European Securities and Markets Authority

EUROPEAN BANKING AUTHORITY

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

Response form for the Joint Consultation Paper concerning amendments to the PRIIPs KID

16 October 2019

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

Responding to this paper

The European Supervisory Authorities (ESAs) welcome comments on this consultation paper setting out proposed amendments to Commission Delegated Regulation (EU) 2017/653 of 8 March 2017[1] (hereinafter “PRIIPs Delegated Regulation”).

The consultation package includes:
- The consultation paper
- Template for comments

The ESAs invite comments on any aspect of this paper. Comments are most helpful if they:
- contain a clear rationale; and
- describe any alternatives the ESAs should consider.

When describing alternative approaches the ESAs encourage stakeholders to consider how the approach would achieve the aims of Regulation (EU) No 1286/2014[2] (hereinafter “PRIIPs Regulation”).

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

- Insert your responses to the questions in the Consultation Paper in the present response form.
- Please do not remove tags of the type <ESA_QUESTION_PKID_1>. Your response to each question has to be framed by the two tags corresponding to the question.
- If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
- When you have drafted your response, name your response form according to the following convention: ESA_PKID_nameofrespondent_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESA_PKID_ABCD_RESPONSEFORM.

[1] COMMISSION DELEGATED REGULATION (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents

[2] Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), OJ L 352, 9.12.2014, p. 1.

- The consultation paper is available on the websites of the three ESAs and the Joint Committee. Comments on this consultation paper can be sent using the response form, via the ESMA website under the heading 'Your input - Consultations' by **13 January 2020**.
- Contributions not provided in the template for comments, or after the deadline will not be processed.

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise in the respective field in the template for comments. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESAs rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESAs Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the ESAs is based on Regulation (EU) 2018/1725[3]. Further information on data protection can be found under the Legal notice section of the EBA website and under the Legal notice section of the EIOPA website and under the Legal notice section of the ESMA website.

[3] Regulation (EU) 2018/1725 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39.

General information about respondent

Name of the company / organisation	BlackRock
Activity	Investment Services
Are you representing an association?	☐
Country/Region	UK

Introduction

Please make your introductory comments below, if any:

<ESA_COMMENT_PKID_1>
We welcome the detailed analysis carried out by the ESAs in reviewing the PRIIPS KID.

1. **Digital solutions and the length of the document**

The inclusion of additional performance data and disclosures from the UCITS KIID will lengthen the PRIIPS KID. Although the length is mandated in the Level 1 regulation we recognise the ESAs' work with the European Commission to address length constraints. A more digital friendly approach could allow for layering of data. We also note that it is important not to base mock-up of the KID purely on English as disclosures in a number of other languages can typically be up to a third longer than the base English version when translated.

2. **Co-existence of UCITS KIID and PRIIPS KID**

We believe that the UCITS KID should be entirely phased out and the both retail and professional investors should be presented with a single disclosure document from 2022, i.e. the updated PRIIPs KID. Should professional investors require additional information we support the development of industry - standard templates to present this information.

3. **Performance scenarios**

We support the inclusion of past performance data using the UCITS KID methodology. We also support the detailed analysis conducted by both the Investment Association and the European Fund and Asset Management Association (EFAMA) on the proposed future performance scenarios. In particular the calculation of the proposed risk free rate is likely incur significant market data costs as a number of the proposed field are not readily available. We would therefore support the publication by the ESAs of a standard rate to be used by market participants.

4. **Presentation of costs, particularly transaction costs**

We note the two options for presentation of transaction costs. We do not support the use of the slippage price methodology to calculate transaction costs and believe the recommendation to rebase to zero negative transaction costs would compound rather than resolve the methodological issues in the method. We therefore recommend the use of the spread methodology across all asset classes by aligning the PRIIPS RTS with MIFID and IDD. This approach also refers to indirect costs but removes many of the statistical impediments under the slippage methodology, and the risk of disclosing misleading negative transactions costs. This is also consistent with professional investor disclosure requirements such as those of the Dutch Pension Funds Federation. The spread methodology has the advantage that it is more suitable for ex-ante cost disclosures (and therefore the PRIIPS KID) that provide information about prospective investments. Most of the implicit costs (market impact, delay cost, opportunity cost) can already be integrated in the bid-ask spread. However, while using the spread methodology approach we believe that the RTS could include the possibility to use some factors beyond the bid-ask spread such as the currency denomination, time-to-maturity, and the order amount.
<ESA_COMMENT_PKID_1>

Q1 : Are there provisions in the PRIIPs Regulation or Delegated Regulation that hinder the use of digital solutions for the KID?

