PRIIPs – The way forward
May 2017
Agenda

- Introduction: The PRIIPs framework
- PRIIPS: Impact
- PRIIPS New RTS: What has changed?
- PRIIPS Challenge: Deeper dive on the Risk, Performance and Cost section
- PRIIPS Challenge: Maintenance Cycle
Focus on the PRIIPs regulation
Outlining the scope

The PRIIPs regulation* will enter into force on the 1st of January 2018, impacting the banking, the insurance and the fund industries.

### ASSET MANAGEMENT
- Structured deposits (but not deposits linked solely to interest rates)
- Products with capital and/or return guarantees
- All investment funds, including UCITS and retail AIF, whether closed ended or open ended

### BANKS & WEALTH MANAGERS
- Structured products
- Over-the-counter derivative instruments
- Structured deposits (but not deposits linked solely to interest rates)
- SPVs, holding companies

### INSURANCE
- Unit-linked life insurance (external funds, FIC, FID, FAS)
- Certain pension products
- Guaranteed interest rate products with profit sharing

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Focus on the Key Information Document

Main information and timeline

- **Maximum 3 A4 pages**
  - Stand alone document
  - Consistent with marketing information

- **Timeline**

  - **5 April 2014**: Adoption of final version of the regulation
  - **30 June 2016**: Publication of latest version of RTS
  - **12 Sep 2016**: Rejection of RTS by EU Council
  - **18 Apr 2017**: EC publishes new RTS
  - **Today**: EC publishes new RTS
  - **1 Jan 2018**: Entry into force
  - **1 Jan 2020**: End of exemptions for UCITS

- **A person advising on, or selling, a PRIIP shall provide retail investors with the KID in good time before those retail investors are bound by any contract or offer relating to that PRIIP**

- **Regular review of the content. Revised version to be made available promptly.**

- **Easy to read, accurate and not misleading**

- **Should be available in the language of the retail investor**
Focus on the Key Information Document
7 overall sections (presentation & content as prescribed)

1. What is this product?
2. What are the risks and what could I get in return?
3. What happens if [name of the PRIIP manufacturer] is unable to pay out?
4. What are the costs?
5. How long should I hold it and can I take money out early?
6. How can I complain?
7. Other relevant information
## UCITs KIID vs PRIIPs KID
### Comparing key elements (part 1)

The passage from UCITS KIID to PRIIPs KID brings in deep changes in terms of layout, data compilation and content definition:

<table>
<thead>
<tr>
<th>Key elements</th>
<th>UCITS KIID</th>
<th>PRIIPs KID</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General considerations</strong></td>
<td>- Free of cost document to investors</td>
<td>- Product description i.e. type of PRIIP, objectives, type of retail investor, details of insurance benefits (if relevant) and term</td>
</tr>
<tr>
<td><strong>Format</strong></td>
<td>- 2 pages long</td>
<td>- 3 pages long</td>
</tr>
<tr>
<td></td>
<td>- 5 sections</td>
<td>- 7 sections</td>
</tr>
<tr>
<td><strong>Product information</strong></td>
<td>- Description of product’s objectives and investment policy</td>
<td></td>
</tr>
<tr>
<td><strong>Performance scenario</strong></td>
<td>- Past performance approach</td>
<td>- Future scenario approach</td>
</tr>
<tr>
<td><strong>Risk indicators &amp; Performance</strong></td>
<td>- SRRI</td>
<td>- SRI, MRM, CRM</td>
</tr>
<tr>
<td></td>
<td>- Past performance approach</td>
<td>- Future performance approach</td>
</tr>
</tbody>
</table>
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The passage from UCITS KIID to PRIIPs KID brings in deep changes in terms of layout, data compilation and content definition:

