	Comments Template for Joint Consultation Paper concerning amendments to the PRIIPs KID (JC 2018 60)	**Deadline** **6 December 2018** **23:55 CET**
Name of Company:	**BlackRock**	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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Reference	**Comment**	
General Comments	**General Comments** BlackRock supports the goal of increasing transparency, competition and choice for retail financial products, and welcomes the opportunity to highlight our concerns with the PRIIPs KID. The PRIIPs Regulation is an important cornerstone to deliver this ambition by ensuring that retail investors are provided with meaningful and comparable information. With our experience of the UCITS KIID, we have seen the value of such standardised disclosures and we remain fully committed to the ambition to develop a clear, meaningful and comparable information for consumers for all savings products. There are a number of issues with the requirements of PRIIPs, which hinder effective consumer decision-making, which we set out below.	

We welcome the ESAs' Consultation as an opportunity to highlight our concerns. We support the overall policy objective of ensuring that all retail investment products are subject to standardised disclosure standards. Until the issues we, and others across the industry, have identified with the PRIIPs disclosure requirements have been resolved, it is premature to replace the current investor information requirements in the UCITS KIID. We welcome initiatives in the European Parliament to extend the current exemption of UCITS from PRIIPs disclosure standards beyond the current expiry date of December 2019 until concerns about the underlying methodologies have been resolved, particularly in relation to the reporting of transaction costs and past and future performance. This will have the key benefits of delivering improved disclosure to investors while also minimising the number of changes investors have to assimilate.

A confusing patchwork of transparency disclosure standards

PRIIPs does not sit in isolation. At the same time as its introduction, additional cost transparency requirements were introduced in MiFID II. The practical application of these new standards has presented both market participants and investors with a number of challenges. Crucially, there is no consensus on how to measure the transaction costs that portfolios incur.

Across the EU, we are seeing different conventions and methodologies emerge depending on the product (PRIIPs, UCITS) or service provided (MiFID, IDD). This adds to the confusion, as disclosures are heavily influenced by the markets in which fund managers, distributors, and investors are situated. Within the same jurisdiction, reports can be hard to compare; but across EU markets with differing standards, it becomes nearly impossible.

In this context, it is unsurprising that we are receiving ongoing feedback from investors that they do not understand the data in the new disclosure standards. The different approaches permitted under the various regulatory standards create confusion among investors as to what they are paying for, leading to increased distrust of the financial sector, rather than fostering greater trust and confidence.

While we note that the ESAs indicate that the time allotted for the current consultation does not allow for a more detailed analysis of the underlying methodologies; we urge the ESAs to ensure that issue of cost disclosure is given full analysis as part of the forthcoming full review of PRIIPs. We join the European Parliament's call on the European Commission to review the PRIIPs regulation as soon as possible and address outstanding issues identified by industry and consumer participants, including the methodology for calculating transaction costs.

Key shortcomings of PRIIPs

Our experience of producing the PRIIPs KID shows that there are a number of serious shortcomings in the final rules, which hamper consumers when comparing the features of competing retail products rather than helping them to make effective decisions. The areas that cause us the greatest concern include:

- The use of the slippage methodology to disclose implicit costs. This has the downside of obscuring trading costs by capturing underlying market movements which occur after the decision to deal has been made,
- Spreading the costs of entering, holding and exiting a product across the recommended holding period rather than showing consumers when these costs occur (rather than obscuring these by only showing them spread over the average holding period),
- The use of future performance scenarios in the KID without any reference to historic performance data is likely to mislead and disempower consumers as opposed to empowering them to look at costs and charges in the context of performance delivered by a fund.

Issues with PRIIPs go beyond UCITS but also affect retail AIFs

There are, however, a number of other retail AIFs that are not subject to the UCITS Directive such as UK investment trusts and UK NURS. These fund structures currently provide their investors with PRIIPs KIDs and it is important to acknowledge that investor issues with the PRIIPs cannot solely be dealt with by delaying the application of PRIIPs to UCITS. Amendments to the PRIIPS regime are needed to ensure that issues such as the disclosure of performance and costs are addressed promptly to minimise the impact on investors in these funds.

Confusion between charges, costs and performance

We note there continues to be significant confusion from consumers as to the use of transaction cost disclosures. We believe it is important for users to distinguish transaction costs from product and distribution charges. Transaction costs need to be assessed in the context of the net performance a manager has delivered. The failure to show historic net performance in the KID exacerbates the issue, as there is then no comparable reference point allowing consumers to link

	transaction costs to net performance. Moreover, this increases the risk of investors effectively double-counting transaction costs, where they are added on top of measures of net performance (which already reflects the impact of transaction costs) as a separate metric. This practice is commonplace in some, but not all European markets, exacerbating the inconsistency of disclosures and further confusing investors. **Concerns with the use of the slippage methodology for disclosing transaction costs** Transaction cost disclosures should be judged according to their effectiveness in helping investors make better decisions about their investments. For both new and existing portfolios, the disclosures should serve as a tool for assessing how efficiently a fund manager achieves their stated objective. Additionally, disclosures should explicitly state which costs are already included in performance figures to avoid misrepresenting their impact. We believe slippage metrics are not suited to transaction cost disclosures, given their technical nature, exposure to market volatility, and sensitivity to underlying data, which leads to repeated instances of negative transaction costs even when averaged over the three year period required under PRIIPs. Slippage does represent an important tool for portfolio managers and traders to improve investment performance as part of an analytical toolkit allowing managers to interrogate underlying data sets to assess how trading strategies can be improved. As a single measure of disclosure of costs without access to the multiple underlying trading parameters it provides a misleading view of the costs associated with a single portfolio or fund. We have received ongoing feedback from investors that they do not understand the data in the new disclosure standards. This underscores its importance in any review of the PRIIPS KID. As a result of our concerns regarding the use of slippage we have produced a ViewPoint: Disclosing Transaction Costs –The need for a common framework which provided a detailed analysis of spread methodologies over slippages as an effective consumer disclosure tool with a number of recommendations as to how to improve the data quality when using half-spread methodologies.	