<ESA_QUESTION_PKID_1>
We note that the KID is designed as a document to be provided in paper or in pdf format. Increasingly, consumers are demanding access to key information in a more interactive format designed around the screen of a smartphone or a tablet. We believe that the provision of key information should be looked at in two phases; initial key information being presented in an interactive manner, and the ability for the consumer to have a pdf or paper document as the final stage of the process, evidencing the selection made. We note that EIOPA's current consultation on the PEPP KID is looking at ways to present key information in a more interactive manner including the use of layering. We recommend that lessons learnt from this consumer experience are carried over to the broader work on the PRIIPs KID.
<ESA_QUESTION_PKID_1>

Q2 : Do you agree that it would be helpful if KIDs were published in a form that would allow for the information to be readily extracted using an IT tool?

<ESA_QUESTION_PKID_2>
We note that there is already an industry data standard overseen by the FinDatEx, which sets the standards for the production of the EPT and CEPT PRIIPS data template used by the majority of European intermediaries. We recommend close cooperation with FinDatEx and its members before setting an additional data standard.

Increasingly consumers are not buying individual products, but rather investment solutions consisting of a blend of different products. Assessing product suitability in this context makes sense if consumers have a clear view of the overall risk, performance and cost of their entire portfolio; whether this is delivered as part of an advised service or as part of discretionary -managed service. Accordingly, where the consumer contracts to buy a portfolio service, their investment advisor or discretionary manager should be able to extract core data from the PRIIPs KID to build an overall presentation of risk, performance and costs. This is not necessarily an aggregation of the underlying data but involves an assessment of the aggregated concentration of exposure to specific assets and risk correlation between different underlying product building blocks. Data from the underlying products should therefore be capable of further analysis to allow portfolio risk management to be conducted, rather than just aggregated on a mechanical basis.
<ESA_QUESTION_PKID_2>

Q3 : Do you think that the amendments proposed in the consultation paper should be implemented for existing PRIIPs as soon as possible before the end of 2021, or only at the beginning of 2022?

<ESA_QUESTION_PKID_3>
We recommend minimising the number of changes and ensuring that changes are timed to coincide with the existing annual review of UCITS KIIDs and PRIIPs KIDs. We note that the systems implications of building, testing and user acceptance across the industry are significant. We recommend a clear 12 month period between finalisation of changes and their effective date. As such we recommend implementing changes at the beginning of 2022.
<ESA_QUESTION_PKID_3>

Q4 : Do you think that a graduated approach should be considered, whereby some of the requirements would be applied in a first step, followed by a second step at the beginning of 2022?

<ESA_QUESTION_PKID_4>
As noted in Question 3 we do not believe that a gradual approach should be considered as this would mean amending many thousands of KIDs and KIIDs multiple times.
<ESA_QUESTION_PKID_4>

Q5 : Are there material issues that are not addressed in this consultation paper that you think should be part of this review of the PRIIPs Delegated Regulation? If so, please explain the issue and how it should be addressed.

<ESA_QUESTION_PKID_5>
We believe that there are a number of additional amendments to the Level 1 Regulation which will also need to be considered to ensure a coherent approach. For example, the maximum length of the PRIIPs KID in Article 6(4) may need to be assessed depending on the format of the presentation of past performance, in addition to performance scenarios and the presentation of amended cost tables.
<ESA_QUESTION_PKID_5>

Q6 : Do you have comments on the modifications to the presentation of future performance scenarios being considered? Should other factors or changes be considered?

<ESA_QUESTION_PKID_6>
We note that within the current timeframe it has not been possible to test all aspects of the KID. It is as important to test the whole of the amended document as it is to test individual parts given that concepts of risk, performance and costs are all interdependent, and cumulatively play a significant role in consumer decision-making. We recommend that full consumer testing of changes to the future performance scenarios is conducted, including consumer understanding of what this means in terms of both risk and cost.
<ESA_QUESTION_PKID_6>

Q7 : If intermediate scenarios are to be included, how should they be calculated for Category 3 PRIIPs (e.g. structured products)? If intermediate scenarios are not shown in the performance section, which performance assumption should be used for the 'What are the costs?' section?

