30 September, 2021

Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Submitted by e-mail to: cp21-23@fca.org.uk

Dear CP21-23 Team,

CFA UK and CFA Institute Joint response to the FCA regarding CP21/23: PRIIPs – Proposed scope rules and amendments to Regulatory Technical Standards

The CFA Society of the UK (CFA UK) and CFA Institute [1] are pleased to respond jointly on this topic. In January 2020 [2] CFA Institute, with input from CFA UK, submitted comments to the EU and ESMA on this topic and CFA Institute and CFA UK determined to continue this collaboration on this response.

It has been clear for some time that elements of the current Packaged Retail and Insurance based Investment Products ("PRIIPs") Key Investment Document ("KID") detract from rather than assist investors' understanding of many if not all PRIIPs offered in the market and that, as a consequence, retail investors often do not closely read the KID when they invest in a PRIIP.

We support the FCA's intention to address these issues, though are mindful that funds sold into both the UK and EU markets will in future have to produce two KIDs as a result of any changes that the FCA implement, as well as other pre-sale disclosures such as MiFID ex-ante cost disclosures. It is therefore hugely important that any changes implemented are effective and that the FCA and EU continue to work closely together in the coming months and years to ensure that the EU and UK KID formats are similar, if not identical. Investors ultimately have to bear the costs of producing these documents and these costs should be no higher than necessary.

We have provided responses to the questions 1-15 in the consultation in Appendix II. We are broadly supportive of many of the reforms but have some suggestions and remarks in certain areas as summarised below:

SCOPE - 'CoCos' and 'Hybrids': we believe the FCA should add to the clarifications made in 2.16d (that subordinated and perpetual bonds are not PRIIPs) by explicitly stating that contingent capital notes (CoCos) and contingent extendable capital notes (hybrids) are not PRIIPs. Such

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[1] CFA UK's mission is to help build a better investor profession for the ultimate benefit of society. We refer you to Appendix 1 for a brief overview of both CFA UK and our umbrella organisation, CFA Institute.

[2] CFA Institute response to the EU/ESMA (January 2020): https://www.cfauk.org/-/media/files/pdf/professionalism/response-form-for-the-joint-consultation-paper-concerning-amendments-to-the-priips-kid.pdf

bonds are corporate and not packaged issuances but become more subordinated (convert to equity) or become perpetual as a result of certain credit deterioration triggers after issuance.

SCOPE - 'Made available guidance': we are content with the FCA's proposal in this area but would observe the risk that even bonds with minimum denominations of 100k (especially CoCos and hybrids as referenced above) can trade in secondary markets at deeply discounted prices and so become affordable for 'pure' retail investors at times of corporate distress.

Summary Risk Indicator ("SRI") Scores: we disagree with the FCA's proposal that those PRIIP manufacturers who conclude their SRI should be higher than the calculated value should be required to override the calculated SRI and record a higher SRI on the KID. We believe that PRIIP manufacturers in such an instance should for the sake of consistency continue to be required to register the SRI as derived by the methodology but be required to register the grounds behind their higher risk assessment in Element E.

PAST PERFORMANCE: we agree with the FCA's proposal to remove the performance scenarios from the KID but we do not agree that past performance metrics should be excluded. The draft rule presented in Annexe 4a.4 represents a good starting point but we would underline our view that past performance data is best presented in tabular format. Furthermore, the inclusion of a derived historical gross performance number can be misleading; we agree that performance should be shown on a gross and net basis.

SCOPE - EIS/SEIS FUNDS: we think EIS and SEIS fund investments should be specified as falling within the PRIIPs regulation and with a default SRI of 6.

COSTS – BOND TRANSACTIONS: we support the proposals under 18A a), but have some concerns, not with the intention behind, but with the implementation of proposals under 18A b). We are concerned that consistently measuring slippage costs across all firms in these areas of the OTC bond markets may not be practicable in the absence of a set of industry maintained and FCA recognised standards and robust internal governance. We are unsure whether the benefits will outweigh the costs of establishing and maintaining these standards and additional governance.

COST BENEFIT ANALYSIS: we disagree with the FCA's CBA. Firstly, PRIIP manufacturers will have ongoing costs since, if implemented, the proposals will require firms to publish and maintain reporting infrastructure to publish two separate KIDs for every fund. Secondly, we believe consumers will likely over time suffer a reduction in choice as some PRIIP manufacturers decide they do not wish to sustain the ongoing costs of producing separate KIDs for the UK and EU markets. Neither of these costs is considered in the CBA.