<table>
<thead>
<tr>
<th>Key elements</th>
<th>UCITS KIID</th>
<th>PRIIPs KID</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer default</td>
<td>- N/A</td>
<td>- Clarification whether the retail investor may face a financial loss due to the default of the manufacturer and if it is covered by any guarantee</td>
</tr>
<tr>
<td>Costs / charges / fees</td>
<td>- Charges table including entry charges, exit charges, ongoing charges, performance fees</td>
<td>- Summary cost indicator of the costs i.e. total costs and Reduction in Yield (RIY) - Cost details table including one-off costs, recurring costs and relevant incidental costs</td>
</tr>
<tr>
<td>Holding period</td>
<td>- N/A</td>
<td>- Recommended holding period - Disinvestment procedure and any related fees and/or penalties</td>
</tr>
<tr>
<td>Complaint</td>
<td>- N/A</td>
<td>- Steps to be followed for lodging a complaint</td>
</tr>
<tr>
<td>Other relevant information</td>
<td>- Information on where and how to obtain further information about UCITS, etc.</td>
<td>- Indication of any additional information documents that may be provided</td>
</tr>
</tbody>
</table>
Agenda

- Introduction: The PRIIPs framework
- PRIIPS: Impact
- PRIIPS New RTS: What has changed?
- PRIIPS Challenge: Deeper dive on the Risk, Performance and Cost section
- PRIIPS Challenge: Maintenance Cycle
A birds eye view – PRIIPs (and MiFID crossovers)

1) Manufacturers send PRIIP and MiFID product details

- Structured Products / Deposits
  - PRIIPs details, EMT\(^1\), EPT\(^2\)
- Fund Managers
  - PRIIPs details, EMT, EPT
- Insurance
  - PRIIPs details
- OTC Derivatives
  - PRIIPs details, EMT

2) PRIIP KIDs are generated, Industry templates aggregated

- PRIIPs Engines and Data Aggregators (either manufacturers or industry hubs)
  - EPTs, UIOD/SID’s\(^3\), Generic KIDs
  - PRIIP KID, EPT, EMT

3) PRIIP KIDs and MiFID costs and charges documents distributed to retail clients

- Manufacturer Websites
  - PRIIP KIDs
- Web-Link to PRIIPs KIDs / Generic and UIOD/SID, Costs & Charges
- Wealth managers / distributors
  - PRIIP KID, EPT, EMT
- Insurance Clients
  - EPTs, UIOD/SID’s, Generic KIDs

1) EPT – European PRIIPs Template
2) EMT – European MiFID Template
3) UIOD / SID – Underlying Investment Options Document, Simplified Information Document
Different Impact

PRIIPs affects Asset Managers differently depending on products and distribution model.

What changes?
- data frequency
- SRI calculation
- performance scenarios
- RIY

What challenges for insurers?
- Pre-KID / contractual KID
- HWNI / retail investors
- Dedicated / external funds
- Generic KID + mini KIDs / Unique KID
European Commission perspective - Where are the boundaries between KID information and individual contractual information?

- EC has indicated that KIDs are not intended to be trade specific
- ISDA member firms have opted to advocate a KID which bucket's PRIIPs by underliers with similar characteristics
- Where are the boundaries between KID information and individual contractual information?
Operating model - Illustrative trade v Trade specific
Illustrative KID sample process flow and distribution

1. Define Illustrative Trades economics
   - 1.1 Define
   - 1.2 Analyse and Review
     - 1.3 Define approach
     - 1.4 Identify market data
   - 1.5 Review approach

1. Analyse and Review
   - 1.6 Generate Trades and risk numbers
   - 1.7 Test run

1. Review approach
   - 1.8 Review and approve sample KIDs

1. Generate Trades and risk numbers
   - 1.9 Daily KID update

1. Test run
   - 1.10 Route to client website

1. Approve
   - 1.11 Read KID

1. Update required?
   - Yes
   - 1.12 periodic review
   - No
Illustrative trade v Trade specific
Bespoke – trade specific KID sample process flow and distribution

Capture

3.1 Enquire

3.2 Quote

3.3 Capture and Quote

3.4 Provide XML data feed conforming to PriipML

3.5 Validate PriipML

3.6 Validate XML data feed

3.7 Onboard product

Template exists?

3.8 Source Market Data

Validatio n error?