<ESA_QUESTION_PKID_7>
We support the deletion of intermediate performance scenarios and support comments from the Investment Association and EFAMA on the design of performance scenarios.
<ESA_QUESTION_PKID_7>

Q8 : If a stress scenario is included in the presentation of future performance scenarios, should the methodology be modified? If so, how?

<ESA_QUESTION_PKID_8>
The original inclusion of the stressed scenario was a result of the potentially unrealistic outcomes generated by the unfavourable scenario. Following changes to the methodology we recommend, subject to consumer testing, we would recommend reducing the outputs and deleting the stress scenario to facilitate consumer understanding.
<ESA_QUESTION_PKID_8>

Q9 : Do you agree with how the reference rate is specified? If not, how should it be specified?

<ESA_QUESTION_PKID_9>
We have a number of concerns regarding the calculation methodology and have worked with the Investment Association in its detailed assessment of the potential issues with the proposed methodology. This is particularly with respect to the availability of all necessary data points and the costs involved in obtaining this data from external data providers, especially with the lack of clarity as to the charging basis for this market data.
<ESA_QUESTION_PKID_9>

Q10 : The revised methodology specifies that the risk premium is determined by future expected yields. The methodology further specifies that future expected yields should be determined by the composition of the PRIIP decomposed by asset class, country and sector or rating. Do you agree with this approach? If not, what approach would you favour?

<ESA_QUESTION_PKID_10>
We believe this approach is overly complex and support the comments put forward by the Investment Association and EFAMA in this context.
<ESA_QUESTION_PKID_10>

Q11 : The ESAs are aware that historical dividend rates can be averaged over different time spans or that expected dividend rates can be read from market data providers or obtained from analyst reports. How should the expected dividend rates be determined?

<ESA_QUESTION_PKID_11>
If the ESAs prescribe the use of a dividend yield methodology, we believe these rates should be determined and made publicly available by the ESAs or the NCAs. Standardised rate tables would have the benefit of consistency and would reduce the costs of obtaining market data from data providers.<ESA_QUESTION_PKID_11>

Q12 : How should share buyback rates be estimated?

<ESA_QUESTION_PKID_12>
Our initial assessment is that it would be problematic to source data for share buyback rates, especially in European markets and as such their inclusion would be problematic.
<ESA_QUESTION_PKID_12>

Q13 : Do you agree with the approach for money-market funds? Are there other assets which may require a similar specific provisions?

<ESA_QUESTION_PKID_13>
No comment.
<ESA_QUESTION_PKID_13>

Q14 : The methodology proposes that the future variance be estimated from the 5-year history of daily returns. Should the volatility implied by option prices be used instead? If so, what estimate should be used if option prices are not available for a particular asset (equities namely)?

<ESA_QUESTION_PKID_14>
No comment.
<ESA_QUESTION_PKID_14>

Q15 : Do you think compensatory mechanisms for unforeseen methodological faults are needed? If yes, please explain why.

<ESA_QUESTION_PKID_15>
Including compensatory mechanisms highlights the issues with the proposed methodological approach. Their inclusion would move away from the objective of providing an accessible statement of potential return outcomes.

<ESA_QUESTION_PKID_15>

Q16 : Do you favour any of the options above? If so, which ones? How would you ensure that the information in the KID remains comparable for all products?

<ESA_QUESTION_PKID_16>
We support the concerns raised by EFAMA in this respect.
<ESA_QUESTION_PKID_16>

Q17 : Are there any other compensatory mechanisms that could address unforeseen methodological faults? If yes, please explain the mechanism; explain how it ensures that scenario information in the KID allows investors to compare PRIIPs, and explain how the information for similar products from different manufacturers remains sufficiently consistent.

<ESA_QUESTION_PKID_17>
We would be in favour of revising and simplifying the performance methodology rather than introducing a compensatory mechanism.
<ESA_QUESTION_PKID_17>

Q18 : What are your views on the use of a simplified approach such as the one detailed above, instead of the use of probabilistic methodologies with more granular asset specific requirements?

<ESA_QUESTION_PKID_18>
We support the detailed work carried out and comments made by the Investment Association. In this respect and the following questions 19 to 22 we have no further comments.
<ESA_QUESTION_PKID_18>

Q19 : Do you consider the use of a single table of growth rates appropriate? If no, how should the methodology be amended?

