



Society of Actuaries in Ireland

PRIIPs - A Regulatory Update
Brian Walsh

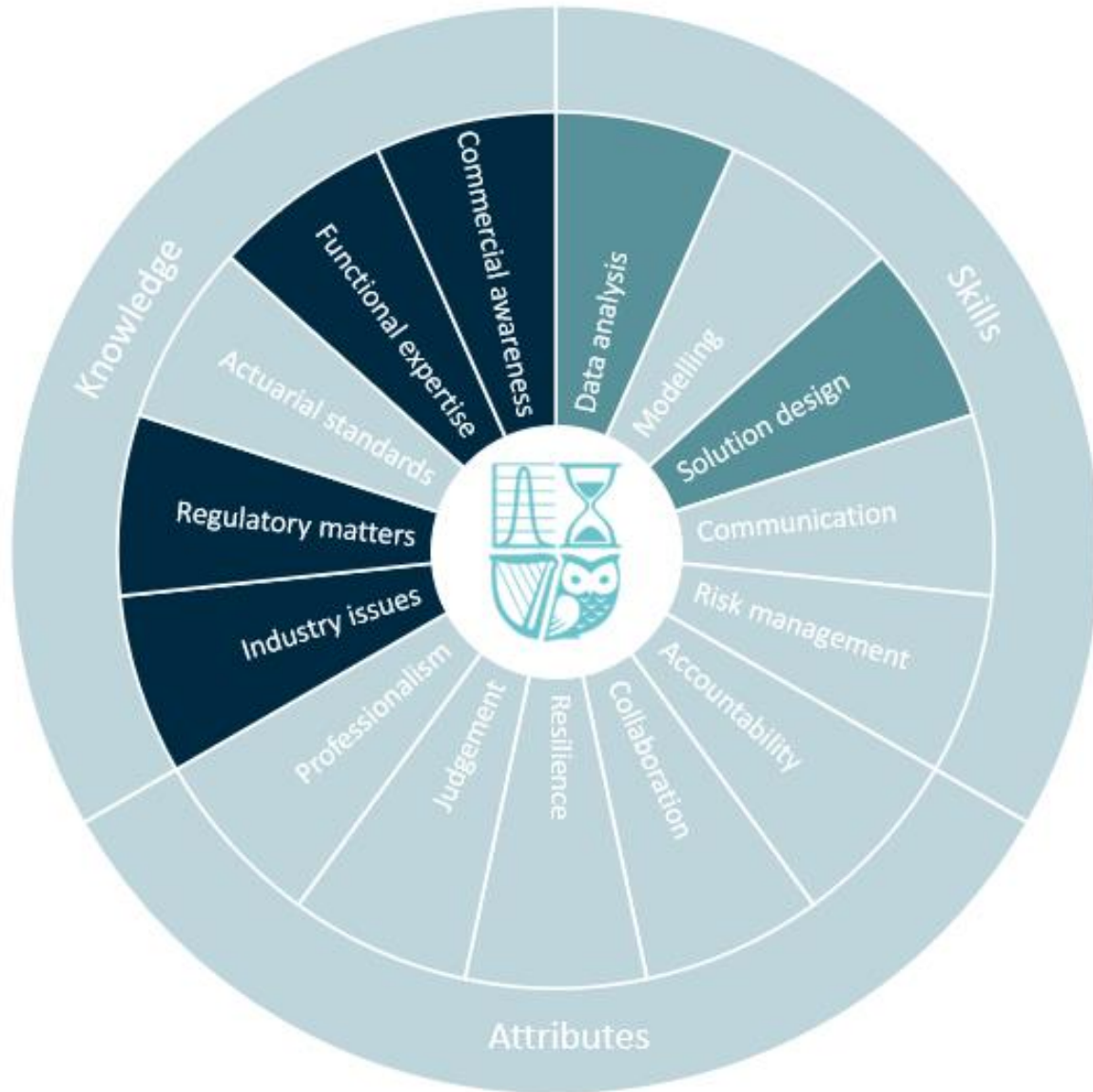
9th March 2022

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Competency Wheel



Today's session is a success if you walk away with an understanding of the:

- Timeline of changes
- Changes to the input and data requirements
- Updated disclosure requirements

