



# PRIIPS

**(Packaged Retail and Insurance-based  
Investment Products) Regulation**

**Preparation for Implementation**

**Regulatory**



# Introduction

The regulatory framework to implement the PRIIPs regime is still evolving. On 4 July 2017, the European Commission published guidelines on the application of the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation and the Joint Committees of the European Supervisory Authorities published its first set of Q&As on PRIIPs implementation. These clarifications which take industry feedback into account, follow the April 2017 publication in the Official Journal of the European Union of the Delegated Regulation dealing with the presentation, content, review and revision of the harmonised key information document (KID), ahead of the 1 January 2018 implementation date.

The Delegated Regulation was the result of the second round of consideration by the European Parliament and Council of the RTS concerning the KID. The first Delegated Regulation proposed by the European Commission was rejected by the European Parliament in September 2016, which ultimately led to the delay in the entry into application of the PRIIPs regime.

Under the Delegated Regulation the PRIIPs KID must outline the product's aims, how risky it is, its expected returns, how much it costs and when investors can get their money back. All of this information must be set out in a standard consumer friendly way in a three page A4 document, regardless of the type of investment product. This is to ensure that the main features of the investment product are clearly presented to the investor and to better enable consumers across the EU to compare investment-linked insurance policies, investment funds and investment products.

As the KID is intended as a harmonised pre-contractual disclosure document, it should be noted that as such it does not replace other disclosure documents, such as a prospectus or other binding contractual documentation. A key challenge in the drafting of the KID is to balance the requirement for clear and concise language while also being accurate, fair, not misleading and consistent with the other sources of information made available to investors.

The scope of the PRIIPs Regulation includes: retail AIFs, UCITS Funds (from 2020), retail structured products, derivatives and life assurance based investment and the definition of a PRIIP itself is broadly constructed, as an investment where the amount repayable to the retail investor is subject to fluctuations because of exposure to reference values or to the performance of one or more assets which are not directly purchased by the retail investor. The overall objective of the PRIIPs Regulation is to improve pre-contractual information to retail investors in a market that is worth up to approximately €10 trillion in Europe.

## WHAT SHOULD A PRIIPs KID REFLECT?

The manufacturer of the PRIIP has overall responsibility for the production of the KID and the distributor or advisor selling the product is charged with providing the retail investor in question with the KID. As noted above, this Delegated Regulation is prescriptive in terms of the level of detail and the way it is presented in the standardised format;

1. General information about the product, including an explanatory statement about the intent of the document, basic details of the PRIIP such as name, contact information for PRIIP manufacturer, details on the competent authority regulating the PRIIP manufacturer and the date of the KID. This section also includes a Comprehension Alert, where applicable, stating "You are about to purchase a product that is not simple and may be difficult to understand".
2. A description of the PRIIP, including type, objectives, target consumer, details of any insurance benefits and term.
3. Summary Risk Indicator section, the KID must also include a description of the risk-reward profile of the product using prescribed information
4. Details of Performance Scenarios, setting out potential returns
5. Guarantee Scheme, the KID must provide details of guarantee schemes or other cover, in the event that the PRIIP manufacturer is unable to pay out.
6. A section on costs which includes a clear disclosure of costs including the "Costs over Time" and "Composition of Costs" tables
7. Finally the KID should also set out details of recommended holding periods, consequences of cashing in early, complaint information and any other information documents required from the investor.

## KEY SECTIONS OF THE KID



Forward looking document unlike UCITS KIID



Stand-alone document separate from marketing material



Maximum 3 A4 pages



A comprehension alert where applicable (aligned with MiFID II)

Key Information Document	
<p><b>Product</b> Name of PRIIP manufacturer whose available to the investor. It is not possible to invest in the PRIIP without investing in the underlying assets.</p> <p><b>Power of Product</b> (Name of PRIIP manufacturer) whose available to the investor. It is not possible to invest in the PRIIP without investing in the underlying assets.</p> <p><b>Other relevant information</b> You are about to purchase a product that is not simple and may be difficult to understand.</p> <p><b>What is this product?</b> Type Objective</p> <p><b>Intended retail investor</b> Intended retail investor</p> <p><b>Intended retail investor</b> Intended retail investor</p> <p><b>What are the risks and what could I get in return?</b> Type Objective</p> <p><b>Performance</b> Performance</p>	<p><b>What happens if (PRIIP Manufacturer) is unable to pay out?</b> Information on whether there is a public central depository of the issuer or issuer's parent company whose liability for the PRIIP is not limited.</p> <p><b>What are the costs?</b> Cost over time Template and format rules according to Annex VII</p> <p><b>Concession of Costs</b> Narrative information to be included in other distribution costs</p> <p><b>How long should I hold it and can I take money out early?</b> Recommended (required minimum) holding period: (x)</p> <p><b>Information on whether the issuer can discontinue the PRIIP, the conditions on this, and applicable fees and charges of the issuer on the termination of the PRIIP, the conditions on this, and applicable fees and charges of the issuer on the termination of the PRIIP</b></p> <p><b>How can I complain?</b></p> <p><b>Other relevant information</b></p>