<ESA_QUESTION_PKID_19>
No further comment.
<ESA_QUESTION_PKID_19>

Q20 : More generally, do your views about the use of a probabilistic methodology vary depending on the type of product (e.g. structured products vs non-structured products, short-term vs long-term products)? For which type of products do you see more challenges to define a probabilistic methodology and to present the results to investors?

<ESA_QUESTION_PKID_20>
No further comment.
<ESA_QUESTION_PKID_20>

Q21 : Do you think these alternative approaches should be further assessed? If yes, what evidence can you provide to support these approaches or aspects of them?

<ESA_QUESTION_PKID_21>
No further comment.
<ESA_QUESTION_PKID_21>

Q22 : Are there any other approaches that should be considered? What evidence are you able to provide to support these other approaches?

<ESA_QUESTION_PKID_22>
No further comment.
<ESA_QUESTION_PKID_22>

Q23 : Do you think illustrative scenarios should be included in the KID as well as probabilistic scenarios for structured products?

<ESA_QUESTION_PKID_23>
We support recommendations by EFAMA to explore the value of "what if" illustrative scenarios to replace probabilistic scenarios.
<ESA_QUESTION_PKID_23>

Q24 : If not, do you think illustrative scenarios should replace probabilistic scenarios for structured products?

<ESA_QUESTION_PKID_24>
Yes, see our response to Question 23.
<ESA_QUESTION_PKID_24>

Q25 : Do you agree with this approach to define PRIIPs which would show illustrative performance scenarios using the existing definition of Category 3 PRIIPs? If not, why not? Where relevant, please explain why this approach would not be appropriate for certain types of Category 3 PRIIPs?

<ESA_QUESTION_PKID_25>
See our response to Question 23.
<ESA_QUESTION_PKID_25>

Q26 : Would you be in favour of including information on past performance in the KID?

<ESA_QUESTION_PKID_26>
We believe is important for investors to know how a product has performed in the past. While past performance is not a guide to future performance, there a number of reasons to show past performance including historic proof of an active manager's ability (or not) to regularly outperform the fund's benchmark, or an index fund's ability to replicate the benchmark index. Depiction of past performance also facilitates an informed discussion on cost versus returns which is currently not feasible with the PRIIPs KID.
The asset management industry has considerable experience of presenting past performance in a standardised way in UCITS. The UCITS presentation of performance also demonstrates the volatility an investor may encounter whereas the PRIIPS scenarios necessarily suggest smoothed performance paths.

Furthermore, we believe that this approach is fully consistent with the Level 1 text to show "appropriate performance scenarios".

We therefore believe that it is important that funds be able to show past performance, as well as future performance scenarios, in the KID. We are also supportive of the inclusion of a warning as to the relevance of past performance in the PRIIP KID, highlighting that it is not a reliable indicator of future results.

<ESA_QUESTION_PKID_26>

Q27 : Would your answer to the previous question be different if it were possible to amend Article 6(4) of the PRIIPs Regulation?

<ESA_QUESTION_PKID_27>
As noted above, the three-page limit set in Article 6(4) of the PRIIPs Regulation is likely to be problematic, not only in relation to the inclusion of past performance. This becomes particularly relevant in the light of the ESA proposal to transpose many of the UCITS KIID-specific disclosures into the PRIIP KID (Section 9 of the consultation paper). It seems unlikely that this additional information can be included in the current KID, especially given the additional space needed for translated versions. In addition, our experience is that some language versions are consistently longer than the base English version by up to a third. As noted in our response to Question 1 a digital friendly approach which allows layer and interactive assessment of performance scenarios means that a linear length-based restriction becomes increasingly less relevant in assessing good consumer understanding. <ESA_QUESTION_PKID_27>

Q28 : Do you think that it can be more appropriate to show past performance in the form of an average (as shown in the ESA proposal for consumer testing) for certain types of PRIIPs? If so, for exactly which types of PRIIPs?

