SPECIAL THANKS TO

Anita Metzger, Strategist Analyst, Public Affairs, BNP Paribas Securities Services
Cyril Lauterfling, Product Manager, BNP Paribas Securities Services
Pilar de Terry, Head of Global Product for Fund Administration, BNP Paribas Securities Services
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The information provided in this paper is based on our understanding of the rules as at June 2017. The statements are made for information purposes only. The reader should conduct independent analysis of the regulatory obligations with which each organisation must comply.
INTRODUCTION
Fund managers are facing the prospect of having to produce new information documents for their products by January 2018. This is due to the implementation of the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation. To add to the challenge, anyone supplying investment products alongside financial advice to European retail investors must ensure they provide information that complies with the requirements of the Market in Financial Instruments Directive II (MiFID II), from the same date.

**PRODUCT DISCLOSURE REQUIREMENTS UNDER PRIIPs REGULATION AND MiFID II**

Fortunately, this challenge becomes more manageable by consideration of how the regulation and directive interact and overlap.

It will not be necessary to perform all the information-gathering and calculations twice, provided the requirements of both are fully understood. As the two have the same schedule and the PRIIPs rules meet the less prescriptive MiFID II requirements, at least in terms of risk and performance, it will be possible to streamline the disclosure process. This paper aims to help readers understand the synergies between PRIIPs Regulation and MiFID II, in particular when it comes to costs and charges.
RISK, PERFORMANCE AND COSTS; WHAT ADDITIONAL INFORMATION DO YOU NEED?
From January 2018, MiFID II and the PRIIPs Regulation will require fund managers to disclose additional information on products to enable investors to better understand risk, performance and costs in order to compare investment products.

1.1. PRIIPs KID: A REMASTERED VERSION OF UCITS IV KIID

The PRIIPs Regulation expands on one of the obligations introduced by UCITS IV from 2011 to provide investors with a standardised pre-sale disclosure document: the Key Information Document (KID).

PRIIPs Regulation covers products in which retail investors do not hold assets directly but use a ‘wrapper’ that provides exposure to assets and therefore to the associated investment risk.

PRIIPs include products manufactured by:
- Asset managers (UCITS and non-UCITS funds)
- Insurance companies (life insurance products)
- Banks (structured deposits, derivatives, securitisations, Special Purpose Vehicles (SPVs))
- Corporates (structured securities, convertible bonds)

Investment fund managers will have to provide retail investors located in the European Economic Area – directly or through financial intermediaries – with a KID. This information must be provided before any advice is given or a purchase decision is made.

1.2 SCOPE OF MiFID II

Providing investment advice demands the provision of appropriate information to retail or institutional investors located in the European Economic Area so that they may reasonably understand the nature and risks of the investment service and the financial instruments concerned, and therefore make informed investment decisions. The MiFID II distributor rules on disclosure will also affect fund managers if the distribution of the funds they manage entails the provision of investment advice.

Fund managers will have to provide product disclosure to distributors who advise retail or institutional investors buying investment funds as required under MiFID II.

MiFID II broadly continues the principle of client disclosure laid down in MiFID:
- In the risk and performance areas, the PRIIPs rules will meet the less prescriptive MiFID II requirements
- Information on costs and associated charges are expanded under MiFID II

Fund managers could have been faced with different definitions of costs and charges in MiFID II and in PRIIPs Regulation, depending on the interpretation by ESMA of MiFID II rules:
- On transaction costs, MiFID II states that market movement between the initiation of a transaction and its completion should not be included in transaction costs, while the PRIIP KID’s main transaction costs methodology could be viewed as including the effects of market movements
• Under MiFID II ex-post personalised costs concern the actual holding period while the PRIIPs KID only disclose costs over a standardised period.

To what extent the PRIIPs KID’s information does satisfy MiFID II costs and charges requirements has been partially clarified by the European Securities and Markets Authority (ESMA) in a Questions and Answers (Q&A) document on MiFID II, published in June 2017. ESMA considers that the PRIIPs KID’s main transaction methodology complies with MiFID II requirements. This brings flexibility on the methods authorised under MiFID II for synergies with the PRIIPs Regulation. It also helps reduce the compliance burden and streamline document production.

