ANNEX VI

METHODOLOGY FOR THE CALCULATION OF COSTS

PART 1

List of costs

I. LIST OF COSTS OF INVESTMENTS FUNDS (AIFs AND UCITS)

Costs to be disclosed

One-off costs

1. A one-off cost is an entry or exit cost which is either:

   (a) paid directly by the retail investor; or

   (b) deducted from a payment received by or due to the retail investor.

2. One-off costs are costs borne by the retail investor that are not deducted from the assets of the AIF or UCITS.

3. One-off costs include, but are not limited to, the following types of up-front initial costs that shall be taken into account in the cost amount to be disclosed in the key information document:

   (a) distribution fee, to the extent that the amount is known to the management company. If the actual amount is not known to the management company, the maximum of the possible known distribution costs for the specific PRIIP shall be shown;

   (b) constitution costs (up-front part);

   (c) marketing costs (up-front part);

   (d) subscription fee including taxes.

Recurring Costs

4. Recurring costs are payments deducted from the assets of an AIF or UCITS, and represent the following:

   (a) expenses necessarily incurred in their operations;

   (b) any payments, including remunerations, to parties connected with the AIF or UCITS or providing services to them;

   (c) transaction costs.

5. Recurring costs include, but are not limited to, the following types of costs that are deducted from the assets of the AIF or UCITS, and shall be taken into account in the cost amount to be disclosed in the key information document:

   (a) all payments to the following persons, including any of the following persons to whom they have delegated any function:

      (i) the management company of the fund;

      (ii) directors of the fund if an investment company;

      (iii) the depositary;

      (iv) the custodian(s);

      (v) any investment adviser;

   (b) all payments to any person providing outsourced services to any of the above, including:

      (i) providers of valuation and fund accounting services;

      (ii) shareholder service providers, such as the transfer agent and broker dealers that are record owners of the fund' shares and provide sub-accounting services to the beneficial owners of those shares;

(iii) providers of collateral management services;

(iv) providers of prime-brokerage services;

(v) securities lending agents;

(vi) providers of property management and similar services;

(c) registration charges, listing fees, regulatory charges and similar charges, including passporting fees;

(d) provisioned fees for specific treatment of gain and losses;

(e) audit fees;

(f) payments to legal and professional advisers;

(g) any costs of distribution or marketing, to the extent that the amount is known to the management company. If the actual amount is not known to the management company, the maximum of the possible known distribution costs for the specific PRIIP shall be shown;

(h) financing costs, related to borrowing (provided by related parties);

(i) costs of capital guarantee provided by a third party guarantor;

(j) payments to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset in the fund's portfolio (including transaction costs as referred to in points 7 to 23 of this Annex);

(k) the value of goods or services received by the management company or any connected person in exchange for placing of dealing orders;

(l) where a fund invests its assets in UCITS or AIFs, its summary cost indicator shall take account of the charges incurred in the UCITS or AIFs. The following shall be included in the calculation:

(i) if the underlying is a UCITS or AIF its most recently available summary cost indicator figure shall be used; this may be the figure published by the UCITS or AIF or its operator or management company, or a figure calculated by a reliable third-party source if more up-to-date than the published figure;

(ii) the summary cost indicator may be reduced to the extent that there is any arrangement in place (and that is not already ref lected in the fund's profit and loss account) for the investing fund to receive a rebate or retrocession of charges from the underlying AIF or UCITS;

(iii) where the acquisition or disposal of units does not occur at the mid price of the UCITS or AIF, the value of the difference between the transaction price and the mid price shall be taken into account as transaction costs, to the extent that this is not included in the summary cost indicator;

(m) where a fund invests in a PRIIP other than UCITS or AIFs, its summary cost indicator shall take account of the charges incurred in the underlying PRIIP. The following shall be included in the calculation:

(i) the most recently available summary cost indicator of the underlying PRIIP shall be included in the calculation;

(ii) the summary cost indicator may be reduced to the extent that there is any arrangement in place (and that is not already ref lected in the fund's profit and loss account) for the investing fund to receive a rebate or retrocession of charges from the underlying PRIIP;

(iii) in cases where the acquisition or disposal of units does not occur at the mid price of the underlying PRIIP, the value of the difference between the transaction price and the mid price shall be taken into account as transaction costs, to the extent that this is not included in the summary cost indicator;

(n) where a fund invests in an investment product other than a PRIIP its summary cost indicator shall take account of the charges incurred in the underlying investment product. The PRIIP manufacturer shall either use any published information that represents a reasonable substitute for summary cost indicator or else shall make a best estimate of its maximum level based on scrutiny of the investment product's current prospectus and most recently published report and accounts;

(o) operating costs (or any remuneration) under a fee-sharing arrangement with a third party to the extent that they have not been already included in another type of cost mentioned above;

(p) earnings from efficient portfolio management techniques if they are not paid into the portfolio;

(q) implicit costs incurred by structured funds as referred to in section II of this Annex, and notably points 36 to 46 of this Annex;

(r) dividends served by the shares held in the portfolio of the funds, shall the dividends not accrue to the fund.