<ESA_QUESTION_PKID_28>
We disagree with the proposal to disclose past performance in the form of an average and support the use of the existing UCITS KIID methodology. One of the essential benefits of showing actual past performance is to showcase a PRIIP's past volatility and the effect of specific market events – this reinforces messages such as the importance of long term investors remaining invested at times of heightened market volatility.
<ESA_QUESTION_PKID_28>

Q29 : Do you have any comments on the statement that would supplement the display of past performance (e.g. with regard to the presentation of costs which are not included in the net asset value (NAV))?

<ESA_QUESTION_PKID_29>
We support the inclusion of a statement explaining the difference between past performance and future performance scenarios. We understand that the only costs not included in the NAV are entry and exit costs which are separately shown in any case.
<ESA_QUESTION_PKID_29>

Q30 : Are you of the opinion that an additional narrative is required to explain the relationship between past performance and future performance scenarios?

<ESA_QUESTION_PKID_30>
We agree that it would be helpful to have a statement explaining the relationship between past performance and future performance scenarios, making clear that past performance cannot be used to predict future performance and that future performance is no more than an illustration of possible outcomes.
H<ESA_QUESTION_PKID_30>

Q31 : Do you see merit in further specifying the cases where the UCITS/AIF should be considered as being managed in reference to a benchmark, taking into account the provisions of the ESMA Questions and Answers on the application of the UCITS Directive[4]?

<ESA_QUESTION_PKID_31>
We note and support EFAMA's comments on the provisions of the ESMA Questions and Answers on the application of the UCITS Directive.
<ESA_QUESTION_PKID_31>

Q32 : Do you see the need to add additional provisions for linear unit-linked insurance-based investment products or linear internal funds?

<ESA_QUESTION_PKID_32>
No comments.
<ESA_QUESTION_PKID_32>

Q33 : Do you agree that a fixed intermediate time period / exit point should be used instead of the current half the recommended holding period to better facilitate comparability?

<ESA_QUESTION_PKID_33>
We support the use of a one-year holding period (highlighting immediate entry costs and potential early exit costs) and a recommended holding period (RHP) in the cost disclosures and deleting the half of RHP.
<ESA_QUESTION_PKID_33>

Q34 : In this case (of a fixed intermediate time period), do you agree to show costs if the investor would exit after 5 years for all PRIIPs with a recommended holding period of at least 8 years? Or do you prefer a different approach such as:

<ESA_QUESTION_PKID_34>
See our response to Question 33.
<ESA_QUESTION_PKID_34>

Q35 : Do you think it would be relevant to either (i) use an annual average cost figure at the recommended holding period, or (ii) to present both an annual average cost figure and a total (accumulated) costs figure?

<ESA_QUESTION_PKID_35>
To avoid overcomplicating the disclosure, we support the use of a total cost figure (in monetary amounts) and an RIY-style figure to highlight impact on return per year.
<ESA_QUESTION_PKID_35>

Q36 : Do you think that it would be helpful, in particular for MiFID products, to also include the total costs as a percentage of the investment amount?

<ESA_QUESTION_PKID_36>
As the majority of funds are sold using a MiFID intermediary we believe that it is important to have alignment of cost disclosures through the PRIIP KID and MiFID ex-ante disclosures at the point of sale (in addition to the specific MiFID investment services cost disclosures)

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[4] See "Section II – Key Investor Information Document (KIID) for UCITS" (in particular, Q&A 8) of the Q&A document available at: https://www.esma.europa.eu/sites/default/files/library/esma34-43-392_qa_ucits_directive.pdf

<ESA_QUESTION_PKID_36>

Q37 : In this context, are there PRIIPs for which both performance fees and carried interests are applied?

<ESA_QUESTION_PKID_37>
We are not aware of this scenario.
<ESA_QUESTION_PKID_37>

Q38 : Do you agree with this analysis from the ESAs? If yes, what are your views on the extent to which fees related to the management of the underlying real estate assets, i.e. the properties themselves, should be taken into account in the calculation of the cost indicators?

<ESA_QUESTION_PKID_38>
No comment.
<ESA_QUESTION_PKID_38>

Q39 : Do you agree with the ESAs' preferred option 3 to revise the cost tables?

<ESA_QUESTION_PKID_39>
We support EFAMA's proposal for a simplified cost presentation.
<ESA_QUESTION_PKID_39>

Q40 : If not, which option do you prefer, and why?

<ESA_QUESTION_PKID_40>
We support EFAMA's comments in this respect.
<ESA_QUESTION_PKID_40>

Q41 : In particular, do you think that the proposed changes to the presentation of the impact of costs on the return in percentage terms (i.e. including reduction in return before and after costs) is an improvement on the current presentation?

