EUROPEAN
COMMISSION

Brussels, ~~XXX[...]~~30.6.2016
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COMMISSION DELEGATED REGULATION (EU) ~~NO~~ .../...

of ~~XXX~~

~~on [...]~~

~~COMMISSION DELEGATED REGULATION (EU) .../..~~

~~of XXX~~**30.6.2016**

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

(Text with EEA relevance)

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE DELEGATED ACT

Regulation (EU) No 1286/2014 (PRIIPs Regulation) requires manufacturers of Packaged Retail and Insurance-based Investment Products (PRIIPs) to prepare 'Key Information Documents' (KIDs) for these products before they are made available to retail investors, and those selling or advising on these products to provide the KIDs to retail investors before they buy those products. The European Supervisory Authorities (ESAs) working together in the Joint Committee, have been required to develop regulatory technical standards (RTSs) on the presentation and the content of the KID, including methodologies for the calculation and presentation of risks, rewards and costs within the document, under Article 8(5) of the PRIIPs Regulation. They have also been required to develop RTSs on the review, revision and publication of the KID, under Article 10(2) of the PRIIPs Regulation, and on the conditions for fulfilling the requirement to provide the KID in good time to the retail investor, under Article 13(5) of the PRIIPs Regulation.

2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

The ESAs consulted the public on three occasions. A general discussion paper was published for public consultation on the 17 November 2014 and a technical discussion paper followed, which was published on 23 June 2015. Finally, prior to adopting the draft RTS and submitting them to the European Commission on the 6 April 2016, the ESAs issued a public consultation on the draft RTS on the 11 November 2015.

Stakeholders were also involved in the development of the RTSs through the advice of a Consultative Expert Group.

3. CONSUMER TESTING

The European Commission supported the process by conducting a consumer testing study in which different ways of presenting information were tested with consumers to establish which presentations were preferred by them and most useful in terms of facilitating understanding of PRIIPs and comparisons between PRIIPs. A wide variety of different possible graphical and other techniques for showing information were tested. The consumer testing demonstrated that a simple risk scale that showed risks aggregated together worked best for consumers, and that many consumers had problems using more complex ways of showing possible performance, including through graphics. On balance, simple tables worked best both for performance scenario and for cost information.

4. LEGAL ELEMENTS OF THE DELEGATED ACT

The ESAs submitted to the European Commission one RTS combining technical standards developed under Article 8(5), Article 10(2) and Article 13(5). Given the strong interconnectedness of the contents of the three regulatory technical standards to be provided by the European Supervisory Authorities under the PRIIPs Regulation, the European Commission has endorsed such a bundling. In terms of process it helped ensure that the requirements introduced by the three regulatory technical standards were fully consistent. A single legal act will be beneficial to all involved as it will make it easy to locate PRIIPS level two provisions. The technical standards developed under Article 8(5) of the PRIIPs Regulation specify the presentation and content of the KID and apply on the PRIIP manufacturer when drawing up a KID.

Articles 1 to 8 of the technical standards address the different sections of the KID set out in Article 8(3) of the PRIIPs Regulation, and the underlying methodologies necessary for obtaining and calculating information to be included the KID, for instance in relation to risks, rewards and costs.

In this respect, the measures under Article 3 of the technical standards require a summary risk indicator (SRI) that comprises seven classes of risk. A template is contained in the RTS under Annex III, which provides for the presentation of this indicator. The measures determine the assignment of each PRIIP to one of the seven classes in the SRI, and the inclusion of certain narrative explanations and additional warnings as relevant.

The measures under Article 3 also set out performance scenarios to be included in the KID and the format that must be followed for those scenarios, using tables outlining that performance for different time periods for each of the three scenarios. Additional scenarios are included in some cases, and information on the insurance benefit is provided for insurance-based investment products. The calculation of the figures to be included is harmonised.

The measures under Article 5 of the technical standards harmonise the presentation of costs, including detailed methods for calculating and aggregating the figures that must be used. The cost figures include a presentation of the accumulation of the costs in monetary and percentage terms for standardised period(s), as well as a breakdown of these costs in percentage terms.

Article 9 of the technical standards requires the use of a mandatory template, including mandatory texts. The template includes details of the layout that must be followed.

Articles 10 to 14 of the technical standards set out specific requirements for the content of the KID for PRIIPs offering a range of options for investments, where including all of the information required for each of the options would not be possible in a single standalone KID.

Articles 15 and 16 of the technical standards sets out requirements on the PRIIP manufacturer for the review and revision of the KID, as required under Article 10 of the PRIIPs Regulation, whereby this shall be done at least annually. Article 14 also sets an obligation to conduct ad hoc revisions where necessary under the detailed methodologies for calculating the summary risk indicator, the performance scenarios and the costs, as well as for products offering multiple options.

Article 17 of the technical standards sets out obligations for the person selling or advising on the PRIIP, as required under Article 13 of the PRIIPs Regulation, whereby the KID will be provided sufficiently early so as to allow retail investors to take its contents into account when making an investment decision. The timing of the delivery of the KID may vary depending on the PRIIP in question and the needs of the retail investor.

COMMISSION DELEGATED REGULATION (EU) .../...

of 30.6.2016

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

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to 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)[1], and in particular Article 8(5), Article 10(2) and Article 13(5) thereof,

Whereas:

(1) Regulation (EU) No 1286/2014 introduces a new standardised key information document to improve the retail investor's understanding of packaged retail and insurance-based investment products (~~'~~‘PRIIPs~~'~~’) and the comparability of those products.

(2) In order to provide retail investors with key information that is easy to read, understand and compare, a common template should be established for the key information document.

(3) The identity and contact details mentioned in Article 8(3)(a) of Regulation (EU) No 1286/2014 should include the International Securities Identification Number or Unique Product Identifier for the PRIIP, where ~~this~~that identifier is available, in order to make it easier for the retail investor to find additional information about the PRIIP.

(4) In order to ensure that retail investors understand and compare the economic and legal features of the PRIIP, as well as to provide them with an appropriate overview of the investment policy and strategy of the PRIIP, the key information document should contain standardised information concerning the type of the PRIIP, its investment objectives and how they will be achieved and the key features or aspects of the product, such as the insurance coverage.

[1] Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (OJ L352, 9.12.2014, p.1).

(5) The information provided to retail investors should enable those investors to understand and compare the risks associated with investments in PRIIPs so that they can make informed investment decisions. The risks pertaining to a PRIIP can vary~~; the~~. The most important risks ~~can be classified as~~are market risk, credit risk and liquidity risk. In order for retail investors to fully understand those risks, information on the risks should be aggregated as far as possible and numerically presented as a single summary risk indicator with sufficient narrative explanations.

(6) When assessing credit risk, PRIIP manufacturers should~~ be able to~~ take into account certain factors that may mitigate~~ the~~ credit risk for a retail investor. In this respect, where assessing ~~that the~~whether assets of a PRIIP or appropriate collateral, or assets backing the payment obligations of a PRIIP, are at all times until maturity equivalent to the payment obligations of the PRIIP to its investors, ~~this~~such assessment should reflect that the assets held by an insurance undertaking ~~so as to~~ correspond at any time to the current amount that the insurance undertaking would have to pay to transfer its obligations in respect of the PRIIP to another insurance undertaking.

(7) ~~The ESAs recognise that currently ECAI~~Currently, ratings of External Credit Assessment Institutions (ECAIs) provide a consistent proxy for credit risk across different ~~EU~~Union sectors~~, although it is general Commission policy to reduce the~~. The reliance on credit ratings is, however, to be reduced wherever possible. ~~In view of this, and the importance of the objectivity, accuracy and comparability of~~Therefore, it is important that the summary risk indicator ~~foreseen in this Regulation, the summary risk indicator and the contribution to this of~~is objectively accurate and ensures comparability between different PRIIPs and that it is appropriately monitored with regard to market risk and credit risk~~ should be monitored~~, so that evidence on ~~their~~the effectiveness of the risk measurement in practice can be made available for the review of Regulation (EU) No 1286/2014 foreseen by 31 December ~~2018, This~~2018. The review should take into account the extent to which ECAI ratings in practice reflect the creditworthiness of the PRIIP manufacturer and ~~the~~ credit risk faced by investors in individual PRIIPs.

(8) Where there is a risk that the liquidity of a PRIIP might vary in light of the opportunities to exit the PRIIP early or to find a buyer on a secondary market, a specific warning should be provided. That warning should also include the circumstances under which there is a risk that pay outs from the PRIIP may be significantly different than expected for early exits, including through the application of exit penalties.

(9) ~~(8)~~ While estimates on returns from a PRIIP are difficult to produce and understand, information on such estimates are of primary interest for~~ the~~ retail investors and should be included in the key information document. Retail investors should be provided with clear information on return estimates that is consistent with realistic assumptions about possible outcomes~~,~~ and with the estimates of the PRIIPs~~'~~' level of market risk, presented in such a way so as to make clear the uncertainty of that information and the fact that better or worse outcomes are possible.

(10) ~~(9)~~ In order for ~~the~~ retail ~~investor~~investors to be able to appreciate the risk, the key information document should provide ~~the~~ retail ~~investor~~investors with information as to potential consequences where a PRIIP manufacturer is not able to pay out. The degree of protection of the retail investor in such cases under investment, insurance or deposit guarantee schemes should be clearly set out.

(11) ~~(10)~~ Information on costs is important for retail investors when comparing different PRIIPs, which can have different cost structures, and when considering how the cost structure of a particular PRIIP might apply to them, which depends on how long they are invested, how much they invest, and how well the PRIIP performs. For this reason, the key information document should contain information that allows the retail investor to compare the overall total cost levels between different PRIIPs when held for their recommended holding periods and shorter periods, and to understand how these costs might vary and evolve over time.

(12) ~~(11)~~ Consumer testing research has shown that retail investors can understand monetary figures more readily than percentages. Small differences in costs expressed in percentages may correlate with large differences in the costs borne by the retail investor when expressed in monetary terms. For this reason, the key information document should also provide the total costs for the recommended holding periods and shorter periods, both in monetary terms ~~as well as in percentages~~and as a percentage.

(13) ~~(12)~~ Given that the impact of different kinds of ~~costs~~cost on returns can vary ~~according to how long a retail investor keeps his investment in a PRIIP,~~ the key information document should also provide a breakdown of the different ~~costs that make up the total costs~~kinds of cost. The breakdown of costs should be expressed in standardised terms and as a percentage so that the amounts for different PRIIPs can be easily compared~~. So that they can be easily applied to different investment amounts than those used to calculate the total costs in monetary terms, the breakdown of costs should be expressed in percentage terms~~.

(14) ~~(13)~~ Retail investors may experience a change in personal circumstances where longer term investments unexpectedly need to be disinvested. Disinvestments due to market developments may also be necessary. Given the difficulties for retail investors to anticipate the degree of liquidity they may need in their investment portfolios as a whole, information on recommended holding periods and required minimum holding periods, and the possibility of partial or complete early exit, is particularly important ~~for them~~ and should be included in the key information document. For the same reasons, the availability and consequences of such early disinvestment should be made clear. Specifically, it should be clear whether such consequences are due to explicit fees, penalties or limitations on disinvestment rights, or to the fact that the value of the particular PRIIP to be disinvested is particularly sensitive to the timing of the disinvestment.

(15) ~~(14)~~ Given that the key information document is also likely to be used as a summary of the main features of the PRIIP by retail investors, it should contain clear information

on how a complaint might be lodged about the product or about the conduct of the PRIIP manufacturer or a person advising on, or selling, the product.

(16) ~~(15)~~ Some retail investors may wish to obtain further information on specific aspects of the PRIIP. The key information document should therefore include a clear and specific cross-reference to where further specific information can be found, where such information is to be included in the key information document pursuant to Regulation (EU) No 1286/2014. Where the PRIIP manufacturer is obliged to disclose certain other information according to national or Union law, the retail investor should be informed of this fact and of how to obtain those other documents, even if they are only to be provided on request. In view of ensuring that the key information document is as concise as possible, links to those other documents may be provided by means of a website, as long as their existence is made clear and they can be accessed by means of that website.

(17) ~~(16)~~ A key information document for a PRIIP that offers many underlying investment options cannot be provided in the same format as a key information document for another PRIIP, since each underlying investment option will have a specific risk, performance and cost profile, which prevents all necessary information to be provided in a single, concise stand-alone document. The underlying investment options may be investments in PRIIPs or other investments of a similar nature, or standardised portfolios of underlying investments. ~~Each of these~~Those underlying investment options ~~would~~can have~~, by its nature,~~ different risks, rewards and costs. Depending on the nature and number of underlying investment options, the PRIIP manufacturer should therefore, if he deems it appropriate, be able to prepare individual key information documents for each option~~, including information within these~~.

Those key information documents should also contain generic information about the PRIIP~~ in general~~.

(18) ~~(17)~~ Where ~~this is~~individual key information documents for each option are deemed not appropriate for ~~the~~ retail investors~~,~~ by the PRIIP manufacturer, he should provide the specific information about the underlying investment options and the generic information about the PRIIP, separately. To avoid confusion, the generic information about the PRIIP provided in the key information document should indicate the range of risks, performance and costs that can be expected across the different underlying investment options offered. In addition, the specific information on the underlying investment options should always reflect the features of the PRIIP through which ~~the PRIIP manufacturer is offering~~ the underlying investment options are offered. This specific information may be provided in different forms, for example in the form of single document setting out the necessary information on all the different underlying investment options, or through individual documents for each underlying investment option. Regardless of the form chosen, the specific information should always be consistent with the information that is contained in ~~a~~the key information document~~, for instance include consistent summary risk indicators and cost disclosures~~.

(19) ~~(18)~~ PRIIP manufacturers must prepare key information documents that are accurate, fair, clear and not misleading. The information contained in the document should be capable of being relied on by a retail investor when making an investment decision, even in the months and years following the initial preparation of the key information document, for those PRIIPs that remain available to retail investors~~,~~. Standards should therefore be laid down to ensure timely and appropriate review and revision of key information documents, so that ~~the key information~~those documents ~~provided to retail investors~~ remain accurate, fair~~,~~ and clear ~~and not misleading~~.

(20) ~~(19)~~ Data that is used for preparing the information contained in the key information document, such as data on costs, risks and performance scenarios, may change over time. Changing data can lead to changes in the information to be included, such as a change in the risk or costs indicators. For this reason, PRIIP manufacturers should ~~put in place~~establish periodic processes to review the information contained in the key information document. Those processes should include an assessment of whether changes in the data would necessitate a revision and republication of the document. The approach by PRIIP manufactures should reflect the extent to which the information to be included in the key information document changes, for instance for an exchange-traded derivative, such as a standardised future, call or put, there should be no necessity to continuously update the key information document as the information required for these instruments on their risks, rewards and costs would not fluctuate. Periodic reviews may not be sufficient in cases where the PRIIP manufacturer becomes aware or should have become aware of changes outside the periodic review process that may significantly impact the information contained in the key information document, such as changes to a previously disclosed PRIIP investment policy or strategy that would be significant for retail investors, or significant changes to the cost structure or risk profile. For this reason, PRIIP manufacturers should also be required to establish processes for identifying situations where the information contained in the key information document should be reviewed and revised on an ad hoc basis.

~~(20) Periodic reviews may not be sufficient in cases where the PRIIP manufacturer becomes aware or should have become aware of changes outside the periodic review process that may significantly impact the information contained in the key information document, such as changes to a previously disclosed PRIIP investment policy or strategy that would be significant for retail investors, or significant changes to the cost structure or risk profile. For this reason, PRIIP manufacturers should also be required to establish processes for identifying situations where the information contained in the key information document should be reviewed and revised on an *ad hoc* basis.~~

(21) Where a periodic or ad hoc review of a key information document identifies changes to the information that is required to be included in the document, or concludes that information contained in the key information document is no longer accurate, fair, clear and not misleading, the PRIIP manufacturer should be required to revise the key information document to take that changed information into account.

(22) Given that changes may be relevant for retail investors and their future allocation of investment assets, ~~the~~ retail investors should be able to easily locate the new key information document, which should therefore be published, and be clearly identifiable, on the website of the PRIIP manufacturer. Where ~~it is~~ possible ~~and the PRIIP manufacturer has access to the details of retail investors~~, the PRIIP manufacturer should inform ~~the~~ retail investors when the key investor documents have been revised, for example by means of mailing lists or email alerts.

(23) In order to ensure that the timing of the delivery of key information documents is approached in a consistent way across the Union, ~~the~~ PRIIP manufacturers should be required to provide the key information document in good time before those retail investors are bound by any contract or offer relating to that PRIIP.

