

#### *Article 14a*

##### **Investment compartments of UCITS or AIFs**

1. Where a UCITS or AIF consists of two or more investment compartments, a separate key information document shall be produced for each individual compartment.
2. Each key information document referred to in paragraph 1 shall contain, in the section entitled ‘What is this product’, the following information:
  - (a) a statement that the key information document describes a compartment of a UCITS or AIF, and, where applicable, that the prospectus of the UCITS or the description of the investment strategy and objectives of the AIF and periodic reports are prepared for the entire UCITS or AIF named at the beginning of the key information document;
  - (b) whether or not the assets and liabilities of each compartment are segregated by law and how this might affect the investor;
  - (c) whether or not the retail investor has the right to exchange his investment in units in one compartment for units in another compartment, and if so, where to obtain information about how to exercise that right.
3. Where the UCITS management company or the AIFM sets a charge for the retail investor to exchange his investment in accordance with paragraph 2, point (c), and that charge differs from the standard charge for buying or selling units, that charge shall be stated separately in the section entitled ‘What are the costs?’ of the key information document.

#### *Article 14b*

##### **Share classes of UCITS or AIFs**

1. Where a UCITS or AIF consists of more than one class of units or shares, the key information document shall be prepared for each class of units or shares.
2. The key information document pertinent to two or more classes of the same UCITS or AIF may be combined into a single key information document, provided that the resulting document fully complies with all requirements on length, language and presentation of the key information document.
3. The UCITS management company or AIFM may select a class to represent one or more other classes of the UCITS or AIF, provided the choice is fair, clear and not misleading to potential retail investors in those other classes. In such cases the section entitled ‘What are the risks and what could I get in return’ of the key information document shall contain the explanation of material risk applicable to any of the other classes being represented. A key information document based on the representative class may be provided to retail investors in the other classes.

4. Different classes shall not be combined into a composite representative class as referred to in paragraph 3.

5. The UCITS management company or AIFM shall keep a record of which other classes are represented by the representative class referred to in paragraph 3 and the grounds justifying that choice.

6. Where applicable, the section entitled ‘What is this product?’ of the key information document shall be supplemented by an indication of which class has been selected as representative, using the term by which it is designated in the UCITS’ prospectus or in the description of the investment strategy and objectives of the AIF.

That section shall also indicate where retail investors can obtain information about the other classes of the UCITS or AIF that are marketed in their own Member State.

#### *Article 14c*

### **UCITS or AIFs as fund of funds**

1. Where the UCITS invests a substantial proportion of its assets in other UCITS or other collective investment undertakings as referred to in Article 50(1), point (e), of Directive 2009/65/EC, the description of the objectives and investment policy of that UCITS in the key information document shall include a brief explanation of how the other collective undertakings are to be selected on an ongoing basis.

Where a UCITS is a fund of hedge funds the key information document shall include information about the purchase of non-EU AIFs that are not under supervision.

2. Where the AIF invests a substantial proportion of its assets in other UCITS or AIFs, paragraphs 1 and 2 shall apply *mutatis mutandis*.

#### *Article 14d*

### **Feeder UCITS**

1. The feeder UCITS, as defined in Article 58 of Directive 2009/65/EC, shall contain, in the section entitled ‘What is this product?’ the following information specific to the feeder UCITS:

- (a) a statement that the master UCITS’ prospectus, key information document, and periodic reports and accounts are available to retail investors of the feeder UCITS upon request, how they may be obtained, and in which language(s);
- (b) whether the items listed in point (a) of this paragraph are available in paper copies only or in other durable media, and whether any fee is payable for items not subject to free delivery in accordance with Article 63(5) of Directive 2009/65/EC;

- (c) where the master UCITS is established in a different Member State to the feeder UCITS, and where this may affect the feeder UCITS's tax treatment, a statement to this effect;
  - (d) information about the proportion of the feeder UCITS' assets which is invested in the master UCITS;
  - (e) a description of the master UCITS' objectives and investment policy, supplemented, as appropriate, by either of the following:
    - (i) an indication that the feeder UCITS' investment returns will be very similar to those of the master UCITS; or
    - (ii) an explanation of how and why the investment returns of the feeder and master UCITS may differ.
2. Where the risk and reward profile of the feeder UCITS differs in any material respect from that of the master UCITS, that fact and the reason for it shall be explained in the section entitled 'What are the risks and what could I get in return?' of the key information document.
3. Any liquidity risk and the relationship between purchase and redemption arrangements for the master and feeder UCITS shall be explained in the section entitled 'What are the risks and what could I get in return?' of the key information document.