CFA UK and CFA Institute welcome the FCA's consultation paper on this matter.

Should you have any questions or points of clarification regarding this letter or our responses to the questions, do not hesitate to contact us.

Yours sincerely,

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and the oversight of the Professionalism Steering Committee.

APPENDIX I: About CFA UK and CFA Institute

CFA UK serves nearly twelve thousand leading members of the UK investment profession. Many of our members work with pension funds, either managing investment portfolios, advising on investments, or as in-house employees responsible for pension investment oversight.

- The mission of CFA UK is to build a better investment profession and to do this through the promotion of the highest standards of ethics, education and professional excellence in order to serve society's best interests.
- Founded in 1955, CFA UK is one of the largest member societies of CFA Institute and provides continuing education, advocacy, information and career support on behalf of its members.
- Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.
- For more information, visit www.cfauk.org or follow us on Twitter @cfauk and on LinkedIn.com/company/cfa-uk/.

CFA Institute is the global association for investment professionals that sets the standard for professional excellence and credentials.

- The organisation is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.
- It awards the Chartered Financial Analyst® (CFA) and Certificate in Investment Performance Measurement® (CIPM) designations worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.
- CFA Institute has members in 162 markets, of which more than 170,000 hold the Chartered Financial Analyst® (CFA) designation. CFA Institute has nine offices worldwide and there are 158 local member societies.

For more information, visit www.cfainstitute.org or follow us on Twitter at @CFAInstitute and on Facebook.com/CFA Institute.

CFA Society United Kingdom

APPENDIX II: Responses to questions

Q1: Do you agree with our proposed rules to clarify the scope of the PRIIPs regime?

Yes, though there are some areas of ambiguity which we highlight in our answer to question 2 below.

Q2: Are there remaining areas of ambiguity in the scope of the PRIIPs Regulation which would not be addressed by the proposed rules, and if so, which?

We highlight the following areas not specifically addressed in the consultation paper in order that the final rules will be clear:

a) **Contingent Capital Bonds ("CoCos"):** are bonds issued by banks for capital raising purposes. One key feature is that they convert to common equity in the event that the bank's core-tier 1 ratio falls below a specified trigger level. If triggered into equity, CoCos may convert into equity either at a share price specified in the offering prospectus or (more commonly) at a share price to be based on the prevailing share price at the time the T1 ratio is triggered. In both cases, but especially the former, with the issuing bank's capital ratios under pressure presumably due to material write-offs and losses, the valuation of the CoCos is likely to be significantly impaired. The nature of these CoCo bond features therefore is very different from the nature of those features specified in the consultation paper - such as make-wholes, change of control puts, puts, premium calls and par calls -where bondholders stand to at least be repaid par and in some cases significantly more.

   In our view the nature of a CoCo is nonetheless that of a corporate security, albeit one which has significant downside contingent risk if the bank issuer were to suffer material capital losses. Furthermore, we note that in some transactional venues, where limited information is made available, retail investors can be easily drawn to purchase CoCos due to the fact that they offer more generous coupons than senior or even other subordinated debt of the same issuer whilst the additional risks may not be always clearly disclosed.

   All sterling denominated issuances of these instruments have been with a minimum denomination of £100k or more, but as we observe in our answer to question 3, this need not preclude retail buying through the secondary markets and we note EUR-denominated bonds of 1k minimum denomination CoCos currently exceeds EUR40bn and that EUR22bn of this has been issued since 2009.

   We propose that the FCA make specific reference to CoCos also <u>not</u> being PRIIPs in the PRIIPs Regulation.

   We also suggest that the FCA considers to put in place a new, specific and targeted disclosure obligation on CoCo issuers such that retail investors can and must be made aware of these downside risks <u>at the point of purchase</u> (both in primary and secondary markets) in an easily digestible document (the prospectus is typically not digestible by a retail investor).

b) **Hybrid Capital Bonds ("Hybrids"):** are subordinated perpetual bonds issued by corporates which the issuer intends to call at par after a certain term (usually of between 5- and 10-years) but which become extendable into much longer-dated and often perpetual securities at the issuer's option (usually to preserve a rating). The coupon may step-up to offer bondholders some compensation, but it is rarely sufficient to compensate for the maturity extension on a subordinated security at a time of material credit impairment.