Incidental costs

6. The following types of incidental costs shall be taken into account in the amount to be disclosed:

(a) a performance–related fee payable to the management company or any investment adviser, including performance fees as referred to in point 24 of this Annex;

(b) carried interests as referred to in point 25 of this Annex.

Calculation of specific types of costs of investments funds

Transaction costs

7. Transaction costs shall be calculated on an annualised basis, based on an average of the transaction costs incurred by the PRIIP over the previous three years. Where the PRIIP has been operating for less than three years, transaction costs shall be calculated using the methodology set out in point 21 of this Annex.

8. The aggregate transaction costs for a PRIIP shall be calculated as the sum of the transaction costs as calculated in accordance with points 9 to 23 of this Annex in the base currency of the PRIIP for all individual transactions undertaken by the PRIIP in the specified period. This sum shall be converted into a percentage by dividing by the average net assets of the PRIIP over the same period.

9. When calculating the transaction costs incurred by the PRIIP over the previous three years, actual transaction costs must be calculated using the methodology described in points 12 to 18 of this Annex for investments in the following instruments:

(a) transferable securities as defined by rule 5.2.7A of the Collective Investment Schemes sourcebook;

(b) other instruments that there are frequent opportunities to dispose of, redeem, or otherwise realise at prices that are publicly available to market participants and that are either market prices or prices made available, or validated, by valuation systems independent of the issuer.

10. Estimates of transaction costs using the methodology described below in points 19 to 20 of this Annex must be used for investments in other instruments or assets.

Treatment of anti-dilution mechanisms

11. Where a PRIIP has a pricing mechanism that offsets the impact of dilution from transactions in the PRIIP itself, the amount of benefit accruing to the ongoing holders of the PRIIP from anti-dilution mechanisms may be deducted from the transaction costs incurred within the PRIIP using the following methodology:

(a) the monetary amount of any anti-dilution levy, or other payment in connection with a transaction in the PRIIP itself, that is paid to the PRIIP may be subtracted from the total transaction costs

(b) the benefit to the PRIIP of issuing units (or otherwise enabling investment in the PRIIP) at a price other than the mid price, or of cancelling units (or otherwise enabling redemption of funds from the PRIIP) at a price other than the mid price, provided that the PRIIP itself receives the benefit, shall be calculated as follows and may be subtracted from the total transaction costs:

(i) the difference between the price of units issued and the mid price, multiplied by the net number of units issued;

(ii) the difference between the price of units cancelled and the mid-price, multiplied by the net number of units cancelled.

(1) Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions (OJ L 79, 20.3.2007, p. 11).

Actual transaction costs

12. The actual transaction costs for each transaction shall be calculated on the following basis:

(a) for each purchase undertaken by the PRIIP, the price of the instrument at the time the purchase order is transmitted to another person for execution (the purchase 'arrival price') shall be subtracted from the net realised execution price of the transaction. The resulting value shall be multiplied by the number of units purchased;

(b) for each sale undertaken by the PRIIP, the net realised execution price of the transaction shall be subtracted from the price of the instrument at the time the order to sell is transmitted to another person for execution (the sale 'arrival price'). The resulting value shall be multiplied by the number of units sold.

13. The net realised execution price shall be determined as the price at which the transaction is executed, including all charges, commissions, taxes and other payments (such as anti-dilution levies) associated with the transaction, either directly or indirectly, where those payments are made from the assets of the PRIIP.

14. The arrival price shall be determined as the mid-market price of the investment at the time when the order to transact is transmitted to another person. For orders that are transacted on a day that is not the day that the order was originally transmitted to another person, the arrival price shall be determined as the opening price of the investment on the day of the transaction or, where the opening price is not available, the previous closing price. Where a price is not available at the time when the order to transact is transmitted to another person (due to the order initiated outside market opening hours or in over-the-counter markets where there is no transparency of intra-day prices for example), the arrival price shall be determined as the opening price on the day of the transaction or, where the opening price is not available, the previous closing price. Where an order is executed without being transmitted to another person, the arrival price shall be determined as the mid-market price of the investment at the time when the transaction was executed.

15. Where information about the time when the order to transact is transmitted to another person is not available (or not available to a sufficient level of accuracy), or where information about the price at that time is not available, it is permissible to use as the arrival price the opening price of the investment on the day of the transaction or, where the opening price is not available, the previous closing price. When calculating transaction costs using data prior to 31 December 2017, intra-day prices may be considered as not available.

