

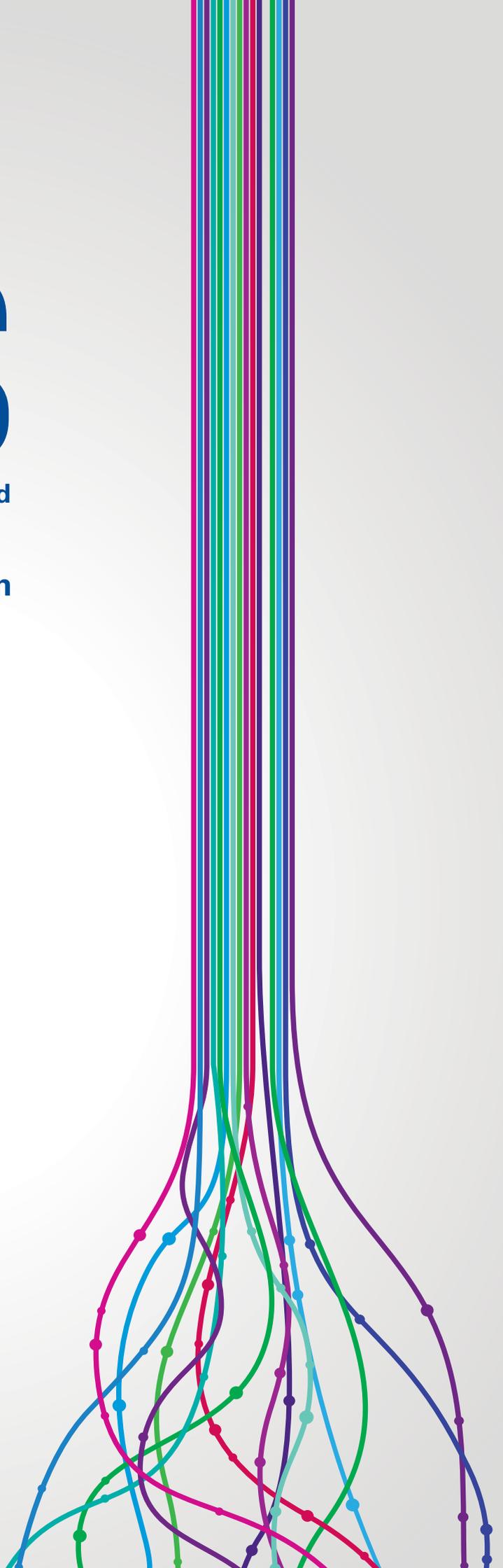


PRIIPS

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

Preparation for Implementation

Regulatory



Introduction

On 12 April 2017 the European Commission's Delegated Regulation ("Delegated Regulation") supplementing the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation was published in the Official Journal of the European Union, thus paving the way for firms to commence their preparations for the 1 January 2018 implementation date.

This Delegated Regulation is the result of the second round of consideration by the European Parliament and Council of the regulatory technical standards concerning the presentation, content, review and revision of the harmonised key information documents ("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 products 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, the 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 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

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