3.9 Generate KID

Market data available

Execute

3.10 Route to Desk

3.11 Notify client

3.12 Read KID

3.13 Confirm Trade

3.14 Execute

3.15 Execute

Produce KID

Client

Manufacturer Desk

System

Deloitte
Agenda

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Deloitte Regulatory News Alert
European Commission extends application date by one year for PRIIPs regulation

The European Commission has today proposed an extension to the date of application of the Regulation on Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs). The European Commission is now working closely with the three European Supervisory Authorities (ESAs) to resubmit the revised Regulatory Technical Standards (RTS). The ESAs will now have six weeks to resubmit the revised RTS to the Commission. These will have to be adopted by the Commission and then be subject to scrutiny by the European Parliament and the Council. It is thought the revised PRIIPs framework should be in place during the first half of 2017 and apply as of 1 January 2018.

In the interim Deloitte is continuing to work with clients to maintain project momentum in providing assistance with the refinement of operating and data workflow models to maximise the time available before the revised implementation date.
New RTS issued on 8th March 2017
Key changes (part 1)

**New version**
The new RTS issued on 8th March do not definitely prescribe the model that will be applicable in 2020, when the exemption of funds will fall. It would appear that the topic is being addressed during the revision of the text planned for 2018. This revision will also be an opportunity for asset managers to review the methodology for calculating transaction costs. It is likely that after the transitory period passes, the PRIIPs KID will have to be produced regardless of the UCITS KIID.

**Comprehension Alert**
The new RTS introduces the obligation to add a comprehension alert in case where the PRIIP incorporates a structure which makes it difficult for the customer to understand the risks involved.

**Management of MOP**
The new version of Article 14 (2) confirms the exemption of UCITS and AIF funds for which a UCITS KID is available. For all the other investment options, a PRIIPS specific information document must be produced. Open questions remain regarding aggregating two different types of calculations (risk ratings and cost methodologies differ for UCITS KIID and PRIIPs KID) into a single MOP.
New RTS issued on 8th March 2017
Key changes (part 2)

**Biometric Premium**
For insurance products, the RTS impose a distinction between the "insurance" portion (biometric risk) and the "investment" portion of the contributions. The value of the insurance benefit should be shown in the section ‘What are the risks and what I could get in return’, as either the impact of the biometric risk premium on the investment return at RHP or the impact of the cost part of the biometric risk premium taken into account in the recurring costs of the ‘Costs over time table’.

**Transaction Costs**
At this stage, the new RTS offer the possibility to apply the methodology based on turnover and b/a spreads for the support in funds with a UCITS KID, for aggregation in the generic KID. If all the underlying options are funds with a UCITS KID, the generic KID can take over the costs of the UCITS KID without supplement (exemption from calculation of transaction costs).

**Stress Scenario**
The parliament found the output of the three scenarios to be overly optimistic at times, showing positive returns even in the unfavourable scenario. The “additional” scenario has been amended and renamed the “stress scenario”, to give information on the possible outcome of the PRIIP where extreme market conditions, not covered in the unfavourable scenario, materialise.
**New RTS issued on 8th March 2017**

**Key changes (part 3): Data aggregation**

<table>
<thead>
<tr>
<th>Case 1: All underlying are funds with UCITS KIID</th>
<th>Case 2: At least one underlying is a fund with UCITS KIID</th>
<th>Neither Case 1 nor Case 2 apply.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transaction costs (generic)</strong> N/A</td>
<td>Display range based on the calculation done on mini KID level</td>
<td>Display range based on the calculation done on mini KID level</td>
</tr>
<tr>
<td><strong>Transaction costs (mini KID)</strong> N/A</td>
<td>To compute but not to display: PRIIPs transaction costs methodology* for those that are not funds with UCITS KIID, simplified (turnover methodology) for those that are funds with UCITS KIID</td>
<td>PRIIPs transaction costs methodology*</td>
</tr>
<tr>
<td><strong>Insurance cost (generic)</strong> N/A</td>
<td>Display range</td>
<td>Display range based on the mini KID</td>
</tr>
<tr>
<td><strong>Insurance costs (mini KID)</strong> N/A</td>
<td>N/A</td>
<td>Include the insurance costs**</td>
</tr>
<tr>
<td><strong>Risk metrics (generic)</strong> SRRI</td>
<td>Combination of SRI and SRRI</td>
<td>SRI</td>
</tr>
</tbody>
</table>