16. Costs associated with transactions undertaken by PRIIPs and concerning financial instruments that fall within one of the categories referred to in paragraphs 4 to 10 of Part 1 of Schedule 2 to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 shall be calculated in the following way:

(a) for instruments that are standardised and where there is regular trading in the instrument itself (for example an index future on a major equity index), transaction costs shall be calculated with reference to the instrument itself. The arrival price shall be determined as the mid-price of the instrument;

(b) for linear instruments that are customised, and where there is no price transparency or regular trading in the instrument itself, transaction costs shall be calculated with reference to the underlying asset(s). The arrival price shall be calculated based on the price(s) of the underlying assets, using appropriate weightings if there is more than one underlying asset. Where the cost of transacting in the instrument is materially higher than the cost of transacting in the underlying asset, this must be reflected in the transaction cost calculation;

(c) for non-linear instruments, it is permissible to calculate the transaction costs as the difference between the price paid or received for the instruments and the fair value of the instrument, on the basis described in points 36 to 46 of this Annex.

17. In calculating the costs associated with foreign exchange, the arrival price must reflect a reasonable estimate of the consolidated price, and must not simply be the price available from a single counterparty or foreign exchange platform, even if an agreement exists to undertake all foreign exchange transactions with a single counterparty.

18. In calculating the costs associated with orders that are initially entered into an auction, the arrival price shall be calculated as the mid-price immediately prior to the auction.

Transaction costs for other assets

19. When estimating transaction costs for assets other than assets as referred to in point 9 of this Annex, the methodology in point 12 of this Annex shall be used and the arrival price shall be calculated as follows:

 (a) for a sale:

  (i) the arrival price shall be calculated as the previous independent valuation price of the asset, adjusted for market movements, where appropriate, using an appropriate benchmark index;

  (ii) where a previous independent valuation price is not available, the transaction costs must be estimated based on the difference between the transaction price and an appraisal of the fair value of the asset prior to sale;

 (b) for a purchase:

  (i) the arrival price shall be calculated as the previous independent valuation price of the asset, adjusted for market movements, where appropriate, using an appropriate benchmark index, where such a price is available;

  (ii) where a previous independent valuation price is not available, the transaction costs must be estimated based on the difference between the transaction price and an appraisal of the fair value of the asset prior to purchase.

20. The transaction cost estimate must not be less than the amount of actual identifiable costs directly associated with the transaction.

Transaction costs for new PRIIPs

21. For PRIIPs that have been operating for less than 3 years and that invest predominantly in assets as referred to in point 9 of this Annex, transaction costs may be calculated either by multiplying an estimate of portfolio turnover in each asset class with the costs calculated according to the methodology referred to in point (c), or as an average of the actual transaction costs incurred during the period of operation and a standardised estimate on the following basis:

 (a) for the highest multiple of six months that the PRIIP has been operating, transaction costs shall be calculated on the basis described in points 12 to 18 of this Annex;

 (b) for the remaining period up to three years, transaction costs shall be estimated by multiplying an estimate of portfolio turnover in each asset class according to the methodology referred to in point (c);

 (c) the methodology to be used differs depending on the asset class and shall be determined as follows:

  (i) For the asset classes indicated in the table below, transaction costs shall be calculated as the average of the estimated cost of transaction (based on bid-ask spreads divided by two) for the relevant asset class under normal market conditions.

  To estimate the cost, one or more reference indexes shall be identified for each asset class. Then, the average bid-ask spreads of the underlying indexes shall be collected. The data collected shall refer to the closing bid-ask spread at the tenth business day of each month during the last year.

  The bid-ask spreads collected shall then be divided by two to obtain the estimated cost of transaction for each point in time. The average of those values is the estimated cost of transaction in each asset class under normal market conditions.

Asset Classes	
Government bonds	Government bonds and similar instruments developed market rating AAA-A
	Government bonds and similar instruments developed market different rating below A

Asset Classes	
Government bonds emerging markets (hard and soft currency)	Government bonds emerging markets (hard and soft currency)
Investment grade corporate bonds	Investment grade corporate bonds
Other corporate bonds	High yield corporate bonds

(ii) For the asset classes indicated in the table below, transaction costs (including explicit costs and implicit costs) shall be estimated either by using comparable information or by adding estimates of explicit costs to estimates of half the bid-ask spread, using the methodology described in point (i).

Asset Classes	
Liquidity	Money market instruments (for the sake of clarity, money markets funds not included)
Shares developed markets	Large-cap shares (developed markets)
	Mid-cap shares (developed markets)
	Small-cap shares (developed markets)
Shares emerging markets	Large-cap shares (emerging markets)
	Mid-cap shares (emerging markets)
	Small-cap shares (emerging markets)
Listed derivatives	Listed derivatives

(iii) For the asset classes indicated in the table below, the transaction cost is the average of the observed cost of transaction (based on bid-ask spreads divided by two) in this asset class under normal market conditions.