*Article 14e*

**Structured UCITS or AIF**

Structured investment funds are UCITS or AIFs which provide retail investors, at certain predetermined dates, with algorithm-based payoffs that are linked to the performance, or to the realisation of price changes or other conditions, of financial assets, indices or reference portfolios or UCITS or AIFs with similar features.”;

- (11) in paragraph 2 of Article 15, the following point is added:
- “(d) where the performance scenarios are based on appropriate benchmarks or proxies, the consistency of the benchmark or proxy with the objectives of the PRIIP.”;
- (12) the following Chapter IVa is inserted:

“Chapter IVa

**CROSS-REFERENCES**

*Article 17a*

**Use of cross-references to other sources of information**

Without prejudice to Article 6 of the Regulation (EU) No 1286/2014, cross-references to other sources of information, including the prospectus and annual or half-yearly reports, may be included in the key information document, provided that all information fundamental to the retail investors' understanding of the essential elements of the investment is included in the key information document.

Cross-references shall be permitted to the website of the PRIIP or the PRIIP manufacturer, including a part of any such website containing the prospectus and the periodic reports.

Cross-references referred to in the first subparagraph shall direct the retail investor to the specific section of the relevant source of information. Several different cross-references may be used within the key information document but they shall be kept to a minimum.”;

- (13) Annex I to Delegated Regulation (EU) 2017/653 is replaced by the text in Annex I to this Regulation;
- (14) Annex II to Delegated Regulation (EU) 2017/653 is amended in accordance with the text in Annex II to this Regulation;
- (15) Annex III to Delegated Regulation (EU) 2017/653 is amended in accordance with the text in Annex III to this Regulation;
- (16) Annex IV to Delegated Regulation (EU) 2017/653 is replaced by the text in Annex IV to this Regulation;
- (17) Annex V to Delegated Regulation (EU) 2017/653 is replaced by the text in Annex V to this Regulation;
- (18) Annex VI to Delegated Regulation (EU) 2017/653 is amended in accordance with the text in Annex VI to this Regulation;
- (19) Annex VII to Delegated Regulation (EU) 2017/653 is replaced by the text in Annex VII to this Delegated Regulation;
- (20) Annex VIII is added to Delegated Regulation (EU) 2017/653 by Annex VIII of this Regulation.

## *Article 2*

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

It shall apply from 1 January 2022.



This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

*For the Commission  
The President*

*[For the Commission  
On behalf of the President*

*[Position]*

## ANNEX I

Annex I to Delegated Regulation (EU) 2017/653 is replaced by the following:

### “Annex I

#### TEMPLATE FOR THE KEY INFORMATION DOCUMENT

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 of three sides of A4-sized paper when printed.

Key Information Document					
<b>Purpose</b> This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.					
<b>Product</b> <b>[Name of Product]</b> <b>[Name of PRIIP manufacturer]</b> (where applicable) [ISIN or UPI] [website for PRIIP manufacturer] [Call [telephone number] for more information] [[Name of Competent Authority] is responsible for supervising [Name of PRIIP Manufacturer] in relation to this Key Information Document] (where applicable) [This PRIIP is authorised in [name of Member State]] (where applicable) [[Name of UCITS management company] is authorised in [name of Member State] and regulated by [identity of competent authority] (where applicable) [Name of AIFM] is authorised in [name of Member State] and regulated by [identity of competent authority] [date of production of the KID]					
[Alert (where applicable) <b>You are about to purchase a product that is not simple and may be difficult to understand</b> ]					
<b>What is this product?</b> <b>Type</b> <b>Term</b> <b>Objectives</b> <b>Intended retail investor</b> <b>[Insurance benefits and costs]</b>					
<b>What are the risks and what could I get in return?</b> <table><tr><td><b>Risk</b></td><td>Description of the risk-reward profile</td></tr><tr><td><b>Indicator</b></td><td>Summary Risk Indicator SRI template and narratives as set out in Annex III, including on possible maximum loss: can I lose all invested capital? Do I bear the risk of incurring additional financial commitments or obligations? Is there capital protection against market risk?</td></tr></table>		<b>Risk</b>	Description of the risk-reward profile	<b>Indicator</b>	Summary Risk Indicator SRI template and narratives as set out in Annex III, including on possible maximum loss: can I lose all invested capital? Do I bear the risk of incurring additional financial commitments or obligations? Is there capital protection against market risk?
<b>Risk</b>	Description of the risk-reward profile				
<b>Indicator</b>	Summary Risk Indicator SRI template and narratives as set out in Annex III, including on possible maximum loss: can I lose all invested capital? Do I bear the risk of incurring additional financial commitments or obligations? Is there capital protection against market risk?				

**Performance  
Scenarios**

Performance Scenario templates and narratives as set out in Annex V Scenarios including where applicable information on conditions for returns to retail investors or built-in performance caps, and statement that the tax legislation of the retail investor's home Member State may have an impact on actual payout

**What happens if [PRIIP Manufacturer] is unable to pay out?**

Information on whether there is a guarantee scheme, the name of the guarantor or investor compensation scheme operator, including the risks covered and those not covered.

