European Commission Implementation Workshop for PRIIPs KIDs

This workshop in Brussels on 11 July proved so popular that the venue was changed to accommodate the 250 or so from all affected branches of the industry.

With so many attendees, it was no surprise that there were lots of product-specific questions that may not have been directly addressed by the Regulation or the Regulatory Technical Standards (RTS) or those seeking clarity on what is in the RTS. In many instances, the panel of representatives from the Commission, EIOPA and the Costs and Risks & Reward workstreams was able to provide the clarity required. In other cases, however, they either offered to take the issue back to their workstreams or their answers only generated further questions.

Issues that were clarified include the following, in no particular order;

- The deadline is 31 December 2016 for all PRIIPs, with no grandfathering provisions;
- UCITS and AIFs with a waiver from a national authority are exempt from PRIIPs KIDs, with no scope for early adoption;
- The RTS do not prevent the inclusion of additional information required in the Level 1 Regulation, but KIDs are not expected to show all options or variations available;
- The requirement (in Recital 22) to advise existing clients of a revised KID is not binding, but represents best practice;
- While there are clear guidelines on the changes to the risks or returns that mean a KID needs to be revised, the lack of prescription over what is a material change to the costs is deliberate;
- There is to be no prior approval of KIDs, but host regulators may require notification, i.e. lodging of the KID, prior to marketing a PRIIP in their country;
- Costs that are not relevant to a PRIIP do not need to be included in the Composition of Costs table;
- There is no possibility of displaying a higher SRI on the KID than the one produced by the calculations;
- The currency warning below the SRI applies when the currency of denomination of the PRIIP differs from that of the country where it is marketed. Any currency risk due to the assets within the fund should be picked up by the MRM calculation.

UCITS funds in a Multi Option PRIIP

Possibly the most far-reaching statement that came out of the workshop was that, while UCITS (and many NURS) funds are currently exempt from the need to produce PRIIPs KIDs, this does not apply to Multi Option PRIIPs (MOPs) that invest directly into these funds. We already know that life assurance “mirror” funds need KIDs or fund guides, but the MOP PRIIP manufacturer will also need to produce a KID or fund guide in respect of the UCITS or NURS fund if a client can invest directly into it. For this, the fund management groups are expected to provide the additional data to calculate the risk, return and costs sections required in the RTS.

Fourth performance scenario
For the ‘return scenarios’ table, the standard requirement is for three scenarios (unfavourable, moderate and favourable) but the RTS raised the possibility of an additional scenario to cover ‘significant unfavourable impacts’. However, at the workshop it was clarified that three scenarios will almost always be sufficient, unless a specific situation arises from the calculations used to determine the range of future returns. This has no bearing on the need for a “death” scenario which is a required fourth scenario in all relevant cases.

Market Risk Measure
When the Market Risk Measure and return scenario calculations require the use of the fund’s price history, you should use the full five years’ data for the fund or proxy, if available. However, for daily priced funds with a history going back between two and five years, there is no need to use a proxy to make up the difference, as a minimum of two years is sufficient. If there is less than two years’ data for the daily priced fund or proxy (or four years for weekly priced or five years for monthly priced) the PRIIP falls in Category 1 and automatically has an MRM of 6.

As an example – a daily priced fund has 18 months of prices and a suitable proxy is used to make up the additional three and a half years. After a further six months, the fund will have two years of historical prices, so will no longer need the proxy at all.

The need for a KID
The driver for determining if a KID is required is whether a new contract is issued (or there is a variation to an existing contract) as a result of the transaction. While this is likely to rule out switches and top-ups within many closed life books, it would be seen as good practice to provide a client with a KID if they switch investment funds or add further money to a policy.

The ESAs are conscious that there may occasionally be a conflict between wording of the regulations and the need to be “accurate, clear, fair and not misleading” and will consider these on a case-by-case basis, but nobody should expect wholesale changes as a result.

Further guidance, probably in the form of Q&As, is expected “before the summer break”, but many of the unanswered questions from the workshop may need to be added to those, so no specific deadline for this was given. As only a skeleton staff tends to be present in August, our hope is that the guidance will be sent out before then. The European Parliament and Council have until the end of August to scrutinise the RTS, but the lack of time available after that means groups should not wait until then to make further progress where possible.

At FE Kii Hub, we are continuing to build our solution on the basis of the information available, making any necessary changes as they are issued by the ESAs.

If you require further information please get in touch with us by calling 020 7337 2291 or by email at fe-kiihub@financialexpress.net.

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