*PRIIPs transaction costs methodology = arrival price, turnover methodology or both, depending on how long the PRIIP has been operating*

**Insurance Europe working on removing this requirement**

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New RTS issued on 8th March 2017
Impact on the PRIIPs requirements (vs. previous RTS) – part I

- All PRIIPs
  - Stress scenario
  - Comprehension alert

- UCITS
  - KIID info can be reused as specific information document ("SID"). Some insurance may still opt to produce their SID for underlying funds.
  - Reduced need for data exchange (if insurances opt to use the UCITS KIID - divergence in FR and DE)
  - For AIF that opted for the UCITS KIID → KIID info can be reused as specific information document
  - Same as UCITS.

- Non UCITS
  - Non UCITS: has no UCITS KIID – no change
  - No change

Need to produce stress scenario
Need to insert a comprehension alert if the product is considered ‘complex’ as per MIFID II/IDD
New RTS issued on 8th March 2017
Impact on the PRIIPs requirements (vs. previous RTS) – part II

All PRIIPs

Insurance

All underlying have a KIID

- KIID info can be reused as specific information document (“SID”). Some insurers may use the KIID as SID and disclose range of charges and SRRI in the Generic KID in accordance with UCITS KIID Regulation

Decrease of workload between 2018 and 2020. Relative low impact as insurance seldom only use UCITS as underlying.

Not all underlying have a KIID

- For funds that have a UCITS KIID, insurers may use the KIID as SID, and
  - transaction cost methodology for new PRIIPs can be applied for the range of costs of the Generic KID
  - the range of risk classes should combine SRRI and SRI into a single range in the format of the PRIIPs risk scale

Option 1: Insurances opt to use the UCITS KIIDs between 2019 and 2020
Option 2: Portion of Insurances opt to produce PRIIPs mini-KIDs from 2018
New RTS issued on 8th March 2017
Stress Scenario - details for Category II

A new performance scenario is introduced – stress scenario, to showcase significant unfavorable impacts of the product that are not covered in the unfavorable scenario. Also based on CF-VaR.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narratives</td>
<td>- New narratives added for the stress scenario</td>
</tr>
<tr>
<td>Templates</td>
<td>- Stress scenario placed immediately after three normal scenarios, following the same template</td>
</tr>
<tr>
<td>What is this product?</td>
<td>- Information from KIID can be re-used for UCITS and non-UCITS with KIID.</td>
</tr>
</tbody>
</table>

Methodology for stress scenario for category 2 PRIIPs:

1. Identification of the sub-interval depending on the pricing frequency and holding periods

<table>
<thead>
<tr>
<th>Pricing frequency</th>
<th>1 year</th>
<th>&gt; 1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily prices</td>
<td>21</td>
<td>63</td>
</tr>
<tr>
<td>Weekly prices</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Monthly prices</td>
<td>6</td>
<td>12</td>
</tr>
</tbody>
</table>

2. Measure the volatility based on formula, starting from \( t_i = t \) to rolling until \( t_i = t(N-w) \).

\[
W_i \sigma_S = \sqrt{\frac{\sum_{t_i}^{t_{i+w}} M_1 M_2}{M_1^2}} \]

Number of data in the subinterval

Corresponding mean

3. Retrieve the stressed volatility as a percentile of all the volatilities computed.

4. For Category 2 PRIIPs, the expected values at the recommended holding period for the stress scenario shall be:

\[
Scenario_{\text{stress}} = e^{w_{\sigma_S} \sqrt{N} \cdot (z_{\alpha} - 1) \cdot \frac{1}{N} \cdot \left[ \frac{(z_{\alpha}^2 - 1)}{6} \cdot \frac{1}{2} \cdot \frac{(z_{\alpha}^2 - 2z_{\alpha})}{24} \cdot \frac{1}{2} \cdot \frac{(z_{\alpha}^2 - 5z_{\alpha})}{86} \cdot \frac{1}{2} \cdot \frac{1}{N} \right]^{0.5} w_{\sigma_S}^2 N}
\]

where \( z_{\alpha} \) is a proper selected extreme percentile that corresponds to 1% for 1Y/5% for the other holding periods.
New RTS issued on 8th March 2017
Stress Scenario - details for Category III