**What are the costs?**

Narratives on information to be included on other distribution costs

**Costs over Time**

Template and narratives according to Annex VII

**Composition of Costs**

Template and narratives according to Annex VI

**How long should I hold it and can I take money out early?****Recommended [required minimum] holding period: [x]**

Information on whether one can disinvest before maturity, the conditions for this, and applicable fees and penalties if any. Information on the consequences of cashing-in before the end of the term or before the end of the recommended holding period.

**How can I complain?****Other relevant information**

Where applicable a short description of the information published on past performance

”;

## ANNEX II

Annex II to Delegated Regulation (EU) 2017/653 is amended as follows:

(1) in Part 1, point 2 is replaced by the following:

“2. The PRIIP shall be assigned a MRM class according to the following table:

MRM class	VaR-equivalent volatility (VEV)
1	< 0,5 %
2	≥ 0,5 % and <5,0 %
3	≥ 5,0 % and <12 %
4	≥ 12 % and <20 %
5	≥ 20 % and <30 %
6	≥ 30 % and <80 %
7	≥ 80 %

”;

(2) in Part 1, point 13 is replaced by the following:

13. The VEV is given by:

$$VEV = \left\{ \sqrt{(3,842 - 2 * (VaR_{RETURN SPACE}))} - 1,96 \right\} / \sqrt{T}$$

where T is the length of the recommended holding period in years.

(3) in Part 1, point 17 is replaced by the following:

13. The VEV is given by:

$$VEV = \left\{ \sqrt{(3,842 - 2 * \ln(VaR_{PRICE SPACE}))} - 1,96 \right\} / \sqrt{T}$$

where T is the length of the recommended holding period in years. Only in cases where the product is called or cancelled before the end of the recommended holding period according to the simulation, the period in years until the call or cancellation is used in the calculation.

(4) in Part 1, point (ix) of point (a) of point 23, is replaced by the following:

(ix) projecting the returns onto the 3 principal eigenvectors calculated in the previous step by multiplying the  $N \times M$  matrix of returns obtained in point (v) by the  $M \times 3$  matrix of eigenvectors obtained in point (viii);

(5) in Part 3, the following point 52a is inserted:

“52a. Where the PRIIP manufacturer considers that the summary risk indicator number assigned following the aggregation of market and credit risk in accordance with point 52 of this Annex does not adequately reflect the risks of the PRIIP, that PRIIP manufacturer may decide to increase that number. The decision making process for such an increase shall be documented.”;

### ANNEX III

Annex III to Delegated Regulation (EU) 2017/653 is amended as follows:

(1) point 1 is replaced by the following:

“1. PRIIP manufacturers shall use the format below for the presentation of the SRI in the key information document. The relevant number shall be highlighted as shown depending on the SRI for the PRIIP.



(2) point 3 is replaced by the following:

“3. Immediately below the SRI, the time frame of the recommended holding period shall be indicated. In addition, a warning shall be included directly below the SRI as set out in the above template in the following cases:

- (a) where the risk of the PRIIP is considered to be significantly higher if the holding period is different;
- (b) where a PRIIP is considered to have a materially relevant liquidity risk, whether this is contractual in nature or not;
- (c) where a PRIIP is considered to be illiquid whether this is contractual in nature or not.”;

(3) the following point 6a is inserted:

“6a. For Category 1 PRIIPs as defined in point 4(b) of Annex II, the terminology used for the narratives explanations accompanying the SRI shall be adjusted, where appropriate, to reflect the specific features of the PRIIP, such as the absence of an initial investment amount.”

## *ANNEX IV*

Annex IV to Delegated Regulation (EU) 2017/653 is replaced by the following:

### *“ANNEX IV*

#### **PERFORMANCE SCENARIOS**

##### *Number of scenarios*

1. The performance scenarios under this Regulation which shall show a range of possible returns, shall be the following:
  - (a) a favourable scenario;
  - (b) a moderate scenario;
  - (c) an unfavourable scenario;
  - (d) a stress scenario.
2. The stress scenario shall set out significant unfavourable impacts of the PRIIP not covered in the unfavourable scenario referred to in point 1(c) of this Annex. The stress scenario shall show intermediate periods where those periods are shown for the performance scenarios under point 1(a) to (c) of this Annex.
3. An additional scenario for insurance-based investment products shall be based on the moderate scenario referred to in point 1(b) of this Annex, where the performance is relevant in respect of the return of the investment.
4. The minimum investment return shall also be shown not taking into account the situation where the PRIIP manufacturer or party bound to make, directly or indirectly, relevant payments to the retail investor, is not able to pay.

##### *Calculation of unfavourable, moderate and favourable scenario values for the recommended holding period for Category 2 PRIIPs*

##### **Case 1: PRIIPs referred to in point 1 of Annex VIII with sufficient historical data**

5. The following rules shall apply to PRIIPs referred to in point 1 of Annex VIII, where, at the time the calculation is made, the following criteria are satisfied in relation to the length of yearly consecutive historical values for the PRIIP:
  - (a) it is greater than 10;
  - (b) it is five years longer than the length of the PRIIP's recommended holding period.
6. Where the recommended holding period is five years or less, the unfavourable, moderate and favourable scenarios shall be calculated over the last 10 years from when the calculation is made. Where the recommended holding period is more than five years, the unfavourable, moderate and favourable scenarios shall be calculated over a time period



which is equal to the recommended holding period plus five years from when the calculation is made.

