

Regulation on key information documents for investment products **(PRIPs) and its challenges**

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Content:

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2. The PRIPs proposal
3. The UCITS's KIID versus the PRIPs' KID
4. EU legislative process status
5. Challenges/impact for the industry



EU rules on product information

UCITS IV	<ul style="list-style-type: none"> • Format and length of the KIID highly standardised • UCITS KIID mandatory since July 2012 • Possible future conversion of KIIDs to KIDs
MiFID 2	<ul style="list-style-type: none"> • Appropriate information and warnings of risks • The information is dependent on the client classification • MiFID I since 2007, MiFID 2 introduces new provisions
Prospectus (PD)	<ul style="list-style-type: none"> • Securities that are offered to the public or traded in a RM • The summary prospectus: improvement • Summary prospectus still not read by retail investors
IMD	<ul style="list-style-type: none"> • obligation to give sufficient information about the insurance product to allow the client make an informed decision • entry into force most likely in 2015 (?)
PRIPs	<ul style="list-style-type: none"> • Introduction of the Key information document • Strict liability regime • To be mandatory in 2015?
Other	<ul style="list-style-type: none"> • Some Member States require KID-like documents, but each with their own specificities. e.g. Wertpapierhandelsgesetz (Germany)

International initiatives

- April 2013 - **IOSCO consulted** on Packaged retail investment products:
 - issuer's responsibility within the distribution chain
- August 2013 - **Joint Forum** (IOSCO, BCBS, IAIS) consulted on Point of Sales disclosure in the insurance, banking and securities sectors.
 - a “one-size-fits-all” approach to disclosure

Content of the PRIIPs proposal:

Its main objectives are:

- (i) To help the retail investors to make a more informed decision on whether an investment is right for them or not;
- (ii) To increase comparability between Packaged Retail Investment Products (PRIIPs);

How to achieve these objectives?



The Key Information document (KID)

The Key
Information
Document
(PRIPs)



VERSUS

The Key
Investor
Information
Document
(UCITS IV)

KID vs. KIID: standardised “look and feel”

KID (PRIPs): two pages long?

- What is this investment?
- Could I lose my money?
- What is it for?
- What are the risks and what I may get back?
- What are the costs?
- How has it done in the past?
- What I might get when I retire?

KIID (UCITS): two pages long

- Objectives and investment policies
- Synthetic risk and reward profile (SRRI)
- Charges
- Past performance
- Practical information

KID Vs. KIID: Liability

- **PRIPs KID:** “When a retail investor demonstrates a loss resulting from the use of the information contained in the key information document, the investment product manufacturer has to prove that the key information document has been drawn up in compliance with this Regulation.”