PRIIPs Meaning

Packaged

Retail

Insurance Based

Intermediate

Products

Pre-sale document to inform investors on the potential risk, performance, and costs associated with the product

Exclusions:

- Pension Funds: separate KID required under PEPPs
- UCITS: exemption being revoked 1st Jan 2023

Product Classifications



Derivatives:

Performance displayed by payoff charts

Product Classifications



Packaged Products with a Linear Payoff (traditional funds):

- Calculate moments of log normal returns
- Use Cornish Fischer formula for VaR

Product Classifications



Packaged Products with a Non-Linear Payoff (guaranteed funds, structured products):

Monte Carlo simulation using

- Bootstrapping
- Risk Neutral Adjustment

Product Classifications



Packaged Products with Discretion / Smoothing of Returns
(with profits funds):

Monte Carlo simulation using

- Bootstrapping
- Risk Neutral Adjustment

Performance Overview

Category 2 is the main area of change on methodology

Previous Methodology:

- Used statistical parameters of returns
- Needed min 2-years and a max 5-years daily prices

New Methodology:

- Window function for performance
- Must have 5 + Recommended Holding Period (RHP) daily prices

Performance Diagram

Calculation Date: 01/01/2023

Recommended Holding Period: 7 years

01/01/2011 to 01/01/2018



01/01/2011: €1,271.87

01/01/2018: €2,695.81

$$\left(\frac{2695.81}{1271.87} \right)^{\frac{1}{7}} - 1 = 11.32\%$$

Performance Diagram



1972 - 2022

Performance Diagram



1972 - 2022

Performance Diagram



1972 - 2022

Performance Diagram



1972 - 2022

Performance Diagram



1972 - 2022

Performance Diagram



1972 - 2022

Performance Diagram



1972 - 2022



Performance Diagram

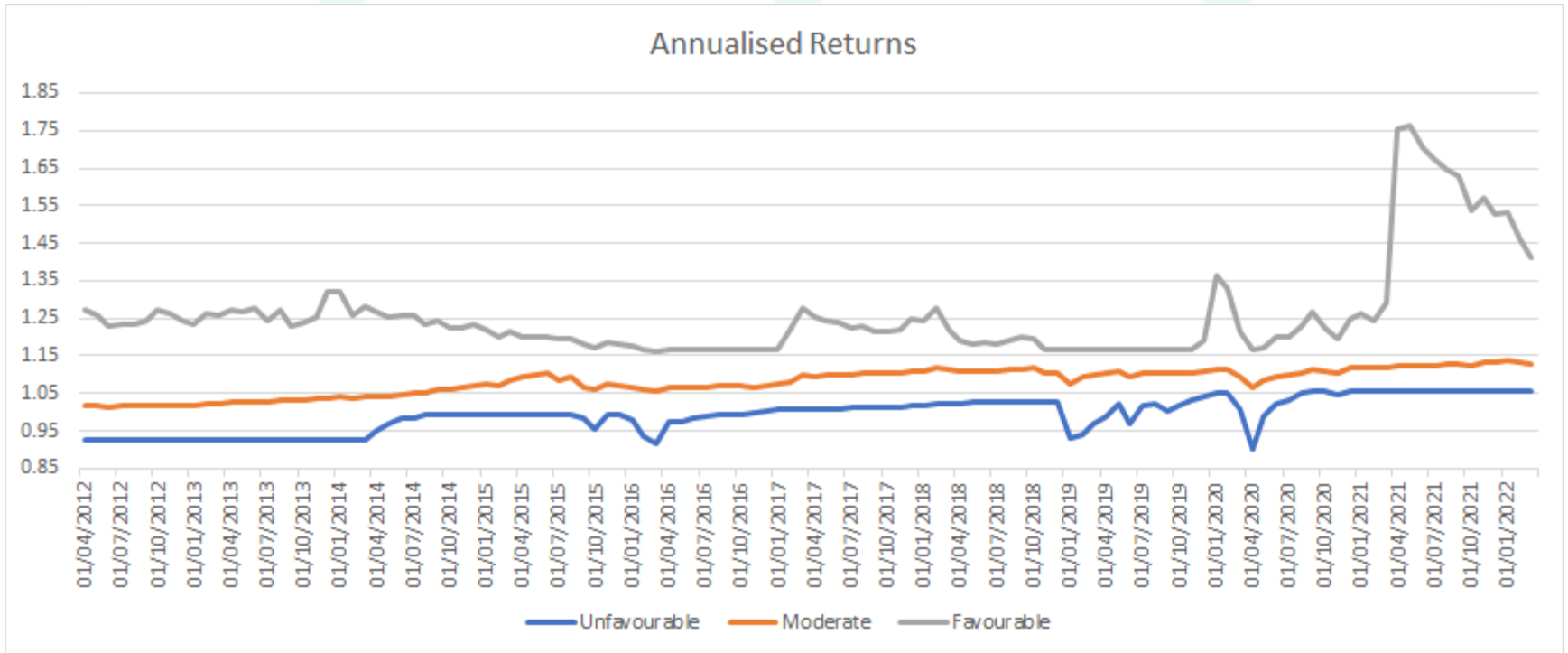
	Ranking	PeriodStartDate	PeriodEndDate	StartPrice	EndPrice	AnnualisedPerformance
1	1	2013-03-22 00:00:00.000	2020-03-20 00:00:00.000	1556.89000000	2304.92000000	1.05769204175483300112
2	2	2013-03-21 00:00:00.000	2020-03-20 00:00:00.000	1545.80000000	2304.92000000	1.05874983128355770745
3	3	2013-03-20 00:00:00.000	2020-03-19 00:00:00.000	1558.71000000	2409.39000000	1.06421208256094157463
4	4	2013-03-19 00:00:00.000	2020-03-18 00:00:00.000	1548.34000000	2398.10000000	1.06451297802723621189
5	5	2013-04-02 00:00:00.000	2020-04-01 00:00:00.000	1570.25000000	2470.50000000	1.06690274393510242668