7. The calculation of the unfavourable, moderate, and favourable scenarios shall include the following steps:
  - (a) Within the time period specified in point 6 of this Annex, identification of all overlapping sub intervals individually equal in length to the duration of the recommended holding period, and which start or end in each of the months, or at each of the valuation dates for PRIIPs with a monthly valuation frequency, which are contained within that period;
  - (b) For PRIIPs with a recommended holding period of more than one year, identification of all overlapping sub intervals individually equal or shorter in length to the duration of the recommended holding period, but equal to or longer than one year, and which end at the end the time period identified in point 6 of this Annex;
  - (c) For each sub interval referred to in points (a) and (b), calculation of the performance of the PRIIP according to the following:
    - (i) based on the performance of the PRIIP during the exact duration of each sub interval;
    - (ii) net of all applicable costs;
    - (iii) on the basis that any distributable income of the PRIIP has been reinvested;
    - (iv) by using a linear transformation to obtain the performance in sub intervals shorter than the recommended holding period, in order to render all sub-intervals of comparable length;
  - (d) Rank the sub intervals identified in accordance with point (a) according to the performance calculated in accordance with (c), to identify from within those sub intervals the median and best sub intervals in terms of performance;
  - (e) Rank together the sub intervals identified in accordance with points (a) and (b) according to the performance calculated in (c), to identify from within those sub intervals the worst sub interval in terms of performance.
8. The unfavourable scenario shall represent the worst evolution of the PRIIP's value according to point 7(e) of this Annex.
9. The moderate scenario shall represent the median evolution of the PRIIP's value according to point 7(d) of this Annex.
10. The favourable scenario shall represent the best evolution of the PRIIP's value according to point 7(d) of this Annex.
11. The scenarios shall be calculated at least on a monthly basis.

**Case 2: PRIIPs referred to in point 1 of Annex VIII without sufficient historical data and with the possibility to use a benchmark**

12. For PRIIPs referred to in point 1 of Annex VIII, the unfavourable, moderate and favourable scenarios shall be calculated as specified in points 6 to 11 of this Annex, using data of a benchmark to supplement the values for the PRIIP less all applicable costs, where:
- (a) the length of PRIIP values do not meet the criteria set out in point 5 of this Annex;
  - (b) the benchmark is appropriate to estimate performance scenarios in accordance with the criteria specified in point 16 of this Annex; and
  - (c) there is historical data for the benchmark that meets the criteria set out in point 5 of this Annex.

If the information on the objectives of the PRIIP makes reference to a benchmark, that benchmark shall be used, provided the conditions in the first sub paragraph are met.

**Case 3: PRIIPs referred to in point 1 of Annex VIII without sufficient historical data and with no benchmark, or with a benchmark without sufficient historical data, or any other Category 2 PRIIP**

13. For PRIIPs referred to in point 1 of Annex VIII that are not covered by case 1 or case 2 above or any other Category 2 PRIIP, the unfavourable, moderate and favourable scenarios shall be calculated as specified in points 6 to 11 of this Annex using benchmarks regulated by Regulation (EU) 2016/1011<sup>53</sup> that represent the asset classes in which the PRIIP invests or the underlying investments to which the PRIIP is exposed, to supplement the values for the PRIIP or the benchmark referred to in point 12 of this Annex. All asset classes in which the PRIIP could invest more than 25 % of its assets or underlying investments that represent more than 25 % of the exposure shall be considered. Where such a benchmark does not exist, an appropriate proxy shall be used.
14. If the PRIIP invests in different asset types or offers exposure to different types of underlying investments and more than one benchmark as referred to in point 13 of this Annex has been identified, the scenarios shall be calculated using a “composite benchmark”, considering the weights of the estimated investment in each type of assets or underlying investments.
15. For Category 2 PRIIPs for which there is not an appropriate benchmark or proxy with sufficient historical data which meets the criteria set out in point 5 of this Annex for the PRIIP, performance scenarios shall be calculated in accordance with points 21 to 27 of this Annex using 15 years of historical returns of the PRIIP or an appropriate benchmark or proxy.

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<sup>53</sup> Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p. 1).