<ESA_QUESTION_PKID_41>
We do not support the concept of a return per year before cost, as it presents a fictional return and furthermore introduces a different methodological basis than the net performance figures for past performance.
<ESA_QUESTION_PKID_41>

Q42 : Do you have other comments on the proposed changes to the cost tables?

<ESA_QUESTION_PKID_42>
No comment.<ESA_QUESTION_PKID_42>

Q43 : What are your views on the appropriate levels of these thresholds? Please provide a justification for your response.

<ESA_QUESTION_PKID_43>
In the response to this question, we will address the specific question around the appropriate level of the proposed thresholds. However we would like to take the opportunity to comment more generally on the overall proposals the ESAs have put forward for amending the transaction costs disclosures in the PRIIPs KID.

It is important to state upfront some of the pros and cons associated with the different measures of transaction costs – Spread and Slippage. Overall, we believe there is no one simple formula that can adequately represent the costs of trading across multiple strategies and asset classes. However, we believe a 'Modified Spread' methodology – whereby the existing Spread methodologies are enhanced by incorporating relevant factors that influence trading costs – is the best option for PRIIPs disclosures. BlackRock set out its thinking on this issue in a *ViewPoint: Disclosing Transaction Costs – The need for a common framework*, published in August 2018.[5] We reiterate some of the main points below.

Slippage attempts to measure the realised cost of trading by comparing the execution price to a benchmark or reference price. While useful for fund managers, this approach is sensitive to factors such as data quality and availability, benchmark choices, and differences in the way different instruments trade. A key concern around the Slippage methodology is the fact that it can produce negative transaction costs – as acknowledged in the ESA's consultation – which are counterintuitive and confusing for end-investors. We do not believe it is the case that negative transaction costs will disappear over a long enough assessment period, or that better data sources will solve the problem. In the *ViewPoint* referenced above, BlackRock looked into the variation of slippage and the incidence of negative transaction costs when comparing data sets of different quality and that cover a longer time period. While we found that over a longer time period, the variation of Slippage costs decreases, the incidence of negative transaction costs does not. The problem is particularly acute for equity trades.

Spread measures, however, have shown no instances of negative transaction costs, and, we believe, give a more accurate reflection of the transaction costs a particular PRIIP incurs. This is because, unlike Slippage, Spread costs are not influenced by market movements, and so transaction costs disclosures done on this basis are more accessible and intuitive to end-investors. A Modified Spread methodology would enhance the current Spread methodologies in place by taking into account factors such as the fund manager's anticipated holdings and trading activity, and factors specific to the asset class in question. Of course, one possible issue with a Spread methodology is that it gives managers an amount of discretion over what specific approach they take to gauge transaction costs.

This is why our first preference for transaction costs in PRIIPs disclosures is a Modified Spread methodology, applied across all asset classes, and backed up by the disclosure, control, and governance framework that has been put in place under MiFID II for best execution – to provide end-investors with a useful framework for understanding transaction costs and to eliminate the current range of competing methodologies which are creating confusion. It may also be useful for the ESAs to set minimum standards or criteria for these disclosures. One model already in place, that we believe could be instructive for PRIIPs disclosures, is the model that has been put forward by the Federation of Dutch Pension Funds.[6]

Aside from this, however, we do have comments on the two options the ESAs have proposed on a way forward for transaction cost disclosures. Notwithstanding our overall preference for a Modified Spread methodology to be applied for all asset classes, we believe both options represent an improvement over the current disclosure framework. This could be done by extending the scope of the methodology provided for OTC transactions under Option 1 to all asset classes, rather than a sub-set. Aside from this, there are a number of technical comments to be made on some of the more detailed aspects of these proposals – for these, we support and defer to the comments made by EFAMA in their own response to this consultation. However, there are some features common to both options where we would like to emphasise some important issues:

Firstly, both options suggest that where the transaction cost calculation returns negative costs, they should be instead set to zero. We strongly disagree with this approach. Under a slippage methodology, the effect of this will be to create an upwards bias for reported transaction costs, further distorting the fig-

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[5] BlackRock (2018): *ViewPoint - Disclosing Transaction Costs – The need for a common framework*, available at: https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-disclosing-transaction-costs-august-2018.pdf
[6] See Federation of the Dutch Pension Funds (2016): *Recommendations on Administrative Costs*: https://www.pensioenfederatie.nl/stream/recommendations-on-administrative-costs.pdf

ures disclosed, and lessening their usefulness to end-investors. As stated above, the fact that the Slippage calculation can often return negative transaction costs is inherent in how the calculation is performed. The correct solution, we believe, is to adopt a different methodology that provides data that is more useful for end-investors, such as the spread approach, rather than overlooking the occurrence of negative transaction costs completely.

