

PRIIPs Regulation

Alongside MiFID II, Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (**PRIIPs Regulation***) is one of the measures introduced by the European Union in response to the 2007–2008 financial crisis.

It aims to increase investor protection and improve retail investors' confidence in the financial markets, and extends the obligation to provide investors with a **Key Information Document (KID)**.

The PRIIPs regulation will apply in all EU member states as of 1 January 2018.

What exactly are PRIIPs?

PRIIPs stands for Packaged Retail and Insurance-based Investment Products, which are defined as follows:

Packaged retail investment product: an investment where, regardless of the legal form of the investment, 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.

“**Retail**” means that the product must be aimed at **retail investors** as defined under MiFID.

Insurance-based investment products: an insurance product which offers a maturity or surrender value and where that maturity or surrender value is wholly or partially exposed, directly or indirectly, to market fluctuations.

What is a Key Information Document (KID)?

A Key Information Document (KID) must be:

- accurate, fair, clear and not misleading;
- a stand-alone document, clearly separate from marketing materials and any other materials required;
- drawn up on a maximum of three pages of A4-sized paper;
- written in a way that is easy to read (characters of legible size, clear language, no financial jargon);
- consistent with all of the bank's binding contractual documents.

A KID must contain:

- the basic information relating to the product
- a comprehension alert to indicate that the product may be difficult to understand
- a product description;
- a description of the risks and what investors could get in return;
- a breakdown of the costs;
- an indication of the recommended holding period for investors;
- information about the complaints procedure.

The KID must be reviewed regularly by the manufacturer, and at least once a year.

It contains an overview of the characteristics and risks of the products in question, creating a uniform basis for the comparison of similar products.

The “**manufacturer**” of the product (producer) must provide it to the “**sellers or advisors**” (distributors). The latter are responsible for providing retail investors with the KID before any purchase, subscription or signature of

a contract to invest in a product, allowing sufficient time for clients to make an informed investment decision.

Who is affected by the PRIIPs regulation?

The PRIIPs regulation primarily affects **manufacturers** of financial products. Similar to the concept of a **producer** under MiFID II, this term covers:

- any entity that **manufactures** a packaged retail and insurance-based investment product;
- any entity that **amends** a packaged retail and insurance-based investment product (risk profile, remuneration policy or costs associated with investing in the product).

The regulation stipulates that:

- **Product manufacturers** must draw up the Key Investor Document (KID) and publish it on their website before a PRIIP can be sold.
- **Product distributors** must provide retail clients with a KID before concluding a sale.

Which products are governed by this regulation?

The PRIIP definition applies to the following products:

- UCITS and other non-UCITS funds;
- all structured products, including structured deposits;
- all derivatives: warrants, options (call and put) and futures;
- convertible bonds;
- “with-profit” policies and other life insurance products offering a maturity or surrender value (and at least partly exposed to market fluctuations).

The PRIIP definition does not apply to the following products:

- products with no investment risks;
- direct investments in equities and bonds;
- deposits other than structured deposits;
- non-life insurance products and life-insurance policies where the benefits are payable only on death or in respect of incapacity;
- occupational pension schemes;
- any other pension product with the primary purpose of providing an income in retirement.