### Cases 2 and 3: Use of appropriate benchmarks or proxies

16. In order to assess whether the use of a particular benchmark or proxy is appropriate to estimate the performance scenarios, PRIIP manufacturers shall use the following criteria, provided that such criteria are consistent with the objectives of the PRIIP and the type of assets in which the PRIIP invests or the underlying investments to which the PRIIP offers exposure and are relevant for the PRIIP:
- (a) risk-return profile where the benchmark or proxy and the PRIIP fall into the same category of i) SRI or ii) volatility and expected return or both;
  - (b) expected return;
  - (c) asset allocation composition (where the asset composition of the PRIIP reflects a composite index, the reference benchmark or proxy for the purpose of the calculation of performance scenarios shall consistently reflect the weights of the composite index);
  - (d) potential assets in which the PRIIP invests, consistent with the investment policy;
  - (e) exposure to underlying asset classes;
  - (f) geographical exposures;
  - (g) sector exposures;
  - (h) income distribution of the PRIIP;
  - (i) liquidity measures (e.g.: daily trading volumes, bid-ask spreads etc.);
  - (j) duration;
  - (k) credit rating category;
  - (l) volatility or historical volatility or both.

PRIIP manufacturers may use criteria additional to those listed in the first subparagraph provided they demonstrate that those additional criteria are relevant in terms of the objectives of the PRIIP and the type of assets in which the PRIIP invests or the type of underlying investments to which the PRIIP offers exposure.

17. PRIIP manufacturers shall be able to demonstrate the consistency of the benchmarks with the objectives of the PRIIP and shall document their decision, including a clear justification of the benchmark used.

#### *Calculation of the stress scenario for Category 2 PRIIPs*

18. For Category 2 PRIIPs, the calculation of the stress scenario shall have the following steps:
- (a) Identify a sub interval of length  $w$  which corresponds to the following intervals:

1 year      > 1 year

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Daily prices	21	63
Weekly prices	8	16
Monthly prices	6	12

- (b) Identify for each sub interval of length w the historical lognormal returns  $r_t$ , where  $t=t_1, t_2, \dots, t_w$ .
- (c) Measure the volatility based on the formula below starting from  $t_i = t_1$  rolling until  $t_i = t_{H-w+1}$  where H is the number of historical observations in the period:

$$w_{ti}\sigma_S = \sqrt{\frac{\sum_{t_i}^{t_{i+w-1}} \left( r_{ti} - {}^{t_{i+w-1}}_{t_i} M_1 \right)^2}{M_w}}$$

Where  $M_w$  is the count of number of observations in the sub interval and  ${}^{t_{i+w-1}}_{t_i} M_1$  is the mean of all the historical lognormal returns in the corresponding sub interval.

- (d) Infer the value that corresponds to the 99th percentile for 1 year and the 95th percentile for the other holding periods. This value shall be the stressed volatility  ${}^w\sigma_S$ .

19. For Category 2 PRIIPs, the expected values at the end of the recommended holding period for the stress scenario shall be:

$$Scenario_{Stress} = e^{\left[ {}^w\sigma_S * \sqrt{N} * \left( z_\alpha + \left[ \frac{(z_\alpha^2 - 1)}{6} \right] * \frac{\mu_1}{\sqrt{N}} + \left[ \frac{(z_\alpha^3 - 3z_\alpha)}{24} \right] * \frac{\mu_2}{N} - \left[ \frac{(2z_\alpha^3 - 5z_\alpha)}{36} \right] * \frac{\mu_1^2}{N} \right) - 0.5 {}^w\sigma_S^2 N \right]}$$

Where:

- (a) N is the number of trading periods in the recommended holding period, and where the other terms are defined in point 12 of Annex II;
- (b)  $z_\alpha$  is a proper selected value of the PRIIP at the extreme percentile that corresponds to 1 % for 1 year and to 5 % for the other holding periods.

20. The stress scenario value shown shall not be better than the value of the unfavourable scenario.

*Calculation of scenario values for the recommended holding period for certain Category 1 PRIIPs, Category 3 PRIIPs and Category 4 PRIIPs*

21. The favourable scenario shall be the value of the PRIIP at the 90<sup>th</sup> percentile of an estimated distribution of outcomes over the recommended holding period less all applicable costs.

22. The moderate scenario shall be the value of the PRIIP at the 50th percentile of an estimated distribution of outcomes over the recommended holding period less all applicable costs.
23. The unfavourable scenario shall be the value of the PRIIP value at the 10th percentile of an estimated distribution of outcomes over the recommended holding period less all applicable costs.
24. Where the PRIIP manufacturer considers that there is a material risk that these scenarios may provide retail investors with inappropriate expectations about the possible returns they may receive, they may use lower percentiles than those specified in points 21 to 23 of this Annex.
25. For Category 3 PRIIPs, the method to derive the estimated distribution of the PRIIP's outcomes over the recommended holding period shall be identical to the method specified in points 19 to 23 of Annex II, except that the expected return of each asset shall be the return observed over the period calculated without discounting the expected performance using the expected risk-free discount factor.
26. For Category 3 PRIIPs, the following adjustments shall be made for the calculation of the stress scenario compared to the calculation for Category 2 PRIIPs:

(a) Infer the stress volatility  $^W\sigma_S$  based on the methodology defined in points 18 (a), (b) and (c) of this Annex;

(b) Rescale historical returns  $r_t$ , based on the formula set out below;

$$r_t^{adj} = r_t * \frac{^W\sigma_S}{\sigma}$$

(c) Conduct bootstrapping on  $r_t^{adj}$  as described in point 22 of Annex II;

(d) Calculate the return for each contract by summing returns from selected periods and correcting these returns to ensure that the expected return measured from the simulated return's distribution is as follows:

$$E^*[r_{bootstrapped}] = -0.5^W\sigma_S^2 N$$

where  $E^*[r_{bootstrapped}]$  is the new simulated mean.