1.3 COMING SOON: PRIIPs KID

Different stages from UCITS KIID to PRIIPs KID

Under the PRIIPs Regulation, UCITS funds and alternative investment funds (AIFs) with a UCITS Key Investor Information Document (KIID) benefit from a two-year grandfathering period. So in theory they may continue to only publish KIIDs until 2020, when they have to adapt to meet the PRIIPs Regulation standard.

In practice, they may have to disclose additional information:

• Under PRIIPs Regulation, if UCITS or AIFs are sold as investment options of other packaged products (e.g. multi-option insurance products); depending on the other PRIIPs manufacturer’s choice they will have to provide either transaction costs (which are not present in the UCITS KIID as opposed to the PRIIPs KID) or a fully compliant PRIIPs KID.

• Transaction costs must also be included in MiFID II costs and charges and be calculated using the PRIIPs KID’s simplified methodology.

*Italy considers that only a UCITS KIID will be sufficient in 2019/2020
**PRIIPs KID including Transaction Costs Calculation “complex methodology”
2.1. THE KID DETAILED

The PRIIPs KID that investment managers will have to provide and review is a mandatory template. It has to be reviewed at least yearly, as well as every time there is a change that needs to be reflected in the KID so that key information contained in the KID remains accurate, fair, clear and non-misleading. This is the case when a PRIIP’s summary risk indicator must move to a different class or when the mean return of the PRIIP’s moderate performance scenario has changed by more than five percentage points.
It is a stand-alone, standardised, pre-contractual document prepared for each PRIIP (ie each investment product). It must be made available to potential investors, must be clear and understandable, and must cover key product features including risks, performance and costs.

The KID should be short – no longer than three sides of A4 paper – written in a consumer-friendly manner and focused on key summary information. It is not designed to be exhaustive.

Each KID must contain the following mandatory content and sections:

- A prescribed explanatory statement concerning the purpose of the KID
- Information concerning the manufacturer and its regulator
- A comprehension alert for complex products
- A section headed ‘What is this product?’, setting out information describing the PRIIP, including its type, objectives, target consumer, details of any insurance benefits and applicable term
- A section headed ‘What are the risks and what could I get in return?’, setting out the risk-reward profile of the product using prescribed information
- A section headed ‘What happens if the PRIIP manufacturer is unable to pay out?’, containing details of guarantee schemes or other cover
- A section headed ‘What are the costs?’
- A section headed ‘How long should I hold it and can I take money out early?’, containing details of recommended holding periods and the consequences of cashing in early
- Information about how to complain
- A section headed ‘Other relevant information’, detailing other information that can made be available to investors

The information to be included in each section is detailed in the Regulatory Technical Standards.
2.2. COMPARISON BETWEEN UCITS KIID AND PRIIPs KID

As compared to the UCITS KIID, the PRIIPs KID is more complex in the area of performance scenarios, risk indicators and costs. It will require more calculation and market data as summarised below.

While for non-structured UCITS, the KIID summary risk indicator and performance scenario reflect the past, the corresponding KID section aims at providing a forward-looking view with different scenarios. The same difference in approach applies for costs disclosure requirements where the PRIIPs KID costs indicator shows reduction in yield over the recommended holding period, making it clear to the investor how much of their potential return, in the event of the moderate performance scenario, may be eaten up by the various costs and charges on the product.

**UCITS KIID**

The risk indicator is **only a Market Risk Measure**:
- With a scale from 1 to 7
- **For non structured funds**: the indicator is based on the volatility of the fund with specific rules for absolute return funds, total return funds, life cycle funds
- **For structured funds**: the indicator is based on annualised volatility corresponding to a Value At Risk with a 99% confidence level at the maturity of the fund calculated using a distribution of historical returns

**PRIIPs KID**

The risk indicator is assigned according to the combination of two measures – Market Risk Measure and Credit Risk Measure, in accordance with a table – with a scale from 1 to 7 (but which does not correspond to the UCITS KIID scale for a given volatility).

