



Discussion Paper PRIIP's Key Information Document and Technical advice on product intervention powers

1. ESA's Technical Discussion Paper on Risk, Performance Scenarios and Cost Disclosures In Key Information Documents (KIDs) for Packaged Retail and Insurance-based Investment Products (PRIIP's)

1. Context

The aim of the KIDs as included in the PRIIP's Regulation, is to provide EU retail investors with consumer-friendly information about investment products with the ultimate aim of improving transparency in the investment market. The Joint Committee of the European Supervisory Authorities (ESA's) – EBA, EIOPA and ESMA – is mandated by the PRIIP's Regulation to develop draft Regulatory Technical Standards (RTS) on the content and presentation of these KIDs for PRIIP's. A first Discussion Paper

was issued by the ESA's in November 2014 (JC/DP/2014/02) seeking stakeholders' general views on how these standardised KIDs should be developed.

On 23 June 2015, a second [Technical Discussion Paper on risk, performance scenarios and cost disclosures for Key Information Documents \(KIDs\) for packaged retail and insurance-based investment products \(PRIIPs\)](#) (the paper) was published.

2. Content

The paper aims to provide stakeholders with an opportunity to comment on certain specific technical areas related to risk, performance and cost information that are required for the Regulatory Technical Standards (RTS) to be developed by the ESAs. It is split into a section on risk and reward and a section on costs.

a) Risk and Reward

PRIIP's Regulation article 8 (3) (d) (i) requires that the KID must contain a section on risks and reward including a brief description of the risk-reward profile comprising the following elements:

- (I) A summary **risk indicator**, supplemented by a narrative explanation of that indicator;
- (II) Its main **limitations** and a narrative explanation of the risks which are materially relevant to the PRIIP and which are not adequately captured by the summary risk indicator; and
- (III) Appropriate **performance scenarios** and the assumptions to produce them.

The **risk indicator** must cover three risks: market, credit and liquidity risk.

To present this risk indicator, the paper considers four possible approaches as viable:

- (I) A qualitatively based indicator which combines credit and market risk, complemented by a quantitative market risk measure;
- (II) An indicator which separates market risk and credit risk;
- (III) An indicator based on quantitative market and credit risk measures, calculated by using forward looking simulation models;
- (IV) A two-level indicator where the first level roughly separates products based on their qualitative characteristics and the second level specifies the risk based on a quantitative assessment.

Another four approaches are highlighted for **performance / reward scenarios**:

- (I) Letting the manufacturer of a PRIIP decide which scenarios to present in the KID (the so called what-if: manufacturer choice);
- (II) Prescribing which scenarios should be included in the KID;
- (III) Taking probabilities of outcomes into account in the scenario selection and (IV) combining the previous approaches.

b) Costs

The cost section identifies the different types of costs of the different types of PRIIP's (in particular, funds, structured products and life-insurance products), and identifies the specific issues related to the calculation of some of these costs (e.g. transaction costs and performance fees, notably in the case of funds, or cost related to biometric risk premium in the case of life-insurance products).

It further assesses the possible ways of aggregating these types of costs, including the different possible definitions of the overall cost ratio (summary cost indicator), and the possible ways of calculating the cumulative effect of costs.

3. Next Steps

The Joint Committee is looking for feedback from all concerned stakeholders by 17 August 2015. It expects to follow this Technical Discussion Paper with a final Consultation Paper setting out the draft RTS under Article 8 of the PRIIP's Regulation in the autumn of 2015. A separate Consultation Paper will also be published for the draft RTS under Articles 10 and 13. The draft RTS on Article 8 will then be finalised and submitted to the European Commission by 31 March 2016, as set out in the PRIIP's Regulation.

2. EIOPA's Technical Advice on measures specifying the criteria and factors to be taken into account in applying product intervention powers

1. Context

In August 2014, the European Commission requested EIOPA to deliver a technical advice regarding product intervention powers for insurance based investment products under PRIIP's regulation. On 29 June 2015 EIOPA published a [Technical Advice on measures specifying the criteria and factors to be taken into account in applying product intervention powers](#). The Technical Advice is based on the specificities of insurance-based investment products, the outcome of EIOPA's public consultation and the criteria and factors proposed by ESMA and EBA on product intervention powers in respect to financial instruments and structured deposits.

2. Content

The PRIIP's Regulation foresees that in case of a significant investor protection concern or a threat to the orderly functioning of financial markets, national supervisors and, in some cases, EIOPA, have the power to prohibit or restrict the marketing or distribution of certain insurance-based investment products or a type of financial activity or practice of a (re)insurer.

This Technical Advice proposes criteria and factors to be taken into account in determining when such threats or concerns occur. These can be listed in 2 categories:

- (I) Elements concerning the protection of the investor: the ease and cost to switch or sell a product, the situation of the issuer of an insurance-based investment product, the degree of complexity of the insurance-based investment product, type of financial activity or practice of an insurance or reinsurance undertaking;
- (II) Elements that could constitute a potential threat to the integrity and functioning of the financial market such as the risk to resilience or smooth operation of markets.

3. Next steps

Based on EIOPA's Technical Advice the Commission will set the criteria and factors that have to be taken into account in applying product intervention powers.

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