Accurate, fair, clear and not misleading



Written in the language of the country where it is distributed



Provided in good time before the retail investor is bound by any contract



Regularly reviewed by the manufacturer

## WHAT HAS CHANGED FROM THE FIRST DELEGATED REGULATION PROPOSAL?

### • Multi-Option Products

A significant challenge which arises is compliance with the Delegated Regulation in respect of so-called Multi Option PRIIPs. The Delegated Regulation has provided useful clarification in the case of a range of investment options including a UCITS fund. The Delegated Regulation does allow PRIIPs manufacturers to opt for either a generic, single version of the KID document or a combined version of individual KID documents for each investment option.

### • Performance Scenarios

The European Commission has decided that every KID will set out a "stress scenario", along with the favourable, moderate and unfavourable scenarios that had already been included in the previous draft Delegated Regulation. This amendment is aiming to provide the investor with a clearer and more complete portrait on the potential future performance of its investment for the scenario before they reach the 'what if the PRIIP manufacturer is unable to pay out' scenario.

### • Comprehension Alerts

The European Commission has clarified that in the case of simple, understandable investment options the comprehension alert can be omitted in the initial section of the KID. Further, the Commission has outlined that for any product considered 'complex' under MiFID II or the Insurance Distribution Directive ('IDD'), a corresponding comprehension alert should be included in the PRIIPs KID.

### • Biometric components of Insurance-based Investment products

In terms of the presentation of administrative costs relating to the biometric components of insurance-based investment products, the risk/return section should specify:

- The impact of the biometric risk premium on the investment return; and
- The impact of the cost of the biometric risk premium in the "Cost over time" table

## RECENT CLARIFICATIONS

The European Commission's guidelines do provide some clarity in relation to a number of issues surrounding KIDs. The key points are;

- Firms will be in breach if a PRIIP is sold after 31 December 2017 without a KID;
- Some clarity was provided in relation to the scope. Manufacturers and distributors are responsible for determining which products are in scope, no prescriptive list has been provided. A KID is not required if no premium has been paid;
- For multi-option PRIIPs all details must be disclosed for the entire PRIIP, including all underlying investment options;
- The requirement to provide a KID is triggered where the retail product has been purchased in a Member State
- There are no specific transitional arrangements set out. However the guidelines do specify that a KID is not required where a PRIIP is not available after 1 January 2018 but where there may be changes to the terms and conditions of products already issued. These changes to terms and conditions do not include top-ups or switches in products.
- UCITs cannot use the PRIIPs KID format before 31 December 2019
- In terms of distribution the PRIIPs manufacturer is required to produce a KID and must publish it on its own website even in cases where the PRIIP is sold exclusively by intermediaries. A KID needs to be provided irrespective of whether it is sold with or without advice.

The Joint Committee of the European Supervisory Authorities published its first set of Q&A on the PRIIPs RTS on the same day, 4 July 2017, that the Commission's guidelines were published in the Official Journal. Issues covered by the Q&A include market risk, derivatives, risk assessment methodology and methodology for the calculation of costs.

## KEY STRATEGIC QUESTIONS:

- Will PRIIPs impact the nature of products being distributed?
- What new processes/changes to existing processes will be needed?
- Will we need an IT solution? And if so, who is the best vendor?
- How much will these changes cost?
- Are we in a position to meet the year-end deadline?
- What new governance model do we need to manage these changes?

## KEY STEPS FOR EFFECTIVE PRIIPS IMPLEMENTATION



### Scope Definition

Products in / out  
Manufacturers / distributors



### KID Content

Modelling for future performance scenarios  
Aggregation of costs (data availability & MOPs)  
Wording of narratives



### KID Factory

KID automation  
Tool mutualisation / outsourcing  
Dissemination to distributors / clients



### Integration with the Distribution Process

Connection of KID production process / tools with the distribution process / tools  
Review of existing documentation (consistency & reference in / out of the KID)



### Roles & Responsibilities

Update of distribution agreements  
Allocation of roles & resp (documentation, claims management...)



### Customer Contact

Use of the KID by distribution teams  
Training  
Set-up of teams at call centres & claim management

## CONTACTS



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