27. For Category 3 PRIIPs, the stress scenario shall be the value of the PRIIP at the extreme  $z_\alpha$  percentile as defined in point 19 of this Annex of the simulated distribution as set out in point 26 of this Annex.
28. For Category 4 PRIIPs, the method set out in point 27 of Annex II shall be used in respect of those factors that are not observed in the market, combined as necessary with the method for Category 3 PRIIPs. The relevant methods for Category 2 PRIIPs set out in points 5 to 20 of this Annex and the relevant methods for Category 3 PRIIPs set out in points 21 to 27 of this Annex shall be used for the relevant components of the PRIIP where the PRIIP combines different components. The performance scenarios shall be a

weighted average of the relevant components. Product features and capital guarantees shall be taken into consideration in the performance calculations.

29. For Category 1 PRIIPs as defined in point 4(a) of Annex II, and Category 1 PRIIPs as defined in point 4(b) of Annex II that are not traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) No 600/2014, performance scenarios shall be calculated in accordance with points 21 to 27 of this Annex.

*Calculation of scenario values for the recommended holding period for other types of Category 1 PRIIPs*

30. For Category 1 PRIIPs that are futures, call options and put options traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) No 600/2014, performance scenarios shall be shown in the form of pay-off structure graphs. A graph shall be included to show performance for all scenarios for the different levels of the underlying value. The horizontal axis of the graph shall show the various possible prices of the underlying value and the vertical axis shall show the profit or loss at the different prices of the underlying value. For every price of the underlying value, the graph shall show the resulting profit or loss and at which price of the underlying value the profit or loss shall be zero.
31. For Category 1 PRIIPs as defined in point 4(c) of Annex II a reasonable and conservative best estimate of the expected values for the performance scenarios set out in point 1(a), (b) and (c) of this Annex at the end of the recommended holding period shall be provided.

The scenarios selected and shown shall be consistent with and complement the other information contained in the key information document, including the overall risk profile for the PRIIP. The PRIIP manufacturer shall ensure the consistency of the scenarios with internal product governance conclusions, including amongst others, any stress-testing undertaken by the PRIIP manufacturer for the PRIIP, and data and analysis used for the purposes of producing the other information contained with the key information document.

The scenarios shall be selected to give a balanced presentation of the possible outcomes of the PRIIP in both favourable and unfavourable conditions, but only scenarios that can be reasonably expected shall be shown. The scenarios shall not be selected so as give undue prominence to favourable outcomes at the expense of unfavourable ones.

*Calculation of scenario values for intermediate holding periods*

32. For PRIIPs with a recommended holding period between 1 and 10 years, performance shall be shown at two different holding periods: at the end of the first year and at the end of the recommended holding period.
33. For PRIIPs with a recommended holding period of 10 years or more, performance shall be shown at three holding periods: at the end of the first year, after half of the

recommended holding period rounded up to the end of the nearest year, and at the end of the recommended holding period.

34. For PRIIPs with a recommended holding period of one year or less, no performance scenarios for intermediate holding periods shall be shown.
35. For Category 2 PRIIPs, the values to be shown for the intermediate periods for the unfavourable, moderate and favourable scenarios shall be calculated in accordance with points 5 to 14 of this Annex, using the time period specified in point 6, but based on the outcomes achieved over the intermediate holding period.
36. For Category 2 PRIIPs, the values to be shown for the intermediate periods for the stress scenario shall be calculated using the formulas in points 18 and 19 of this Annex with the N defined to be the number of trading periods from the start date to the end date of the intermediate period. Point 20 of this Annex shall also apply to the intermediate periods.
37. For PRIIPs as referred to in points 15 and 29 of this Annex, Category 3 PRIIPs and Category 4 PRIIPs, unless point 38 of this Annex applies, the scenario values to be shown for the intermediate holding period shall be estimated by the PRIIP manufacturer in a manner consistent with the estimation at the end of the recommended holding period.
38. For Category 1 PRIIPs that are futures, call options and put options traded on a regulated market or on a third-country market considered to be equivalent to a regulated market in accordance with Article 28 of Regulation (EU) No 600/2014, or for PRIIPs referred to in point 90(d) of Annex VI, performance scenarios may be shown at the end of the recommended holding period only.

