

Packaged Retail and Insurance-based Investment Products ('PRIIPs') Regulation – What is it and what does it mean for your firm?

Summary

PRIIPs Regulation was introduced by the European Commission to help retail investors gain clarity about packaged investment products. From 1st January 2018, every investor considering a PRIIP must be provided with a consumer-friendly Key Information Document (KID), a standardised pre-sale disclosure which details risks, possible returns, costs, how to withdraw funds early, complaints procedures and other relevant information.

Who is affected?

Asset Managers, Insurance Companies and Financial Services Firms.

Implications of the PRIIPs Regulation

The implications of the new legislation are far-reaching. There is significant work involved in preparing a KID, and a PRIIP cannot be sold or marketed without one from 1st January 2018.

- Advisors must understand what constitutes an 'in-scope' PRIIP. Broadly, this includes structured investments, hedge funds, non-UCITS unitised funds, unit-linked insurance policies and some participating insurance.
- KIDs must be created in line with Regulatory Technical Standards. Each KID is a three-page document which must include a description of the product, costs, risks, rewards and performance scenarios.
- Constant monitoring of the accuracy of KIDs is imperative, particularly in relation to costs and fluctuating returns. The PRIIPS Regulation calls for the KID to be updated every time there is a change to the PRIIP which affects its content, and the KID must be reviewed every 12 months. If a change comes into force, the KID must be updated and republished 'without undue delay'.
- Although the PRIIPs Regulation states that PRIIP manufacturers will not incur civil liability based solely on a KID unless it is inaccurate or misleading, it also states that any retail investor that can demonstrate loss based on reliance of a KID can claim damages from its manufacturer.
- Distributors or advisors must provide a KID for each PRIIP in good time, before the transaction is legally binding. The only exception is where the transaction has been initiated by means of distance communications (i.e. where there has been no face-to-face contact) by the retail investor or if the investor has formally agreed to receive the KID after the transaction completes.

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Further information:

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What you need to do

It is crucial that your organisation prepares (if it hasn't already) to provide retail investors with a clear pre-sale disclosure document which follows the Regulatory Technical Standards for KIDs from 1st January 2018:

- Fund providers, or anyone who makes changes to the PRIIP, must create a Key Information Document which complies with the Regulatory Technical Standards for every PRIIP they manufacture.
- A KID for each PRIIP must be published on the manufacturer's website as soon as the product is widely marketed.
- Any firm that advises on, or sells PRIIPs to retail investors must ensure that they provide a KID in good time before the transaction is concluded. It must be offered as a standalone document either on paper, via a website or through another durable medium.
- KIDS must be reviewed regularly to reflect any changes to the associated PRIIP and its risks and returns. In any case, KIDS must be reviewed at least once every 12 months.

Timeline

The PRIIPS Regulation is to be enforced from 1st January 2018. Firms should start reviewing PRIIPS offerings and the KID requirements under the Regulatory Technical Standards as soon as possible to ensure they can meet the deadline.

How we can help?

Lawson Conner has worked extensively with our clients to assess the impact of regulatory change. We would be delighted to discuss how we can help support your organisation to meet these new challenges. Lawson Conner's team of compliance professionals can assist you at every stage as you seek to comply with the new regulatory obligations.

About Lawson Conner

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Lawson Conner offers customised solutions in the areas of Fund Structuring, Compliance Advisory, Global Regulatory Infrastructure, Fund Distribution, Regulatory Hosting, Appointed Representative Services and ManCo Services.

As a reliable and trusted partner, we create long term value by working with passion, expertise and unparalleled commitment to the industry and our clients.

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