
Impact of new RTS' volatility thresholds on SRI test calculations

As part of the implementation of the PRIIPs Key Information Document regulation, market participants were given the opportunity to provide comments on the Joint Consultation Paper (published in November 2016) by the European Supervisory Authorities (ESAs). As representatives of the structured products industry, the DDV provided detailed comments on the paper. Taking into account the feedback, the ESAs recently published the final draft regulatory technical standards (RTS).

This particular report (4) follows our PRIIPs report (1), which analysed the proposed methodology in the Joint Consultation Paper (JC 2015 073) underpinning the market risk assessment and (2), which focused on test calculations of the SRI for structured products, bonds as well as investment funds, also taking into account the Credit Risk Measure (CRM). The Report (3) consisted of a more realistic proposal for the volatility / VEV thresholds for the categorisation of PRIIPs into the risk classes. This report (4) compares the updated volatility thresholds for the MRM table on page 29 of the RTS on the basis of the VEV results for the sample products in the PRIIPs reports (2) and (3).

MAIN FINDINGS AND CONCLUSION

- **Using the new thresholds mentioned in the final RTS draft, the risk indicator for nearly all sample financial products has decreased by 1 or 2 classes as compared to old volatility thresholds in the JC.**
- **The greatest impacts were visible in the middle and highest risk classes. In the lowest risk classes, there were only minor changes (due to little or no change of the thresholds).**
- **Nevertheless, risk class 6 in the RTS is very broad and therefore is unable to differentiate, for example, between volatile blue chips and high volatile small cap investments.**
- **The high volatility threshold for class 6 (80 % VEV) will result in no (or only few) products being classified in class 7 by its MRM. The conclusion is that only category I PRIIPs will fall into risk class 7.**
- **Despite the improvements for a more realistic classification, the pitfalls of the calculation methodology outlined in the reports (1) and (2) still remain (e.g. for barrier products).**
- **In summary, the updated scheme in the RTS results in more appropriate risk classifications but has its deficits in the higher risk classes, especially in class 6.**

Results table for sample products of the reports (1) – (3)

Report	Product Type	Product Description	VEV	SRI (JC)	SRI (f.d. RTS)	Difference
2	Fund	Money Market Fund (Cash EUR)	0.04%	1	1	0
2	Fund	Eurozone Sovereigns 1-3 (Bond Fund)	1.30%	2	2	0
2	Fund	Eurozone Sovereigns 3-5 (Bond Fund)	2.39%	3	2	-1
2	Fund	Eurozone Sovereigns 10-15 (Bond Fund)	6.25%	4	3	-1
2	Fund	Global Equities (Equity Fund)	14.73%	5	4	-1
2	Fund	Eurozone Equities (Equity Fund)	19.97%	6	4	-2
2	Structured Product	Partially protected ES 50 tracker (Prot: 45%; Maturity 1y)	15.90%	6	4	-2
2	Structured Product	Partially protected ES 50 tracker (Prot: 45%; Maturity 3y)	10.08%	5	3	-2
2	Structured Product	Partially protected ES 50 tracker (Prot: 45%; Maturity 5y)	7.00%	4	3	-1
2	Structured Product	Discount Certificate ES50 (Cap 90%; Maturity 1y)	15.67%	6	4	-2
2	Structured Product	Discount Certificate ES50 (Cap 90%; Maturity 3y)	17.00%	6	4	-2
2	Structured Product	Discount Certificate ES50 (Cap 90%; Maturity 5y)	17.95%	6	4	-2
2	Structured Product	Barrier Reverse Convertible (Barrier: 65%; Maturity 1y)	21.58%	6	5	-1
2	Structured Product	Barrier Reverse Convertible (Barrier: 65%; Maturity 3y)	19.26%	6	4	-2
2	Structured Product	Barrier Reverse Convertible (Barrier: 60%; Maturity 1y)	0.00%	1	1	0
2	Structured Product	Barrier Reverse Convertible (Barrier: 60%; Maturity 3y)	19.29%	6	4	-2
3	Fund	BofA ML Emerging Market Sovereigns	7.61%	4	3	-1
2	Index	EURO STOXX 50	21.60%	6	5	-1
3	Index	MSCI World	13.91%	5	4	-1
3	Index	S&P 500	15.45%	6	4	-2
3	Index	DAX 30	20.92%	6	5	-1
3	Stock	OMV AG	27.33%	7	5	-2
3	Stock	Daimler AG	29.96%	7	5	-2
3	Stock	Airbus Group	31.07%	7	6	-1
3	Stock	STMicroelectronics NV	39.94%	7	6	-1
3	Stock	Glencore PLC	43.80%	7	6	-1
3	Stock	O2 Czech Republic AS	55.04%	7	6	-1

VEV values are taken from the reports (1) – (3)

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