General methodology for performance scenarios for **category 3 PRIIPs:**

1. Expected return for each asset or assets shall be the return observed over the period of 2Y daily, 4Y weekly, 5Y monthly prices.

2. Performance shall be calculated at the end of the recommended holding period, and without discounting the expected performance using the expected risk-free discount factor.

Methodology for stress scenarios for **category 3 PRIIPs:**

1. Infer stress volatility based on methodology for category 2 PRIIPs.

2. Rescale historical returns $r_t$, based on the formula:

   $$ r_{t}^{adj} = r_t \cdot \frac{\sigma_S}{\sigma_S} $$

3. Conduct bootstrapping on $r_{t}^{adj}$ as in the previous version of RTS.

4. Calculate the return for each contract by summing returns from selected periods and correcting these returns to ensure that the expected return measured from the simulated return's distribution is as below.

   $$ E\left[r_{bootstrapped}^*\right] = -0.5\sigma_S^2N $$

   New simulated mean

For Category 3 PRIIPs, the stress scenario shall be the extreme $z_{\alpha}$ percentile as for category 2.
New RTS issued on 8th March 2017

Comprehension alert

Comprehension Alert should be added in case that the PRIIP:

- incorporates a structure which makes it **difficult** for the customer to understand the risks involved;

- the services **do not relate** to any of the following financial instruments:

  (i) **shares** admitted to trading on a regulated market or on an equivalent third-country market or on a MTF, where those are shares in companies (excluding shares in non-UCITS collective investment undertakings and shares that embed a derivative);

  (ii) **bonds** or other forms of securitized debt admitted to trading on a regulated market or on an equivalent third country market or on a MTF (excluding those that embed a derivative or incorporate a structure which makes it difficult for the client to understand the risk involved);

  (iii) **money-market instruments** (excluding those that embed a derivative or incorporate a structure which makes it difficult for the client to understand the risk involved);

  (iv) **shares or units in UCITS** (excluding structured UCITS);

  (v) **structured deposits** (excluding those that incorporate a structure which makes it difficult for the client to understand the risk of return or the cost of exiting the product before term);

  (vi) other **non-complex financial instruments**.
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Main differences with the UCITS KIID:

- **Market risk measure (MRM)** volatility buckets are wider than for KIID
- Computations done using **daily prices** (when possible) instead of weekly
- **Credit risk (CRM)** is to be computed
- **(Summary) risk indicator (SRI)** is an aggregation of the credit risk measure and market risk measure
- **Liquidity risk** is determined using adjusted criteria and new narratives
- **Performance scenarios** are computed (using methodology consistent to the market risk computation, and additionally net of costs)
- **Disclosure of costs** is much more elaborate as the methodologies required are both ex-post and ex-ante. All the transaction costs, as well as the aggregation of costs and cumulative effect of costs on the return are to be disclosed
- **Recommended Holding Period (RHP)** is an important factor for multiple calculations including MRM, performance scenarios and cost calculations
- **Past performance** is not displayed in the KIID
PRIIPs Analytics
Categorization

**Category I**
- Is the PRIIP a derivatives?
- Can the investor lose more than the invested amount? and/or
- PRIIP or its underlying is priced less regularly than monthly, or does not have an appropriate benchmark or proxy?

Eg. CFD, warrant, futures, swaps, Options,..

**Category II**
- Does the PRIIP meet the minimum data requirement*?
- PRIIP has a payout structure that develops as a constant multiple of the underlying value (Eg. No caps, floor except)

E.g. funds except structured funds,..