(24) The key information document should be made available to ~~the~~ retail investors sufficiently prior to their investment decision, so that they are able to understand and take into account the relevant PRIIP information when making that decision. Since the investment decision is made prior to the commencement of any mandatory cooling off period, the key information document should be provided prior to such a cooling off period.

(25) While in all cases retail investors should receive the key information document in good time before they are bound by any contract or offer related to the PRIIP, what might be considered sufficient time for ~~the~~a retail investor to understand and take into account the information may vary, given that different retail investors have different needs, experience and knowledge. The person advising on, or selling, a PRIIP should therefore take into account such factors in relation to individual retail investors when ~~establishing~~determining the time that those retail investors will need to consider the contents of the key information document.

(26) In order to make an informed investment decision, a retail investor may need additional time to consider the key information document of a complex PRIIP or a PRIIP that is unknown to that investor. Accordingly, such factors should be taken into account when considering what amounts to the provision of the key information document in good time.

(27) The urgency of the situation, for instance where it is important for a retail investor to buy a PRIIP at a given price and the price is sensitive to the timing of the transaction, should also be considered when determining the extent of the good time criterion.

(28) For reasons of consistency and in order to ensure the smooth functioning of the financial markets, it is necessary that the provisions of this Regulation and the provisions laid down in Regulation (EU) No 1286/2014 apply from the same date.

(29) ~~(28)~~ This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority (the ~~'~~‘European Supervisory Authorities~~'~~’).

(30) ~~(29)~~ The European Supervisory Authorities have conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council[2], the Insurance and Reinsurance Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council [3], and the Securities and Markets Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council[4],

HAS ADOPTED THIS REGULATION:

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2 Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

3 Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

4 Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

CHAPTER I

Content and presentation of the key information document

Article 1

General information section

The section in the key information document that relates to the identity of the PRIIP manufacturer and its competent authority shall contain all of the following information:

(a) the name of the PRIIP assigned by the PRIIP manufacturer and, where present, the PRIIP´s International Securities Identification Number or Unique Product Identifier;

(b) the legal name of the PRIIP manufacturer;

(c) the PRIIP manufacturer~~'~~’s specific website address providing retail investors with information on how to get in contact with the PRIIP manufacturer, and a telephone number;

(d) the name of the competent authority responsible for the supervision of the PRIIP manufacturer in relation to the key information document;

(e) ~~either~~ the date of production or, where the key information document has been subsequently revised, the date of the latest revision of the key information document.

Article 2

~~'~~‘What is this product?~~'~~’ section

1. Information relating to the type of the PRIIP in the section entitled ~~'~~‘What is this product?~~'~~’ of the key information document shall describe its legal form.

2. Information stating the objectives of the PRIIP and the means for achieving those objectives in the section entitled ~~'~~‘What is this product?~~'~~’ of the key information document shall be summarised in a brief, clear and easily understandable manner. That information shall identify the main factors upon which return depends, the underlying investment assets or reference values, and how the return is determined, ~~and~~as well as the relationship between the PRIIP~~'~~’s return and that of the underlying investment assets or reference values. ~~Where relevant, including in the case of long term PRIIPs, the~~That information shall reflect the relationship between the recommended holding period and the risk and reward profile of the PRIIP.

   Where the number of assets or reference values referred to in the first subparagraph is such that specific references to all of them ~~are not possible in view of the length of the~~cannot be provided within a key information document,~~ the information may~~ only ~~identify~~the market segments or instrument types in respect of the underlying investment assets or reference values shall be identified.

3. The description of the type of retail investor to whom the PRIIP is intended to be marketed in the section entitled ~~'~~‘What is this product?~~'~~’ of the key information document shall include information on the target retail investors identified by the PRIIP manufacturer, in particular depending on the needs, characteristics and objectives of the type of client for whom the PRIIPs is compatible. This determination shall be based upon the ability of ~~the~~ retail investors to bear investment loss and their investment horizon preferences, their theoretical knowledge of, and past experience with PRIIPs, the financial markets as well as the needs, characteristics and objectives of potential end clients.

4. The details of insurance benefits in the section entitled ~~'~~‘What is this product?~~'~~’ of the key information document shall include, in a general summary, the key features of the insurance contract, ~~the~~a definition of each benefit included, and ~~example~~ information~~, which is consistent with the remainder of the key information document~~ which reflects the typical biometric characteristics of the target retail investors, showing the overall premium, the biometric risk premium that forms part of ~~this~~that overall premium and ~~the amount invested, in the case~~, where the premium is paid in the form of a single lump sum~~, and, in~~ the ~~case the where~~amount invested. Where the premium is paid ~~in a period form~~periodically, the number of periodic payments, an estimation of the average biometric risk premium as a percentage of the annual premium, and an estimation of the average amount invested shall be included in the information.

5. The information relating to the term of the PRIIP in the section entitled ~~'~~‘What is this product?~~'~~’ of the key information document shall include all of the following:

(a) the maturity date of the PRIIP or an indication that there is no maturity date;

(b) an indication of whether the PRIIP manufacturer is entitled to terminate the PRIIP unilaterally;

(c) a description of the circumstances under which the PRIIP can be automatically terminated, and the termination dates, if known.

Article 3

~~'~~‘What are the risks and what could I get in return?~~'~~’ section

1. In the section entitled ~~'~~‘What are the risks and what could I get in return?~~'~~’ of the key information document, PRIIP manufacturers shall apply the methodology for the presentation of risk as set out in Annex II, ~~shall~~ include the technical aspects for the presentation of the summary risk indicator as set out in Annex III and ~~shall~~ comply with the technical guidance, the formats and the methodology for the presentation of performance scenarios, as set out in Annexes IV and V.

2. In the section entitled ~~'~~‘What are the risks and what could I get in return?~~'~~’ of the key information document, PRIIP manufacturers shall include the following:

(a) the level of risk of the PRIIP in the form of a risk class by using a summary risk indicator having a numerical scale from 1 to 7;

(b) an explicit reference to any illiquid PRIIP or PRIIP with materially relevant liquidity risk, as defined in Part 4 of Annex II, in the form of a warning to this effect in the presentation of the summary risk indicator;

(c) a narrative below the summary risk indicator explaining ~~to the retail investor~~ that if a PRIIP is denominated in a currency other than the ~~applicable~~official currency ~~of the legal tender~~ of the Member State where the PRIIP is being marketed, the return ~~the retail investor gets~~, when expressed in the official currency of the Member State where the PRIIP is being marketed, may change depending on currency fluctuations;

(d) a brief description of the PRIIP´s risk and reward profile~~, where this is the case,~~ and a warning to the effect that the risk of the ~~product if not held to maturity or for the recommended holding period~~PRIIP may be significantly higher than the one represented in the summary risk indicator where the PRIIP is not held to maturity or for the recommended holding period, where this is the case;

(e) for PRIIPs with contractually agreed-upon early exit penalties or long disinvestment notice periods, a reference to the relevant underlying conditions in the section ~~'~~‘How long should I hold it and can I take money out early?~~'.~~’;

(f) an indication of the possible maximum loss, and information that the investment may be lost if it is not protected or ~~if~~where the PRIIP manufacturer is unable to pay out, or that necessary additional investment payments ~~may be required~~ to the initial investment may be required and that the total loss may significantly exceed the total initial investment.

3. PRIIP manufacturers shall include three appropriate performance scenarios, as set out in Annex V in the section entitled ~~'~~‘What are the risks and what could I get in return?~~'~~’ of the key information document. Those three performance scenarios shall represent an unfavourable scenario, a moderate scenario and a favourable scenario.

4. For PRIIPs where the PRIIP manufacturer considers that significant risks of loss are not adequately covered by the three appropriate performance scenarios, the PRIIP manufacturer may include an additional performance scenario in the section entitled ~~'~~‘What are the risks and what could I get in return?~~'~~’ of the key information document as set out in Annex IV.

5. For insurance-based investment products, an additional performance scenario shall be included in the section entitled ~~'~~‘What are the risks and what could I get in return?~~'~~’ of the key information document reflecting the insurance benefit the beneficiary receives where a covered ~~insurance~~insured event occurs.

6. For PRIIPs that are ~~exchange-traded derivatives that are~~ futures, call options and put options traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU)

600/~~2014, and as such do not fall within the definition of an OTC derivative as defined in Article 2(7) of Regulation (EU) 648/2012,~~2014[5], performance scenarios shall be included in the form of pay-off structure graphs as set out in Annex V in the section entitled ~~'~~‘What are the risks and what could I get in return?~~'~~’ of the key information document.

Article 4

~~'~~‘What happens if [the name of the PRIIP manufacturer] is unable to pay out?~~'~~’ section

~~PRIIPs manufacturer~~PRIIP manufacturers shall include the following in the section entitled ~~'~~‘What happens if [the name of the PRIIP manufacturer] is unable to pay out?~~'~~’ of the key information document:

(a) an indication whether the retail investor may face a financial loss due to the default of the PRIIP manufacturer or to the default of an entity other than the PRIIP manufacturer, and the identity of that entity;

(b) a clarification whether the loss referred to in point (a) is covered by an investor compensation or guarantee scheme, and whether there are any limitations or conditions to that cover.

Article 5

~~'~~‘What are the costs?~~'~~’ section

1. PRIIP manufacturers shall apply the following in the section entitled ~~'~~‘What are the costs?~~'~~’ of the key information document:

(a) the methodology for the calculation of costs set out in Annex VI;

(b) the ~~'~~‘Costs over time~~'~~’ and ~~'~~‘Composition of costs~~'~~’ tables to information on costs, as set out in Annex VII in accordance with the relevant technical guidance therein.

2. In the ~~'~~‘Costs over time~~'~~’ table in the section entitled ~~'~~‘What are the costs?~~'~~’ of the key information document, PRIIP manufacturers shall specify the summary cost indicator of the total aggregated costs of the PRIIP as a single number in monetary and percentage terms for the different time periods set out in Annex VI.

3. In the ~~'~~‘Composition of costs~~'~~’ table in the section entitled ~~'~~‘What are the costs?~~'~~’ of the key information document, PRIIP manufacturers shall specify the following:

(a) any one-off costs, as entry and exit costs, ~~and present them~~presented in percentage terms;

(b) any recurring costs, as portfolio transaction costs per year, insurance costs~~ –~~, where relevant, and other recurring costs per year, ~~and present them~~presented in percentage terms;

[5] OJ L 173, 12.6.2014, p. 84–148.

(c) any ~~relevant~~ incidental costs, such as performance fees or carried interest, ~~and present them~~presented in percentage terms.

4. PRIIP manufacturers shall insert a description of each of the different costs included in the ~~'~~‘Composition of costs~~'~~’ table in the section entitled ~~'~~‘What are the costs?~~'~~‘ of the key information document, specifying where and how such costs may differ from the actual costs the retail investor may incur~~, where the costs have been estimated in accordance with Annex VI, or where the specific level of certain costs~~ or may depend on the retail investor choosing to exercise or not exercise certain options. For insurance-based investment products, ~~the~~ PRIIP ~~manufacturer~~manufacturers shall insert ~~below the 'Composition of costs' table a narrative explaining~~an explanation of the impact of the insurance ~~benefits of~~premium payments for the product on the returns of the investment for the retail investor below the ‘Composition of costs’ table.

Article 6

~~'~~‘How long should I hold it and can I take my money out early?~~'~~’ section

1. PRIIP manufacturers shall include the following in the section entitled ~~'~~‘How long should I hold it and can I take my money out early?~~'~~’ of the key information document:

(a) a brief description of the reasons for the selection of the recommended ~~holding period and, where present,~~, or the minimum required ~~minimum~~, holding period;

(b) a description of the features of the disinvestment procedure and when disinvestment is possible, including an indication of the impact of cashing-in early on the risk or performance profile of the PRIIP, ~~including whether cashing-in early has an impact~~or on the applicability of capital guarantees;

(c) information about any fees and penalties which are incurred for disinvestments prior to maturity or any other specified date other than the recommended holding period, including a cross reference to the information on costs to be included in the key information document pursuant to Article ~~5, including~~5 and a clarification of the impact of such fees and penalties for different holding periods.

Article 7

~~'~~‘How can I complain?~~'~~’ section

PRIIP manufacturers shall provide the following information in the section entitled ~~'~~‘How can I complain?~~'~~’ of the key information document, in summary format:

(a) steps to be followed for lodging a complaint about the product or about the conduct of the PRIIP manufacturer or the person advising on, or selling, the product;

(b) a link to the relevant website for such complaints;

(c) an up-to-date postal address and an email address to which such complaints may be submitted.

Article 8

~~'~~‘Other relevant information~~'~~’ section

1. PRIIP manufacturers shall indicate in the section entitled ‘Other relevant information’ of the key information document any additional information documents that may be provided~~ in the section entitled 'Other relevant information' of the key information document~~, and whether such additional information documents are ~~mandatorily ~~made available ~~under Union or national law,~~based on a legal requirement or only ~~available ~~at the request of the retail investor.

2. The information included in the section entitled ~~'~~‘Other relevant information~~'~~’ of the key information document may be provided in summary format, including a link to the website where further details ~~to~~other than the documents referred to in paragraph 1 are made available.

Article 9

Template

PRIIP manufacturers shall present the key information document by means of the template laid down in Annex I~~, and complete it~~. The template shall be completed in accordance with the requirements set out in this Regulation and in Regulation (EU) No 1286/2014.

CHAPTER II

Specific provisions on the key information document

Article 10

PRIIPs offering a range of options for investment

Where a PRIIP offers a range of underlying investment options, and the information regarding those underlying investment options cannot be provided within a single, concise, stand-alone key information document, PRIIP manufacturers shall produce one of the following:

(a) a key information document for each underlying investment option within the PRIIP~~,~~ including information about the PRIIP ~~overall,~~ in accordance with Chapter I;

(b) a generic key information document describing the ~~overall~~ PRIIP in accordance with Chapter I, unless otherwise specified in Articles 11 to 14.

Article 11

~~'~~‘What is this product~~'~~’ section in the Generic key information document

In the section entitled ~~'~~‘What is this product~~'~~’, by way of derogation from paragraphs 2 and 3 of Article 2, PRIIP manufacturers shall specify the following:

(a) a description of the types of underlying investment options, including the market segments or instrument types, as well as the main factors upon which return depends;

(b) a statement indicating that the type of investors to whom the PRIIP is intended to be marketed varies on the basis of the underlying investment option;

(c) an indication where the specific information on each underlying investment option is to be found.

Article 12

~~'~~‘What are the risks and what could I get in return?~~'~~’ section in the Generic key information document

In the section entitled ~~'~~‘What are the risks and what could I get in return?~~'~~’, by way of derogation from paragraphs 2(a) and 3 of Article 3, PRIIP manufacturers shall specify the following:

(a) the range of risk classes of all underlying investment options offered within the PRIIP by using a summary risk indicator having a numerical scale from 1 to 7, as set out in Annex III~~;~~,

(b) a statement indicating that the risk and return of the investment varies on the basis of the underlying investment option;

(c) a brief description on how the performance of the PRIIP as a whole depends on the underlying investment options;

(d) an indication where the specific information on each underlying investment option is to be found.

Article 13

~~'~~‘What are the costs?~~'~~’ section in the Generic key information document

In the section entitled ~~'~~‘What are the costs?~~'~~’, by way of derogation from article 5(1)(b), PRIIP manufacturers shall specify the following:

(a) the range of costs for the PRIIP in the 'Costs over time' and 'Composition of costs' tables set out in Annex VII~~;~~,

(b) a statement indicating that the costs to the retail investor vary on the basis of the underlying investment option;

(c) an indication where the specific information on each underlying investment option is to be found.

Article 14

Specific information on each underlying investment option

In relation to the specific information referred to in Articles 11, 12 and 13, PRIIP manufacturers shall include for each underlying investment option – all of the following:

(a) a comprehension alert, where relevant;

(b) the investment objectives, the means for achieving them, and the intended target market in accordance with paragraphs 2 and 3 of Article 2;

(c) a summary risk indicator and narrative, and performance scenarios in accordance with Article 3;

(d) a presentation of the costs in accordance with Article 5.

CHAPTER III

Review and revision of the key information document

Article 15

Review

1. PRIIP manufacturers shall review the information contained in the key information document every time there is a change that significantly affects or is likely to ~~affect~~ significantly affect the information contained in the key information document and, at

least, every twelve months following the date of the initial publication of the key information document.