When identifying the observed cost of transaction, results of a panel survey may be taken into account.

Asset Classes	
OTC	OTC Exotic options
	OTC Plain vanilla options
	OTC IRS, CDS and similar
	OTC Swaps and similar instruments (different from IRS, CDS and similar)
	OTC FX Forwards developed markets
	OTC FX Forwards emerging markets

22. Estimates of portfolio turnover for a PRIIP that has been operating for less than one year must be made on a consistent basis with the investment policy disclosed in the offering documents. Estimates of portfolio turnover for a PRIIP that has been operating for more than one year must be consistent with actual portfolio turnover.

23. For PRIIPs that have been operating for less than three years and that invest predominantly in assets other than assets as referred to in point 9 of this Annex, the PRIIP manufacturer shall estimate the transaction costs on the basis of the fair value method using comparable assets.

Performance related fees

24. To calculate performance related fees, the following steps shall be taken:

(a) compute the fees on the basis of historical data covering the last 5 years. The average annual performance fees shall be computed in percentage terms,

(b) where a full performance fees history is not available because the fund/share class is new or the fund's terms have changed due to the introduction of the performance fee or the change of one of its parameters, the abovementioned method shall be adjusted according to the following steps:

(i) take the relevant available history of the performance fees of the fund/share class;

(ii) for any years for which data is not available, estimate the return of the fund/share class and, in case of a relative performance fee model, take into account the historical series of the benchmark/hurdle rate;

for new funds, their return shall be estimated using the return of a comparable fund or of a peer group. The estimated return shall be gross of all the costs charged to the new fund. Therefore peer groups' returns need to be adjusted by adding the average relevant costs charged according to the rules of the new fund. For instance, in case of a new class with a different fee structure, the returns of this new class shall be adjusted taking into account the costs of the existing class;

(iii) compute the fees from the beginning of the sample period, as required in point (a), until the date of availability of the actual performance fee data of the fund, applying the relevant algorithm to the abovementioned historical series;

(iv) concatenate both performance fee series to one series over the full sample period as required in point (a);

(v) compute the performance fees using the methodology referred to in point (a) (average of annual performance fees).

Carried interests

25. To calculate carried interests, the following steps shall be taken:

(a) compute the fees on the basis of historical data covering the last 5 years. The average annual carried interests shall be computed in percentage terms;

(b) where a full carried interests history is unavailable because the fund/share class is new or the fund's terms have changed due to the introduction of carried interests or the change of one of its parameters, the abovementioned method shall be adjusted according to the following steps:

(i) take the relevant available history of the carried interests of the fund/share class;

— for any years for which data is not available, estimate the return of the fund/share class,

— for new funds, their return shall be estimated using the return of a comparable fund or of a peer group. The estimated return shall be gross of all the costs charged to the new fund. Therefore peer group's returns need to be adjusted by adding the average relevant costs charged according to the rules of the new fund. For instance, in case of a new class with a different fee structure, the returns of this new class shall be adjusted taking into account the costs of the existing class.

(ii) compute the carried interests from the beginning of the sample period, as required in point (a), until the date of availability of the actual carried interests data of the fund, applying the relevant algorithm to the abovementioned historical series;

(iii) concatenate both carried interests series to one series over the full sample period as required in point (a);

(iv) compute the carried interests using the methodology referred to in point (a) (average of annual carried interests).

26. If no carried interests are taken throughout the investment, a warning needs to accompany the indication of zero carried interests in the composition of costs table in order to clarify that a payment of x % of the final return shall take place subsequently to the exit of the investment.

II. LIST OF COSTS OF PRIPS OTHER THAN INVESTMENT FUNDS

Costs to be disclosed

One-off costs

27. A one-off cost is an entry and exit cost which include initial charges, commissions or any other amount paid directly by the retail investor or deducted from a payment received by or due to the retail investor.

28. One-off costs are borne by a PRIP other than an investment fund, whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.

One-off entry costs and charges

29. One-off entry costs and charges include, but are not limited to, the following types that shall be taken into account in the cost amount to be disclosed for PRIPs other than investment funds:

(a) sales commissions;

(b) structuring costs, including market-making costs (spread) and settlement costs;

(c) hedging costs (to ensure that the PRIIP manufacturer is able to replicate the performance of the derivative component of the structured product — these costs include transaction costs)

(d) legal fees;

(e) costs for capital guarantee;

(f) implicit premium paid to the issuer.