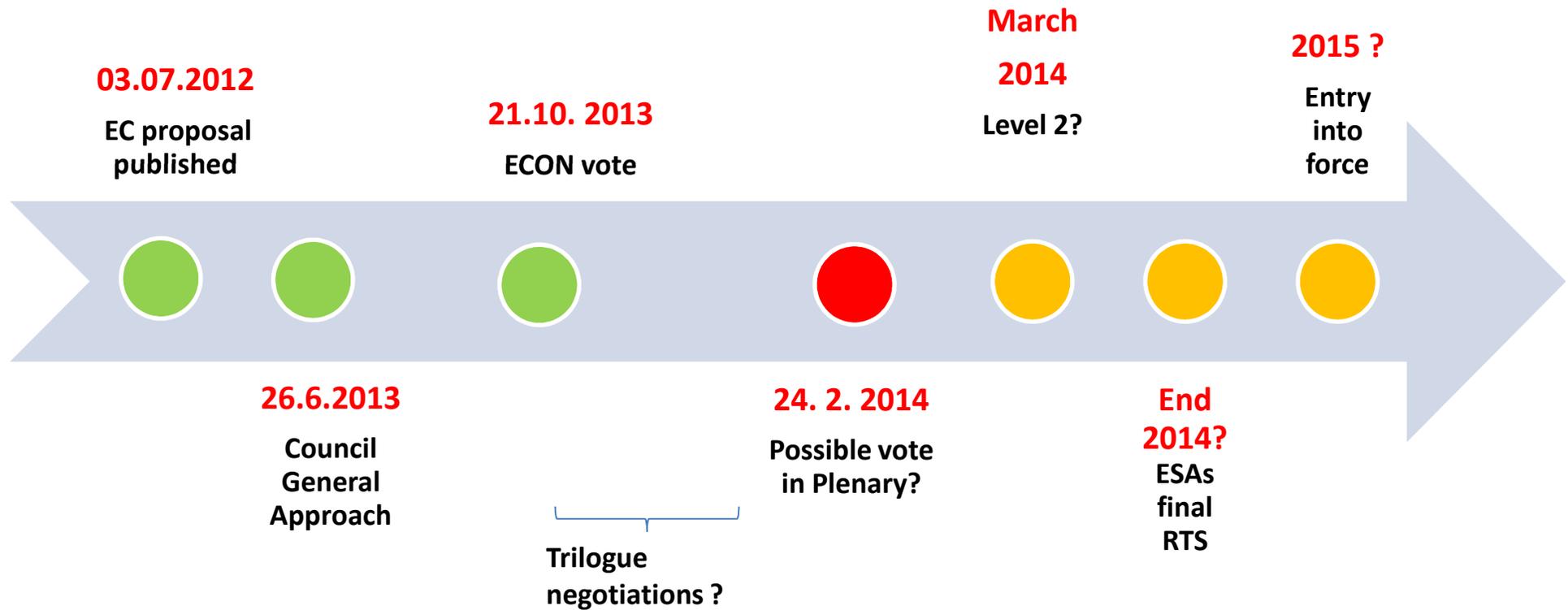
VS.

- **UCITS KIID:** “product manufacturer liability arises only if the KIID is misleading, inaccurate or inconsistent with other pre-contractual documents.”

EU legislative process status



PRIPs Timeline



Council General Approach:



- In June 2013, the Irish Presidency achieved a Council General Approach which includes:
 - Deletion of the reversal of the burden of proof
 - Scope is limited to PRIPs
- Disagreement between Member States persists in relation to: (i) sanctions and (ii) on the exclusion of life insurance products.

ECON committee vote (21.October):



- Reduced scope from what was initially proposed
- Strict liability regime remains together with a joint liability
- Risk management provisions also remain
- Only general provision on taxation

It is difficult to exactly assess what are the provisions in the ECON text as there were many split votes and additional oral amendments that were not reflected in the voting list.

Final PRIPs legislative text?

- Depends on outcome of trilogues negotiations between the Council, Parliament and Commission
- The three European Supervisory Authorities will be entrusted with drafting detailed implementing rules during the course of 2014
- Final technical standards to be finalized by early 2015

Potential impacts in the industry:

- Product manufacturers will need to exactly know which products are in the scope of the Regulation
- Certain financial products could stop from being sold to retail investors (e.g. self-directed clients or PRIIPs from third country jurisdiction)
- Manufacturers to determine whether they want to prepare and maintain the KIDs themselves or outsource these tasks
- Consistency between the various information sources (prospectus, KID, website, factsheets, etc.)
- Reallocation of liabilities
- Continuous access of distributors to up-to-date KIDs should be guaranteed

Challenges ahead for the industry:

- **Consumer protection** - How to balance consumer protection with pragmatism?
- **Other disclosure documents** - How to ensure that investors do not suffer from information overload?
- **Strict liability regime** - How to include all relevant information in 2 pages without incurring liability? Possible joint liability?
- **Language of the KID** - How to explain complex terms in simple words?
- **Third Country product manufacturers** – Stop selling their products in the EU?
- **The risk indicator** - Based on historical data or future scenarios?



Thank you for your attention