

PRIIPs and KIDs – key information documents (KIDs) for packaged retail and insurance-based investment products (PRIIPs)

Packaged retail and insurance-based investment products (PRIIPs) should be comprehensible and comparable for investors. Standardised Key Information Documents (KIDs) should therefore be drawn up for such products. Such Key Information Documents should provide investors with standardised information about the basic features and risks of a product, to allow the investor to be able to make an informed investment decision.

For what products must Key Information Documents (KIDs) be drawn up?

As a rule, Key Information Documents (KIDs) must be drawn up for the following products:

- structured financial products, such as warrants that are packaged up into securities or banking products,
- financial products whose value is derived from benchmarks such as shares or exchange rates (derivatives),
- closed-end and open-end investment funds,
- insurance products with the characteristics of an investment (this includes insurance products, that have a value at maturity or a surrender value, which is either partially or fully, directly or indirectly, exposed to market volatilities, such as, for example, classical and fund-linked life insurance plans or hybrid products), as well as,
- instruments that are issued by special purpose entities.

These kinds of Packaged Retail and Insurance-based Investment Products are also known as "PRIIPs".

The scope of application is deliberately broad in order to take into account the variety of available financial products in EU Member States. This prevents providers from being able to bypass the Regulation, by choosing a specific legal form, designation or intended purpose for the financial product.

Who are retail investors?

As a rule any investor not considered to be a professional investor is a retail investor. Professional investors include credit institutions, investment firms, other supervised financial institutions and insurance undertakings. The term "retail investor" is by and large used for retail clients.

When is a key information document required?

It is up to the manufacturer of the PRIIP to decide whether or not it wishes to market such PRIIPs to retail investors. If the manufacturer does decide to choose retail investors as the target group, then the manufacturer must draw up a key information document and publish it. Otherwise heavy fines apply.

The drawing up of the key information document is associated with higher costs for the manufacturer. Some manufacturers therefore decide to save the production costs for drawing up such a key information document by not drawing one up and not marketing their product to retail investors.

Who is responsible for the drawing up of the key information document?

The manufacturer (PRIIP manufacturer) of the respective investment product is responsible for drawing up key information document. This may be anyone setting up a PRIIP or altering the risk and return profile of an existing PRIIP or details about charges.

From when must key information documents be produced?

PRIIP manufacturers must draw up key information documents from 1.1.2018, publish them on their website and regularly review their content.

What structure does a key information document have?

The key information document should be a maximum of three A4 pages in length, with the order of the individual sections and the formulation of the headings of the sections are defined.

Key information documents should be written in a language that is easy for retail investors to understand. The individual sections of the key information document are required to be split up using various questions (for example: "What is this product?").

They must be produced in the official language(s) of the EU Member State in which the PRIIP is distributed. Furthermore, they must be in the form of a separate document, and must be clearly distinguishable from advertising materials produced by the manufacturer.

What must a key information document contain?

A key information document must contain the most significant product features, in particular the risks, potential returns, the maximum possible losses and the costs associated with the product, shown in a comprehensible manner.

The risks of the product must be described and shown using an indicator about the associated total risk. The total risk indicator provides information about the risks that the consumer enters into by investing.

In calculating this risk indicator, the market risk (i.e. the development of the value of the investments) as well as the credit risk (i.e. the risk of default of the PRIIP manufacturer or the guarantor) are considered. A seven point scale is used, with a figure (between one and seven) being used to indicate the risk profile of the product. Furthermore an indication is also given about the liquidity risk, i.e. the risk that the PRIIP may no longer be traded and may therefore either no longer be redeemed, or may only be redeemed with considerably difficulty.

Different performance scenarios including the underlying assumptions must be shown in relation to the product's possible return as well as the maximum possible loss of the invested capital.

How are the costs shown in the key information document?

All costs associated with the product must be shown in a "clear, precise and understandable" way. Direct and indirect, one-off and ongoing charges must be displayed in the indication of total costs. The indicator shown show costs both in percentages as well as in absolute terms, to thereby ensure comparability between different products.

In relation to distribution costs that are not already covered in the direct or indirect costs, advisors, sales officers and other persons and other persons distributing PRIIPs must inform investors in detail.



When must the key information document be made available?

The key information document must be handed out to interested parties and investors, prior to their having signed the contract.

This should enable retail investors in the EU to be able to better understand the underlying features and risks of PRIIPS prior to the conclusion of the contract. Furthermore, the customer should also have sufficient time, to be able to compare the product with other products.

Must the key information document be kept up-to-date?

The information contained in the key information document, in particular the risk structure of products, as well as the performance and costs of a product must be regularly updated and appended accordingly.

Where can further information be found?

All rules about this topic can be found in the PRIIPs Regulation (Regulation (EU) 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)).