2. The review referred to in paragraph 1 shall verify whether the information contained in the key information document remains accurate, fair, clear, and non-misleading. In particular, it shall verify the following:

(a) whether the information contained in the key information document is~~/remains~~ compliant with the general form and content requirements under Regulation (EU) No 1286/2014, or with the specific form and content requirements laid down in this Regulation;

(b) whether the PRIIP´s market risk or credit risk measures have changed, where such a change has the combined effect that necessitates the PRIIP´s move to a different class of the summary risk indicator from that attributed in the key information document subject to review;

(c) whether the mean return for the PRIIP~~'~~’s moderate performance scenario, expressed as an annualised percentage return, has changed by more than five percentage points.

3. For the purposes of paragraph 1, PRIIP manufacturers shall establish and maintain adequate processes throughout the life of the PRIIP where it remains available to retail investors to identify without undue delay any circumstances which might result in a change that affects or is likely to affect the accuracy, fairness or clarity of the information contained in the key information document.

Article 16

Revision

1. PRIIP manufacturers shall without undue delay revise the key information document where a review pursuant to Article 15 concludes that changes to the key information document need to be made.

2. PRIIP manufacturers shall ensure that all sections of the key information document affected by such changes are updated.

3. The PRIIP manufacturer shall publish the revised key information document on its website.

CHAPTER IV

Delivery of the key information document

Article 17

Conditions on good time

1. The person advising on or selling~~,~~ a PRIIP shall provide the key information document sufficiently early so as to allow retail investors enough time to consider the document before being bound by any contract or offer relating to that PRIIP, ~~and disregarding~~regardless of whether or not the retail investor is provided with a cooling off period.~~ To this end, the person advising on or selling a PRIIP shall assess the time needed by each retail investor to consider the key information document, taking into account the following:~~

2. For the purposes of paragraph 1, the person advising on or selling a PRIIP shall assess the time needed by each retail investor to consider the key information document, taking into account the following:

(a) the knowledge and experience of the retail investor with the PRIIP or with PRIIPs of a similar nature or with risks similar to those arising from the PRIIP;

(b) the complexity of the PRIIP;

(c) where the advice or sale is at the initiative of the retail investor, the urgency explicitly expressed by the retail investor of concluding the proposed contract or offer.

Article 18

Final Provision

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

It shall apply from 31 December 2016.

This Regulation shall be binding in its entirety and directly applicable in all Member States.
Done at Brussels~~ ...~~, 30.6.2016

For the Commission
The President
Jean-Claude JUNCKER

EUROPEAN
COMMISSION

Brussels, 30.6.2016
C(2016) 3999 final

ANNEXES 1 TO 7

ANNEXES

to the

COMMISSION DELEGATED REGULATION (EU) .../...

of XXX

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

ANNEX I

TEMPLATE ~~OF~~FOR THE KEY INFORMATION DOCUMENT

PRIIP manufacturers shall comply with the section order and titles set out in the template, which however does not fix parameters regarding the length of individual sections and the placing of page breaks, and is subject to an overall maximum of three sides of A4-sized paper when printed.

Key Information Document

Purpose

This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

Product

[Name of Product] **[Name of PRIIP manufacturer]** [where applicable ISIN] [website for PRIIP manufacturer]Call [telephone number] for more information] [Competent Authority of the PRIIP Manufacturer in relation the PRIIP] [date of production of the KID]

[Alert (where applicable) **You are about to purchase a product that is not simple and may be difficult to understand]**

What is this product?

Type

Objectives

Intended retail investor

[Insurance benefits]

What are the risks and what could I get in return?

Risk Indicator	Description of the risk-reward profile Summary Risk Indicator SRI template and narratives as set out in Annex III, including on possible maximum loss: can I lose all invested capital? Do I bear the risk of incurring additional financial commitments or obligations? Is there capital protection against market risk?
Performance Scenarios	Performance Scenario templates and narratives as set out in Annex V including where applicable information on conditions for returns to retail investors or built-in performance caps, and statement that the tax legislation of the retail investor's home Member State may have an impact on actual payout

What happens if [PRIIP Manufacturer] is unable to pay out?

Information on whether there is a guarantee scheme, the name of the guarantor or investor compensation scheme operator, including the risks covered and those not covered.

What are the costs?

Costs over time Template and narratives according to Annex VII

Composition of Costs Template and narrativbes according to Annex VII

Narratives on information to be included on other distribution costs

How long should I hold it and can I take money out early?

Recommended [required minimum] holding period: [x]

Information on whether one can disinvest before maturity, the conditions on this, and applicable fees and penalties if any. Information on the consequences of cashing-in before the end of the term or before the end of the recommended holding period

How can I complain?

Other relevant information

ANNEX II

METHODOLOGY FOR THE PRESENTATION OF RISK

PART 1

Market risk assessment

Determination of the market risk measure (MRM)

1. Market risk is measured by the annualised volatility corresponding to the value-at-risk (VaR)~~ measured~~ at ~~the 97.5%~~a confidence level of 97.5% over the recommended holding period, unless stated otherwise. The VaR is the percentage of the amount ~~paid~~invested, that is returned to the retail investor.

2. The PRIIP shall be assigned a ~~market risk measure (~~MRM~~)~~ class according to the following table:

MRM class	**~~Annualised volatility (VEV)~~ VaR-equivalent volatility (VEV)**
1	< 0,5 %
2	0,5 % - 5,0 %
3	5,0 % - 12 %
4	12 % - 20 %
5	20 % - 30 %
6	30 % - 80 %
7	>80 %

Specification of PRIIP categories for the purposes of the market risk assessment

3. For the purposes of determining market risk, PRIIPs are divided into four categories.

4. Category 1 covers the following:

(a) PRIIPs where investors could lose more than the amount they invested;

(b) PRIIPs that fall within one of the categories referred to in ~~[~~items 4 to 10 of Section C of Annex I to Directive 2014/65/EU of the European Parliament and of the Council~~ and similar instruments issued as transferable securities]~~[1];

(c) PRIIPs or ~~the underlyings of these having prices~~underlying investments of PRIIPs which are priced on a less regular basis than monthly, or which do not have an appropriate benchmark or proxy, or whose appropriate benchmark or proxy ~~has prices~~is priced on a less regular basis than monthly.

[1] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (OJ L 173, 12.6.2014, p. 349).

5. Category 2 covers PRIIPs~~,~~ which, either directly or on a synthetic basis, offer non-leveraged exposure to the prices of underlying investments, or a leveraged exposure on underlying investments that pays a constant multiple of the prices of ~~these~~those underlying investments, where at least 2 years of historical daily prices, or 4 years of historical weekly prices, or 5 years of monthly prices are available for the PRIIP, or where existing appropriate benchmarks or proxies are available, provided that such benchmarks or proxies ~~have prices which are as regular as such prices referred to above~~fulfil the same criteria for the length and frequency of the price history.

6. Category 3 covers PRIIPs whose values reflect the prices of underlying investments, but not as a constant multiple of the prices of ~~these~~those underlying investments, where at least 2 years of daily prices of the underlying assets, 4 years of weekly prices or 5 years of monthly prices, or where existing appropriate benchmarks or proxies are available, provided that such benchmarks or proxies ~~have prices which are as regular as such prices referred to above~~fulfil the same criteria for the length and frequency of the price history.

7. Category 4 covers ~~any PRIIP~~PRIIPs whose ~~value depends~~values depend in part on factors not observed in the market~~. This includes~~, including insurance-based PRIIPs which distribute ~~to retail investors~~ a portion of the PRIIP manufacturer~~'~~’s profits to retail investors.

Use of appropriate benchmarks or proxies

Where appropriate benchmarks or proxies are used by a PRIIP manufacturer, ~~these~~those benchmarks or proxies shall be representative of the assets or exposures that determine the performance of the PRIIP. The PRIIP manufacturer ~~will~~shall document the use of such benchmarks or proxies.

MRM class determination for category 1 PRIIPs

8. The MRM class for category 1 PRIIPs shall be 7, with the exception of ~~those~~PRIIPs referred to in point 4 (c) of this Annex, where the MRM class shall be 6.

MRM class determination for category 2 PRIIPs

9. The VaR shall be calculated from the moments of the observed distribution of returns of the PRIIP~~'~~’s or its benchmark or proxy~~'~~’s price during the past 5 years. The minimum frequency of observations is monthly. ~~When~~Where prices are available on a daily basis, the frequency shall be daily~~; when~~. Where prices are available on a weekly basis, the frequency shall be weekly~~; when~~. Where prices are available on a bi-monthly basis, the frequency shall be bi-monthly.

10. ~~When 5 years of~~Where data on daily prices ~~is~~covering a period of 5 years are not available, a shorter period may be used. For daily observations of a PRIIP~~'~~’s or its benchmark or proxy~~'~~’s price, there shall be at least 2 years of observed returns. For weekly observations of a PRIIP~~'~~’s price, there shall be at least 4 years of observed data.

For monthly observations of a PRIIP~~'~~'s price, there shall be observed data covering a period of at least 5 years~~ of observed data~~.

11. The return over each period is defined as the natural logarithm of the ratio of the price at the market close at the end of the current period to the market close at the end of the preceding period.

12. The VaR measure in return space is given by the Cornish-Fisher expansion, as follows:

$$\mathrm{VaR}_{\mathrm{RETURN\ SPACE}} = \sigma\sqrt{N} * \left(-1{,}96 + 0{,}474 * \mu_1/\sqrt{N} - 0{,}0687 * \mu_2/N + 0{,}146 * \mu_1^2/N\right) - 0{,}5\sigma^2 N$$

where N is the number of trading periods in the recommended holding period; and σ, μ_1, μ_2 are respectively the volatility, skew and excess kurtosis measured from the return distribution. The volatility, skew and excess kurtosis are calculated from the measured moments of the distribution of returns in accordance with the following:

- the zero moment, M_0, is the count of the number of observations in the period as under point 10 of this Annex.
- the first moment, M_1, is the mean of all the observed returns in the sample
- the second (M_2), third (M_3) and fourth (M_4) moments are defined in the standard manner:

$$M_2 = \sum_i (r_i - M_1)^2/M_0;$$

$$M_3 = \sum_i (r_i - M_1)^3/M_0;$$

$$M_4 = \sum_i (r_i - M_1)^4/M_0;$$

where ri is the return measured on the ith period in the history of returns.

- the volatility, σ, is given by $\sqrt{M_2}$.
- the skew, μ_1, is equal to M_3/σ^3.
- the excess kurtosis, μ_2, is equal to $M_4/\sigma^4 - 3$.

13. The~~ VaR-equivalent volatility~~ (VEV) is given by:

$$\mathrm{VEV} = \left\{\sqrt{(3{,}842 - 2 * \mathrm{VaR}_{\mathrm{RETURN\ SPACE}})} - 1.96\right\}/\sqrt{T}$$

where T is the length of the recommended holding period in years.

14. For PRIIPs that are managed according to investment policies ~~and~~/or strategies that pursue certain reward objectives by participating through flexible investment in different financial asset classes (e.g. in both equity and fixed-income markets), the VEV that shall be used shall be determined as follows:

(a) ~~Where~~where there has been no revision of the investment policy over the period ~~under point 10, take the maximum of:~~referred to in point 10 of this Annex, the VEV that shall be used is the highest of the following VEVs

(i) the ~~actual~~ VEV computed ~~according to~~in accordance with points 9~~-~~ to13;

(ii) the VEV of ~~th e~~the returns of the pro-forma asset mix that is consistent with the reference asset allocation of the fund at the time of the computation;

(iii) the VEV which is consistent with the risk limit of the fund, if any and appropriate.

(b) ~~Where~~where investment policy has been revised ~~over~~during the period ~~under point 10, take the maximum of~~ referred to in point 10 of this Annex, the VEV that shall be used is the highest of the VEVs referred to in point (a)(ii) and (iii) ~~above~~.

15. The PRIIP shall be assigned to a MRM class as laid down under point 2 of this Annex depending on the VEV. In the case of a PRIIP having only monthly price data, the MRM class ~~obtained~~assigned under point 2 of this Annex shall be increased by one additional class.

MRM class determination for Category 3 PRIIPs

16. The VaR in price space shall be calculated from a distribution of PRIIP values at the end of the recommended holding period. The distribution shall be obtained by simulating the price or prices, which determine the value of the PRIIP, ~~to~~at the end of the recommended holding period. The VaR shall be the value of the PRIIP at ~~the 97.5%~~a confidence level ~~at~~of 97.5% at the end of the recommended holding period discounted to the present date using the expected risk-free discount factor from the present date to the end of the recommended holding period.

17. The ~~VaR-equivalent volatility (~~VEV~~)~~ is given by:

$$VEV = \left\{\sqrt{\left(3{,}842 - 2 * \ln(VaR_{\text{PRICE SPACE}})\right)} - 1{,}96\right\} / \sqrt{T}$$

where T is the length of the recommended holding period in years. Only in cases where the product is called or cancelled before the end of the recommended holding period according to the simulation, the period in years until the call or cancellation is used in the calculation.

18. The PRIIP shall be assigned to a MRM class as laid down in point ~~2,~~2 of this Annex, depending on ~~this~~the VEV. In the case of a PRIIP having only monthly price data, the MRM class ~~obtained~~assigned under point 2 of this Annex shall be increased by one additional class.

19. The minimum number of simulations is ~~10,000.~~10 000.

20. The simulation is based on bootstrapping the expected distribution of prices or price levels for the PRIIP~~'~~’s underlying contracts from the observed distribution of returns for these contracts with replacement.

21. For the purposes of the simulation~~,~~ referred to in points 16 to 20, there are two types of market observables that may contribute to a PRIIP~~'~~’s value: spot prices (or price levels) and curves.

22. For each simulation of a spot price (or level), the PRIIP manufacturer shall:

(a) calculate the return for each observed period in the past 5 years, or the years ~~as set out under~~referred to in point ~~6,~~6 of this Annex, by taking the logarithm of the price at the end of each period divided by the price at the end of the previous period;

(b) randomly select one observed period which ~~identifies~~corresponds to the return for all underlying contracts for each simulated period in the recommended holding period (the same observed period may be used more than once in the same simulation);

(c) calculate the return for each contract by summing the returns from the selected periods and correcting this return to ensure that the expected return measured from the simulated distribution of returns is the risk-neutral expectation of the return over the recommended holding period. The final value of the return is given by:

$$\text{Return} = E[\text{Return}_{\text{risk-neutral}}] - E[\text{Return}_{\text{measured}}] - 0.5\sigma^2 N - \rho\sigma\sigma_{ccy}N$$

Where:

- ~~• The~~the second term corrects for the impact of the mean of the observed returns;
- ~~• The~~the third term corrects for the impact of the variance of the observed returns;
- ~~• The~~the last term corrects for the quanto impact if the strike currency is different from the asset currency. The terms contributing to the correction are as follows:
  - ρ is the correlation between the asset price and the relevant Fx rate – measured over the recommended holding period;
  - σ is the measured volatility of the asset;
  - σ_{ccy} is the measured volatility of the Fx rate.

(d) ~~Calculate~~calculate the price of each underlying contract by taking the exponential of the return.

23. For curves, a principal component analysis (PCA) shall be performed to ensure that the simulation of the movements of each point on the curve over a long period results in a consistent curve.

(a) The PCA is performed by:

(i) collecting the historical record of tenor points that define the curve for each trading period over the past 5 years, or the years ~~as set out under~~referred to in point 6 of this Annex;

(ii) ensuring that each tenor point is positive~~;~~ - where there is a negative tenor point, all tenor points shall be shifted by the minimum whole number or percentage to ensure positive values for all tenor points;

(iii) calculating the return over each period for each tenor point by taking the natural logarithm of the ratio between the price/level at the end of each observed period and the price/level at the end of the preceding period;

(iv) correcting the returns observed at each tenor point so that the resulting set of returns at each tenor point has a zero mean;

(v) calculating the covariance matrix between the different tenors by summing over returns;

(vi) ~~calculate~~calculating the eigenvectors and eigenvalues of the covariance matrix.

(vii) selecting the eigenvectors that correspond to the three largest eigenvalues.

(viii) forming a matrix with 3 columns where the first column is the eigenvector with the largest eigenvalue; the middle column is the eigenvector with the second-largest eigenvalue and the last column is the eigenvector with the third-largest eigenvalue.

(ix) projecting the returns onto the 3 ~~principle~~principal eigenvectors calculated in the previous step by multiplying the NxM matrix of returns obtained in ~~sub-~~point (iv) by the Mx3 matrix of eigenvectors obtained in ~~sub-~~point (viii).