As with CoCos, all the terms are also spelled out in the offering circular at issuance and the risks are all related to the corporate issuer rather than to another referenced index or security such as in a truly packaged security. However, Hybrids carry material downside risks and we note that in some transactional venues, where limited information is made available, retail investors can be easily drawn to purchase Hybrids due to the fact that they offer more generous coupons than senior debt from both the same and similar issuers whilst the additional risks are may be not always clearly disclosed.

We note that currently there are Hybrids with an aggregate market capitalisation of EUR16bn outstanding]. All sterling denominated issuances of these instruments have been with a minimum denomination of £100k or more, but as we observe in our answer to question 3, this need not preclude retail buying through the secondary markets and we note EUR-denominated bonds of 1k minimum denomination CoCos currently exceeds EUR16bn and that EUR12bn of this has been issued since 2009.

We propose that the FCA make specific reference in the PRIIPs Regulation to Hybrid Capital Bonds (as well as perpetual bonds) also <u>not</u> being PRIIPs.

We also suggest that the FCA considers to put in place a new, specific and targeted disclosure obligation on issuers of hybrids such that retail investors can and must be made aware of these downside risks <u>at the point of purchase</u> (both in primary and secondary markets) in an easily digestible document (the prospectus is typically not digestible by a retail investor).

Q3: Do you agree with the proposed guidance on conditions for a PRIIP to be regarded as not made available to retail investors?

We agree with the proposed guidance in 2.22 [3].

In this way, structured bond issuance directly off an issuer's MTN shelf programme or packaged by an investment bank for a specific institutional client could be issued without need of a KID.

However, this does not preclude a retail investor subsequently acquiring such bonds in secondary markets if the original institutional buyer sold them.

Furthermore, if the issuer became distressed and was at a heightened risk of default, the bonds (especially if they were also subordinated/hybrid/contingent capital instruments) could trade at deeply discounted prices such that the £100k minimum denomination would no longer be a defence against the eventuality of them being purchased by a small retail investor – a £100k bond trading at 10% would only cost £10k.

We suggest that the FCA either:

a) Acknowledge this risk but conclude that the risk of harm is lower than the cost of putting in place further regulation to deal with it

[3] Though we believe 2.22C should read "the financial instrument is issued at a minimum denomination value of £100,000 or <u>HIGHER</u>" (not under)

b) Puts in place a new, specific and targeted disclosure obligation on issuers of structured issuances (the corporate or their sponsor investment bank depending on which of these has done the packaging) such that retail investors must be made aware of these downside risks at the point of purchase in the secondary market. We would suggest that the current KID document was not designed to cover such issuances and that a new disclosure document be designed for this purpose.

Q4: Do you agree with our proposal to remove the requirement for the KID to display performance scenarios?

We agree with the proposal discussed in 3.13, namely, as a more immediate remedy, the removal of the requirement for PRIIPs manufacturers to display performance scenarios in the KID and, instead, the addition of a requirement that PRIIPs manufacturers provide other types of information on performance. However, a holistic treatment is required to avoid unintended inconsistencies. For example, under the proposed rules (Annex VI (71) (a)), the Summary Cost Indicator would continue to be presented as a reduction in yield (RIY) without a corresponding disclosure of the underlying moderate performance scenario rendering the RIY number even less meaningful than it currently is.

Q5: Do you agree with our proposal to require PRIIP manufacturers to include a narrative description of the performance in the KID?

We agree with the proposal to require PRIIPs manufacturers to include a narrative description of the performance in the KID, where that narrative expands on, rather than duplicates, the information included in existing disclosures as required under article 2(2) of the RTS. Considering the requirement to keep the KID to a prescribed length, the desire to provide information that is comparable between KIDs, and the need to provide the information in a form that is understandable to a retail investor, we believe that specifying the standard factors that the narrative should cover (where a factor is applicable) would be of benefit and that manufacturers should be required to focus only on the material risks and to avoid boilerplate language.

Furthermore, firms would be expected to disclose other factors appropriately based on their performance attribution. We believe the narrative should highlight the key drivers to the fund's past performance and describe the historic degree of sensitivity to them.

Referencing para 3.17, in Policy Statement 19/4, section 3 Benchmarks, the FCA has considered benchmarks in three categories: constraints, targets and comparators, and has provided discussion of the management of funds with reference to a benchmark and funds not managed with reference to a benchmark, and particularly note the following 'We agree that some funds will not be managed with reference to a benchmark. There may also not be a readily available benchmark that corresponds with the way a fund is run. However, fund managers must still be able to explain how else to assess their fund's performance.' We believe this approach also applies to PRIIPs and replication of the proposals on use of benchmarks in PS19/4 should apply to the narrative description of the performance in the KID.