**Category III**
- PRIIP value reflects the prices of underlying investments, but not as a constant multiple and the PRIIP meets the minimum data requirements* (or has benchmark/proxy that does) or where existing appropriate benchmarks exist

Eg. Structured products, structured funds,...

**Category IV**
- PRIIPs that display no observable market factors that would permit the standard risk measurement as laid down in the RTS

Eg. Insurance
Template set-up
Category I and III performance scenarios calculation (excl ETD)
Recommended holding period (RHP)

- Simulate the price of an underlying asset to the recommended holding period using Bootstrapped VaR methodology resulting into 10,000 simulated underlying price paths.
- Calculate PRIIP value at RHP for each simulation path resulting into the distribution of PRIIP values at RHP.
- Apply 10th, 50th and 90th percentiles to the distribution of PRIIP values to derive favourable, moderate and unfavourable scenarios at RHP.
- We do not differentiate between monotonic and non-monotonic payoffs when calculating performance scenarios at IHPs as described in the RTS as it imposes a lot of inconsistencies and methodological issues. Instead we do full revaluation at each simulated underlying path and at each IHP. This approach is more computationally intensive but is more robust.
Risk & Reward
Market Risk Measure – MRM for category II & III

VaR-equivalent volatility

Cat II

\[
\text{VEV} = \left\{ \sqrt{(3.842 - 2 \times \text{VaR}_{\text{RETURN SPACE}})} - 1.96 \right\} / \sqrt{T}
\]

Where T is the length of the recommended holding period in years

Where \(\mu_1\) & \(\mu_2\) are obtained form the observed moments of the distribution

Cat III

\[
\text{VEV} = \left\{ \sqrt{(3.842 - 2 \times \text{VaR}_{\text{RETURN SPACE}})} - 1.96 \right\} / \sqrt{T}
\]

Where T is the length of the recommended holding period in years

\[
\text{VaR}_{\text{RETURN SPACE}} = \sigma \sqrt{N} \times \left( -1.96 + 0.474 \times \frac{\mu_1}{\sqrt{N}} - 0.687 \times \frac{\mu_2}{N} + 0.146 \times \frac{\mu_1^2}{N} \right) - 0.5\sigma^2 N
\]

Return

\[
= E \left\{ \text{Return}_{\text{Risk neutral}} \right\} - E \left\{ \text{Return}_{\text{measured}} \right\} - 0.5\sigma^2 N - \rho \sigma \sigma_{\text{CCY}} N
\]

The price of each underlying contract will be calculated by taking the exponential of the return-

MRM depends on the values of VaR equivalent volatility obtained using the calculations above. Different MRM is assigned to different volatility levels.

<table>
<thead>
<tr>
<th>MRM class</th>
<th>Annualised volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>&lt; 0.5 %</td>
</tr>
<tr>
<td>2</td>
<td>0.5 % - 5.0 %</td>
</tr>
<tr>
<td>3</td>
<td>5.0 % - 12 %</td>
</tr>
<tr>
<td>4</td>
<td>12 % - 20 %</td>
</tr>
<tr>
<td>5</td>
<td>20 % - 30 %</td>
</tr>
<tr>
<td>6</td>
<td>30 % - 80 %</td>
</tr>
<tr>
<td>7</td>
<td>&gt; 80 %</td>
</tr>
</tbody>
</table>
Risk & Reward
Summary Risk Indicator (SRI)

**Market Risk Measure**
- PRIIPs can be assigned to seven MRM classes and for this purpose they are divided into four categories
- Category I PRIIPs are assigned based on qualitative criteria, while for Category II, III and IV the basis for the MRM is the Value-at-Risk @ 97,5%

**Credit Risk Measure**
- Credit risk shall be assessed when the return on the investment depends on the creditworthiness of manufacturer or the party bound to make the relevant payment to the investor
- For PRIIPS that entails credit risk, credit risk shall be assessed on a look-through basis (PRIIPS itself and underlying)

**Aggregation to a single SRI**
- SRI is a guide to the product’s level of risk, helping the investor to assess it and compare it with other products
- It takes into account how likely the investor can lose money and the possibility to enter some form of protection