(x) calculating the matrix of returns to be used in the simulation by multiplying the results in ~~sub-~~point (ix) with the transpose of the matrix of eigenvectors obtained in ~~sub-~~point (viii). This is the set of values to be used in the simulation.

(b) The curve simulation is performed as follows~~.~~:

(i) ~~The~~the time step in the simulation is one period. For each observation period in the recommended holding period select a row at random~~ row~~ from the calculated matrix of returns. The return for each tenor point, T, is the sum over the selected rows of the column corresponding to tenor point, T.

(ii) ~~The~~the simulated rate for each tenor point T, is the current rate at tenor point T:

- multiplied by the exponential of the simulated return,
- adjusted for any shifts used to ensure positive values for all tenor point, and
- adjusted so that the expected mean matches current expectations for the rate at tenor point T, at the end of the recommended holding period.

24. For PRIIPS in Category 3 that are characterized by an unconditional protection of capital, the PRIIP manufacturer may assume that the VaR ~~with~~at a ~~97,5%~~ confidence level of 97,5% is equal to the level of the unconditional capital protection at the end of the recommended holding period, discounted to the present date using the expected risk-free discount factor.

MRM class determination for Category 4 PRIIPs

25. Where the PRIIP performance depends on a factor or factors unobserved in the market or to some extent under the control of the PRIIP manufacturer, or this is the case for a component of the PRIIP, the PRIIP manufacturer shall follow the method in this section to account for this factor or factors.

26. The different components of the PRIIP that contribute to the performance of the PRIIP shall be identified, in order for those components that are not wholly or partly dependent on a factor or factors that are unobserved in the market to be treated according to the relevant methods set out in this Annex for Category 1, 2 or 3 PRIIPs. For each of these components a ~~VaR-equivalent volatility~~VEV shall be calculated.

27. The component of the PRIIP that ~~depend~~depends wholly or partly on a factor or factors that are unobserved in the market shall follow robust and well recognised industry and regulatory standards for determining relevant expectations as to the future contribution of these factors and the uncertainty that may exist in respect of ~~this~~that contribution. Where the component is not wholly dependent on a factor that is unobserved in the market, a bootstrap methodology shall be used to account for the market factors, as set out for Category 3 PRIIPs. The ~~VaR-equivalent volatility~~VEV for the component of the PRIIP shall ~~thereby be estimated~~be the result of the combination of the bootstrap methodology and robust and well recognised industry and regulatory standards for determining relevant expectations as to the future contribution of these factors that are unobserved in the market.

28. The ~~VaR-equivalent volatility~~VEV of each component of the PRIIP shall be weighted proportionally in order to arrive at an overall ~~VaR-equivalent volatility~~VEV of the PRIIP. When weighing the components, product features shall be taken into account. Where relevant, product algorithms mitigating the market risk as well as specificities of the with-profit component shall be considered.

29. For ~~PRIIPS in~~ Category 4 PRIIPs that are characterized by an unconditional protection of capital, the PRIIP manufacturer may assume that VaR ~~with~~at a ~~97,5%~~ confidence level of 97,5% is equal to the level of unconditional capital protection at the recommended holding period, discounted to the present date using the expected risk-free discount factor.

PART 2

Methodology for assessing credit risk

I. General requirements

30. A PRIIP or its underlying investments or exposures shall be taken to entail credit risk where the return of the PRIIP or its underlying investments or exposures depends on the creditworthiness of a manufacturer or party bound to make, directly or indirectly, relevant payments to the investor. A PRIIP with a MRM of 7 ~~shall~~is not ~~need~~required to assess credit risk.

31. Where an entity directly engages to make a payment to a retail investor for a PRIIP, credit risk shall be assessed for the entity that is the direct obligor.

32. If all payment obligations of an obligor or one or more indirect obligors are unconditionally and irrevocably guaranteed by another entity (the guarantor), the credit risk assessment of the guarantor can be used if it is more favourable than the credit risk assessment of the respective obligor or obligors.

33. ~~Where a PRIIP invests in or is~~For PRIIPs which are exposed to underlying investments or techniques, including PRIIPs which themselves entail credit risk or in turn make underlying investments that entail credit risk, the credit risk shall be assessed in relation to the credit risk entailed both by the PRIIP itself and the underlying investments or exposures (including exposures to other PRIIPs), on a look-through basis and adopting a cascade assessment ~~as~~where necessary.

34. Where the credit risk is entailed solely at the level of underlying investments or exposures (including to other PRIIPs), the credit risk shall not be assessed at the level of the PRIIP itself but instead at the level of these underlying investments or exposures on a look-through basis. Where the PRIIP is ~~a UCITS or AIF~~an Undertaking for Collective Investment in Transferable Securities (UCITS) or an Alternative Investment Fund (AIF), the UCITS or AIF itself shall be taken to entail no credit risk, whereas the underlying investments or exposures of the UCITS or AIF shall be assessed ~~as~~where necessary.

35. Where a PRIIP is exposed to multiple underlying investments entailing a credit risk exposure, the credit risk entailed by each underlying investment representing an exposure of 10 % or more of the total assets or value of the PRIIP shall be separately assessed.

36. Underlying investments or exposures to exchange-traded derivatives or cleared OTC derivatives shall be assumed for the purposes of the credit risk assessment to carry no credit risk. No credit risk shall be taken to be entailed where an exposure is fully and appropriately collateralised, or where uncollateralised exposures that entail credit risk amount to less than 10 % of the total assets or value of the PRIIP.

II. Credit risk assessment

Credit assessment of obligors

37. Where available, a PRIIP manufacturer shall define ex-ante one or more external credit assessment institutions (ECAI) certified or registered with ~~ESMA~~the European Securities and Markets Authority (ESMA) in accordance with Regulation (EC) No 1060/2009 of the European Parliament and the Council[2] whose credit assessments will consistently be referred to for the purpose of the credit risk assessment. Where multiple credit assessments are available according to that policy, the median rating shall be used, defaulting to the lower of the two middle values ~~for~~in case of an even number of assessments.

38. The level of credit risk of the PRIIP and each relevant obligor shall be assessed on the basis of, as applicable:

(a) the credit assessment assigned to the PRIIP by an ECAI;

(b) the credit assessment assigned to the relevant obligor by an ECAI;

(c) ~~or,~~ in the absence of a credit assessment under either (a) or (b) or both, a default credit assessment as set out in point ~~43.~~43 of this Annex.

Allocation of credit assessments to credit quality steps

39. The allocation of credit assessments of ECAIs to an objective scale of credit quality steps shall be based on ~~the allocation set out in~~ Commission Implementing Regulation ~~(EU) No .../... laying down implementing technical standards with regard to the allocation of external credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC~~adopted under Article 109a(1) of Directive 2009/138/EC of the European Parliament and of the Council[3].

[2] Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ L 302, 17.11.2009, p. 1).

[3] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009, p. 1–155).

40. In the case of credit risks assessed on a look-through basis, the credit quality step assigned shall correspond to the weighted average credit quality steps of each relevant obligor for which a credit assessment needs to be undertaken, in proportion ~~of~~to the total assets they respectively represent.

41. In the case of credit risks assessed on a cascade basis, all credit risk exposures shall be separately assessed, per layer, and the credit quality step assigned shall be the highest credit quality step, being understood that between a credit quality step set at 1 and a credit quality step set at 3, the higher of the two is 3.

42. The credit quality step pursuant to point ~~38, including pursuant to point 43,~~38 of this Annex shall be adjusted ~~according~~ to the maturity or ~~RHP~~recommended holding period of the PRIIP, according to the following table, except where a credit assessment has been assigned that reflects ~~the~~that maturity or ~~RHP of the PRIIP~~recommended holding period) :

Credit quality step pursuant to point 38 of this Annex	Adjusted credit quality step, in the case where the maturity of the PRIIP, or its ~~RHP when~~ recommended holding period where a PRIIP does not have a maturity, is up to one year	Adjusted credit quality step, in the case where the maturity of the PRIIP, or its ~~RHP when~~ recommended holding period where a PRIIP does not have a maturity, ranges from one year up to twelve years	Adjusted credit quality step, in the case where the maturity of the PRIIP, or its ~~RHP when~~ recommended holding period where a PRIIP does not have a maturity, exceeds twelve years
0	0	0	0
1	1	1	1
2	1	2	2
3	2	3	3
4	3	4	5
5	4	5	6
6	6	6	6

43. If the obligor has no external credit assessments, the default credit assessment as referred to in point 38 of this Annex shall be:

(a) credit quality step 3, if the obligor is regulated as a credit institution or an insurance undertaking under the applicable ~~European regulation~~Union law or regulation deemed equivalent under Union law and if the rating of the Member State where the obligor is domiciled would be~~ allocated according to these articles to~~ credit quality step 3;

(b) credit quality step 5, for any other obligor.

III. Credit risk measure

44. A PRIIP shall be allocated to a credit risk measure (CRM) on a scale ranging from 1 to 6, on the basis of the mapping table laid down in point 45, of this Annex and by applying the credit risk mitigating factors under points 46, 47, 48 and ~~49,~~49 of this Annex, or the credit risk escalating factors under points 50 and ~~51,~~51 of this Annex, as appropriate.

45. Table on the mapping ~~of credit~~ of credit quality steps into a CRM ~~is as follows~~:

Adjusted credit quality step	**Credit risk measure**
0	1
1	1
2	2
3	3
4	4
5	5
6	6

46. The CRM may be assigned as 1 where the assets of a PRIIP or appropriate collateral, or assets backing the payment obligation of the PRIIP, are:

(a) at all times until maturity equivalent to the payment obligations of the PRIIP to its investors;

(b) held with a third party on a segregated account under equivalent terms and conditions as those laid down in Directive 2011/61/EU[4] of the European Parliament and of the Council or Directive 2014/91/EU[5]; and

(c) not, under any circumstances, accessible to any other creditors of the manufacturer under applicable law.

47. The CRM may be assigned as 2 where the assets of a PRIIP or appropriate collateral, or assets backing the payment obligation of the PRIIP, are:

[4] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (OJ L 174, 1.7.2011, p. 1).

[5] Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions (OJ L 257, 28.8.2014, p. 186).

(a) at all times until maturity equivalent to the payment obligations of the PRIIP to its investors;

(b) identified and held on accounts or registers, based on applicable law, including ~~pursuant to~~ Articles 275 and 276 of ~~Solvency II~~Directive 2009/138/EC of the European Parliament and of the Council[6] ; and

(c) ~~held~~ such that the claims of retail investors have priority over the claims of other creditors of the PRIIP manufacturer or party bound to make, directly or indirectly, relevant payments to the investor.

48. Where credit risk is to be assessed on a look-through or cascade basis, the mitigation factors under point 46 and 47 of this Annex may also be applied when assessing credit risk in relation to each underlying obligor.

49. Where a PRIIP is not able to satisfy the criteria under point ~~47,~~47 of this Annex, the CRM pursuant to point 45 of this Annex may be reduced by one class where the claims of retail investors have priority over the claims of ordinary creditors, as set out in Article 108 of Directive 2014/59/EU, of the PRIIP manufacturer or party bound to make, directly or indirectly, relevant payments to the investor, in so far as the obligor is subject to relevant prudential requirements in respect of ensuring an appropriate matching of assets and liabilities.

50. The CRM pursuant to point 45 of this Annex shall be increased by two classes where the claim of a retail investor is ~~subordinated~~subordinate to the claims of senior creditors.

51. The CRM pursuant to point 45 of this Annex shall be increased by three classes where a PRIIP is part of the own funds of the PRIIP obligor, as defined in ~~article~~Article 4 (1) (118) of Regulation 575/2013 ~~or article~~of the European Parliament and of the Council[7] or in Article 93 of Directive 2009/138/EU.

PART 3

Aggregation of market and credit risk into the summary risk indicator

52. The overall summary risk indicator (SRI) is assigned according to the combination of the CRM and the MRM classes, in accordance with the following table ~~below.~~:

MRM class

CRM class	MR1	MR2	MR3	MR4	MR5	MR6	MR7
CR1	1	2	3	4	5	6	7
CR2	1	2	3	4	5	6	7

[6] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009, p. 1).

[7] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

CR3	3	3	3	4	5	6	7
CR4	5	5	5	5	5	6	7
CR5	5	5	5	5	5	6	7
CR6	6	6	6	6	6	6	7

Monitoring data with relevance for the summary risk indicator

53. The PRIIP manufacturer shall monitor market data relevant to the calculation of the MRM class and, if the MRM class changes to a different MRM class, the PRIIP manufacturer shall attribute the corresponding MRM class to the MRM class which the PRIIP has matched for the majority of the reference points over the preceding four months.

54. The PRIIP manufacturer shall also monitor credit risk criteria relevant to the calculation of the CRM and, if according to these criteria the CRM ~~changes~~would change to a different CRM class, the PRIIP shall re-attribute the CRM to the relevant CRM class.

55. A review of the MRM class shall always be carried out following a decision by the PRIIP manufacturer in respect of the PRIIP´s investment policy and/or strategy. In those circumstances, any changes to the MRM shall be ~~intended~~understood as a new determination of the PRIIP´s MRM class, and consequently, be carried out according to the general rules concerning the determination of an MRM class for the PRIIP category.

PART 4

Liquidity risk

56. A PRIIP shall be considered as having a materially relevant liquidity risk ~~according to~~where either of the following criteria are fulfilled:

(a) the PRIIP is admitted to trading on a secondary market or alternative liquidity facility and there is no committed liquidity offered by market makers ~~and/~~or the PRIIP manufacturer, so that the liquidity depends only on the availability of buyers and sellers on the secondary market or alternative liquidity facility, taking into account that regular trading of a product at one point in time does not guarantee the regular trading of the same product at any other point in time;~~ or~~

(b) the average liquidity profile of the underlying investments is significantly lower than the regular reimbursement frequency for the PRIIP, when and to the extent liquidity offered by the PRIIP is conditional to the liquidation of its underlying assets~~.~~;

(c) the PRIIP manufacturer estimates that the retail investor may face significant difficulties in terms of time ~~and/~~or costs for disinvesting during the life of the product, subject to specific market conditions.

57. A PRIIP shall be considered illiquid, whether contractually or not, ~~according to~~if either of the following criteria are fulfilled:

(a) the PRIIP is not admitted to trading on a secondary market, and no alternative liquidity facility is promoted by the PRIIP manufacturer or a third party, or the alternative liquidity facility is subject to significant limiting conditions, including significant early exit penalties or discretionary redemption prices, or where there is an absence of liquidity arrangements;

(b) the PRIIP offers potential early exit or redemption possibilities prior to the applicable maturity, but these are subject to significant limiting conditions, including significant exist penalties or discretionary redemption prices, or ~~being subject~~ to the prior consent and discretion of the PRIIP manufacturer;

(c) the PRIIP does not offer potential early exit or redemption possibilities prior to the applicable maturity.

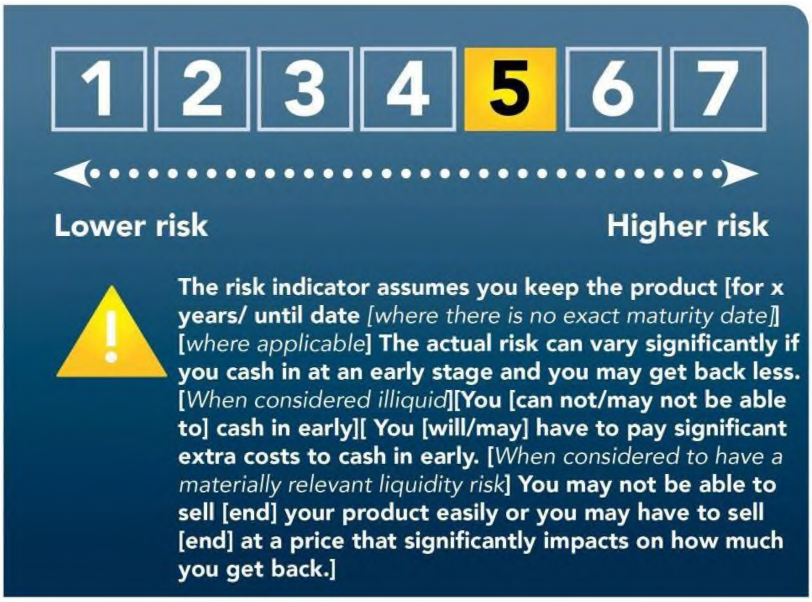
58. A PRIIP shall be considered liquid in all other cases.