One-off exit costs and charges

30. One-off exit costs and charges include, but are not limited to, the following types that shall be taken into account in the amount to be disclosed for PRIPs other than investment funds:

(a) proportional fees;

(b) bid-mid spread to sell the product and any explicit costs or penalties for early exit applicable. The estimation of the bid-mid spread shall be done in relation to the availability of a secondary market, to the market conditions and the type of product. In the situation where the PRIIP manufacturer (or a related third party) is the only available counterparty to buy the product on the secondary market, it shall estimate the exit costs to be added to the fair value of the product according to its internal policies;

(c) contract-for-difference (CFD) related costs such as:

(i) commissions charged by CFD providers — general commission or a commission on each trade — i.e. on opening and closing a contract;

(ii) CFD trading such as bid-ask spreads, daily and overnight financing costs, account management fees and taxes which are not already included in the fair value.

Recurring Costs

31. Recurring costs are payments regularly deducted from all payments due to the retail investor or from the amount invested.

32. Recurring costs include all types of cost borne by a PRIP other than an investment fund whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.

33. The following list is indicative but not exhaustive of the types of recurring charge that, where they are deducted or charged separately, shall be taken into account in the amount to be disclosed:

(a) costs related to coupon payments;

(b) costs of the underlying, if any.

Costs of PRIPs referred to in point 17 of Annex IV

34. One-off exit costs and charges are exchange fees, clearing fees and settlement fees where known.

35. Recurring costs are hedging costs borne under normal market conditions and stressed market conditions.

Calculation of implicit costs of PRIPs other than investment funds

36. For the purposes of the calculation of the implicit costs embedded in PRIPs, the PRIIP manufacturer shall refer to the issue price and, after the subscription period, to the price available to purchase the product on a secondary market.

37. The difference between the price and the fair value of the product is considered as an estimation of the total entry costs included in the price. If the PRIIP manufacturer is unable to distinguish the relevant implicit costs to be disclosed as referred to in point 29 of this Annex using the difference between the price and the fair value, it shall liaise with the issuer of the different components of the product, or the relevant body, in order to gather the relevant information on those costs.

38. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

39. The fair value policy that governs the measurement of the fair value shall set a series of rules including in the following areas:

(a) governance;

(b) methodology for the calculation of the fair value.

40. The rules referred to in point 39 of this Annex shall aim at outlining a valuation process that:

(a) complies with the applicable accounting standards, in relation to fair value;

(b) makes sure that internal pricing models for PRIPs are consistent with the methodologies, modelling and standards used by the PRIIP manufacturer to value its own portfolio under the hypothesis that the product is available for sale or held for trading;

(c) is consistent with the level of complexity of the product and the type of underlying;

(d) takes into account the issuer credit risk and the uncertainty about the underlying;

(e) sets the parameters to identify an active market in order to avoid risk mispricing that could lead in extreme cases to significantly inaccurate estimates;

(f) maximises the use of relevant observable market inputs and minimizes the use of unobservable inputs.

41. The fair value of a structured product shall be determined on the basis of:

(a) market prices, where available or efficiently formed;

(b) internal pricing models using as an input market values which are indirectly connected to the product, derived from products with similar characteristics (comparable approach);

(c) internal pricing models based on inputs which are not derived directly from market data for which estimations and assumptions must be formulated (mark-to-model approach).

42. If the fair value cannot be derived from market prices, it shall be calculated using a valuation technique that is able to represent properly the different factors affecting the product payoff structure making maximum use of market data.

43. The valuation technique referred to in point 42 of this Annex shall consider the following according to the complexity of the product:

(a) the use of recent arm's length market transactions between knowledgeable, professional counterparties;

(b) reference to the current market price of another instrument that is substantially the same;

(c) the use of an appropriate discounted cash-flow model where the likelihood of each cash flow is determined using an appropriate model of asset price evolution.

44. In the case of subscription products, the fair value shall be calculated on the date when the product terms are determined. This valuation date shall be close to the beginning of the subscription period. Where long offering periods or high market volatility exists, a criterion to update cost information shall be defined.

45. Where preliminary terms are used, costs shall be calculated by using the minimum terms of the product.

46. Where variable subscription prices are used, a procedure on how to incorporate and disclose the cost effect of the varying subscription price shall be defined.

III. LIST OF COSTS OF INSURANCE-BASED INVESTMENT PRODUCTS

Costs to be disclosed

One-off costs

47. A one-off cost is an entry and exit cost which includes initial charges, commissions or any other amount paid directly by the retail investor or deducted from the first payment or from a limited number of payments due to the retail investor or from a payment upon redemption or termination of the product.

48. One-off costs are borne by an insurance-based investment product, whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.

49. One-off costs include, but are not limited to, the following types of entry costs and charges that shall be taken into account in the amount to be disclosed for insurance-based investment products:

(a) structuring or marketing costs;

(b) acquisition, distribution, sales costs;

(c) processing/operating costs (including costs for the management of the insurance cover);

(d) cost part of biometric risk premiums referred to in point 59 of this Annex;

(e) costs of holding required capital (up front part to be disclosed insofar as they are charged).