<table>
<thead>
<tr>
<th>Credit Quality step</th>
<th>Credit Risk class</th>
<th>Rating Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>CR1</td>
<td>AA / AAA</td>
</tr>
<tr>
<td>1</td>
<td>CR1</td>
<td>AA</td>
</tr>
<tr>
<td>2</td>
<td>CR2</td>
<td>A</td>
</tr>
<tr>
<td>3</td>
<td>CR3</td>
<td>BBB</td>
</tr>
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<td>4</td>
<td>CR4</td>
<td>BB</td>
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<tr>
<td>5</td>
<td>CR5</td>
<td>B</td>
</tr>
<tr>
<td>6</td>
<td>CR6</td>
<td>CCC</td>
</tr>
</tbody>
</table>
Risk & Reward

SRI Aggregation

<table>
<thead>
<tr>
<th>Credit Risk</th>
<th>Market Risk</th>
<th>MR1</th>
<th>MR2</th>
<th>MR3</th>
<th>MR4</th>
<th>MR5</th>
<th>MR6</th>
<th>MR7</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR1</td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>CR2</td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>CR3</td>
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<td>6</td>
<td>6</td>
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<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

**Liquidity Risk:** for products tradable over their life but for which no regulated liquid market exists, a warning shall be included within the SRI, highlighting that selling the PRIIP before the RHP may not be possible and/or imply remarkable costs or losses.

**Narrative explanation:** it shall accompany the SRI and briefly explain its purpose, as well as the underlying risks and, where applicable, all material risks not adequately captured by the indicator.

**Other warnings:** if issues on cashing-in before maturity or currency risks exist, they shall be properly mentioned and described.
Risk & Reward
Performance scenarios

1. **Unfavourable Scenario**
   - Highlights the features of the product and the economic conditions which could give rise to an unfavourable outcome for the retail investor.

2. **Moderate Scenario**
   - Highlights the features of the product and the economic conditions which could give rise to a moderate outcome for the retail investor.

3. **Favourable Scenario**
   - Highlights the features of the product and the economic conditions which could give rise to a favourable outcome for the retail investor.

4. **Stress Scenario**
   - Shows significant unfavorable impacts of the product that are not covered in the unfavorable scenario.

---

### Simplified overview of computation

- **Category I**
  - exchange traded derivatives: payoff graph
  - PE/RE: best estimation of expected value
  - All other treated like category III

- **Category II**
  - Closed formula

- **Category III**
  - Simulation

- **Category IV**
  - Treatment like category II or III

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Risk & Reward
Performance scenarios: Category II details

**Unfavorable Scenario**
Exp \[ M1*N + \sigma\sqrt{N} * ( -1.28 + 0.107 * \mu_1 / \sqrt{N} + 0.0724 * \mu_2 / N - 0.0611 * \mu_1^2 / N) - 0.5 \sigma^2 N \]

**Moderate Scenario**
Exp \[ M1*N - \sigma \mu_1 /6 - 0.5 \sigma^2 N \]

**Stress Scenario**
- Now mandatory
- Similar formula, with volatility = prescribed percentile dependent on holding period of rolling window volatility

**Favorable Scenario**
Exp \[ M1*N + \sigma \sqrt{N} * (1.28 + 0.107 * \mu_1 / \sqrt{N} - 0.0724 * \mu_2 / N + 0.0611 * \mu_1^2 / N) - 0.5 \sigma^2 N \]

**Which performance values to show depends on the length on RHP:**

**More than 3Y**
- At 1 Y
- At half the recommended holding period
- At RHP

**Between 3Y and 1Y**
- At 1Y
- At RHP

**Less than 1Y**
- No intermediate periods
- Just at RHP
Costs
Composition of costs and reduction in yield

1. COMPOSITION OF COSTS
   • Static data, obtained ex-post, backward looking

<table>
<thead>
<tr>
<th>One-off costs</th>
<th>Recurring costs</th>
<th>Incidental costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Entry costs</td>
<td>% Exit costs</td>
<td>% Performance fees</td>
</tr>
</tbody>
</table>