The Market Risk Measure of an investment fund – a risk class having a numerical scale from 1 to 7 is:
- **Systematically assigned to a score of 6** for investment funds which are priced less frequently than monthly or have insufficient historical data, or
- **For linear funds**: a Value At Risk (VAR) equivalent volatility with a 97.5% confidence level calculated using distribution from historical returns, or
- **For non-linear funds**: a VAR-equivalent volatility with a 97.5% confidence level calculated using distribution from simulated returns at the end of the recommended holding period

The Credit Risk Measure – a credit quality step ranging from 1 to 6 – is assessed in relation to:
- The underlying investments or exposures (including to other PRIIPs) on a look-through basis and adopting a cascade assessment as necessary
The four performance scenarios show a range of possible returns:

- An unfavourable scenario
- A moderate scenario
- A favourable scenario
- A stress scenario (new one based on the last RTS dated as of 8 March 2017).

**UCITS KIID**

For non-structured funds:
- Past performance is presented in a bar chart in percentage terms

For structured funds:
- 3 performance scenarios at the maturity of the fund must illustrate the functioning of the formula under different market conditions (unfavourable, medium, favourable) presented either in tables or graphs in percentage terms

**PRIIPs KID**

Four performance scenarios (favourable, moderate, unfavourable, stress) are presented in tables using monetary units based on an initial investment of EUR 10,000, and in percentage terms

- Frequency: at the end of the recommended holding period and at intermediate periods when the recommended holding period lasts more than one year
- Determined from the same distribution of returns (historical or simulated) used to determine the risk indicator

Investments funds which are priced less frequently than monthly or which have insufficient historical data:

- Performance scenarios are selected by the manufacturer to provide a balanced presentation of the potential outcomes of the product in both favorable and unfavorable conditions
- Scenarios shall be consistent with the stress-testing data and analysis used for producing other information in the KID

**PERFORMANCE SCENARIOS AND RISK INDICATORS – THE ESSENTIALS**

The methods to be applied distinguish between:

- Investment funds that are priced less frequently than monthly or with insufficient historical data (new funds, private equity funds, real estate funds)
- Linear funds (those with leveraged exposure to the underlying assets or investments that pay a constant multiple of the prices of the underlying assets)
- Non-linear funds

The risk indicator does not reflect the historic volatility of the fund as in the UCITS KIID, but the combined effect of projected market risk (Value At Risk equivalent volatility) and credit risk of underlying assets.

Past performance cannot be displayed but projected performance under four prospective scenarios (favourable, moderate, unfavourable, stress) must be disclosed over the recommended holding period.
## Costs

This table shows the impact on return per year:

<table>
<thead>
<tr>
<th>Costs Type</th>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-off costs</td>
<td>Entry costs</td>
<td>The impact of the costs you pay when entering your investment. [This is the most you will pay, and you could pay less]. [AND/OR where the costs are embedded in the price, for instance in the case of PRIIPs other than investment funds] The impact of the costs already included in the price. [This is the most you will pay, and you could pay less]. [Where distribution costs are included in entry costs] This includes the costs of distribution of your product.</td>
</tr>
<tr>
<td></td>
<td>Exit costs</td>
<td>The impact of the costs of exiting your investment when it matures.</td>
</tr>
<tr>
<td>Ongoing costs</td>
<td>Portfolio transaction costs</td>
<td>The impact of the costs of us buying and selling underlying investments for the product.</td>
</tr>
<tr>
<td></td>
<td>Insurance costs</td>
<td>The impact of the amount you are paying to buy insurance protection. [Where full biometric risk premium presented] The impact of the amount you are paying for insurance cover which exceeds the estimated value of insurance benefits.</td>
</tr>
<tr>
<td></td>
<td>Other ongoing costs</td>
<td>The impact of the costs that we take each year for managing your investments.</td>
</tr>
<tr>
<td>Incidental costs</td>
<td>Performance fees</td>
<td>The impact of the performance fee. We take these from your investment if the product outperforms its benchmark [y by x%].</td>
</tr>
<tr>
<td></td>
<td>Carried interests</td>
<td>The impact of carried interests. We take these when the investment has [performed better than x%]. [A payment of y% of the final return will take place subsequently to the exit of the investment.]</td>
</tr>
</tbody>
</table>

### Distribution fee, marketing and constitution costs, subscription fees

Those deducted from the assets of the fund, including transaction costs

### Carried interest and performance related fees payable to a ManCo or Adviser

Breaking down the costs
The summary costs indicator is the reduction of the yield, due to total costs, calculated over a holding period; the recommended holding period and at intermediate periods when the recommended period lasts more than one year.