#### *General requirements*

39. The performance scenarios of the PRIIP shall be calculated as net of all applicable costs in accordance with Annex VI for the scenario and holding period being presented.
40. Performance scenarios shall be calculated using amounts consistent with those used for the calculation of costs as specified in points 90 and 91 of Annex VI.
41. For those PRIIPs that are forward contracts, future contracts, contracts for difference or swaps, performance scenarios shall be calculated assuming that the amount specified in point 40 is the notional amount.
42. Performance scenarios shall be presented in monetary units. Figures shall by default be rounded to the nearest 10 EUR or relevant currency, unless there are specific payout conditions, such that it could be misleading to round the figures to the nearest 10 EUR in which case the PRIIP manufacturer may present figures to the nearest Euro. The monetary figures shall show the sum of the amounts that would be received by the retail investor (net of costs) during the holding period, comprising:
  - (a) the payments due at the end of the holding period, including the capital reimbursed;



- (b) the coupons or other amounts received before the end of the holding period, without assuming reinvestment of those amounts.
43. For PRIIPs that are forward contracts, future contracts, contracts for difference or swaps, performance scenarios in monetary units shall show the profit or loss obtained in the holding period.
44. Performance scenarios shall also be presented in percentage terms, as the average annual return of the investment. That figure shall be calculated considering the scenario value as numerator and the initial investment amount or the price paid as denominator in accordance with the following formula:
- $(\text{scenario value} / \text{initial investment})^{(1/T)} - 1$ , if  $T > 1$ . Where  $T$  is the length of the holding period in years
45. For recommended holding periods shorter than one year, performance scenarios in percentage terms shall reflect the projected return over that period, non-annualised.
46. For PRIIPs that are forward contracts, future contracts, contracts for difference, or swaps, the percentage return shall be calculated considering the notional amount of the contract and a footnote shall be added to explain that calculation. The formula for the calculation shall be:

$$(\text{Net profit or loss} / \text{Notional Amount})^{(1/T)} - 1, \text{ if } T > 1.$$

The footnote shall indicate that the potential return is calculated as a percentage over the notional amount.

47. For insurance based investment products, the following shall apply in addition to the methods referred above including under point 28 of this Annex when calculating the performance scenarios in respect of the investment:
- (a) future profit participation shall be taken into account;
  - (b) assumptions on future profit participation shall be consistent with the assumption on the annual rates of return of the underlying assets;
  - (c) assumptions on how future profits are shared between the PRIIP manufacturer and the retail investor and other assumptions on future profit sharing shall be realistic and in line with the current business practice and business strategy of the PRIIP manufacturer. Where there is sufficient evidence that the undertaking will change its practices or strategy, the assumptions on future profit sharing shall be consistent with the changed practices or strategy. For life insurers within the scope of Directive 2009/138/EC, those assumptions shall be consistent with the assumptions on future management actions used for the valuation of technical provisions in the Solvency II-balance-sheet;
  - (d) where a component of the performance relates to profit participation that is payable on a discretionary basis, this component shall only be assumed in the favourable performance scenarios;



- (e) the performance scenarios shall be calculated on the basis of the investment amounts set out in point 40 of this Annex.”;

## *ANNEX V*

Annex V to Delegated Regulation (EU) 2017/653 is replaced by the following:

### *“ANNEX V*

## **METHODOLOGY FOR THE PRESENTATION OF PERFORMANCE SCENARIOS**

### **PART 1**

#### **General presentation specifications**

1. The performance scenarios shall be presented in a way that is accurate, fair, clear and not misleading, and that is likely to be understood by the average retail investor.
2. In all cases, the following narrative explanations from Part 2 of this Annex shall be included:
  - (a) element A;
  - (b) element B, which shall appear prominently above the performance scenario table or graph.
3. For all PRIIPs except Category 1 PRIIPs referred to in point 30 of Annex IV:
  - (a) element C in Part 2 of this Annex shall appear prominently above the performance scenario table;
  - (b) information on the minimum investment return shall be stated within the performance scenario table and where appropriate element G in Part 2 of this Annex shall be included. Where a minimum return is guaranteed this shall be stated in monetary amounts for the holding periods for which the guarantee applies. Where no minimum guaranteed return applies, or where the guarantee is only applicable for some but not all holding periods, a narrative shall be used for the relevant holding periods stating that the retail investor may lose some or all of the amount invested, or, where applicable, that the retail investor may lose more than they invested as set out in Part 3 of this Annex.
4. Where a stress scenario is shown, narrative element D in Part 2 of this Annex shall be included.
5. For Category 2 PRIIPs, except those referred to in point 15 of Annex IV, narrative explanations shall be included for the unfavourable, moderate and favourable scenarios using element E in Part 2 of this Annex.
6. For Category 1 PRIIPs except those referred to in point 30 of Annex IV, Category 2 PRIIPs referred to in point 15 of Annex IV, Category 3 PRIIPs and Category 4 PRIIPs, a brief explanation of the scenarios shown shall be included with a maximum of 300 characters in plain language.
7. Elements H, I, J and K in Part 2 of this Annex shall also be included in the case of Category 1 PRIIPs referred to in point 30 of Annex IV.

