

What is in PRIIPs Level 1?

With all the speculation about PRIIPs KIDs going ahead on 31 December 2016 without Level 2, we have been asked to clarify what is in Level 1 and Level 2. This paper looks at what is in the Level 1 Regulation (EU 1286/2014) that needs to be followed regardless of Level 2. It isn't an attempt to summarise the Regulation, but focuses on those parts that dictate what goes in a KID.

Underlying PRIIPs KIDs is the drive to improve transparency to retail investors, regardless of the product wrapper, as a key step towards greater investor protection. The Level 1 Regulation came into force in December 2014 and is due to apply from 31 December 2016.

The Regulation states that **the KID should be drawn up in a standardised format which allows retail investors to compare different PRIIPs.**

The KID shall be published by the PRIIP manufacturer on its website.

Information on PRIIPs should be **accurate, fair, clear and not misleading**, with particular attention paid to the vocabulary and style of writing used in the document.

The KID should only contain key information, in particular as regards the nature and features of the product, including whether it is possible to lose capital, the costs and risk profile, as well as relevant performance information, and certain other specific information which may be necessary for understanding the features of individual types of product.

UCITS will have a transitional period of five years after the entry into force of this Regulation, ie until December 2019.

ARTICLE 6

The KID shall be a stand-alone document, clearly separate from marketing materials and shall not cross-refer to marketing material. It may contain cross-references to other documents including a prospectus only where the cross-reference is related to information required in the KID.

Where a PRIIP offers a range of investment options, such that all information with regard to each option cannot be provided in a single document, the KID shall provide at least a generic description of the underlying options and state where and how more detailed pre-contractual information relating to the products backing the underlying options can be found.

Where colours or corporate branding are used, they shall not diminish the comprehensibility, distract from the information or obscure the text.

ARTICLE 7

The KID shall be written in one of the official languages used in the part of the Member State where the PRIIP is distributed.

ARTICLE 8

The title '**Key Information Document**' shall appear prominently at the top of the first page.

The KID shall be presented in the following sequence:

An explanatory statement shall appear directly underneath the title of the key information document. It shall read: '**This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.**'

The KID shall contain the **name of the PRIIP**, the **identity and contact details of the PRIIP manufacturer**, information about **the competent authority of the PRIIP manufacturer** and the **date** of the document.

Where applicable, a comprehension alert shall read: '**You are about to purchase a product that is not simple and may be difficult to understand.**'

Under a section titled '**What is this product?**', the nature and main features of the PRIIP, including the **type of the PRIIP**; **objectives and the means for achieving them**, a **description of the underlying instruments**, **the markets the PRIIP invests in**, **how the return is determined**; the **type of investor** to whom the PRIIP is intended, **their ability to bear investment loss and the investment horizon**; where the PRIIP offers **insurance benefits**, details of those benefits, **the circumstances that would trigger them**; the **term of the PRIIP**, if known.

Under a section titled '**What are the risks and what could I get in return?**', a brief **description of the risk-reward profile** comprising a **summary risk indicator**, supplemented by a **narrative explanation of that indicator**, its main limitations and **risks which are materially relevant to the PRIIP which are not adequately captured by the SRI**; the **possible maximum loss**, including **whether the investor can lose all invested capital, or more**, and where applicable, **whether the PRIIP includes capital protection** and the details of its cover and limitations; **appropriate performance scenarios** and the **assumptions made to produce them**; where applicable, **conditions for returns to retail investors or built-in performance caps**; a **statement that the tax legislation of the investor's home State may have an impact on the payout**.

Under a section titled '**What happens if [the name of the PRIIP manufacturer] is unable to pay out?**', a brief description of **whether the related loss is covered by an investor compensation or guarantee scheme** and if so, **which scheme it is**, the **name of the guarantor** and **which risks are covered by the scheme and which are not**;

Under a section titled '**What are the costs?**', the costs associated with the PRIIP, **both direct and indirect costs** to be borne by the investor, including **one-off and recurring costs**, by means of **summary indicators** of these costs and **total aggregate costs in monetary and percentage terms**, to show the compound effects of the total costs on the investment.

The KID shall include a clear indication that any person advising on, or selling, the PRIIP will provide information detailing any cost of distribution that is not already included in the costs.

Under a section titled **'How long should I hold it and can I take money out early?'**, where applicable, **whether there is a cooling off or cancellation period**; an indication of the **recommended and, where applicable, required minimum holding period**; the **ability to make, and the conditions for, disinvestments before maturity, including applicable fees and penalties**, having regard to the risk and reward profile of the PRIIP; the **potential consequences of cashing in before the end of the term or RHP**, such as the loss of any capital protection.

Under a section titled **'How can I complain?'**, **how a retail investor can make a complaint** about the product or the conduct of the PRIIP manufacturer or a person advising on, or selling, the product.

Under a section titled **'Other relevant information'**, **any additional information documents to be provided to the retail investor** at the pre-contractual and/or the post-contractual stage, excluding any marketing material.

ESAs shall develop draft regulatory technical standards [Level 2] specifying the details of the presentation and the content of each of the elements of information in the KID; the methodology underpinning the presentation of risk and reward; and the methodology for the calculation of costs, including the specification of summary indicators. Power is delegated to the Commission to adopt the regulatory technical standards.

ARTICLE 9

Marketing communications shall not contradict or diminish the significance of the KID. Marketing communications shall indicate that a KID is available and how to obtain it.

ARTICLE 10

The PRIIP manufacturer shall review the KID regularly and shall revise the document where changes need to be made. The revised version shall be made available promptly.

ARTICLE 13

A person advising on a PRIIP shall provide retail investors with the KID in good time before they are bound by any contract. Where successive transactions are carried out in accordance with instructions given prior to the first transaction, the obligation to provide a KID shall apply only to the first transaction and to the first transaction after the KID has been revised.

ARTICLE 30 states that a delegated act shall enter into force only if no objection has been expressed either by the European Parliament or the Council within a period of three months. The delegation of power to the Commission may be revoked at any time by the European Parliament or by the Council.

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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