Total costs are the sum of one-off costs, recurring costs and incidental costs.

Transaction costs, which were excluded from the UCITS KIID, are part of recurring costs. They include changes in the market price from the moment the decision is made to deal (“the observed market price”) and the price at which the transaction actually takes place. However, for PRIIPs which have been operating for less than 3 years a simplified methodology may be applied by dividing in half the average bid-ask spread observed under normal conditions for the underlying assets.

Summary costs indicator

UCITS KIID
Costs to be disclosed include:

- Entry and exit charges
- The recurring costs, which do not include transaction costs, and which are based on figures from the previous year
- Performance fees

PRIIPs KID
Costs to be disclosed include:

- One-off costs and entry/exit costs
- Ongoing costs including portfolio transaction costs
- Incidental costs including performance fees and carried interest

The presentation of costs is intended to clarify the impact of charges on potential returns and the composition of costs over the holding period.

- The “summary costs indicator” is shown as a reduction in yield and represents the impact of costs on the investment return of the moderate performance scenario.
- A “costs over time” table discloses the “summary costs indicator” of the total aggregated costs as a single monetary figure (based on an initial investment of EUR 10,000), and in percentage terms. This is shown for the end of the recommended holding period and, if it lasts more than one year, at intermediate periods.
- A “composition of costs” table shows the impact on investment return of different types of costs at the end of the recommended holding period.
INVESTMENT FUNDS SOLD AS INVESTMENT OPTION OF ANOTHER PRIIP

Until January 2020, UCITS and some AIFs are allowed to continue to disclose pre-sale information in their existing KIID. When an investment fund is sold as an investment option of another PRIIP, the PRIIP manufacturer has a choice between:

1. Produce a PRIIPs KID for each underlying option, including for UCITS
2. Produce a generic KID that will
   - Disclose, for all underlying investment options, the range of risk indicators and costs
   - Refer to a more detailed document providing other information on the underlying investment options. It may be the KIID for UCITS and AIFs that will benefit from the two-year grandfathering period. When other investments options that do publish a PRIIPs KID are offered alongside UCITS or AIFs, to enable the PRIIP manufacturer to disclose a range of consistent costs information, the fund manager of the underlying UCITS or AIFs must provide the transaction costs by applying the simplified method applicable to products which have been operating for less than 3 years

Multi-Option (e.g: unit-linked insurance product)
2.3. MiFID II PRODUCT DISCLOSURE REQUIREMENTS ON COSTS AND CHARGES

MiFID II Article 24(4) requires that distributors of funds must provide *ex-ante costs* disclosures. Where distributors of funds provide an ongoing investment service (as opposed to a one-off sale of an investment service), they must also provide annual personalised *ex-post* disclosures.

Costs to be disclosed include:
- One-off charges
- Ongoing charges
- All costs related to transactions
- Incidental costs

To provide consistent information to investors who may invest in a given fund (whether or not they received advice) and to help the industry streamline its information disclosure process the ESMA Q&A on MiFID II costs and charges has clarified that MiFID II ex-ante and ex-post transactions costs can be calculated by applying the simplified PRIIPs methodology when this method is allowed under the PRIIPs Regulation, or the main PRIIPs methodology otherwise.

The Q&A does not provide a clear answer in regards to the frequency of transmitting information from asset managers to distributors for ex-post costs disclosure in order to deliver the personalised ex-post disclosure of costs to clients. In particular, it is uncertain whether the data may be provided by the asset manager on an annual basis.

The new requirements will affect most asset managers to greater or lesser degree, as PRIIPs is designed to cover most funds not already captured by the UCITS category, including private equity and real estate.

A more positive view of the new requirements is that they extend the transparency requirements that applied only to UCITS, to all investment products, thus creating a level playing field for asset managers with other investment product manufacturers.
HOW BNP PARIBAS SECURITIES SERVICES CAN HELP YOU MEET YOUR OBLIGATIONS
As a global service provider, we provide a flexible and fully compliant offer that allows you to meet PRIIPs disclosure requirements and the costs and charges disclosure requirements of MiFID II.