6	6	2013-03-25 00:00:00.000	2020-03-24 00:00:00.000	1551.69000000	2447.33000000	1.06727896694405766098
7	7	2013-03-26 00:00:00.000	2020-03-25 00:00:00.000	1563.77000000	2475.56000000	1.06784556429770383090
8	8	2013-04-04 00:00:00.000	2020-04-03 00:00:00.000	1559.98000000	2488.65000000	1.06902123680508331915
9	9	2013-03-13 00:00:00.000	2020-03-12 00:00:00.000	1554.52000000	2480.64000000	1.06906437480006477614
10	10	2013-04-05 00:00:00.000	2020-04-03 00:00:00.000	1553.28000000	2488.65000000	1.06970715660929593938
11	11	2013-03-28 00:00:00.000	2020-03-27 00:00:00.000	1569.19000000	2541.47000000	1.07133283874734375196
12	12	2013-04-03 00:00:00.000	2020-04-02 00:00:00.000	1553.69000000	2526.90000000	1.07197256076198987884
13	13	2013-03-18 00:00:00.000	2020-03-17 00:00:00.000	1552.10000000	2529.19000000	1.07226820545199874601
14	14	2013-04-01 00:00:00.000	2020-03-31 00:00:00.000	1562.17000000	2584.59000000	1.07459989170039826867
15	15	2013-03-27 00:00:00.000	2020-03-26 00:00:00.000	1562.85000000	2630.07000000	1.07721486312237102467

2757	2757	2020-03-17 00:00:00.000	2022-03-04 00:00:00.000	2529.19000000	4328.87000000	1.31490313249236967508
2758	2758	2020-03-27 00:00:00.000	2022-03-04 00:00:00.000	2541.47000000	4328.87000000	1.31670574524132444338
2759	2759	2020-04-02 00:00:00.000	2022-03-04 00:00:00.000	2526.90000000	4328.87000000	1.32376976499077292360
2760	2760	2020-03-12 00:00:00.000	2022-03-04 00:00:00.000	2480.64000000	4328.87000000	1.32534461799020375494
2761	2761	2020-03-25 00:00:00.000	2022-03-04 00:00:00.000	2475.56000000	4328.87000000	1.33361490097298696078
2762	2762	2020-04-03 00:00:00.000	2022-03-04 00:00:00.000	2488.65000000	4328.87000000	1.33488212020038821137
2763	2763	2020-04-01 00:00:00.000	2022-03-04 00:00:00.000	2470.50000000	4328.87000000	1.33887342623584437717
2764	2764	2020-03-24 00:00:00.000	2022-03-04 00:00:00.000	2447.33000000	4328.87000000	1.34096270616602075698
2765	2765	2020-03-19 00:00:00.000	2022-03-04 00:00:00.000	2409.39000000	4328.87000000	1.34893789238355710225
2766	2766	2020-03-18 00:00:00.000	2022-03-04 00:00:00.000	2398.10000000	4328.87000000	1.35160862145064042394
2767	2767	2020-03-16 00:00:00.000	2022-03-04 00:00:00.000	2386.13000000	4328.87000000	1.35391694618845592757
2768	2768	2020-03-20 00:00:00.000	2022-03-04 00:00:00.000	2304.92000000	4328.87000000	1.38045448704884266000
2769	2769	2020-03-23 00:00:00.000	2022-03-04 00:00:00.000	2237.40000000	4328.87000000	1.40360891011002486550