Recurring costs

50. Recurring costs are payments regularly deducted from all payments from the retail investor or from the amount invested or amounts that are not allocated to the retail investor according to a profit sharing mechanism.

51. The recurring costs include all types of costs borne by an insurance-based investment product whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.

52. The following list is indicative but not exhaustive of the types of recurring charge that shall be taken into account in the amount of the ‘Other ongoing costs’ in table 2 of Annex VII:

(a) structuring or marketing costs;

(b) acquisition, distribution, sales costs;

(c) processing/operating costs (including costs for the management of insurance cover);

(d) cost part of biometric risk premiums referred to in point 59 of this Annex;

(e) other administrative costs;

(f) costs of holding capital (recurring part to be disclosed insofar as they are charged);

(g) any amount implicitly charged on the amount invested such as the costs incurred for the management of the investments of the insurance company (deposit fees, costs for new investments, etc.);

(h) payments to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset owned by the insurance-based investment product (including transaction costs as referred to in points 7 to 23 of this Annex).

53. Where an insurance-based investment product invests a part of its assets in UCITS or AIFs, in a PRIIP other than UCITS or AIFs or in an investment product other than a PRIIP, points 5(l), 5(m) and 5(n) of this Annex shall be applied respectively.

Cost disclosure of the biometric risk premium of insurance based investment products

Costs part of biometric risk premiums

54. Biometric risk premiums are those premiums paid directly by the retail investor or deducted from the amounts credited to the mathematical provision or from the participation bonus of the insurance policy, that are intended to cover the statistical risk of benefit payments from insurance coverage.

55. The fair value of biometric risk premiums is the expected present value, according to the interest rates referred to in point 71(a) of this Annex, of the future benefit payments from insurance coverage taking into account the following:

(a) best estimate assumptions on these benefit payments derived from the individual risk profile of the portfolio of the individual manufacturer;

(b) other payoffs related to insurance cover (rebates on biometric risk premiums paid back to the the retail investors, increase of benefit payments, reduction of future premiums, etc.) resulting from profit sharing mechanisms (legal and/or contractual).

56. Best estimate assumptions on future benefit payments from insurance coverage shall be set in a realistic way.

57. The estimated future benefit payments shall not include prudency margins or costs for the management of the insurance cover.

58. For manufacturers within the scope of Directive 2009/138/EC, or those enactments which were relied on immediately before Exit Day to implement that directive, these best estimate assumptions shall be consistent with the respective assumptions used for the calculation of the technical provisions in the Solvency II balance sheet.

59. The cost part of biometric risk premiums is the difference between biometric risk premiums charged to the retail investor referred to in point 54 of this Annex and the fair value of the biometric risk premiums referred to in point 55 of this Annex.

60. A PRIIP manufacturer may include the full biometric risk premiums in the calculation of one-off costs or recurring costs in the place of the cost part of those premiums.

PART 2

Summary cost indicators and compound effect of the costs

I. SUMMARY COST INDICATORS

61. The summary cost indicator of the PRIIP is the reduction of the yield due to total costs calculated in accordance with points 70 to 72 of this Annex.

62. For the calculation of the summary cost indicator the costs to be disclosed referred to in point 72 of this Annex shall be the total costs. This shall equal for investment funds the sum of the costs as referred to in points 1 and 2 of this Annex plus the sum of the costs as referred to in points 4 and 6 of this Annex; for PRIPs other than investment funds, except PRIIPs referred in point 17 of Annex IV, the sum of the costs as referred to in points 27 and 28 of this Annex plus the sum of the costs as referred to in points 31 and 32 of this Annex; for PRIIPs referred to in point 17 of Annex IV, the sum of the costs as referred to in points 34 and 35 of this Annex; and for insurance-based investment products, the sum of the costs as referred to in points 47 and 48 plus the sum of the costs as referred to in points 50 and 51 of this Annex. The total costs shall also include exit penalties, where relevant.

One-off costs and one-off costs ratios

63. The entry and exit costs ratio of the PRIIP shall be the reduction of the annual yield due to entry and exit costs calculated according to points 70 to 72 of this Annex.

64. For the calculation of the entry and exit costs ratio the costs to be disclosed referred to in point 72 of this Annex shall for investments funds be the entry and exit costs according to points 1 and 2 of this Annex; points 27 and 28 of this Annex for PRIPs other than investment funds, except PRIIPs referred in point 17 of Annex IV; point 35 for PRIIPs referred in point 17 of Annex IV; and points 47 and 48 of this Annex for insurance-based investment products. Exit costs shall also include exit penalties, where relevant.

Recurring costs, portfolio transaction costs and insurance costs/other recurring costs ratios

65. The portfolio transaction costs, insurance costs and other recurring costs ratio of the PRIIP shall be the reduction of the annual yield due to portfolio transaction costs and other recurring costs calculated according to points 70 to 72 of this Annex.