Q6: Do you agree with our decision not to include past performance as part of our proposals for information on performance?

We do not agree with the proposal to not include past performance in the KID where it is available.

a) If not, can you explain why you think the addition of past performance in the KID alongside a narrative description of performance would be useful to consumers and their decision making?

We believe that past performance since inception of the product should be included in the KID. It is the measurement of the actual performance of the product being marketed. We believe that prospective investors are able to distinguish between actual performance and future returns, and the addition of the proposed narrative will help mitigate potential cognitive bias that could lead potential investors to assume past performance is repeated in the future. Research shows that investors seek out the past performance of products that they are considering for investment and, therefore, by providing past performance information in a controlled manner alongside complementary narrative information, the KID will provide all the relevant information rather than the investor sourcing the performance information from a third party which may not provide consistent or comparable information across PRIIPs and is unlikely to tie to the narrative provided in the KID.

In PS 19/4 paragraphs 3.12 to 3.18 refer to the presentation of past performance against benchmarks, including the FCAs response to feedback they received to CP 18/9 regarding this topic.

We believe that comparison of the past performance of a product compared to a relevant benchmark (comparable), provides useful information to the investor and further distinguishes actual product past performance and market returns from the theoretical potential future returns. We would encourage a consistency of approach to benchmarks as indicated in PS 19/4 in these proposals.

Finally, we believe that a table of calendar year past performance (including since inception to end of first calendar year and from end of prior calendar year to date (if not calendar year end)) of both the product and relevant comparable is the most informative method to present past performance. A cumulative graph showing two lines (product and comparable) could be included as well as, but not instead of, the table. A graphical representation, particularly when constrained in size, does not readily allow comparability between products for specific periods and when products have unique inception dates.

As the KID will be required to be updated regularly we do not believe that the past performance information would be ‘stale’ or require manufacturers to produce revised KIDs more frequently.

Q7: Do you agree with our proposal to require PRIIPs manufacturers to upgrade a product’s SRI score where the score resulting from application of the RTS methodology seems to underestimate the level of risk?

We disagree with your proposal to require PRIIPs manufacturers to upgrade a product's SRI score if the manufacturer considers that the risk rating score resulting from application of RTS methodology is too low. The manner in which this proposed change is laid out implies that it would be the responsibility of the manufacturer to determine whether the calculated SRI is too low, which leaves room to interpretation and an unclear prospective liability.

We note that PRIIPs manufacturers are already required to disclose, at element E, an explanation of the risks materially relevant to the PRIIP which could not be captured by the SRI and note in 3.34 that you expect, in most cases where a disclosure would be included in element E, this would lead to an upgrading of the SRI.

We considered a recommendation that both the calculated SRI and the upgraded SRI be included in the KID but concluded that the inclusion of two SRI in a KID could be confusing.

We note the concerns raised in para 3.27.

Taking all of the above into consideration, our opinion is SRI scores should not be tampered with in a judgmental manner, but that any factor that the manufacturer estimates would impact the level of risk entailed by a product and not considered as part of the SRI should be clearly presented as part of element E.

We wish to note that the responses to Q7-9 consider a product in isolation rather than the product as part of a portfolio of investments and acknowledge that as a component in an individual's broader portfolio the risk associated with a product may be considered lower, but as each PRIIP can be purchased independently of any other we have considered these products on a standalone basis.

Q8: Do you agree with our proposal that PRIIPs which are issued by venture capital trusts should be assigned a summary risk indicator of at least 6?

We agree with the proposal that PRIIPs which are issued by VCTs should be assigned a summary risk indicator of at least 6. The illiquidity of the underlying investments, the requirements in order to qualify for the favourable tax treatments, which are granted to attract investment to these higher-risk enterprises and that can be a significant proportion of the return, and the potential for the rules that determine what qualifies to be in a VCT to change (which has occurred in recent years in order to maintain focus on higher-risk companies) all increase the risk associated with these products which should be reflected in the assigned SRI.
We are considering VCTs that hold listed and/or unlisted securities.

Q9: Are there other PRIIPs in respect of which the FCA should specify a summary risk indicator?

Yes.

a) If so, please let us know which, with your reasons and any evidence you may have.

