



JOINT COMMITTEE OF THE EUROPEAN
SUPERVISORY AUTHORITIES

14 September 2015
JC 2015 056

Statement by Steven Maijor, Chair of the ESAs Joint Committee

Economic and Monetary Affairs Committee
European Parliament

Scrutiny meeting on 14 September 2015 – Packaged Retail and Insurance-based Investment Products (PRIIPs)

Dear Chair, dear Members of the European Parliament, ladies and gentlemen,

I am pleased to have this opportunity as the current Chair of the Joint Committee of the three European Supervisory Authorities (ESAs) to update ECON on the work on the regulatory technical standards (RTS) under the Regulation on Packaged Retail and Insurance-based Investment Products (PRIIPs).

The work on the PRIIPs Key Information Document (KID) is one of the most important projects that has been undertaken so far by the Joint Committee, particularly given its relevance to investor and consumer protection. As I have said in the past, I believe that the PRIIPs KID will in many ways be the most visible evidence of the work of the ESAs for the average citizen in the EU.

The ESAs started their preparatory work on PRIIPs back in 2012, and intensified their efforts following the political agreement on the PRIIPs Regulation in April 2014. I would like to stress the open and transparent approach that the ESAs have taken to their work so far, as demonstrated by the publication of two discussion papers and the creation of a specific panel of experts drawn from consumer representatives, academia and industry. The next key step will be the publication of a consultation paper on the draft RTS in November.

Another aspect that I would like to highlight is that the ESAs are benefiting from the European Commission's extensive consumer testing exercise. On such a major investor

protection initiative, it is crucial to ensure that the policy choices are informed by feedback from real consumers.

I think we would all agree that the success of the KID will depend on the presentation and content of the document. The ESAs have therefore focused their efforts thus far on the RTS that address those two aspects, with a view to meeting the deadline of 31 March 2016. However, in the course of the work it has become clear that there is a strong interaction between those RTS and those concerning review/revision of the KID and delivery of the KID, respectively. On behalf of the Joint Committee, therefore, I would like to inform you that we see merit in aligning the deadlines for all the RTS on which the ESAs are working so that a comprehensive package would be delivered by the end of March. We will formally contact the Commission and the co-legislators on this issue shortly.

I will now say a few words about three of the most important topics being addressed by the ESAs. When making these remarks I would like to underline that discussions are continuing within the ESAs and that final decisions on what we will put in the upcoming consultation paper have not yet been made. However, I will try to provide Members with as clear as possible an indication of the direction of travel, and the ESAs look forward to considering any comments you may have when finalising the work in the coming months. I will start with reflections on the disclosure of risk, followed by those related to costs and returns.

Risk

It is clear that the risk indicator in the KID will be one of the main elements that consumers consider when making their investment decision. We have been looking at the best ways to present the risk indicator in the KID, and at the methodology that should be used to calculate the risk level of a particular product. On the presentational side, we will be guided principally by the feedback from the consumer testing that I mentioned earlier. In this regard, the simplest presentations appear to be better.

Regarding the methodologies, three of the approaches set out in our recent technical discussion paper are still under consideration. One approach would make use of both qualitative and quantitative criteria, while the others would be purely quantitative in nature. We have been analysing carefully the feedback to our technical discussion paper, in order to help us narrow down the policy options on this point, and to help us in ensuring we take account of the full range of different kinds of PRIIPs.

I would like to stress that there is no perfect solution to the challenges around risk disclosure and there will always be trade-offs to be made. The simpler the presentation, the less the discrimination between products with different risk profiles. But communicating reliable, strong and clear messages on risk is crucial in building the trust of retail investors, and we are confident that our final proposals in this area will be a significant step forward on risk disclosure for investment products.

Costs

We know that many consumers do not pay enough attention to costs when making an investment decision. From that perspective it is positive that the PRIIPs Regulation foresees that information on costs will be sufficiently prominent in the KID. We also know that consumers face particular challenges when assessing information on costs, notably when trying to compare costs of different products with different cost structures. It is this challenge on which we have been focusing in our work on the RTS on cost disclosure.

The key objective is to provide comprehensive information on costs by means of a summary cost indicator. This should include both explicit and implicit costs. It is also important to capture costs charged on a one-off basis and costs arising on an ongoing basis. We are confident we will be able to make significant improvements to transparency whilst ensuring a level playing field between different products.

As for our work on PRIIPs generally, we have to give due consideration to the specific characteristics of certain products. In the context of costs, a good example would be the biometric risk premiums of insurance products. Here we need to take into account the importance of informing the investor while recognising the particular nature of this cost.

Return

The last point on which I would like to make a few remarks relates to the disclosures on the potential return of a PRIIP.

We have been considering several options for the disclosure of this information: so-called 'what-if' scenarios, a probabilistic approach, or a combination of the two. Under the first option, product providers would describe how the product would perform under different market conditions, but no information would be given on the likelihood of each scenario. The

second option would consist of defining the scenarios disclosed in the KID according to the likelihood of the possible returns. Under this approach the probabilities themselves may or may not be disclosed in the KID. The ongoing consumer testing suggests that there can be real challenges for retail investors in understanding the probability information. Simpler information, again, is probably better.

I hope that this brief introduction has been helpful and I am looking forward to hearing your views on our work on PRIIPs.

Thank you for your attention.