well as illustrative scenarios only. These are, in some regard, similar to the approach that is currently used for so-called structured UCITS. Originally, we had considered options with illustrative scenarios for Funds and for Insurance-based investment products, but propose to limit the testing of illustrative scenarios to Structured products only.

Finally, we consider it relevant to test Option 5 for Insurance-based investment products with probabilistic performance scenarios, though we understand the concern expressed by the Commission as to the length of this option. The aim of the presentation is to provide further relevant information to illustrate the factors affecting performance and the features of the product (e.g. death event or annuity pay-out). Such products can be complex by their nature. However, to address the Commission’s concerns, we have sought to streamline the length of this Option as far as possible. In addition, a new Option 6 has been developed to test an annualised average of past performance for various time horizons, as this can be relevant for longer term Insurance-based investment products.

We appreciate that the Commission has raised concerns regarding whether the testing of illustrative scenarios for Structured products would be compliant with the Level 1 Regulation, in particular whether it would qualify as a performance scenario. In addition, the Commission has raised concerns that using “what-if” scenarios for testing would lead to a different treatment and

presentation which goes against the objective of ensuring the comparability of products in the PRIIPs KID.

Whilst we fully support the objective of ensuring comparability amongst different products, we consider it equally important for consumers to receive information that is meaningful enough to enable them to make an informed decision before purchasing a PRIIP. This is one of the aspects of the current KID which has been criticized by external stakeholders.

In addition, we consider the Level 1 text to be drafted in a sufficiently open manner and the PRIIPs Level 2 text already provides for some product-specific approaches, for example in relation to the pay-off graphs used for Exchange-Traded Derivatives. The reason for including such graphs is rather similar from a conceptual perspective as for the use of 'illustrative' scenarios for Structured products.

We see specific merit in testing options involving only illustrative scenarios as we think that it would be relevant to gather evidence on these approaches since:

- They may provide more meaningful information for structured products, as it is very challenging to define a revised methodology that adequately fits structured products without risking inappropriate results. It appears evident that the critical factor in understanding the future performance of a Structured product is understanding how the formulae determining pay offs is sensitive to different underlying factors, as determined by the combination of elements that make up the structured instrument;
- It would be very useful to gather evidence on how well this type of approach is understood by consumers, also in view of its current use (in similar forms) for structured UCITS.

Given that we are currently only at the phase of testing the various options and no decisions have yet been reached by the ESAs on the final contents of the draft Regulatory Technical Standards, we are of the view that we should keep more options open to test consumer understanding of various presentations and where consumer preferences really lie. This is ultimately a key opportunity for the ESAs to address some of the significant challenges that exist with the current performance scenarios and, therefore, on balance, we think it is important to explore all relevant possibilities at this stage.

In the meantime, if you have any queries, please do not hesitate to contact us.

Yours sincerely,



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Chair, EIOPA

Chair of the JC of the ESAs



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