EIS and SEIS funds should be treated similarly to VCTs and therefore we suggest they be specified as at least SRI 6.

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Q10: Do you agree with our proposal to increase the character limit for disclosures of uncaptured risks?

We believe that in order to include material information that better informs the retail investor, there should not be a character limit for disclosures of uncaptured risks. There may be a need to describe in plain language that avoids jargon and technicalities to deliver a better and more complete summary to the retail investor.

Q11: Do you agree with technical amendments we are proposing to make to the PRIIPs RTS for transaction costs.

We note the pre-disposition of the FCA to not reopen the discussion of whether the slippage methodology is an appropriate measure for the purposes of PRIIPs transaction cost disclosures, but we believe that the inclusion of slippage inadvertently includes other elements of market risk (beyond market impact) within transaction costs.

As background to our answers, CFA Institute conducted a EU-wide survey[1] of its membership in December 2019 on the topic of product governance and investor information regulatory requirements. Our objective was to ask our member community how product governance, the relationship between manufacturers and distributors had evolved since the introduction of MiFID II and PRIIPs. We also wanted their views specifically on the key information document.

Implicit transaction costs and slippage remain a point of contention, especially for OTC instruments. In the CFA Institute survey, 36% of respondents agreed slippage is an integral part of the transaction costs borne by investors and should be reported in the KID (while 34% disagreed), 47% thought slippage represented market risk rather than a cost to investors (while 20% disagreed), and 35% agreed the slippage calculation method should be adjusted for OTC instruments and non-financial assets.

With such a background in mind, we would suggest that firms be allowed to use the spread methodology described under 21(c) in lieu of the slippage methodology (arrival price based) where a firm deems it to present a fairer and more representative evaluation of ongoing transaction costs, with internal governance and controls to evidence the validity and honesty of the approach chosen. We recognise that this could lead to inconsistency of approach from firm to firm in the absence of any industry collaboration and, in an ideal world, codification.

We justify this viewpoint by observing that OTC instruments may often not benefit from bid or offer prices for a prolonged period of time, as has been demonstrated numerous times since the 2007-2009 Global Financial Crisis. The argument made under paragraph 4.17 frequently does not hold in OTC fixed income markets. For this reason, it may be justified to determine that transaction costs evaluated according to 21(c) should not be limited to just the exception cases set out in 21(c) and firms should be allowed to use the spread methodology (with relevant internal governance) where transaction costs based on the arrival price methodology may lead to numbers that may seem misleading or not appear to be a fairer representation of market conditions than the slippage approach.

In essence, the requirement to provide a fair, clear and not misleading pre-sale disclosure should prevail as guiding principle.

As a final point, we note that these changes to the PRIIPs RTS are applicable to PRIIPs KID disclosures, but it is unclear whether the MIFID II ex ante costs and charges disclosure requirements applicable in relation to marketing to UK based investors (and related subsequent MiFID II ex post costs and charges disclosures to UK based clients) continue to reference the European regulation or refer to these requirements in the new PRIIPs RTS. CFA UK would welcome clarification to avoid ambiguity. To the extent changes referred to in Questions 12-15 lead to a divergence between UK and EU versions of the PRIIPs KID, it would be preferable to have a consistent treatment between MiFID II costs and charges and PRIIPs disclosures required to be provided to UK investors.

See also our response to Q13 for a more precise view as regards OTC bond transactions.

Q12: Do you agree with our proposed amendments in relation to anti-dilution?

We agree with your proposed amendments in relation to anti-dilution.

Q13: Do you agree with our proposed clarification in relation to OTC bond transactions?

Partially. Not for all bond transactions.

We believe the proposed revised methodology has merit and will prove effective in most market conditions in relation to sovereign and benchmark corporate bonds which are sufficiently liquid such that, in relation to an investor purchase, there is a reasonable likelihood of another market-maker making a 'real' bid, so enabling a fair and realistic two-way market in that bond security for the purposes of calculating a mid-price.

We have concerns, however, about the implementation of the proposed methodology as laid out in 18A b) and specifically limb ii) thereof.

This methodology will need to be effective not only for illiquid bonds, such as unrated securities, private company issuances, structured issuances and sub-benchmark bonds. We would also underline that this methodology will need to extend to a much wider set of bonds when markets become 'stressed'. In 'stressed' markets, even some sovereign and benchmark corporate bonds trade 'by appointment'.