ANNEX III

PRESENTATION OF ~~SUMMARY RISK INDICATOR~~SRI

Presentation format

1. PRIIP manufacturers shall use the format below for the presentation of the ~~Summary Risk Indicator (~~SRI~~)~~ in the key information document. The relevant number shall be highlighted as shown depending on the SRI for the PRIIP.



Completion guidance with regard to the SRI

2. The narrative explanation after the SRI shall briefly ~~explains~~explain the purpose of the SRI and the underlying risks.

3. Immediately below the ~~indicator~~SRI, the time frame of the recommended holding period ~~is~~shall be indicated. In addition, a warning shall be included directly below the ~~indicator;~~SRI in the following cases:

   (a) ~~When~~where the risk of the PRIIP is considered to be significantly higher if the holding period is different~~.~~;

   (b) ~~When~~where a PRIIP is considered to have a materially relevant liquidity risk or to be illiquid, ~~depending on~~ whether this is contractual in nature or not .

4. As applicable for each PRIIP, the narrative explanation ~~includes~~shall include:

   (a) a warning in bold font where:

      (i) a PRIIP is considered to have currency risk ~~under Part 6 of Annex II~~as referred to in Article 3 (2) (c) of this Regulation (Element C);

(ii) a ~~clarification that the~~ PRIIP holds a possible obligation to add to the initial investment, (Element D);

(b) ~~Where~~where applicable, ~~the narrative~~an explanation ~~below needs to explain~~of risks materially relevant to the PRIIP which could not be adequately captured by the SRI (Element E);

(c) ~~A~~a clarification:

(i) that the PRIIP holds a (partial) capital protection against market risk where relevant, including a specification of the percentage of the invested capital that is protected (Element F);

(ii) of the specific conditions of the limitations where the (partial) capital protection against market risk is limited (Element G);

(iii) that the PRIIP holds no capital protection against market risk, where relevant (Element H);

(iv) that the PRIIP holds no capital guarantee against credit risk, where relevant (Element I);~~ and~~

(v) of the specific conditions of the limitations where the protection against credit risk is limited (Element J).

5. For ~~exchange-traded~~PRIIPs offering a range of options for investment, PRIIP manufacturers shall use the format referred to point (1) of this Annex for the presentation of the SRI, indicating all of the risk classes offered from the lowest risk class to the highest risk class.

6. For derivatives that are futures, call options and put options traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) 600/2014, ~~and as such do not fall within the definition of an OTC derivative as defined in Article 2(7) of Regulation (EU) 648/2012,~~ Elements A, B, and, where relevant, H, shall be included.

Narrative explanations

7. ~~6.~~ For the purposes of the SRI presentation, including point ~~4,~~4 of this Annex, the following narrative explanations shall be used, as appropriate:

[Element A] The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you.

[Element B] We have classified this product as [1/2/3/4/5/6/7] out of 7, which is [1=”the lowest” / 2=“a low” / 3=“a medium-low” / 4=“a medium” / 5=“a medium-high” / 6=“the second-highest” / 7=”the highest“] risk class.

[In addition, *insert a brief explanation of the classification of the product with a maximum of 300 characters in plain language*]

[An example explanation: This rates the potential losses from future performance at a [1=”very low”/2=”low”/3=”medium-low”/4=”medium”/5=”medium-high”/6=”high”/7=”very high”] level, and poor market conditions [1, 2= “are very unlikely to”/3=”are unlikely to”/4=“could”/5=“will likely”/6=”are very likely to”] impact [our] [the] capacity [of X] to pay you].

[[Where applicable:] Element C, in bold] Be aware of currency risk. You will receive payments in a different currency, so the final return you will get depend on the exchange rate between the two currencies. This risk is not considered in the indicator shown above.

[[Where applicable:] Element D] In some circumstances you may be required to make further payments to pay for losses. (in bold) **The total loss you may incur may significantly exceed the amount invested**.

[Where applicable:] [Element E] [Other risks materially relevant to the PRIIP not included in the summary risk indicator to be explained with a maximum of 200 characters]

[Where applicable:] [Element F] [You are entitled to receive back at least [insert %] of your capital. Any amount over this, and any additional return, depends on future market performance and is uncertain.]

[Where applicable:] [Element G] [However, this protection against future market performance will not apply if you [..]

- [Where early exit conditions apply] cash-in before [... years/months/days]]
- [Where ongoing payments must be made] fail to make your payments in time.
- [Where other limitations apply: explain these in a maximum of [...] characters in plain language.]

[Where applicable:] [Element H] [This product does not include any protection from future market performance so you could lose some or all of your investment.]

[Where applicable:] [Element I] [If (we) (are) not able to pay you what is owed, you could lose your entire investment.]

[Where applicable:] [Element J] [However, you may benefit from a consumer protection scheme (see the section “what happens if we are unable to pay you”). The indicator shown above does not consider this protection.]

ANNEX IV

PERFORMANCE SCENARIOS

Number of scenarios

1. The three performance scenarios under this Regulation~~, are to~~ which shall show a range of possible returns~~ and~~, shall be ~~as follows~~the following:

   (a) ~~An~~an unfavourable scenario;

   (b) ~~A~~a moderate scenario;~~ and~~

   (c) ~~A~~a favourable scenario.

2. An additional scenario shall set out significant unfavourable impacts of the product where ~~these~~those impacts would not be adequately covered in the unfavourable scenario referred to in ~~accordance with~~ point ~~1.~~1(a) of this Annex. The additional scenario shall show intermediate periods where ~~these~~those periods would be shown for the performance scenarios under point 1. of this Annex

3. An additional scenario for insurance-based investment products shall be based on the moderate scenario referred to in~~ accordance with point~~ 1(b)~~ above~~, where the performance is relevant in respect of the return of the investment.

Calculation of scenario values for the recommended holding period

4. The scenario values under different performance scenarios shall be calculated in a similar manner ~~to~~as the market risk measure. The scenarios values shall be calculated for the recommended holding period.

5. The unfavourable scenario shall be the value of the PRIIP at the 10th percentile.

6. The moderate scenario shall be the value of the PRIIP at the 50th percentile.

7. The favourable scenario shall be the value of the PRIIP value at the 90th percentile.

8. For Category 2 PRIIPs, the expected values at the recommended holding period shall be:

   (a) ~~Unfavourable:~~The unfavourable scenario:

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

   (b) ~~Moderate:~~The moderate scenario:

   $$\mathrm{Exp}\left[M1 * N - \sigma\mu_1/6 - 0.5\sigma^2 N\right]$$

   (c) ~~Favourable:~~The favourable scenario:

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

where N is the number of periods in the recommended holding period, and where the other terms are~~ as~~ defined in point 12 of Annex II~~ point 12.~~.

9. For Category 3 PRIIPs, the following adjustments shall be made to the calculation of performance scenarios:

(a) the expected return for each asset or assets shall be the return observed over the period as determined under point 6 of Annex II~~ Part 1; and~~;

(b) the expected 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.

10. For Category 4 PRIIPs, the method under point 26 of Annex II shall be used in respect of those factors that are not observed in the market, combined as necessary with the method for Category 3 PRIIPs. The relevant methods for Category 2 and 3 PRIIPs set out in points 8 and 9of this Annex shall be used for the relevant components of the PRIIP where the PRIIP combines different components. The performance scenarios shall be a weighted average of the relevant components. Product features and capital guarantees shall be taken into consideration in the performance calculations.

11. For Category 1 PRIIPs as defined ~~by Annex II Part 1~~in point 4(a) of Annex II, and Category 1 PRIIPs as defined in~~ Annex II part 1~~ point 4(b) of Annex II that are not ~~exchange-traded derivatives that are~~ futures, call options and put options traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) 600/2014, ~~and as such do not fall within the definition of an OTC derivative as defined in Article 2(7) of Regulation (EU) 648/2012, shall calculate ~~performance scenarios shall be calculated in accordance with point ~~9.~~9 of this Annex.

12. For Category 1 PRIIPs, that are ~~exchange-traded derivatives that are ~~futures, call options and put options traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) 600/2014, ~~and as such do not fall within the definition of an OTC derivative as defined in Article 2(7) of Regulation (EU) 648/2012, shall show ~~performance scenarios shall be shown in the form of pay-off structure graphs. A graph ~~in accordance with Template C of Annex V will~~shall be included to show performance for all scenarios for the different levels of the underlying value. The horizontal axis of the graph ~~shows~~shall show the various possible prices of the underlying value and the vertical axis ~~shows~~shall show the profit or loss at the different prices of the underlying value. For every price of the underlying value, the graph shall show the resulting profit or loss and at which price of the underlying value the profit or loss shall be zero.

13. For Category 1 PRIIPs as defined ~~by Annex II Part 1~~in point 4(c) ~~shall provide~~of Annex II a reasonable and conservative best estimate of the expected values for the performance scenarios at the recommended holding period shall be provided.

(a) The scenarios selected and shown shall be consistent with and complement the other information contained in the key information document, including the overall risk profile for the PRIIP. The PRIIP manufacturer shall ensure the consistency of the scenarios with internal product governance conclusions, including amongst other things, any stress-testing undertaken by the PRIIP manufacturer for the PRIIP, and data and analysis used for the purposes of producing the other information contained with the key information document.

(b) The scenarios shall be selected to give a balanced presentation of the possible outcomes of the product in both favourable and unfavourable conditions, but only scenarios that can be reasonably expected shall be shown. The scenarios shall not be selected so as give undue prominence to favourable outcomes at the expense of unfavourable ones.

Calculation of expected values for intermediate holding periods

14. For PRIIPs with a recommended holding period between 1 and 3 years, performance shall be shown at 2 different holding periods: ~~1~~at the end of the first year and at the end of the recommended holding period.

15. For PRIIPs with a recommended holding period of 3 years or more, performance shall be shown at 3 holding periods: ~~1~~at the end of the first year, after half the recommended holding period rounded up to the end of the nearest year, and at the end of the recommended holding period.

16. For PRIIPs with a recommended holding period of 1 year or less, no performance scenarios for intermediate holding periods shall be shown.

17. For Category 2 PRIIPs, the values to be shown for the intermediate periods~~,~~ shall be calculated using the formulas in point 8 of this Annex with the N defined to be the number of trading periods from the start date to the end of the intermediate period.

18. For Category 1 and Category 4 PRIIPs, the values to be shown for the intermediate periods shall be estimated by the PRIIP manufacturer in a manner consistent with the estimation at the end of the recommended holding period. To this end, the method used to estimate the value of the PRIIP at the start of each intermediate period needs to produce the same value for the entire recommended holding period, as under the method prescribed in points 11 and 10 of this Annex respectively.

19. For category 3 PRIIPs, to produce the favourable, moderate and unfavourable scenarios at an intermediate period before the ~~RHP~~end of the recommended holding period, the manufacturer shall pick three underlying simulations as referred to in points 16 to 24 of Annex II used for the calculation of the ~~MRI~~MRM, on the basis of underlying levels only and in such a manner that the simulated value of the PRIIPS ~~on such~~for that intermediate period is likely to be consistent with the relevant scenario.

(a) To produce the favourable, moderate and unfavourable scenarios at an intermediate period for a category 3 PRIIP with one underlying and whose value is known to be ~~an~~a increasing function of its underlying level, the manufacturer shall pick three underlying simulations as referred to in points 16 to 24 of Annex II used for the calculation of the MRI, leading respectively to the 90~~%~~th percentile level of the underlying for the favourable scenario, ~~50%~~the 50th percentile level for the underlying for the moderate scenario and ~~10%~~the 10th percentile level for the underlying for the unfavourable scenario~~ percentile levels of the underlying.~~.

(b) To produce the favourable, moderate and unfavourable scenarios at an intermediate period for a category 3 PRIIP with one underlying and whose value is known to be an decreasing function of its underlying level, the manufacturer shall pick three underlying simulations as referred to in points 16 to 24 of Annex II used for the calculation of the MRI, leading respectively to the 90~~%~~ the percentile level for the unfavourable scenario, ~~50%~~the 50th percentile level of the underlying for the moderate scenario and ~~10%~~the 10th percentile level of the underlying for the favourable scenario~~ percentile levels of the underlying~~.

(c) To produce the favourable, moderate and unfavourable scenarios at an intermediate period for a category 3 PRIIP other than those mentioned in points ~~19~~ (a) and~~ 19~~ (b) the manufacturer shall choose underlying values consistent with the 90~~%~~th, the 50~~%~~th and the 10~~%~~th percentile levels of the PRIIP and use these values as the seed values for a simulation to determine the value of the PRIIP.

20. For Category 1 PRIIPs~~,~~ that are ~~exchange-traded derivatives that are~~futures, call options and put options traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) 600/2014,~~ and as such do not fall within the definition of an OTC derivative as defined in Article 2(7) of Regulation (EU) 648/2012,~~ performance scenarios for intermediate holding periods shall not be included.

21. For all scenarios at intermediate periods, the estimate of the distribution used to read the value of the PRIIP at different percentiles shall be consistent with the observed return and volatility observed over the past 5 years of all market instruments that determine the PRIIP~~'~~’s value.

22. The unfavourable scenario shall be the estimate of the value of the PRIIP at the start of the intermediate period consistent with the 10th percentile.

23. The moderate scenario shall be the estimate of the value of the PRIIP at the start of the intermediate period consistent with the 50th percentile.

24. The favourable scenario shall be the estimate of the value of the PRIIP at the start of the intermediate period consistent with the 90th percentile.

General requirements

25. The performance of the PRIIP shall be calculated net of all applicable costs in accordance with Annex VI for the scenario and holding period being presented.

26. Performance shall be presented in monetary units. The amounts used shall be consistent with ~~those under~~the amounts referred to in point ~~91 in~~90 of Annex VI.

27. Performance shall also be presented in percentage terms, as the average annual return of the investment. That figure shall be calculated considering net performance as numerator and the initial investment amount or the price paid as denominator.

For those PRIIPs where there is no initial investment or price paid such as future contracts or swaps, the percentage shall be calculated considering the nominal value of the contract and a ~~foot note~~footnote shall be added to explain ~~it~~that calculation.

28. For an insurance based investment product, the following shall apply in addition to the methods referred above including under point 10 when calculating the performance scenarios in respect of the investment:

(a) ~~Future~~future profit participation shall be taken into account~~.~~;

(b) ~~Assumptions~~assumptions on future profit participation shall be consistent with the assumption on the annual rates of return of the underlying assets~~.~~;

(c) ~~Assumptions~~assumptions on how future profits are shared between the PRIIP manufacturer and the retail investor and other assumptions on future profit sharing shall be realistic and in line with the current business practice and business strategy of the PRIIP manufacturer. Where there is sufficient evidence that the undertaking will change its practices or strategy, the assumptions on future profit sharing shall be consistent with the changed practices or strategy. For life insurers within the scope of Directive 2009/138/EC~~ of the European Parliament and the Council~~, these assumptions shall be consistent with the assumptions on future management actions used for the valuation of technical provisions in the Solvency II-balance-sheet~~.~~;

(d) ~~Where~~where a component of the performance relates to profit participation that is payable on a discretionary basis, this component shall only be assumed in the favourable performance scenarios~~.~~;

(e) ~~The~~the performance scenarios shall be calculated on the basis of the investment amounts set out in point ~~26.~~26 of this Annex.

ANNEX V

METHODOLOGY FOR THE PRESENTATION OF PERFORMANCE SCENARIOS

PART 1

General presentation specifications

1. The performance scenarios shall be presented in a way that is fair, accurate, clear and not misleading, and that is likely to be understood by the average retail investor.

2. Where ~~under Annex IV point 16~~ performance scenarios may be shown only at maturity or at the end of the recommended holding period, ~~this~~as for the PRIIPs referred to in point 16 of Annex IV, that shall be clearly explained in the narrative set out in element D in Part 2 of this Annex.

3. In all cases, the narrative explanations set out in elements A, B, C and E in Part 2 of this Annex shall be included, except in the case of Category 1 PRIIPs ~~according~~referred to in point 12 of Annex IV ~~point 12,~~, where the narrative explanations set in elements F to ~~K~~J shall be used instead.

PART 2

Presentation of Performance Scenarios

For all PRIIPs except for category 1 PRIIPs referred to in point 12 of Annex IV, PRIIP manufacturers shall present the performance scenarios by means of the ~~format below. Dependent on~~formats below, depending on whether the PRIIP is a single investment or premium or a regular payment or premium PRIIP. The interim periods may differ depending on the length of the recommended holding period~~the interim period differs~~. For~~regular premium~~ insurance-based investment products ~~an~~ additional ~~row containing~~rows are included in respect of the scenario for the insurance benefits including the cumulative biometric risk premium ~~is included before the row of "What you might get back after costs" in Template B~~for a regular premium insurance-based investment product.. Returns for this scenario shall only be shown in absolute values.