**OUR OFFER IS MADE UP OF TWO COMPONENTS:**

- The quantitative components (risk, performance, costs and charges)
- The template and reporting

**A comprehensive solution covering PRIIPs and MiFID II specificities**

### PRODUCT COSTS AND CHARGES

<table>
<thead>
<tr>
<th>PRIIPs</th>
<th>MiFID II</th>
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<tbody>
<tr>
<td><strong>One-off costs</strong></td>
<td><strong>One-off costs</strong></td>
</tr>
<tr>
<td>Payments paid directly by the investor or another amount deducted from a payment received by or due to the investor:</td>
<td>PRIIPs one-off costs and ongoing costs to be used to meet MiFID II requirements</td>
</tr>
<tr>
<td>- Distribution fee</td>
<td></td>
</tr>
<tr>
<td>- Loading costs including taxes</td>
<td></td>
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<tr>
<td>- Constitution and marketing costs (up-front part)</td>
<td></td>
</tr>
<tr>
<td><strong>Recurring/ongoing costs</strong></td>
<td><strong>Recurring/ongoing costs</strong></td>
</tr>
<tr>
<td>Any payments deducted from the assets of the fund</td>
<td></td>
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<tr>
<td>- Other ongoing costs</td>
<td></td>
</tr>
<tr>
<td>- Transaction costs – 2 methods:</td>
<td></td>
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<tr>
<td></td>
<td><em>Simplified</em></td>
</tr>
<tr>
<td></td>
<td><em>Main method</em></td>
</tr>
<tr>
<td><strong>Incidental costs</strong></td>
<td><strong>Incidental costs</strong></td>
</tr>
<tr>
<td>- Performance-related fee (5 years history)</td>
<td></td>
</tr>
<tr>
<td>- Carried interests (5 years history)</td>
<td></td>
</tr>
</tbody>
</table>

### RISK AND PERFORMANCE

- Summary risk indicator
- Performance scenarios
- PRIIPs risk and performance solution to be used to meet MiFID II requirements

### TEMPLATE/REPORTING

- European PRIIP template (EPT)
- PRIIP KID reporting*
- Reporting European MiFID II template (EMT)

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* Qualitative data provided by the product manufacturer/asset manager
11 November 2015 PRIIPs Key Information Document – Draft regulatory technical standards Annex VI (p.57-64)
3.1 QUANTITATIVE DATA

Our offer meets all PRIIPs Regulation requirements:

- Risk indicator
- Cost indicator
- Performance scenario

In addition to meeting MiFID II requirements, we can calculate the transaction cost using the PRIIPs methodology.

3.2 TEMPLATE AND REPORTING

Our offer helps you reduce your reporting burden. It consists of:

1. European PRIIPs Template (EPT):
   - This template is suitable for funds used in multi-option products (MOPs), since it integrates the PRIIPs data necessary for insurers looking to construct MOPs
   - The editing solution for the template allows for the updating of the “other ongoing charges” (OOC) calculation and the “transaction costs calculation” (TCC)
   - The EPT is also suitable for transmitting data for the UCITS KIID data

2. European MiFID II Template (EMT)
   - This template produces a document including all charges and costs calculations
   - The EMT will be the data exchange template between the asset manager and the distributors, who have a responsibility under MiFID II to offer this disclosure to potential investors

3. PRIIPs Key Information Document (KID)
   - We can offer continuity of current services for customers already using the UCITS KIID reporting service
   - The new service includes more detailed components in comparison with UCITS KIID
   - It includes recovery of one-off-costs and incidental costs (performance fees and carried interest)
A modular offer

- Securities Services must be appointed as fund administrator
- Responding to specific needs through a modular offer

LEVEL 1
QUANTITATIVE DATA
- Costs and charges
- Risk and performance

RAW DATA
- Set-up and historical data retrieval (TCs, SRI, Incidental costs)

NUMERIC COMPONENTS CALCULATIONS
- Other ongoing costs calculation (OOC) *
- Transaction costs (TC)
- Based complex/simplified methodology
- Actual costs incurred
- Summary risk indicator & performance
- Summary costs indicators (total costs & RIY)

LEVEL 2
TEMPLATE/ REPORTING

European PRIIP Template (EPT 1.1) - MOP
European MiFID II Template (EMT 1.1)
PRIIP KID reporting**

* Excluded the % linked to the Reduction In Yield (RIY)
** Qualitative components will be provided by the client

Distributing investment funds under PRIIPs and MiFID II
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