   - Impact of entry costs taken before investment (max. payable amount)
   - Impact of exit costs when exit the investment upon maturity
   - Impact of recurring costs taken each year from the investment, based on last year costs (best estimate). Figures cover all recurring costs, including management costs, operating expenses and portfolio transaction costs
   - Impact of average performance fees / carried interest

2. SUMMARY COST INDICATOR – REDUCTION IN YIELD (RIY)
   • Dynamic, calculated ex-ante, forward looking indicator
   • RIY shall be calculated as the difference between two percentages:
     • The annual internal rate of return related to gross payments made by the investor and the estimated payments to the investor during the RHP
     • The annual internal rate of return for the respective cost-free scenario
     • Based on “moderate” performance scenario, using the same holding periods as in the performance scenarios
## Costs

### UCITS KIID vs. PRIIPS KID vs. MIFID II

<table>
<thead>
<tr>
<th></th>
<th>MIFID II</th>
<th>PRIIPS (KID)</th>
<th>UCITS (KIID)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Format</strong></td>
<td>Expressed in monetary and percentage terms</td>
<td>Expressed in monetary and percentage terms</td>
<td>Expressed in percentage terms</td>
</tr>
<tr>
<td><strong>Methodology</strong></td>
<td>Ex-ante and ex-post</td>
<td>Ex-ante and ex-post</td>
<td>Ex-post</td>
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<td><strong>One-off charges</strong>[1]</td>
<td>To be disclosed</td>
<td>To be disclosed</td>
<td>To be disclosed</td>
</tr>
<tr>
<td><strong>On-going charges</strong>[2]</td>
<td>To be disclosed</td>
<td>To be disclosed</td>
<td>To be disclosed</td>
</tr>
<tr>
<td><strong>All costs related to the transactions</strong>[3]</td>
<td>To be disclosed</td>
<td>To be disclosed</td>
<td>Don’t have to be disclosed</td>
</tr>
<tr>
<td><strong>Incidental costs</strong>[4]</td>
<td>To be disclosed</td>
<td>To be disclosed</td>
<td>To be disclosed</td>
</tr>
<tr>
<td><strong>Cost and charges to be aggregated</strong></td>
<td>All above mentioned costs</td>
<td>All above mentioned costs</td>
<td>No aggregation required</td>
</tr>
<tr>
<td><strong>Cumulative effect of costs on the return</strong></td>
<td>To be disclosed</td>
<td>To be disclosed</td>
<td>N/A as no aggregation required</td>
</tr>
</tbody>
</table>
Costs
Challenges for calculations of specific types of costs

**Look-through approach**
- Computation of costs in all layers (including costs incurred in the underlying PRIIPs)

**Costs of biometric risk premium**
- Calculation of fair value of biometric risk premium if the insurer choose to disclose the cost part of the risk premiums

**Performance fees**
- New fund’s returns estimation
- Computation of the effects of changes in fees or terms at the share class level

**Implicit costs**
- Valuation techniques dependent on product complexity
- Compliant with accounting standards

**Transaction costs for new PRIIPs**
- Estimation of portfolio turnover
- Asset class dependent methodology
- Consistency with the investment policy requested

**Treatment of anti-dilution mechanisms**
- Calculation of swing pricing effect on transaction costs using complex methodology
Agenda

- Introduction: The PRIIPs framework
- PRIIPS: Impact
- PRIIPS New RTS: What has changed?
- PRIIPS Challenge: Deeper dive on the Risk, Performance and Cost section
- PRIIPS Challenge: Maintenance Cycle
Maintenance challenge: Annual update and other mandatory refreshes

KID Lifecycle overview

Key requirements

Annual update – every 12 months (after initial publication and thereafter 12 months after latest review)

Trigger management: Maintain process to identify “material changes” in the KID information (investment policy, SRI or expected returns, costs...)

Revision of the KID upon “trigger” detection (without undue delay)

Web publication 5 BD after revision
Q&A

Thank you very much for your attention!
With you today

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