~~For Category 1 PRIIPs according to Annex IV point 12, the performance scenarios shall be displayed according to Template C.~~

Template A: Single investment and/or single premium is paid.

Single investment paid

Investment ▯

Scenarios		**1 years**	**[3] years**	**[5] years** (Recommended holding period)
Unfavourable scenario	**What you might get back after costs**	▯	▯	▯
	Average return each year	▯	▯	▯
Moderate scenario	**What you might get back after costs**	▯	▯	▯
	Average return each year	▯	▯	▯
Favourable scenario	**What you might get back after costs**	▯	▯	▯
	Average return each year	▯	▯	▯

single premium paid[1]

Investment □ Insurance premium □		1 years	[3] years	[5] years (Recommended holding period)
[Survival] Scenarios				
Unfavourable scenario	**What you might get back after costs**	□	□	□
	Average return each year	□	□	□
Moderate scenario	**What you might get back after costs**	□	□	□
	Average return each year	□	□	□
Favourable scenario	**What you might get back after costs**	□	□	□
	Average return each year	□	□	□
[Death] Scenario				
[Insured event]	**What your beneficiaries might get back after costs**	□	□	□

[1] This is an additional table that has been included.

Template B: regular investments and/or premiums are paid.

~~Template C: exchange-traded derivatives.~~

Regular investments paid[2]

Investment ▯

Scenarios		1 years	[3] years	[5] years (Recommended holding period)
Unfavourable scenario	**What you might get back after costs**	▯	▯	▯
	Average return each year	▯	▯	▯
Moderate scenario	**What you might get back after costs**	▯	▯	▯
	Average return each year	▯	▯	▯
Favourable scenario	**What you might get back after costs**	▯	▯	▯
	Average return each year	▯	▯	▯
Accumulated invested amount		▯	▯	▯

[2] This is an additional table that has been included.

Regular premiums paid

Investment []
Insurance premium []

		1 years	[3] years	[5] years (Recommended holding period)
[Survival] Scenarios				
Unfavourable scenario	**What you might get back after costs**	[]	[]	[]
	Average return each year	[]	[]	[]
Moderate scenario	**What you might get back after costs**	[]	[]	[]
	Average return each year	[]	[]	[]
Favourable scenario	**What you might get back after costs**	[]	[]	[]
	Average return each year	[]	[]	[]
Accumulated invested amount		[]	[]	[]
[Death] Scenario				
[Insured event]	**What your beneficiaries might get back after costs**	[]	[]	[]
Accumulated insurance premium		[]	[]	[]

Performance scenarios

[Element A] This [table/graph] shows the money you could get back over the next [recommended holding period] years, under different scenarios, assuming that you invest €[...] [per year].

[Element B] The scenarios shown illustrate how your investment could perform. You can compare them with the scenarios of other products.

[Element C]The scenarios presented are an estimate of future performance based on evidence from the past, and are not an exact indicator. What you get will vary depending on how the market performs and how long you keep the investment/product. []

[Where applicable][Element D] This product cannot be [easily] cashed in. This means it is difficult to estimate how much you would get back if you cash in before [the recommended holding period/maturity]. You will either be unable to cash in early or you will have to pay high costs or make a large loss if you do so.

[Element E] The figures shown include all the costs of the product itself, [where applicable]:[but may not include all the costs that you pay to your advisor or distributor][and includes the costs of your advisor or distributor]. The figures do not take into account your personal tax situation, which may also affect how much you get back.

[Element F] This graph illustrates how your investment could perform. You can compare them with the pay-off graphs of other derivatives.

[Element G] The graph presented gives a range of possible outcomes and is not an exact indication of what you might get back. What you get will vary depending on how the underlying will develop. For each value of the underlying, the graph shows what the profit or loss of the product would be. The horizontal axis shows the various possible prices of the underlying value on the expiry date and the vertical axis shows the profit or loss.

[Element H] Buying this product holds that you think the underlying price will [increase/decrease].

[Element I] Your maximum loss would be that you will lose all your investment (premium paid).

[Element J] The figures shown include all the costs of the product itself, but may not include all the costs that you pay to your advisor or distributor. The figures do not take into account your personal tax situation, which may also affect how much you get back.

ANNEX VI

METHODOLOGY FOR THE CALCULATION OF COSTS

PART 1

List of costs

I. List of Costs of investments funds (AIFs and UCITS)

Costs to be disclosed

One-off costs

1. A one-off cost is an entry or exit cost which is either:

(a) paid directly by the retail investor; or

(b) deducted from a payment received by or due to the retail investor.

2. One-off costs are costs borne by the retail investor that are not deducted from the assets of the AIF or UCITS.

3. One-off costs include, but are not limited to, the following types of up-front initial costs that shall be taken into account in the cost amount to be disclosed in the key information document:

(a) ~~Distribution~~distribution fee, to the extent that the amount is known to the management company. If the actual amount is not known to the management company, the maximum of the possible known distribution costs for the specific PRIIP shall be shown;

(b) ~~Constitution~~constitution costs (up-front part);

(c) ~~Marketing~~marketing costs (up-front part);

(d) ~~Subscription~~subscription fee including taxes.

Recurring Costs

4. Recurring costs are payments deducted from the assets of an AIF or UCITS, and represent the following:

(a) expenses necessarily incurred in their operations;

(b) any payments, including remunerations, to parties connected with the AIF or UCITS or providing services to them;

(c) ~~UCITS or providing services to them; or~~ transaction costs.

5. Recurring costs include, but are not limited to, the following types of costs that are deducted from the assets of the AIF or UCITS, and shall be taken into account in the cost amount to be disclosed in the key information document:

(a) all payments to the following persons, including any ~~person~~of the following persons to whom they have delegated any function:

(i) the management company of the fund~~,~~;

(ii) directors of the fund if an investment company~~,~~;

(iii) the depositary~~,~~;

(iv) the custodian(s)~~,~~;

(v) any investment adviser;

(b) all payments to any person providing outsourced services to any of the above, including:

(i) providers of valuation and fund accounting services~~,~~;

(ii) shareholder service providers, such as the transfer agent and broker dealers that are record owners of the fund~~'~~’ shares and provide sub-accounting services to the beneficial owners of those shares~~,~~;

(iii) providers of collateral management services~~,~~;

(iv) providers of prime-brokerage services~~,~~;

(v) securities lending agents~~,~~;

(vi) providers of property management and similar services;

(c) registration charges, listing fees, regulatory charges and similar charges, including passporting fees;

(d) provisioned fees for specific treatment of gain and losses;

(e) audit fees;

(f) payments to legal and professional advisers;

(g) any costs of distribution or marketing, to the extent that the amount is known to the management company. If the actual amount is not known to the management company, the maximum of the possible known distribution costs for the specific PRIIP shall be shown;

(h) financing costs, related to borrowing (provided by related parties);

(i) costs of capital guarantee provided by a third party guarantor;

(j) payments to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset in the fund~~'~~’s portfolio (including transaction costs as referred to in points 7~~-~~ to 23 of this Annex);

(k) the value of goods or services received by the management company or any connected person in exchange for placing of dealing orders;

(l) where a fund invests its assets in UCITS or AIFs, its summary cost indicator shall take account of the charges incurred in the UCITS/AIFs. The following shall be included in the calculation:

   (i) if the underlying is a UCITS or AIF its most recently available summary cost indicator figure shall be used; this may be the figure published by the UCITS or AIF or its operator or management company, or a figure calculated by a reliable third-party source if more up-to-date than the published figure;

   (ii) the summary cost indicator may be reduced to the extent that there is any arrangement in place (and that is not already reflected in the fund~~'~~’s profit and loss account) for the investing fund to receive a rebate or retrocession of charges from the underlying AIF/UCITS;

   (iii) where the acquisition or disposal of units does not occur at the mid price of the UCITS/AIF, the value of the difference between the transaction price and the mid price shall be taken into account as transaction costs, to the extent that this is not included in the summary cost indicator~~.~~;

(m) where a fund invests in a PRIIP other than UCITS or AIFs, its summary cost indicator shall take account of the charges incurred in the underlying PRIIP. The following shall be included in the calculation:

   (i) the most recently available summary cost indicator of the underlying PRIIP shall be included in the calculation;

   (ii) the summary cost indicator may be reduced to the extent that there is any arrangement in place (and that is not already reflected in the fund~~'~~’s profit and loss account) for the investing fund to receive a rebate or retrocession of charges from the underlying PRIIP;

   (iii) in cases where the acquisition or disposal of units does not occur at the mid price of the underlying PRIIP, the value of the difference between the transaction price and the mid price shall be taken into account as transaction costs, to the extent that this is not included in the summary cost indicator~~.~~;

(n) where a fund invests in an investment product other than a PRIIP its summary cost indicator shall take account of the charges incurred in the underlying investment product. The PRIIP manufacturer shall either use any published information that represents a reasonable substitute for summary cost indicator or else shall make a best estimate of its maximum level based on scrutiny of the investment product~~'~~’s current prospectus and most recently published report and accounts;

(o) operating costs (or any remuneration) under a fee-sharing arrangement with a third party to the extent that they have not been already included in another type of cost mentioned above;

(p) earnings from efficient portfolio management techniques if they are not paid into the portfolio;

(q) implicit costs incurred by structured funds as referred to in section II, and notably points ~~37~~36 to ~~47~~46 of this Annex;

(r) dividends served by the shares held in the portfolio of the funds, shall the dividends not accrue to the fund.

Incidental costs

6. The following ~~list indicates the~~ types of incidental costs ~~that~~ shall be taken into account in the amount to be disclosed:

(a) a performance–related fee payable to the management company or any investment adviser, including performance fees as referred to in point 24 of this Annex;

(b) carried interests as referred to in point ~~25.~~25 of this Annex.

Calculation of specific types of costs of investments funds

Transaction costs

7. Transaction costs shall be calculated on an annualised basis, based on an average of the transaction costs incurred by the PRIIP over the previous three years. Where the PRIIP has been operating for less than three years, transaction costs shall be calculated using the methodology set out in point ~~21.~~21 of this Annex.

8. The aggregate transaction costs for a PRIIP shall be calculated as the sum of the transaction costs ~~(~~as calculated ~~as set out below)~~in accordance with points 9 to 23 of this Annex in the base currency of the PRIIP for all individual transactions undertaken by the PRIIP in the specified period. This sum shall be converted into a percentage by dividing by the average net assets of the PRIIP over the same period.

9. When calculating the transaction costs incurred by the PRIIP over the previous three years, actual transaction costs must be calculated using the methodology described ~~below~~ in points 12 to 18 of this Annex for investments in the following instruments:

(a) transferable securities as defined by Article 2 of ~~Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions~~Commission Directive 2007/16/EC[8];

(b) other instruments that there are frequent opportunities to dispose of, redeem, or otherwise realise at prices that are publicly available to market participants and that are either market prices or prices made available, or validated, by valuation systems independent of the issuer.

10. Estimates of transaction costs using the methodology described below in points 19 to 20 of this Annex must be used for investments in other instruments or assets.

Treatment of anti-dilution mechanisms

11. Where a PRIIP has a pricing mechanism that offsets the impact of dilution from transactions in the PRIIP itself, the amount of benefit accruing to the ongoing holders of the PRIIP from anti-dilution mechanisms may be deducted from the transaction costs incurred within the PRIIP using the following methodology:

(a) ~~The~~the monetary amount of any anti-dilution levy, or other payment in connection with a transaction in the PRIIP itself, that is paid to the PRIIP may be subtracted from the total transaction costs

(b) ~~The~~the benefit to the PRIIP of issuing units (or otherwise enabling investment in the PRIIP) at a price other than the mid price, or of cancelling units (or otherwise enabling redemption of funds from the PRIIP) at a price other than the mid price, provided that the PRIIP itself receives the benefit, shall be calculated as follows and may be subtracted from the total transaction costs:

(i) ~~The~~the difference between the price of units issued and the mid price, multiplied by the net number of units issued;

(ii) ~~The~~the difference between the price of units cancelled and the mid-price, multiplied by the net number of units cancelled.

Actual transaction costs

12. The actual transaction costs for each transaction shall be calculated on the following basis:

(a) for each purchase undertaken by the PRIIP, the price of the instrument at the time the purchase order is transmitted to another person for execution (the ~~'~~purchase ‘arrival price~~'~~’) shall be subtracted from the net realised execution

[8] Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions (OJ L 79, 20.3.2007, p. 11).

price of the transaction. The resulting value shall be multiplied by the number of units purchased;

(b) for each sale undertaken by the PRIIP, the net realised execution price of the transaction shall be subtracted from the price of the instrument at the time the order to sell is transmitted to another person for execution (the ~~'~~sale ‘arrival price~~'~~’). The resulting value shall be multiplied by the number of units sold.

13. The net realised execution price shall be ~~calculated~~determined as the price at which the transaction is executed, including all charges, commissions, taxes and other payments (~~for example~~such as anti-dilution levies) associated with the transaction, either directly or indirectly, where those payments are made from the assets of the PRIIP.

14. The arrival price shall be ~~calculated~~determined as the mid-market price of the investment at the time when the order to transact is transmitted to another person. For orders that are transacted on ~~any~~a day that is not the day that the order was originally transmitted to another person, the arrival price shall be ~~calculated~~determined as the opening price of the investment on the day of the transaction or, where the opening price is not available, the previous closing price. Where a price is not available at the time when the order to transact is transmitted to another person (~~for example because~~due to the order ~~has been~~ initiated outside market opening hours or in over-the-counter markets where there is no transparency of intra-day prices for example), the arrival price shall be ~~calculated~~determined as the opening price on the day of the transaction or, where the opening price is not available, the previous closing price. Where an order is executed without being transmitted to another person, the arrival price shall be ~~calculated~~determined as the mid-market price of the investment at the time when the transaction was executed.

15. Where information about the time when the order to transact is transmitted to another person is not available (or not available to a sufficient level of accuracy), or where information about the price at that time is not available, it is permissible to use as the arrival price the opening price of the investment on the day of the transaction or, where the opening price is not available, the previous closing price. When calculating transaction costs using data prior to 31 December 2016, ~~it~~intra-day prices may be considered ~~that intraday prices are~~as not available.

16. Costs associated with transactions ~~in~~undertaken by PRIIPs and concerning financial instruments~~, undertaken by PRIIPs,~~ that fall within one of the categories referred to in items 4 to 10 of Section C of Annex I to Directive 2014/65/EU ~~of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU Text with EEA relevance~~ shall be calculated in the following way:

(a) ~~For~~for instruments that are standardised and where there is regular trading in the instrument itself (for example an index future on a major equity index), transaction costs shall be calculated with reference to the instrument itself. The arrival price shall be ~~calculated~~determined as the mid price of the instrument;

(b) ~~For~~for linear instruments that are customised, and where there is no price transparency or regular trading in the instrument itself, transaction costs shall be calculated with reference to the underlying asset(s). The arrival price shall be calculated based on the price(s) of the underlying assets, using appropriate weightings if there is more than one underlying asset. Where the cost of transacting in the instrument is materially higher than the cost of transacting in the underlying asset, this must be reflected in the transaction cost calculation;

(c) ~~For~~for non-linear instruments, it is permissible to calculate the transaction costs as the difference between the price paid or received for the instruments and the fair value of the instrument, on the basis described in points ~~37-47 below~~36 to 46 of this Annex.

17. In calculating the costs associated with foreign exchange, the arrival price must reflect a reasonable estimate of the consolidated price, and must not simply be the price available from a single counterparty or foreign exchange platform, even if an agreement exists to undertake all foreign exchange transactions with a single counterparty.

18. In calculating the costs associated with orders that are initially entered into an auction, the arrival price shall be calculated as the mid price immediately prior to the auction.

Transaction costs for other assets

19. When estimating transaction costs for assets other than assets as referred to in point ~~9,~~9 of this Annex, the methodology in point 12 ~~should~~of this Annex shall be used ~~with~~and the~~ definition of~~ arrival price shall be calculated as follows:

(a) for a sale:

(i) the arrival price shall be calculated as the previous independent valuation price of the asset, adjusted for market movements, where appropriate, using an appropriate benchmark index~~,~~;

(ii) where a previous independent valuation price is not available, the transaction costs must be estimated based on the difference between the transaction price and an appraisal of the fair value of the asset prior to sale;

(b) for a purchase:

(i) the arrival price shall be calculated as the previous independent valuation price of the asset, adjusted for market movements, where appropriate, using an appropriate benchmark index, where such a price is available~~,~~;

(ii) where a previous independent valuation price is not available, the transaction costs must be estimated based on the difference between the transaction price and an appraisal of the fair value of the asset prior to purchase.