8. Intermediate holding periods shall be shown in accordance with points 32, 33 and 34 of Annex IV. The interim periods may differ depending on the length of the recommended holding period.
9. For PRIIPs that do not show performance scenarios at intermediate holding periods narrative element F in Part 2 of this Annex shall be included where relevant.
10. Unless otherwise specified, for all PRIIPs except for Category 1 PRIIPs referred to in point 30 of Annex IV, PRIIP manufacturers shall use the templates set out in Part 3 of this Annex to present the performance scenarios, depending on whether it is a single investment or premium PRIIP, a regular payment or premium PRIIP, or a PRIIP as referred to in point 76c of Annex VI.
11. The term “exit” shall be used in the performance scenario table to represent the end of the investment, unless this term may be misleading for specific types of PRIIPs, in which case an alternative term may be used, such as “terminate” or “surrender”.
12. For Category 1 PRIIPs as defined in point 4(b) of Annex II, the terminology used shall be adjusted where appropriate to reflect the specific features of the PRIIP, such as to refer to the notional amount of the PRIIP.
13. For insurance-based investment products, additional rows are included in respect of the biometric risk premium and a scenario for the insurance benefits, as illustrated in templates A and B in Part 3 of this Annex. Returns for that scenario shall only be shown in monetary terms.
14. For PRIIPs that involve regular payments or premiums, the templates shall also include information on the accumulated investment amount and where applicable the accumulated biometric risk premium, as illustrated in template B in Part 3 of this Annex.
15. For PRIIPs which are intended to be held for life, the recommended holding period stated in the performance scenarios may indicate that the PRIIP is intended to be held for life and state the number of years that have been used as an example for the calculation.
16. For PRIIPs that are immediate annuities or other PRIIPs that are only intended to pay-out upon the occurrence of the insured event, the performance scenario table shall reflect the following, as appropriate:
  - (a) the survival scenarios at the recommended holding period shall reflect the accumulated amount of payments made to the retail investor;
  - (b) where intermediate survival scenarios are included, these shall reflect the surrender values and accumulated amount of payments made to the retail investor at that time;
  - (c) the insurance event scenarios, such as upon death, shall show the lump sum payment received by the beneficiaries at that time.
17. Where the PRIIP is called or cancelled before the end of the recommended holding period according to the simulation, the presentation of the performance scenarios shall be adjusted accordingly, as illustrated in template C in Part 3 of this Annex, and explanatory notes shall be added, in a way that it is clear whether a certain scenario includes an early call or cancellation and that no reinvestment assumption has been applied. In scenarios

where the PRIIP is automatically called or cancelled the figures shall be shown in the column “If you exit at call or maturity” of template C in Part 3 of this Annex. The time periods shown for the intermediate holding periods shall be the same for the different performance scenarios and shall be based on the recommended holding period if the PRIIP is not called, which is expected to be aligned with its maturity. Figures for intermediate holding periods shall only be shown for scenarios where the PRIIP has not yet been called or cancelled before or at the end of that intermediate holding period and shall include any exit costs that apply at that time. If the PRIIP would have been called before or at the end of that intermediate holding period based on the simulation no figures shall be shown at that time period.

## PART 2

### Prescribed narrative elements

[Element A] The figures shown include all the costs of the product itself, (*where applicable*) [but may not include all the costs that you pay to your advisor or distributor / and includes the costs of your advisor or distributor]. The figures do not take into account your personal tax situation, which may also affect how much you get back.

[Element B] What you will get from this product depends on future market performance. Market developments in the future are uncertain and cannot be accurately predicted.

[Element C] [The unfavourable, moderate, and favourable scenarios shown are illustrations using the worst, average, and best performance of [the product / a suitable benchmark] over the last [x] years.] (*for Category 2 PRIIPs except those referred to in point 15 of Annex IV*) [The scenarios shown are illustrations based on results from the past and on certain assumptions] (*for other types of PRIIPs*). Markets could develop very differently in the future.

[Element D] The stress scenario shows what you might get back in extreme market circumstances.

[Element E] This type of scenario occurred for an investment [*add reference to benchmark where applicable*] between [*add dates in years*]

[Element F] This product cannot be [easily] cashed in. If you exit the investment earlier than the recommended holding period [you do not have a guarantee](*where there is a guarantee only at the recommended holding period*) [and] [you [will/may] have to pay extra costs] (*where there are exit costs*).

[Element G] The return is only guaranteed if you [*describe relevant conditions or refer to where these conditions are described in the key information document, such as the narrative explanations provided in accordance with Annex III*].

[Element H] This graph illustrates how your investment could perform. You can compare it with the pay-off graphs of other derivatives.

[Element I] The graph presented gives a range of possible outcomes and is not an exact indication of what you might get back. What you get will vary depending on how the underlying will develop. For each value of the underlying, the graph shows what the profit or