Secondly, both options propose an alternative transaction cost methodology for products that have low portfolio turnovers – defined (initially) as those with fewer than 250 transactions over a three year period, or if all transactions undertaken over a three year period represent less than 25% of the product's Net Asset Value. We appreciate that these thresholds are subject to the outcome of the current consultation. However, any threshold will necessarily be arbitrary, and risks poorer outcomes for investors: as EFAMA have noted in their response to this consultation, an arbitrary threshold creates perverse incentives for fund managers to restrict their trading activities in order to avoid hitting the threshold and being required to change their reporting method. Clearly this would not be in the best interests of end-investors. Switching between different reporting methodologies would also have significant operational costs, and would disadvantage open-ended fund managers who need to trade to meet client subscriptions and redemptions – which would not be the case for closed-ended funds.
<ESA_QUESTION_PKID_43>

Q44 : If UCITS would fall in the scope of the PRIIPs Regulation, do you agree that the coexistence of the UCITS KII (provided to professional investors under the UCITS Directive) and the PRIIPs KID (provided to retail investors under the PRIIPs Regulation) would be a negative outcome in terms of overall clarity and understandability of the EU disclosure requirements? Are you of the view that the co-legislators should therefore reconsider the need for professional investors to receive a UCITS KII, as the coexistence of a PRIIPs KID together with a UCITS KII (even if not targeted to the same types of investors) would indeed be confusing, given the differences in the way information on costs, risks and performance are presented in the documents? Alternatively, are you of the view that professional investors under the UCITS Directive should receive a PRIIPs KID (if UCITS would fall in the scope of the PRIIPs Regulation)?

<ESA_QUESTION_PKID_44>
The cost data currently provided in the UCITS KIID does not meet the needs of professional investors, as these investors often require more complex, data-rich information than that which is currently available in the KIID. With that in mind, providing a PRIIPs KID for retail investors, and a UCITS KIID for professional investors would hinder clarity and comparability for investors, especially where both disclosures are available for the same fund, given the differences in the presentation of the same information. More so, it would be burdensome for fund managers to run two sets of parallel disclosures with little perceived benefit for end investors.

However, as noted in our responses to earlier questions, there are a number of flaws identified with the PRIIPs KID in its current state, namely the calculation of transaction costs, and the absence of past performance data.

Once these concerns are addressed, we believe both professional and retail investors could receive the PRIIPs KID. If desired, professional investors could then agree on the provision of additional information, with the manager, using standard sector specific templates.

<ESA_QUESTION_PKID_44>

Q45 : What are your views on the issue mentioned above for regular savings plans and the potential ways to address this issue?

<ESA_QUESTION_PKID_45>
BLK view:
We support the view taken by EFAMA that investors be provided with a KID at the beginning of a savings plan, and where changes are made to this plan, rather than when the data in the KID is updated. As is currently the case for UCITS, investors can still receive an up to date KID upon request.

<ESA_QUESTION_PKID_45>

Q46 : Do you agree that these requirements from Article 4 should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIFs?

<ESA_QUESTION_PKID_46>
In principle we agree with the extension the requirements to all PRIIPs but some optionality may be needed for features, such as details of the management company which are specific to collective investment schemes.
<ESA_QUESTION_PKID_46>

Q47 : Do you agree that this requirement should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIF?

<ESA_QUESTION_PKID_47>
We agree with the comments made by EFAMA that the amendment to the Q&A should be made following an in-depth analysis of the compatibility of the PRIIPs and the UCITS regimes. Amending the Q&A without having assessed this in more detail will cause significant confusion. <ESA_QUESTION_PKID_47>

Q48 : Do you agree that these requirements should be extended to all types of PRIIPs, or would you consider that they should be restricted to the Management Company of the UCITS or AIF?