66. For the calculation of the portfolio transaction costs ratio and the insurance costs ratio the following shall apply:

(a) for the calculation of the portfolio transaction, the costs to be disclosed referred to in point 72 shall be the portfolio transaction costs according to points 7 to 23 of this Annex for investment funds, point 29(c) of this Annex for PRIPs other than investment funds, except PRIIPs referred in point 17 of Annex IV, and point 52(h) of this Annex for insurance based investment products;

(b) for the calculation of the insurance costs ratio, the costs to be disclosed referred to in point 72 of this Annex shall be the insurance costs according to points 59 and 60 of this Annex for insurance based investment products.

67. The other recurring costs ratio shall be the reduction of the annual yield due to other recurring costs that is calculated as the difference between the summary cost indicator according to point 61 of this Annex and the sum of the one-off costs ratio, according to point 63 of this Annex, plus portfolio transaction costs ratio, according to point 66(a), plus insurance costs ratio, according to point 66(b) of this Annex, plus the incidental costs ratios, according to point 68 of this Annex.

Incidental costs and incidental costs ratios (performance fees and carried interests ratio)

68. For the calculation of the performance fees ratio, the cost to be disclosed referred to in point 72 shall be the portfolio incidental costs according to point 6(a) of this Annex for investment funds. For the calculation of the carried interests ratio, the cost to be disclosed referred to in point 72 of this Annex shall be the portfolio incidental costs according to point 6(b) of this Annex for investment funds.

69. The 'ongoing costs', 'performance fees' and 'carried interests' as referred to in Annex VII are respectively the 'recurring costs', 'performance fees ratio' and 'carried interests ratio' as referred to in this Annex and in Article 5.

Calculation of summary cost indicator

70. The summary cost indicator shall be calculated as the difference between two percentages i and r where r is the annual internal rate of return in relation to gross payments by the retail investor and estimated benefit payments to the retail investor during the recommended holding period and i is the annual internal rate of return for the respective cost free scenario.

71. The estimation of future benefit payments under point 70 of this Annex shall be based on the following assumptions:

(a) except for PRIIPs as referred to in point 17 of Annex IV, the annual internal rate of return, i.e. the performance, of the PRIIP shall be calculated applying the methodology and the underlying hypothesis used for the estimation of the moderate scenario from the performance scenarios section of the key information document;

(b) the benefit payments shall be estimated under the assumption that all costs included in the total costs according to point 62 of this Annex are deducted;

(c) for PRIIPs as referred to in point 17 of Annex IV and for UCITS or non-UCITS funds for which PRIIP manufacturers use the key investor information document in accordance with Article 14(2) of this Regulation, the performance shall be 3 %.

72. For the purpose of the calculation of the cost free scenario as referred to in point 70 of this Annex the following shall apply:

(a) for the calculation of i either gross payments by the retail investor from the calculation of r shall be reduced by the costs to be disclosed or the projected benefit payments to the retail investor from the calculation of r shall be increased under the assumption that the amounts of the costs to be disclosed had additionally been invested. Then i is the annual internal rate of return in relation to these adjusted payments by and to the retail investor;

(b) where costs to be disclosed can be expressed as a constant percentage of the value of the assets they may be disregarded in the calculation described in point 72(a) of this Annex and instead be added to the percentage of the annual internal rate of return i for the respective cost free scenario afterwards.

Specific requirements for PRIPs other than investment funds

73. For the purpose of the calculation of the cost free scenario as referred to in point 70 of this Annex for PRIPs other than investment funds, gross payments by the retail investor from the calculation of r, as referred to in point 72 of this Annex, shall be reduced by the costs to be disclosed.

Specific requirements for insurance-based investment products

74. For the purpose of the calculations described in points 70 to 72 of this Annex, it shall be assumed that, for insurance-based investment products, no payments resulting from insurance coverage occur during the holding period. That is to say, the calculation of the summary cost indicator shall be solely based on estimated endowment benefit payments.

75. To the extent recurring and one-off costs are covered by explicit costs that are a fixed part of the premium calculation of the product the calculation of recurring and one-off costs shall be based on these explicit costs.

76. For profit participation for insurance based investment products the following shall apply:

(a) when calculating recurring costs and one-off costs for insurance-based investment products amounts retained from the investment return through profit sharing mechanisms shall be considered as costs;

(b) where a part of the costs is returned to retail investors by separate cost bonuses this shall be considered as a cost rebate that reduces cost deductions provided:

(i) that the cost bonuses are declared separately from other parts of the participation bonus and are intended for refunding parts of the costs by the contractual terms of the product.

(ii) that the PRIIP manufacturer can substantiate on the basis of sound actuarial methods that expected future cost bonuses are covered by expected future profits that result from prudent assumptions on future costs.

