

## FINANCIAL REGULATORY QUICK START GUIDE

### THE PACKAGED RETAIL AND INSURANCE-BASED INVESTMENT PRODUCTS (PRIIPS) REGULATION: AN OVERVIEW

#### OVERVIEW

The PRIIPs Regulation took effect on 1 January 2018. It was introduced to strengthen retail investor protection by improving the comparability and comprehensibility of information about PRIIPs being provided to retail investors in the EEA.

The PRIIPs Regulation requires that PRIIP manufacturers prepare and publish a Key Information Document (KID) in relation to any PRIIP made available to retail investors.

The KID is a three-page document containing prescribed disclosures, which is meant to assist investors in understanding and comparing the key features, risks, rewards, and costs of different PRIIPs.

Almost since its inception, however, the PRIIPs framework has caused concerns in relation to its scope and some of the data presented in the KID. Both regulators and manufacturers consider that KIDs can present misleading information to investors, and the regime has been subject to various reviews and revisions.

#### INTERACTION BETWEEN THE EU AND UK REGIMES

The UK “onshored” the PRIIPs Regulation with a UK-only scope, so the UK PRIIPs Regulation applies to PRIIPs made available to retail investors in the UK (whereas the EU PRIIPs Regulation captures PRIIPs made available to retail investors in the EEA). The UK is no longer bound by the EU approach and so the two regimes will diverge as both sides are revising the framework.

#### WHAT IS A PRIIP?

PRIIPs fall into two broad categories.

The first is **packaged retail investment products**. These are investments, (including instruments issued by special purpose vehicles or securitisation special purpose entities) under which, regardless of the legal form of the investment, the amount repayable to the retail investor is subject to fluctuations because of exposure to different reference values or to the performance of one or more assets that are not directly purchased by the investor.

The second is **insurance-based investment products**. These are insurance products that offer a maturity or surrender value, where that maturity or surrender value is wholly or partially exposed, directly or indirectly, to market fluctuations.

#### WHO IS REQUIRED TO DRAW UP A KID?

PRIIP manufacturers are required to draw up a KID for each PRIIP they manufacture, before the PRIIP can be sold to retail investors in the EEA. This is on the basis that the manufacturer is in the best position to understand the product.

PRIIP manufacturers are entities that manufacture PRIIPs, or entities that make changes to an existing PRIIP. This might include, for example, altering the risk and reward profile or the costs associated with an investment in a PRIIP.

#### WHAT SHOULD THE KID LOOK LIKE?

There are prescriptive requirements detailing the form and content requirements for KIDs. These are summarised in the table overleaf.

A KID must be a stand-alone document that is clearly separate from any marketing materials, and must not contain any cross-references to related marketing materials.

The KID should be no more than three sides of A4-sized paper when printed, to ensure that the information included is kept concise, and that the KID is more easily comparable for retail investors.

The KID must:

- Be presented and laid out in a way that is easy to read, using characters of readable size;
- Focus on the key information that retail investors need; and
- Be clearly expressed and written in a language and style that facilitates the understanding of the information, in particular in language that is clear, succinct and comprehensible.

Any colours used in the KID should not diminish the comprehensibility of the information contained in the document, if the KID were to be printed or photocopied in black and white. The firm’s branding or logo must not distract the investor from the information contained in the KID, or obscure any of the text.

**WHEN MUST A KID BE PROVIDED?**

When a firm advises on, or sells, a PRIIP, it must provide retail investors with the relevant KID **in good time** before those retail investors are bound by any contract or offer relating to the product.

The firm should assess the time needed by each retail investor to consider a KID, taking into account the following considerations:

- The knowledge and experience of the retail investor with the PRIIP, or with products of a similar nature;
- The complexity of the PRIIP; and
- Where the advice or sale is at the initiative of the retail investor, the urgency explicitly expressed by the retail investor of concluding the proposed contract or offer.

**HOW MUST A KID BE PROVIDED?**

When advising on or selling a PRIIP, a firm must provide the KID to retail investors free of charge. Retail investors have a right to receive a paper copy of the KID upon request and free of charge where the KID has been provided in a durable medium other than paper. Where the KID has been revised, previous versions must also be provided on request.

A KID must remain available to retail investors throughout the life of the PRIIP. The information contained in a KID should be capable of being relied on by a retail investor when making an investment decision, even in the months and years following the initial preparation of the KID. Therefore, a PRIIP manufacturer must review and revise the KID regularly.

**KEY INFORMATION WITHIN THE KID**

Section	Overview
General information	Information identifying the product, the manufacturer, who regulates the manufacturer, and the date of the KID.
What is the product?	Information about the objectives of the PRIIP, the type of investor for whom it is intended, and the term of the PRIIP.
What are the risks and what could I get in return?	A summary risk indicator ranking the product on a standard scale, along with associated narrative and information on performance.
What happens if the firm is unable to pay out?	Details of whether the investor may face loss due to the firm's default, and whether such loss would be covered by any investor compensation or guarantee scheme.
What are the costs?	Costs associated with the investment, including a breakdown of different types of costs, and an indication as to how costs will affect the return on investment over time.
How long should I hold it and can I take my money out early?	Details of any cooling-off or cancellation period, where applicable. Information on the recommended, or required minimum, holding period. Information regarding the early divestment procedure, the impact on the investment, and any fees or penalties associated with early divestment.
How can I complain?	A summary of how and to whom a complaint may be made in relation to the PRIIP.
Other relevant information	Details of any additional information documents that may be provided.

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