20. The transaction cost estimate must not be less than the amount of actual identifiable costs directly associated with the transaction.

Transaction costs for new PRIIPs

21. For PRIIPs that have been operating for less than 3 years and that invest predominantly in assets as referred to in point ~~9,~~9 of this Annex, transaction costs may be calculated either by multiplying an estimate of portfolio turnover in each asset class with the costs calculated according to the methodology referred to in point (c), or as an average of the actual transaction costs incurred during the period of operation and a standardised estimate on the following basis:

(a) ~~For each~~for the highest multiple of six months that the PRIIP has been operating, transaction costs shall be calculated on the basis described in points 12 to 18 of this Annex ;

(b) ~~For other periods of six months~~for the remaining period up to three years, transaction costs shall be estimated by multiplying an estimate of portfolio turnover in each asset class according to the methodology referred to in point (c);

(c) ~~The~~the methodology to ~~follow shall be that under (i), (ii) or (iii) according to~~be used differs depending on the asset class and shall be determined as follows:

(i) For the ~~following~~ asset classes indicated in the table below, transaction costs ~~can~~shall be calculated as the average of the estimated cost of transaction (based on bid-ask spreads divided by two) ~~in this~~for the relevant asset class under normal market conditions.

To estimate the cost, one or more reference indexes ~~should~~shall be identified for each asset class. Then, the average bid-ask spreads of the underlying indexes ~~should~~shall be collected. The data collected ~~should~~shall refer to the closing bid-ask spread at the ~~[~~tenth~~]~~ business day ~~[or another business day] of the~~of each month during the last year ~~[or the last two years]~~.

The bid-ask spreads collected ~~is~~shall then be divided by two to obtain the estimated cost of transaction ~~of~~for each point in time. The average of ~~this~~those values is the estimated cost of transaction in each asset class under normal market conditions.

Asset Classes	
Government bonds	Government bonds and similar instruments developed market rating AAA-A

	Government bonds and similar instruments developed market different rating below A
Government bonds emerging markets (hard and soft currency)	Government bonds emerging markets (hard and soft currency)
Investment grade corporate bonds	Investment grade corporate bonds
Other corporate bonds	High yield corporate bonds

(ii) For the ~~following~~ asset classes indicated in the table below, transaction costs (including explicit costs and implicit costs) shall be estimated either by using comparable information or by adding estimates of explicit costs to estimates of half the bid-ask spread, using the methodology described ~~under~~in point (i).

Asset Classes	
Liquidity	Money market instruments (for the sake of clarity, money markets funds not included)
Shares developed markets	Large-cap shares (developed markets)
	Mid-cap shares (developed markets)
	Small-cap shares (developed markets)
Shares emerging markets	Large-cap shares (emerging markets)
	Mid-cap shares (emerging markets)
	Small-cap shares (emerging markets)
Listed derivatives	Listed derivatives

(iii) For the ~~following~~ asset classes indicated in the table below, the transaction cost is the average of the observed cost of transaction (based on bid-ask spreads divided by two) in this asset class under normal market conditions.

~~In~~When identifying the observed cost of transaction, results of a panel survey may be taken into account.

Asset Classes	
OTC	OTC Exotic options
	OTC Plain vanilla options
	OTC IRS, CDS and similar
	OTC Swaps and similar instruments (different from IRS, CDS and similar)
	OTC FX Forwards developed markets
	OTC FX Forwards emerging markets

22. Estimates of portfolio turnover for a PRIIP that has been operating for less than one year must be made on a consistent basis with the investment policy disclosed in the offering documents. Estimates of portfolio turnover for a PRIIP that has been operating for more than one year must be consistent with actual portfolio turnover.

23. For PRIIPs that have been operating for less than three years and that invest predominantly in assets other than assets as referred to in point 9 of this Annex, the PRIIP manufacturer shall estimate the transaction costs on the basis of the fair value method using comparable assets.

Performance related fees

24. To calculate performance related fees, the following steps shall be taken:

(a) compute the fees on the basis of historical data covering the last 5 years. The average annual performance fees shall be computed in percentage terms,

(b) where a full performance fees history is not available because the fund/share class is new or the fund~~'~~’s terms have changed due to the introduction of the performance fee or the change of one of its parameters, the abovementioned method shall be adjusted according to the following steps:

(i) take the relevant available history of the performance fees of the fund/share class;

(ii) for any years for which data is not available~~:~~, estimate the return of the fund/share class and, in case of a relative performance fee model, take into account the historical series of the benchmark/hurdle rate;

~~estimate the return of the fund/ share class,~~

for new funds, their return shall be estimated using the return of a comparable fund or of a peer group. The estimated return shall be gross of all the costs charged to the new fund. Therefore peer groups´ returns need to be adjusted by adding the average relevant costs charged according to the rules of the new fund. For instance, in case of a new class with a different fee structure, the returns of ~~the existing~~this new class shall be adjusted taking into account the costs of the ~~new~~existing class;

~~in case of a relative performance fee model, take into account the historical series of the benchmark/hurdle rate.~~

(iii) compute the fees from the beginning of the sample period, as required in ~~sub-~~point (a), until the date of availability of the actual performance fee data of the fund, applying the relevant algorithm to the abovementioned historical series;

(iv) concatenate both performance fee series to one series over the full sample period as required in ~~sub-~~point (a);

(v) compute the performance fees ~~according sub-point (a)~~using the methodology referred to in point (a) (average of annual performance fees).

Carried interests

25. To calculate carried interests, the following steps shall be taken:

(a) compute the fees on the basis of historical data covering the last 5 years. The average annual carried interests shall be computed in percentage terms;

(b) where a full carried interests history is unavailable because the fund/share class is new or the fund~~'~~’s terms have changed due to the introduction of carried interests or the change of one of its parameters, the abovementioned method shall be adjusted according to the following steps:

(i) take the relevant available history of the carried interests of the fund/ share class; ~~for any years for which data is not available:~~

– for any years for which data is not available, estimate the return of the fund/ share class,

– ~~estimate the return of the fund/ share class,~~ for new funds, their return shall be estimated using the return of a comparable fund or of a peer group. The estimated return shall be gross of all the costs charged to the new fund. Therefore peer group~~'~~’s returns need to be adjusted by adding the average relevant costs charged according to the rules of the new fund. For instance, in case of a new class with a different fee structure, the returns of ~~the existing~~this new class shall be adjusted taking into account the costs of the ~~new~~existing class.

(ii) compute the carried interests from the beginning of the sample period, as required in ~~sub-~~point (a), until the date of availability of the actual carried interests data of the fund, applying the relevant algorithm to the abovementioned historical series;

(iii) concatenate both carried interests series to one series over the full sample period as required in ~~sub-~~point (a);

(iv) compute the carried interests ~~according to~~using the~~ sub-point (a)~~ methodology referred to in point (a) (average of annual carried interests).

26. If no carried interests are taken throughout the investment, a warning needs to accompany the indication of zero carried interests in the composition of costs table in order to clarify that a payment of x % of the final return shall take place subsequently to the exit of the investment.

II. List of costs of PRIPs other than investment funds

Costs to be disclosed

One-off costs

27. A one-off cost is an entry and exit cost which include initial charges, commissions or any other amount paid directly by the retail investor or deducted from a payment received by or due to the retail investor.

28. One-off costs are borne by a PRIP other than an investment fund, whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.

One-off entry costs and charges

29. One-off entry costs and charges include, but are not limited to, the following types that shall be taken into account in the cost amount to be disclosed for PRIPs other than investment funds:

(a) sales commissions;

(b) structuring costs, including market-making costs (spread) and settlement costs;

(c) hedging costs (to ensure that the PRIIP manufacturer is able to replicate the performance of the derivative component of the structured product – these costs include transaction costs)

(d) legal fees;

(e) costs for capital guarantee;

(f) implicit premium paid to the issuer.

One-off exit costs and charges

30. One-off exit costs and charges include, but are not limited to, the following types that shall be taken into account in the amount to be disclosed for PRIPs other than investment funds:

(a) proportional fees;

(b) bid-mid spread to sell the product and any explicit costs or penalties for early exit applicable. The estimation of the bid-mid spread shall be done in relation to the availability of a secondary market, to the market conditions and the type of product. In the situation where the PRIIP manufacturer (or a related third party) is the only available counterparty to buy the product on the secondary market, it shall estimate the exit costs to be added to the fair value of the product according to its internal policies~~.~~;

(c) ~~31.~~ contract-for-difference (CFD) related costs such as:

(i) ~~(a)~~ commissions charged by CFD providers – general commission or a commission on each trade - i.e. on opening and closing a contract;

(ii) ~~(b)~~ CFD trading such as bid-ask spreads, daily and overnight financing costs, account management fees and taxes which are not already included in the fair value.

Recurring Costs

31. ~~32.~~ Recurring costs are payments regularly deducted from all payments due to the retail investor or from the amount invested.

32. ~~33.~~ Recurring costs include all types of cost borne by a PRIP other than an investment fund whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.

33. ~~34.~~ The following list is indicative but not exhaustive of the types of recurring charge that, ~~if~~where they are deducted or charged separately, shall be taken into account in the amount to be disclosed:

(a) costs related to coupon payments;

(b) costs of the underlying, if any.

Costs of PRIPs referred to in point 12 of Annex III ~~point 12~~

34. ~~35. *One-off entry costs and charges.*~~ One-off exit costs and charges are exchange fees, clearing fees and settlement fees ~~if~~where known.

35. ~~36. *Recurring costs.*~~ Recurring costs are hedging costs borne under normal market conditions and stressed market conditions.

Calculation of implicit costs of PRIPs other than investment funds

36. ~~37.~~ For the purposes of the calculation of the implicit costs embedded in PRIPs, the PRIIP manufacturer shall refer to the issue price and, after the subscription period, to the price available to purchase the product on a secondary market.

37. ~~38.~~ The difference between the price and the fair value of the product is considered as an estimation of the total entry costs included in the price. If the PRIIP manufacturer is unable to distinguish the relevant implicit costs to be disclosed as referred to in point 29 of this Annex using the ~~aforementioned~~ difference between the price and the fair value, it shall liaise with the issuer of the different components of the product, or the relevant body, in order to gather the relevant information on ~~these~~those costs.

38. ~~39.~~ Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of

whether that price is directly observable or estimated using another valuation technique.

39. ~~40.~~ The fair value policy that governs the measurement of the fair value shall set a series of rules including in the following areas:

(a) governance;

(b) methodology for the calculation of the fair value.

40. ~~41. Such~~The rules referred to in point 39 of this Annex shall aim at outlining a valuation process that:

(a) complies with the applicable accounting standards, in relation to fair value;

(b) makes sure that internal pricing models for PRIIPs are consistent with the methodologies, modelling and standards used by the PRIIP manufacturer to value its own portfolio under the hypothesis that the product is available for sale or held for trading;

(c) is consistent with the level of complexity of the product and the type of underlying;

(d) takes into account the issuer credit risk and the uncertainty about the underlying;

(e) sets the parameters to identify an active market in order to avoid risk mispricing that could lead in extreme cases to significantly inaccurate estimates;

(f) maximises the use of relevant observable market inputs and minimizes the use of unobservable inputs.

41. ~~42.~~ The fair value of a structured product shall be determined on the basis of:

(a) market prices, ~~if~~where available or efficiently formed;

(b) internal pricing models using as an input market values which are indirectly connected to the product, derived from products with similar characteristics (comparable approach);

(c) internal pricing models based on inputs which are not derived directly from market data for which estimations and assumptions must be formulated (mark-to-model approach).

42. ~~43.~~ If the fair value cannot be derived from market prices, it shall be calculated using a valuation technique that is able to represent properly the different factors affecting the product payoff structure making maximum use of market data.

43. ~~44. A~~The valuation technique referred to in point 42 of this Annex shall consider the following according to the complexity of the product:

(a) the use of recent arm~~'~~’s length market transactions between knowledgeable, professional counterparties;

(b) reference to the current market price of another instrument that is substantially the same;

(c) the use of an appropriate discounted cash-flow model where the likelihood of each cash flow is determined using an appropriate model of asset price evolution.

44. ~~45.~~ In the case of subscription products, the fair value ~~must~~shall be calculated on the date when the product terms are determined. This valuation date shall be close to the beginning of the subscription period~~ and a criterion to update cost information, in case of~~. Where long offering periods or ~~in case of~~ high market volatility ~~in the markets, has to~~exists, a criterion to update cost information shall be defined.

45. ~~46. If~~Where preliminary terms are used, costs ~~need to~~shall be calculated by using the minimum terms of the product.

46. ~~47. If~~Where variable subscription prices are used, a procedure on how to incorporate and disclose the cost effect of the varying subscription price ~~has to~~shall be defined.

III. List of Costs of Insurance-based investment products

Costs to be disclosed

One-off costs

47. ~~48.~~ A one-off cost is an entry and exit cost which includes initial charges, commissions or any other amount paid directly by the retail investor or deducted from the first payment or from a limited number of payments due to the retail investor or from a payment upon redemption or termination of the product.

48. ~~49.~~ One-off costs are borne by an insurance-based investment product, whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.

49. ~~50.~~ One-off costs include, but are not limited to, the following types of entry costs and charges that shall be taken into account in the amount to be disclosed for insurance-based investment products:

(a) structuring or marketing costs;

(b) acquisition, distribution, sales costs;

(c) processing/operating costs (including costs for the management of the insurance cover);

(d) cost part of biometric risk premiums referred to in point ~~60~~59 of this Annex;

(e) costs of holding required capital (up front part to be disclosed insofar as they are charged).

Recurring costs

50. ~~51.~~ Recurring costs are payments regularly deducted from all payments from the retail investor or from the amount invested or amounts that are not allocated to the policyholder according to a profit sharing mechanism.

51. ~~52.~~ The recurring costs include all types of costs borne by an insurance-based investment product whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.

52. ~~53.~~ The following list is indicative but not exhaustive of the types of recurring charge that shall be taken into account in the amount to be disclosed:

(a) structuring or marketing costs;

(b) acquisition, distribution, sales costs;

(c) processing / operating costs (including costs for the management of insurance cover);

(d) cost part of biometric risk premiums referred to in point ~~60~~59 of this Annex;

(e) other administrative costs;

(f) costs of holding capital (recurring part to be disclosed insofar as they are charged);

(g) Any amount implicitly charged on the amount invested such as the costs incurred for the management of the investments of the insurance company (deposit fees, costs for new investments, etc.);

(h) payments to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset owned by the insurance-based investment product (including transaction costs as referred to in points 7 to 23 of this Annex).

53. ~~54.~~ Where an insurance-based investment product invests a part of its assets in UCITS~~,~~ or AIFs~~,~~ in a PRIIP other than UCITS ~~of~~or AIFs or in an investment product other than a PRIIP, points 5(l), 5(m) and 5(n) of this Annex shall be applied respectively.

Cost disclosure of the biometric risk premium of insurance based investment products Costs part of biometric risk premiums

54. ~~55.~~ Biometric risk premiums are those premiums paid directly by the retail investor or deducted from the amounts credited to the mathematical provision or from the

participation bonus of the insurance policy, that are intended to cover the statistical risk of benefit payments from insurance coverage.

55. ~~56.~~ The fair value of biometric risk premiums is the expected present value (according to the interest rates referred to in point ~~72~~71(a) of this Annex) of the future benefit payments from insurance coverage taking into account the following:

(a) best estimate assumptions on these benefit payments derived from the individual risk profile of the portfolio of the individual manufacturer~~, and~~;

(b) other payoffs related to insurance cover (rebates on biometric risk premiums paid back to the policy holders, increase of benefit payments, reduction of future premiums, etc.) resulting from profit sharing mechanisms (legal and/or contractual).

56. ~~57.~~ Best estimate assumptions on future benefit payments from insurance coverage shall be set in a realistic way.

57. ~~58.~~ The estimated future benefit payments shall not include prudency margins or costs for the management of the insurance cover.

58. ~~59.~~ For manufacturers within the scope of Directive 2009/138/EC these best estimate assumptions shall be consistent with the respective assumptions used for the calculation of the technical provisions in the Solvency II balance sheet.