<ESA_QUESTION_PKID_48>
We agree that for clarity, the UCITS article 7(1)(b) requirement to identify where investors can and cannot redeem units on demand should be extended to all PRIIPs.

UCITS article 7(1)(d) requires a statement as to whether “the UCITS allows for discretionary choices in regards to the particular investments that are to be made, and whether this approach includes or implies a reference to a benchmark and if so, which one.” In order to fulfil this, question 8a of the ESMA UCITS Q&As recommends that the terms ‘passive’ and ‘passively managed’ be used to identify index-tracking UCITS. We would favour the term ‘index-tracking’ to be used instead. While index investing is a rules-based investment process, the ongoing management, including investment stewardship, of the assets is not passive.

Regarding articles 7(2), 9, 20, and 21, we agree with EFAMA’s reasoning on these requirements.
<ESA_QUESTION_PKID_48>

Q49 : Do you have any comments on the proposed approaches in relation to the analysis and proposals in this Section, and in particular on the extent to which some of the abovementioned requirements should be extended to other types of PRIIPs?

<ESA_QUESTION_PKID_49>

We support EFAMA's comments about the need for an in-depth assessment and a potential separate category for UCITS funds to clarify the liability of management companies. We also support calls for clarification about the relevant liability standard.

We are also concerned that the possibility to require ex-ante notification for PRIIPs KIDs will lead to an increase in costs, as we have seen some jurisdictions charging a fee related to this pre-notification which increases costs for investors, rather than providing material value.

We agree with EFAMA that it would useful for PRIIPs KIDs to clarify whether dividends provide income or are accumulated.

We believe it would be beneficial to continue to maintain reference to past performance for UCITS on the basis of NAV.
We support EFAMA's view that the concept of master-feeder funds are exclusive to UCITS, and therefore should not be extended to all PRIIPs.
As highlighted by EFAMA, it is a requirement to mention the depositary for the UCITS KIID, but only market practice for a PRIIPs KID. We favour including this as a requirement for PRIIPs KIDs as it is an important investor protection issue.
We would appreciate clarity regarding where the KID should be published, and would recommend this be on the PRIIP manufacturer's website.

<ESA_QUESTION_PKID_49>

Q50 : Do you think this proposal would be an improvement on the current approach?

<ESA_QUESTION_PKID_50>
We see a number of downsides to this proposal as set out in the EFAMA response.
<ESA_QUESTION_PKID_50>

Q51 : Do you envisage significant practical challenges to apply this approach, for example for products which allow the investor to choose between a wide range or large number of options?

<ESA_QUESTION_PKID_51>
No comment.
<ESA_QUESTION_PKID_51>

Q52 : Do you see any risks or issues arising from this approach in relation to consumer understanding, for instance whether the consumer will understand that other combinations of investment options are also possible?

<ESA_QUESTION_PKID_52>
No comment.
<ESA_QUESTION_PKID_52>

Q53 : Do you think this proposal would be an improvement on the current approach?

<ESA_QUESTION_PKID_53>
No comment.
<ESA_QUESTION_PKID_53>

Q54 : Are there other approaches or revisions to the requirements for MOPs that should be considered?

<ESA_QUESTION_PKID_54>
No comment.
<ESA_QUESTION_PKID_54>

Q55 : Do you have any comments on the preliminary assessment of costs and benefits?

<ESA_QUESTION_PKID_55>
The three key areas at this stage are the importance of a single rather than multiple implementation dates, discounting the UCITS KIID and having a single investor disclosure document for both retail and professional investors, and the market data costs of sourcing external data for the performance scenarios. At this stage we cannot put a figure on these areas but expect these to be significant costs.
<ESA_QUESTION_PKID_55>

Q56 : Are you able to provide information on the implementation costs of the proposed changes, in particular regarding, (1) the proposed revised methodology for performance scenarios (using a reference rate and asset specific risk premia), and (2) the overall changes to the KID template?

<ESA_QUESTION_PKID_56>
Before setting up a project group to implement the final changes it is not possible to provide specific information. In our answer to Question 55 we have set out the areas which are most likely to generate costs.
<ESA_QUESTION_PKID_56>

Q57 : Are there significant benefits or costs you are aware of that have not been addressed?

<ESA_QUESTION_PKID_57>
No comment.
<ESA_QUESTION_PKID_57>