IRSG DRAFT COMMENTS ON THE DISCUSSION PAPER ON KEY INFORMATION DOCUMENTS (KID) FOR PACKAGED RETAIL AND INSURANCE-BASED INVESTMENT PRODUCTS (PRIIPs)

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THE INCEPTION

- PRIIPs Regulation has been introduced to improve the **quality and comparability of information** provided to retail investors on often complex investment products.
- It empowers the **three ESAs** to prepare draft RTS in specific areas. This Discussion Paper is a preparatory step setting out **early ESAs thinking** and look for feedback and reactions till **17th February** by launching **59 Questions** to be answered.
- The future RTS will contain detailed rules on the contents and presentation of the Key Information Document –**KID**-:
  - calculation methodologies
  - risk indicator
  - performance scenarios
  - cost disclosures

THE CHALLENGE

- The Regulation prescribes that the KID must be no more than **three pages** (three sides of an A4-sized page) long, and written in **plain language** (avoiding financial jargon).
- The aim is the development of overall templates for the KID that can be a **truly 'consumer-friendly'** document that retail investors will **actively want to use**.
- The Commission used the 'Key Investor Information' (KII) document, required since 2011 **for UCITS** as an inspiration. However, given the **wide range of PRIIPs** with differing features, when compared to UCITS, a full replication of the KII for other PRIIPs was ruled out, and there are some **differences between the KID and the KII** within their respective Regulations.
- There is a **wide variety of products** with various features that differ from country to country. In some markets some kind of products are more spread than others according to different consumer circumstances and needs.
- The inclusion of **"traditional" life insurance** products requires a greater adaptation of the KID to reflect the specific nature, risks and characteristics of this type of PRIIPs.

BETTER LAW MAKING

- Regulatory disclosure **requirements at the European level on product disclosure already exist** in other legal instruments. The most relevant are MiFID II, Solvency II, IMD, the UCITS Directive, the AIFMD and the Distance Marketing Directive for Financial Services.
- The **PRIIPs Regulation does not amend** these other instruments, and does not legally substitute for requirements in these other instruments. Nevertheless **duplication of some pre-contractual information** provided to consumers must be avoided.

MAIN CONCERNS

- It is of utmost importance that the **features of insurance-based investment products are taken into account** appropriately.
- It is necessary that **different KID templates are used for different types of PRIIPS**.
- It could also be necessary that **different KID templates are used for Unit-Linked products** (more similar to UCITS) **and for traditional life insurance products**, for which a greater adaptation of the KID is needed to reflect their specific nature, risks and characteristics.
- **Duplication of some pre-contractual information** provided to consumers under different EU legislation (PRIIPS, IMD2, Solvency II) **should be avoided**.

MAIN CONCERNS

- **Aggregation of risks**: **not all risks are relevant for each type of PRIIP**. For most insurance-based investment products market risk is the most relevant factor.
- **Measuring risks**: If applied, they should always be complemented by qualitative measures and narrative explanation. In any case, **the use of quantitative measures, qualitative measures or a combination of both will depend on the product itself**.
- **Summary risk indicator**: While the **UCITS KII synthetic risk and reward indicator** could be appropriate for some life insurance products, it **could not be appropriate for other more traditional life insurance products**.
- **Performance scenarios**: It is of utmost importance that the **performance scenarios are consistent with the information on costs** included in the cost section of the KID **so that none of the features of the PRIIP is accounted twice**. A fully consistent approach and presentation of performance scenarios and costs is essential. This objective could be achieved with a Reduction In Yied (RIY) approach.

MAIN CONCERNS

- **Costs**:
  - The **cost structures** of each type of PRIIP (derivatives, structured deposits, UCITS, life insurance contracts, etc.) **are very different**.
  - The objective of achieving a level-playing field should be balanced with another relevant objective **to reflect adequately the cost structures of each type of PRIIP**.
  - **The premium for additional insurance benefits** (insurance protection against death, disability, etc.) **should not be regarded as a cost**. It is a higher garantee.
  - A RIY could be an appropriate method to disclose the total **annual aggregated cost** (costs per year) for one or more scenarios.

- **Presentation of costs**: As not all the PRIIPs will have the same maturity/holding period, **the presentation of average annualized costs is the only way to guarantee comparability**.