Our concerns in relation to limb ii) of 18A b) are not in the intention behind the drafting but, as stated above, its implementation. We have two specific points of detail to raise:

- Limb ii) could allow firms a lot of latitude about how they might identify a "transaction in assets bearing similar characteristics (….) and liquidity". Whilst this latitude is indeed helpful in giving firms sufficient flexibility to fairly assess transactions in all types of asset, in the absence of more specific guidance it is likely to lead to different assessments by firms and so to inconsistent measurement and recording of slippage costs across firms.
- Bid/offer spreads are not a constant for any type of bond as they fluctuate, sometimes considerably, as markets become stressed and normalise again. Thus, assuming the bid/offer spread is, say 0.25% on a price-basis for a 10-year AA, for example, in all markets may lead to an understatement of slippage at times of high liquidity (leading to

negative transaction costs) and exacerbate illiquidity in stressed markets as firms will be less inclined to incur the greater slippage costs of trading in these markets.

A solution to both of these issues might be the publication of (a) detailed grid(s) which the whole industry could work with. This grid could stipulate the bid/offer spread to apply to bonds of each type etc. and extend it out by effective duration. Perhaps three separate grids could be designed to reflect the variation in these bid/offer spreads in markets exhibiting different degrees of stress with the level of stress defined by certain objective criteria.

This level of detail is not best housed in regulation, however, but rather in a set of 'standards' maintained/updated by a professional organisation such as ICMA, the ABI or the IA. The standards could be maintained by a standing committee to which firms could turn to for independent adjudication in cases/circumstances which the grids did not cater for. In turn the grids could be updated to reflect the learnings from these referrals. In time, these standards could be recognised by the FCA through its code recognition process.

We would propose that the FCA:

a. applies its proposed methodology (arrival price or best bid/best ask) only to more liquid sectors of the bond markets. This could be defined, for example, as applying only to transactions in benchmark bonds, included in major recognised indices with a minimum of two ratings and a minimum issuance size;
b. or, as a secondary solution if the proposed methodology proves inappropriate or infeasible in particular market circumstances, explores the feasibility of the industry establishing a set of recognised standards as we suggest above before it moves forward with their proposed approach under 18A(b) for all bond transactions that do not meet the required criteria in a) above. We are unsure that the benefits will outweigh the costs of establishing and maintaining these standards and additional governance.
c. or, as a third option, explores the possibility of defining industry default slippage costs to apply for transactions that do not meet the required criteria in a). This default cost could I) apply immediately as an interim measure until the industry agrees on standards as outlined in b), and II) be quite penal such that the investment industry is motivated to come together and agree standards as outlined in b).

Q14: Do you agree with our proposed shift to a spread model in calculating costs for index-tracking funds?

We agree with the proposed approach, except where they relate to bond tracker-funds that invest in non-benchmark securities such as those described in our response to question 13 above and specifically limb ii) of 18A b).

Q15: Do you agree with our proposal to clarify how to calculate the average price of transaction costs?

We agree with the proposed approach.

Q16: Do you have any comments on our cost benefit analysis?

We do not agree with the CBA in Annex 1 (27-31) which omits two costs in our view:

The UK's divergence from the EU is now leading to an additional and ongoing burden on firms requiring the parallel production, governance and maintenance of two KIDs (with their different underlying data sets) for each PRIIP. Therefore, we believe the statement at the end of paragraph 27 that "there will be no ongoing costs as a result of the proposal" to be wrong and by extension the table in paragraph 31.

These increased costs will likely lead to investment firms across the UK and EU revisiting and scaling back their existing product base and their plans to market products cross-border to both UK and EU domiciled investors. Over time this would reduce choice for end investors in both the UK and EU markets. We believe this likelihood should also be recognised in the table in the box for Consumer Costs in paragraph 31.

The timing of the proposed rules and the fact that these are not yet issued in final form as yet does not leave significant time for firms to republish KIDs ahead of the intended effective date of 1 January, 2022, and may lead firms to deploy tactical fixes and manual overrides leading to additional costs and unintended manual errors. Given the significance of the performance narratives, which are being introduced as a new non-quantitative disclosure item, it is important to provide firms a meaningful period of time to implement system changes with appropriate testing, and ideally no less than six months from the point of the publication of the final rules. It would be less disruptive to coincide the timing of the effective date with the EU RTS (1 July 2022) to alleviate the impact of systems changes on firms with an EU-domiciled customer base.