Contents

Part I

Acronyms and Definitions Used

Acronyms and definitions used:

- **AIF** - Alternative Investment Fund
- **CRM** - Credit Risk Measure
- **CCP** - Central Counterparty
- **ETD** - Exchange Traded Derivative
- **IPO** - Initial Public Offer
- **KID** - Key Information Document
- **MOP** - Multi-Option Product
- **MRM** - Market Risk Measure
- **MTF** - Multilateral Trading Facility
- **NAV** - Net Asset Value
- **OTC** - Over The Counter
- **PCA** - Principal Component Analysis
- **PRIP** - Packaged Retail Investment Product
- **PRIIP** - Packaged Retail and Insurance-based Investment Product
- **Q&Q** - Question and Answer
- **RIY** - Reduction In Yield
- **SRI** - Summary Risk Indicator
- **UCITS** - Undertakings for Collective Investment in Transferable Securities

- **VaR** - Value-at-Risk
- **VEV** - VaR-Equivalent Volatility

Part II

Annex 1 - Template For The Key Information Document

Chapter 1

Template For The Key Information Document

1.1 Summary

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 ot three sides of A-4 paper when printed.

Part III

Annex 2 - Methodology For The Presentation Of Risk

Chapter 2

Market Risk Measure (MRM)

2.1 Measurement

MR is measured by

- **annualised volatility**
- corresponding to the value-at-risk (VaR) **at a confidence level of 97.5%**
- **over the recommended holding period**.

The VaR is the percentage of the amount invested, that is returned to the retail investor.

2.2 Assigning a MRM class to PRIIPS

MRM class	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	$> 80\%$

2.3 Price History for Liquid Underlying Investments

Liquid products are priced on **at least monthly basis** and where the price history for the product (its benchmark/proxy) exists at least

- **daily** - for **2 years**
- or **weekly** - for **4 years**
- or **monthly** - for **5 years**

Whenever possible, **observations of higher frequency should be used**.

2.4 PRIIPS categories

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

2.4.1 Category 1

- **risk of high losses** - PRIIPs where investors could lose more than the amount they invested
- or **specifically named securities** - PRIIPs that fall within one of the categories referred to in items 4 to 10 of Section C of Annex 1 to Directive 2014/65/EU of the European Parliament and of the Council[1]
- or **irregularly priced securities** - PRIIPs or 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 is priced on a less regular basis than monthly

2.4.2 Category 3

- **non-linear derivatives** - PRIIPS whose values reflect the prices of underlying investments, but not a constant multiple of the prices of those underlying investments
- and **liquid underlyings** (2.3)

2.5 Benchmarks or Proxies

Benchmarks or proxies should be **representative of the assets or exposures** that determine the performance of the PRIIP.

[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/EU (OJ L 173, 12.6.2014, p.349)

The PRIIP manufacturer should **document the use of such benchmarks or proxies**.

2.6 MRM class determination for PRIIPs Categories

2.6.1 $VaR_{\text{RETURN SPACE}}$

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

$$VaR_{\text{RETURN SPACE}} = \sigma\sqrt{N} * \left(-1.96 + 0.474 * \frac{\mu_1}{\sqrt{N}} - 0.0687 * \frac{\mu_2}{N} + 0.146 * \frac{\mu_1^2}{N} \right) - \frac{1}{2}\sigma^2 N$$

2.6.2 Category 2

2.6.3 Category 3

- **VaR time horizon**
  - **at the end of the holding period**
  - or **the period in years until the call or cancellation** if the product is called or cancelled before the end of the recommended holding period according to the simulation
- **Discounting** - risk-free discount factor from the present date to the end of the recommended period

- **VEV** is given by:

$$VEV = \frac{\sqrt{1.96^2 - 2 * \ln\left(VaR_{\text{PRICE SPACE}}\right)} - 1.96}{\sqrt{T}} \tag{2.1}$$

  where T - is the recommended holding period[2]

- **MRM Class**
  - in the case of a PRIIP having only monthly price data, the MRM class shall be increased by one additional class
- **Minimum Number of Simulations** - 10, 000
- **Simulation Method** - bootstrapping the expected distribution of prices or price levels for the PRIIPS underlying contracts from the observed distribution of returns for these contracts with replacement
- **Spot simulation**
  - calculate logreturns for each observation period
  - randomly select one observed period which 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)
  - 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

[2]The RTS refers to "$VaR_{\text{PRICE SPACE}}$", but in the text there is no such definition, but there is a definition of "$VaR_{\text{RETURN SPACE}}$"

– the final value of the return is given by:

$$Return \quad = \quad \mathbb{E}\Big[Return_{\text{risk-neutral}}\Big] - \mathbb{E}\Big[Return_{\text{Measured}}\Big] - 0.5\sigma^2 N - \rho\sigma\sigma_{ccy} N$$

where:

* the second term corrects for the impact of the mean of the observed returns
* the third term corrects for the impact of the variance of the observed returns
* the last term corrects for the quanto impact if the strike currency is different from the asset currency

– calculate the price of each underlying contract by taking the exponential of the return

- for PRIIPS that are characterised by an **unconditional protection of capital**, the PRIIP manufacturer may assume that the VaR at a confidence level of 97.5% is equal to the level of the unconditional capital protectionat at the end of the recommended holding period, discounted to the present date using the expected risk-free discount factor

Chapter 3

Credit Risk Measure (CRM)

Chapter 4

Aggregation of Market and Credit Risk into Summary Risk Indicator (SRI)

Chapter 5

Liquidity Risk

Part IV

Annex 3 - Presentation of SRI

Chapter 6

Presentation of SRI

Part V

Annex 4 - Performance Scenarios

Chapter 7

Performance Scenarios

7.1 Summary

The performance scenarios shall be the following:

1. a favourable scenario
2. a moderate scenario
3. an unfavourable scenario
4. a stress scenario

The stress scenario shall show intermediate periods where those periods would be shown for the performance scenarios (1-3) above (7.1)

7.2 Scenario Calculations

The scenario shall be calculated in a similar manner as the market risk measure. The scenario values shall be calculated **for the recommended holding pe-**

riod.

7.3 Scenario Percentiles

The following percentiles should be used for scenarios:

Scenario	Percentile
unfavourable	10-th
moderate	50-th
favourable	90-th

7.4 Stress Scenario

7.4.1 Summary

The stress scenario shall be the value of the PRIIP that results from the methodology outlined in points ...

7.4.2 Stress Volatility

The following steps are required to calculate the stress volatility:

1. identify a sub interval of length ω which corresponds to the following intervals:

Observation Frequency	**<= 1 year**	**> 1 year**
Daily prices	21	63
Weekly prices	5	16
Monthly prices	6	12

2. identify for each sub interval of length ω the historical lognormal returns r_t,

   where:

   $t = t_0, t_1, t_2, ..., t_N$

3. measure the volatility based on the formula below starting from $t_i = t_0$ rolling until $t_i = t_{N-\omega}$

7.4.3 For Category 3 PRIIPs