59. ~~60.~~ The cost part of biometric risk premiums is the difference between biometric risk premiums charged to the retail investor referred to in point ~~55~~54 of this Annex and the fair value of the biometric risk premiums referred to in ~~points 56;~~point 55 of this Annex.

60. ~~61. Instead of the cost part of biometric risk premiums referred to in point 50(d) and point 53(d) the~~A PRIIP manufacturer may include the full biometric risk premiums in the calculation of one-off~~,~~ costs or recurring costs in the place of the cost part of it.

PART 2

Summary cost indicators and ~~Compound~~compound effect of the costs

I. Summary cost indicators

~~*Summary cost indicator – summary cost indicator*~~

61. ~~62.~~ The summary cost indicator of the PRIIP is the reduction of the yield due to total costs calculated ~~according to~~in accordance with points ~~71~~70 to ~~73.~~72 of this Annex.

62. ~~63.~~ For the calculation of the summary cost indicator the costs to be disclosed referred to in point ~~73~~72 of this Annex shall be the total costs. This shall equal for investment funds the sum of the costs as referred to in points 1 and 2 of this Annex plus the sum of the costs as referred to in points 4 and 6 of this Annex; for PRIPs other than investment funds, except PRIIPs referred in point 12 of Annex IV ~~point 12,~~, the sum of the costs as

referred to in points 27 and 28 of this Annex plus the sum of the costs as referred to in ~~point~~points 31 and 32 ~~and 33~~of this Annex; for PRIIPs referred to in~~ Annex IV point 12,~~ point 12 of

Annex IV, the sum of the costs as referred to in points ~~35 and 36~~34 and 35 of this Annex; and for insurance-based investment products, the sum of the costs as referred to in points ~~48 and 49~~47 and 48 plus the sum of the costs as referred to in points ~~51 and 52.~~50 and 51 of this Annex. The total costs shall also include exit penalties, ~~if relevant.~~where relevant.

One-off costs and entry/ exit cost ratios

63. ~~64.~~ The entry and exit costs ratio of the PRIIP shall be the reduction of the annual yield due to entry and exit costs calculated according to points ~~71~~70 to ~~73.~~72 of this Annex.

64. ~~65.~~ For the calculation of the entry and exit costs ratio the costs to be disclosed referred to in point ~~73~~72 of this Annex shall for investments funds be the entry and exit costs according to points 1 and 2 of this Annex; points 27 and 28 of this Annex for PRIPs other than investment funds, except PRIIPs referred in ~~Annex IV~~ point 12 of Annex IV; point 35 for PRIIPs referred in ~~Annex IV~~ point 12 of Annex IV; and points 47 and 48 ~~and 49~~of this Annex for insurance-based investment products. Exit costs shall also include exit penalties, ~~if~~where relevant.

Recurring costs, portfolio transaction costs and insurance costs / other recurring costs ratios

65. ~~66.~~ The portfolio transaction costs, insurance costs and other recurring costs ratio of the PRIIP shall be the reduction of the annual yield due to portfolio transaction costs and other recurring costs calculated according to points ~~71~~70 to ~~73.~~72 of this Annex.

66. ~~67.~~ For the calculation of the portfolio transaction costs ratio and the insurance costs ratio the following shall apply:

(a) ~~For~~for the calculation of the portfolio transaction, the costs to be disclosed referred to in point ~~73~~72 shall be the portfolio transaction costs according to points 7 to 23 of this Annex for investment funds, point 29(c) of this Annex for PRIPs other than investment funds, except PRIIPs referred in ~~p~~point 12 of Annex IV~~ point 12,~~, and point ~~53~~52(h) of this Annex for insurance based investment products~~.~~;

(b) ~~For~~for the calculation of the insurance costs ratio, the costs to be disclosed referred to in point ~~73~~72 of this Annex shall be the insurance costs according to points 59 and 60 ~~and 61~~of this Annex for insurance based investment products.

67. ~~68.~~ The other recurring costs ratio shall be the reduction of the annual yield due to other recurring costs that is calculated as the difference between the summary cost indicator according to point ~~62~~61 of this Annex and the sum of the one-off costs ratio, according to point ~~64,~~63 of this Annex, plus portfolio transaction costs ratio, according

to point ~~67~~ 66(a), plus insurance costs ratio, according to point ~~67~~ 66(b) of this Annex, plus the incidental costs ratios, according to point ~~69.~~68 of this Annex.

Incidental costs and incidental costs ratios (performance fees and carried interests ratio)

68. ~~69.~~ For the calculation of the performance fees ratio, the cost to be disclosed referred to in point ~~73~~72 shall be the portfolio incidental costs according to point 6 (a) of this Annex for investment funds. For the calculation of the carried interests ratio, the cost to be disclosed referred to in point ~~73~~72 of this Annex shall be the portfolio incidental costs according to point 6 (b) of this Annex for investment funds.

69. ~~70.~~ The ~~'~~‘ongoing costs~~'~~’, ~~'~~‘performance fees~~'~~’ and ~~'~~‘carried interests~~'~~’ as referred to in Annex VII are respectively the ~~'~~‘recurring costs~~'~~’, ~~'~~‘performance fees ratio~~'~~’ and ~~'~~‘carried interests ratio~~'~~’ as referred to in ~~the present~~this Annex ~~VI~~ and in Article 5.

Calculation of summary cost indicator

70. ~~71.~~ The summary cost indicator shall be calculated as the difference between two percentages i and r where r is the annual internal rate of return in relation to gross payments by the retail investor and estimated benefit payments to the retail investor during the recommended holding period and i is the annual internal rate of return for the respective cost free scenario.

71. ~~72.~~ The estimation of future benefit payments under point ~~71~~70 of this Annex shall be based on the following assumptions:

(a) Except for PRIIPs as referred to in point 12 of Annex IV, the annual internal rate of return, i.e. the performance, of the PRIIP shall be calculated applying the methodology and the underlying hypothesis used for the estimation of the moderate scenario from the performance scenarios section of the key information document;

(b) ~~The~~the benefit payments shall be estimated under the assumption that all costs included in the total costs according to point ~~63~~62 of this Annex are deducted;

(c) ~~For~~for PRIIPs as referred to in point 12 of Annex IV, the performance shall be 3 %.

72. ~~73. Calculations for~~For the purpose of the calculation of the cost free scenario ~~mentioned~~as referred to in point ~~71~~70 of this Annex the following shall apply:

(a) ~~For~~for the calculation of i either gross payments by the retail investor from the calculation of r shall be reduced by the costs to be disclosed or the projected benefit payments to the retail investor from the calculation of r shall be increased under the assumption that the amounts of the costs to be disclosed had additionally been invested. Then i is the annual internal rate of return in relation to these adjusted payments by and to the retail investor~~.~~;

(b) ~~Where~~where costs to be disclosed can be expressed as a constant percentage of the value of the assets they may be disregarded in the calculation described in point ~~73~~72(a) of this Annex and instead be added to ~~*i*~~the percentage of the annual internal rate of return (i) for the respective cost free scenario afterwards.

Specific requirements for PRIPs other than investment funds:

73. ~~74.~~ For the purpose of the calculation of the cost free scenario ~~mentioned~~as referred to in point ~~73~~70 of this Annex for PRIPs other than investment funds, gross payments by the retail investor from the calculation of r, as referred to in point ~~73,~~72 of this Annex, shall be reduced by the costs to be disclosed.

Specific requirements for insurance-based investment products:

74. ~~75.~~ For the purpose of the calculations described in points ~~71 to 73~~70 to 72 of this Annex, it shall be assumed that, for insurance-based investment products ~~it shall be assumed that~~, no payments resulting from insurance coverage occur during the holding period ~~i.e.~~. Therefore/That is to say, the calculation of the summary cost indicator shall be solely based on estimated endowment benefit payments.

75. ~~76.~~ To the extent recurring and one-off costs are covered by explicit costs that are a fixed part of the premium calculation of the product the calculation of recurring and one-off costs shall be based on these explicit costs.

76. ~~77. Profit~~For profit participation for insurance based investment products the following shall apply:

(a) ~~When~~when calculating recurring costs and one-off costs for insurance-based investment products amounts retained from the investment return through profit sharing mechanisms shall be considered as costs;

(b) ~~Where~~where a part of the costs is returned to policy holders by separate cost bonuses this shall be considered as a cost rebate that reduces cost deductions provided:

(i) ~~The~~that the cost bonuses are declared separately from other parts of the participation bonus and are intended for refunding parts of the costs by the contractual terms of the product.

(ii) ~~The~~that the insurer can substantiate on the basis of sound actuarial methods that expected future cost bonuses are covered by expected future profits that result from prudent assumptions on future costs.

Calculation of ratios

Anti-double counting principle

77. ~~78.~~ If one type of cost is covered by two or more types of costs as referred to in ~~the present~~this Annex, ~~this~~that type of cost shall only be accounted for once in the calculation of the indicators (ratios) which are based on it.

Other specifications

78. ~~79. These~~The ratios shall be expressed as a percentage to two decimal places.

79. ~~80. These~~The ratios shall be calculated at least once a year.

80. ~~81. These~~The ratios shall be based on the most recent cost calculations which the PRIIP manufacturer has determined. Without prejudice to point ~~78,~~77 of this Annex , the costs are assessed on an ~~'~~‘all taxes included~~'~~’ basis.

As for investment funds the following shall apply:

(a) a separate calculation shall be performed for each share class, but if the units of two or more classes rank pari passu, a single calculation may be performed for them;

(b) in the case of a fund which is an umbrella, each constituent compartment or sub-fund shall be treated separately for the purpose of this Annex, but any charges attributable to the fund as a whole shall be apportioned among all of the sub-funds on a basis that is fair to all investors.

81. ~~82.~~ Apart from the first calculation for a new PRIIP, and if not stated otherwise, ~~these~~the ratios shall be calculated at least once a year, on an ex-post basis. Where it is considered unsuitable to use the ex-post figure because of a material change, an estimate may be used instead until reliable ex-post figures reflecting the impact of the material change become available.

82. ~~83.~~ The ex-post figures shall be based on recent cost calculations which the PRIIP manufacturer has determined on reasonable grounds to be appropriate for that purpose. The figures may be based on the costs set out in the PRIIP~~'~~’s statement of operations published in its latest annual or half-yearly report, if ~~this~~that statement is sufficiently recent~~; if~~. It it is not sufficiently recent, a comparable calculation based on the costs charged during a more recent 12-month period shall be used instead.

83. ~~84.~~ Information about the ratios that were applicable during previous years / periods shall be published at the location which is specified in the key information document as the general source of further information for investors who require it.

84. ~~85.~~ Where the costs attributable to an underlying UCITS or AIF are to be taken into account the following shall apply:

(a) the cost indicator of each underlying UCITS or AIF ~~is~~shall be pro-rated according to the proportion of the PRIIP~~'~~’s net asset value which that UCITS or AIF represents at the relevant date (being the date at which the PRIIP~~'~~’s figures are taken);

(b) all the pro-rated figures ~~are~~shall be added to the total cost figure of the investing PRIIP itself, thus presenting a single total.

Calculation methodology for new PRIIPs

85. ~~86.~~ In place of ex-post data, estimates shall be used in the calculation of the different types of costs. Such estimates shall be carried out by adopting as proxies either a comparable PRIIP or a peer group.

86. ~~87.~~ For PRIIPs which charge a fixed all-inclusive fee, that ~~figure~~fee shall be used (provided it includes all costs to be presented under the PRIIPs cost disclosure requirements).

87. ~~88.~~ For PRIIPs which set a cap or maximum on the amount that can be charged, (and provided it includes all costs to be presented under the PRIIPs cost disclosure requirements) ~~where instead~~ that ~~figure~~cap or maximum shall be used instead so long as the PRIIP manufacturer gives a commitment to respect the published figure and to absorb any costs that would otherwise cause it to be exceeded.

88. ~~89.~~ If, in the PRIIP manufacturer~~'~~’s opinion, expressing a figure to two decimal places would be likely to suggest a spurious degree of accuracy to investors, it shall be sufficient to express that figure to one decimal place.

89. ~~90.~~ The PRIIP manufacturer shall ensure that the accuracy of the estimated figure is kept under review. The PRIIP manufacturer shall determine when it is appropriate to begin using ex-post figures rather than an estimate; but in any case it shall, no later than 12 months after the date on which the PRIIP was first offered for sale in any Member State, review the accuracy of the estimate by calculating a figure on an ex-post basis.

II. Compound effect of the costs

Common requirements to all types of PRIIPs

90. ~~91.~~ The table(s) referred to in Article 5 ~~of this Regulation~~ shall contain an indication of the total costs in monetary and percentage terms for the case that the retail investor invests, respectively 10 000 € (for all PRIIPs except regular premium insurance-based investment products), or 1 000 € yearly (for regular premium insurance-based investment products) during different holding periods, including the recommended holding period. The holding periods to be shown are those referred to in points 14 to 16 of Annex IV. Where a product is considered not to have an alternative liquidity facility promoted by the PRIIP manufacturer or a third party, or where there is an absence of liquidity arrangements, or for those PRIIPs as referred to in point 12 of Annex IV ~~point 12, the aforementioned~~, that indication of costs may be shown only at maturity or at the recommended holding period.

91. ~~92.~~ Where the currency of the PRIIP is not in Euros, an amount of a similar magnitude to those set out in point ~~91~~90 of this Annex and which is cleanly divisible by 1000 shall be used.

92. ~~93.~~ The total costs shall include one-off, recurring and incidental costs, and, ~~if~~where relevant, exit penalties.

93. ~~94.~~ Exit penalties are to be distinguished from other exit costs which have to be paid in any case and therefore always need to be included in the one-off costs.

94. ~~95.~~ The relevance of exit penalties depends on the holding period of the investment and the exact moment when the product is cashed in. Exit penalties are not relevant if the investment is kept for the recommended holding period.

ANNEX VII

PRESENTATION OF COSTS

The Reduction in Yield (RIY) shows what impact the total costs you pay will have on the investment return you might get. The total costs take into account one-off, ongoing and incidental costs.

The amounts shown here are the cumulative costs of the product itself, for three different holding periods. They include potential early exit penalties. The figures assume you invest [€10 000 (OR €1000 each year for regular premium PRIIPs)]. The figures are estimates and may change in the future.

Table 1

Cost over time

The person selling you or advising you about this product may charge you other costs. If so, this person will provide you with information about these costs, and show you the impact that all costs will have on your investment over time.

Investment [€10 000] Scenarios	If you cash in after [1] year	If you cash in after [recommended holding period/2]	If you cash in [at the end of the recommended holding period]
Total costs	[]	[]	[]
Impact on return (RIY) per year	[]%	[]%	[]%

Table 2

Composition of costs

The table below shows:

– ~~The~~the impact each year of the different types of costs on the investment return you might get at the end of the recommended holding period;

– ~~What~~the meaning of the different cost categories ~~mean~~.

This table shows the impact on return per year			
One-off costs	**Entry costs**	[]%	The impact of the costs you pay when entering your investment. [This is the most you will pay, and you could pay less]. *[AND/OR where the costs are embedded in the price, for instance in the case of PRIPs other than investment funds]* The impact of the costs already included in the price. [This is the most you will pay, and you could pay less]. [*Where distribution costs are included in entry costs*]This includes the costs of distribution of your product.
	Exit costs	[]%	The impact of the costs of exiting your investment when it matures.
Ongoing costs	**Portfolio transaction costs**	[]%	The impact of the costs of us buying and selling underlying investments for the product.
	Insurance costs	[]%	[*Where full biometric risk premium presented]* The impact of the amount you are paying to buy insurance protection. *[Where cost part of the biometric risk premium presented]* The impact of insurance costs (the amount you are paying for insurance cover which exceeds the estimated value of insurance benefits)
	Other ongoing costs	[]%	The impact of the costs that we take each year for managing your investments.
Incidental costs	**Performance fees**	[]%	The impact of the performance fee. We take these from your investment if the product outperforms its benchmark [y by x%].
	Carried interests	[]%	The impact of carried interests. We take these when the investment has [performed better than x%]. [A payment of y% of the final return will take place subsequently to the exit of the investment.]

On the same basis, the additional impact of your insurance premium payments (equivalent to the estimated value of insurance benefits) is [x%]. Details of the insurance benefits such as death benefits are in the section “what is this product”.

For PRIIPs offering a range of options for investment, PRIIP manufacturers shall use the table 1 and table 2 of this Annex for the presentation of the costs, showing for each of the figures in each table, as relevant, the range of the costs.