Performance Monthly Requirements

For PRIIPs referred to in Annex II, Part 1, point 5, that are open-ended funds, or other PRIIPs open to subscription, previous performance scenario calculations shall be published on a monthly basis and the section titled “Other relevant information” shall state where those calculations can be found.

Performance Diagram



Performance Graphing Requirements

New requirement for net-of-costs performance history

- Must be a bar chart
- Must have exactly 10 years of performance
- Must have blank space where no data is available
- Must have exact wording around the limited value of past performance
- Where benchmarks are referenced in product objectives, benchmark performance is required

Unlikely that current past performance disclosures meet requirements

Benchmark Choices

Previously required 2-5 years daily prices

- Existing systems will have prices from 2013-2016

Updated regulations require RHP + 5 years of prices

- Most products RHP = 7, so need prices from 2011

Big and complex data gathering exercise

- Use prices of exact fund series if available
- Extend history using prices from fund of another series
- Extend history using prices of external collective
- Extend history using appropriate benchmarks

Benchmark Choices

Benchmarks must be tracked / equivalent under:

- SRI
- Return
- Credit rating
- Asset Allocation
- Geographic Exposure
- Sector Exposure
- Liquidity measures

No Benchmark Available

Absolute Return Funds

- Cash return + margin is not risk appropriate as a benchmark
- Select benchmarks approved under BMR based on asset class of the fund
- Where a benchmark of appropriate length is not available, use Category 3 Monte Carlo simulation methods

UCITS

- UCITS produced Key Investor Information Documents (KIIDs)
- Exemption from PRIIPs until 2023
- Retail investors must get PRIIPs KID, Professional Investors can get either PRIIPs KID or UCITS KIID
- Separate risk rating (SRRI vs SRI)
- Separate cost calculations (Charge Rates vs RIY)
- KID per share class, but can choose representative share class

Multi-Option Products

- MOPS can now use KIDs from UCITS rather than white labelling
- Only need fund specific costs in fund specific documents
- Significantly reduces the number of documents to produce
- New 'Insurance Cost' section in cost disclosures

Costs

- Cost Scenarios go from 3 to 2 for PRIIPs with RHP < 10 years
- One-year scenario is based on 0% return
 - Will reduce the costs disclosed in one-year scenario
- Slippage / implementation shortfall costs can be ignored where PRIIP didn't trade frequently in last 3 years
 - No definition given for "frequently"
- Minimum of Explicit Transaction Costs must be disclosed
- Maintenance costs on property funds are excluded

Disclosures

- Performance Scenarios go from 3 to 2 for PRIIPs with RHP < 10 years
- Must include web location for performance calculation results & price history bar charts
- Additional split on product vs. fund costs to disclose
- Additional split on insurance costs to disclose
- Discretionary participation must only be included in favourable scenario
- Additional disclosure around profit participation rules
- Must remain strictly less than 3 pages

PRIIPs – The Road Ahead

- 1st Jan 2023 is the update to the implementation standards (level 2 EU text)
- Root and branch revision of the level 1 text is currently underway
- EIOPA consultation review held in Feb 2022

Conclusion

- PRIIPs is more complex than just fact sheets
- There is a large volume of extra prices required
- Determining benchmarks is not simple
- Gathering data for benchmarks might be costly
- 1st Jan 2023 comes around fast



Brian Walsh
Reitigh Software CEO

Please use the
Q&A function
to ask a question