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Q1	While past performance is not a guide to future performance, there a number of reasons to show past performance such as historic proof of an active manager's ability (or not) to regularly outperform the fund's benchmark or an index fund's ability to replicate the benchmark index. It is also counter-intuitive to base the estimated future performance scenarios on historic performance data without making that disclosure more explicit to investors, or ultimately showing that historic performance as well. Furthermore, we believe that showing past performance does not conflict with the Level 1 text to show "appropriate performance scenarios". The UCITS presentation of performance also demonstrates the volatility an investor may encounter (and contains detailed rules to prevent firms manipulating the data), whereas the PRIIPS scenarios necessarily suggest smoothed performance paths. We also note that the presentation of past performance to show market volatility in bar chart format was supported by consumer research the UCITS KIID was introduced We therefore welcome the recognition that presentation of past performance data for UCITS, and by implication, for other retail AIFs, represents a valuable disclosure mechanism for retail investors. We do, however, believe that there needs to be full consumer testing of past performance presentations, especially if these are shown alongside future performance scenarios. However, we believe there may be issues in showing performance scenarios using a different format from the bar chart for past performance. By using such different presentations (one in percentages and one in predicted monetary amounts) we doubt whether the proposed changes in their current form will protect investors from misleading information and facilitate the use of the KID by UCITS. We also share the reservations about the use of simulated future performance expressed by the Investment Association and EFAMA.	
Q2		
Q3	If past performance is to be included in the KID, we agree that the best approach is to carry over the approach used in the UCITS KIID because this approach is familiar to consumers, having been in use since 2011, and because it is the result of positive consumer testing results. Any proposals to move away from this approach should be subject to further consumer testing	

	and consultation.	
Q4	We do not believe that simulated past performance should be included in the KID if it is to be presented alongside simulated performance scenarios that are themselves partly reflecting past performance. It is not clear what the additional benefit of providing simulated past performance would be.	
Q5	As mentioned, we do not see the benefit of this approach. However, if further steps are taken in this direction, we believe it is imperative to conduct full consumer testing on the options.	
Q6	In principle, we are not opposed to making the performance scenarios warning more prominent but, in the absence of consumer testing, we cannot comment on whether a more detailed narrative will lead to higher level of consumer engagement and understanding of the performance scenarios. In the limited time available for the consultation we have not been able to test whether the inclusion of additional disclosure fields will compromise the maximum length of the KID. In the case of the UCITS KIID, a number of translated language versions are significantly longer than the base language (when this is English) and this needs to be taken into account.	
Q7	We believe that the ESAs should not pursue these options without more time to properly analyse and test these options with consumers. We agree with the reasons set out by EFAMA and the Investment Association, especially as these outcomes have already been subject to trial and testing at the original level 2 process.	
Q8	We believe that the use of projected performance scenarios for an investment product whose value is linked to variable market performance raises many concerns. In particular, these scenarios anchor consumer behaviours regardless of how they are calculated and presented, and the difficulty in finding an approach that provides balanced and meaningful information for	

	consumers demonstrates that this is the case. We support the EFAMA analysis that the issues are not simply related to presentation but also to the underlying methodology used.	
Q9	<u>Products using a glidepath or lifecycling strategy</u> We believe it will be helpful to have an extra character limit, especially in respect of products using a glidepath or lifecycling strategy, where the SRI will inevitably change over the lifetime of the product, and if a cross reference to a more detailed product description is permitted. <u>Performance fees</u> We agree it may be helpful to expand the number of permitted characters to provide a more comprehensible explanation of performance fees operate, especially if this allows cross reference to a more dynamic presentation in, say, the fund's prospectus. <u>Use of RIY figures</u> Our preferred solution would be to avoid using any RIY figure as this is inevitably an arbitrary figure and will have the effect of anchoring investor expectations around this rate. We also recommend showing actual costs on a year-by-year basis rather than amortising every cost over the entire holding period.	
Q10	Our experience is that professional investors do not rely on the KIID as part of their due diligence process. We agree with EFAMA's comments in this respect.	
Q11	As mentioned above, there will be significant additional costs in making two sets of investor disclosure documents for UCITS, i.e. one for retail clients under PRIIPs and one for professional clients under the existing UCITS rules. In addition, we would draw the ESAs attention to the very significant amount of work required to transition from one disclosure	

	document to another. This requires managers to prepare new disclosure language, cost and performance calculations, prepare multiple language translations, carry out detailed testing and ensure external delivery mechanisms are fully functional. In BlackRock's case, this represents the production of many thousands of individual documents. As of December 2018 BlackRock produces 44,449 UCITS KIIDs representing 616 unique funds, 3439 unique share classes translated into 17 languages. Given the volume involved, transitioning consumers to a new disclosure regime means that a clear 12-month period at a minimum is needed to implement all these changes efficiently and to ensure proper quality control is conducted.	
Q12		
Q13	As mentioned in our general introductory remarks, we regret that a review of the methodologies used to calculate transaction costs has not been addressed.	