Calculation of ratios

Anti-double counting principle

77. If one type of cost is covered by two or more types of costs as referred to in this Annex, that type of cost shall only be accounted for once in the calculation of the indicators (ratios) which are based on it.

Other specifications

78. The ratios shall be expressed as a percentage to two decimal places.

79. The ratios shall be calculated at least once a year.

80. The ratios shall be based on the most recent cost calculations which the PRIIP manufacturer has determined. Without prejudice to point 77 of this Annex, the costs are assessed on an 'all taxes included' basis.

As for investment funds the following shall apply:

(a) a separate calculation shall be performed for each share class, but if the units of two or more classes rank pari passu, a single calculation may be performed for them;

(b) in the case of a fund which is an umbrella, each constituent compartment or sub-fund shall be treated separately for the purpose of this Annex, but any charges attributable to the fund as a whole shall be apportioned among all of the sub-funds on a basis that is fair to all investors.

81. Apart from the first calculation for a new PRIIP, and if not stated otherwise, the ratios shall be calculated at least once a year, on an ex-post basis. Where it is considered unsuitable to use the ex-post figure because of a material change, an estimate may be used instead until reliable ex-post figures ref lecting the impact of the material change become available.

82. The ex-post figures shall be based on recent cost calculations which the PRIIP manufacturer has determined on reasonable grounds to be appropriate for that purpose. The figures may be based on the costs set out in the PRIIP's statement of operations published in its latest annual or half-yearly report, if that statement is sufficiently recent. It it is not sufficiently recent, a comparable calculation based on the costs charged during a more recent 12-month period shall be used instead.

83. Information about the ratios that were applicable during previous years/periods shall be published at the location which is specified in the key information document as the general source of further information for investors who require it.

84. Where the costs attributable to an underlying UCITS or AIF are to be taken into account the following shall apply:

(a) the cost indicator of each underlying UCITS or AIF shall be pro-rated according to the proportion of the PRIIP's net asset value which that UCITS or AIF represents at the relevant date being the date at which the PRIIP's figures are taken;

(b) all the pro-rated figures shall be added to the total cost figure of the investing PRIIP itself, thus presenting a single total.

Calculation methodology for new PRIIPs

85. In place of ex-post data, estimates shall be used in the calculation of the different types of costs. Such estimates shall be carried out by adopting as proxies either a comparable PRIIP or a peer group.

86. For PRIIPs which charge a fixed all-inclusive fee, that fee shall be used provided it includes all costs to be presented under the PRIIPs cost disclosure requirements.

87. For PRIIPs which set a cap or maximum on the amount that can be charged, and provided it includes all costs to be presented under the PRIIPs cost disclosure requirements, that cap or maximum shall be used instead so long as the PRIIP manufacturer gives a commitment to respect the published figure and to absorb any costs that would otherwise cause it to be exceeded.

88. If, in the PRIIP manufacturer's opinion, expressing a figure to two decimal places would be likely to suggest a spurious degree of accuracy to investors, it shall be sufficient to express that figure to one decimal place.

89. The PRIIP manufacturer shall ensure that the accuracy of the estimated figure is kept under review. The PRIIP manufacturer shall determine when it is appropriate to begin using ex-post figures rather than an estimate; but in any case it shall, no later than 12 months after the date on which the PRIIP was first offered for sale in the United Kingdom, review the accuracy of the estimate by calculating a figure on an ex-post basis.

II. COMPOUND EFFECT OF THE COSTS

Common requirements to all types of PRIIPs

90. The table(s) referred to in Article 5 shall contain an indication of the total costs in monetary and percentage terms for the case that the retail investor invests, respectively 10 000 EUR (for all PRIIPs except regular premium insurance-based investment products), or 1 000 EUR yearly (for regular premium insurance-based investment products) during different holding periods, including the recommended holding period. The holding periods to be shown are those referred to in points 14 to 16 of Annex IV. Where a product is considered not to have an alternative liquidity facility promoted by the PRIIP manufacturer or a third party, or where there is an absence of liquidity arrangements, or for those PRIIPs as referred to in point 17 of Annex IV, that indication of costs may be shown only at maturity or at the end of the recommended holding period.

91. Where the currency of the PRIIP is not in Euros, an amount of a similar magnitude to those set out in point 90 of this Annex and which is cleanly divisible by 1 000 shall be used.

92. The total costs shall include one-off, recurring and incidental costs, and, where relevant, exit penalties.

93. Exit penalties are to be distinguished from other exit costs which have to be paid in any case and therefore always need to be included in the one-off costs.

94. The relevance of exit penalties depends on the holding period of the investment and the exact moment when the product is cashed in. Exit penalties are not relevant if the investment is kept for the recommended holding period.