



## PRIIPS: Time to stop KIDing around?

Earlier today, the European Commission published their revised draft of the PRIIPs Regulatory Technical Standard (RTS). In this briefing note, we summarise how we have arrived at this point, what has changed in the new RTS and what the likely next steps are.

### 1. How did we get here?

The PRIIPs (Packaged Retail Insurance and Investment Products) regulations were originally scheduled to enter into force on 1<sup>st</sup> January 2017. However, in November of last year the European Commission agreed a one year extension to the date of application and this was formally implemented by the European Parliament on December 1<sup>st</sup>. PRIIPs will now enter into force on 1<sup>st</sup> January 2018.

The delay resulted from the rejection of the original proposed RTS by the Parliament in September. The RTS provides the detailed rules for the implementation of PRIIPs but was rejected by the Parliament based on a number of concerns, notably:

- Flaws in the calculation of future performance scenarios so that the results are not “accurate, fair, clear” and are “not misleading”;
- The inclusion of biometric costs in overall costs being misleading disadvantaging insurers;
- The lack of the clarity in relation to the treatment of multi-option investment products;
- The lack of clarity over the circumstances in which a comprehension alert should be applied.

In order to address these concerns, the Commission has been working on a revised draft of the RTS for the last number of months. Various changes were proposed and consulted on with the three interested European Supervisory Authorities (including EIOPA). Following on from this, the Commission has published a revised [RTS](#) and [Annexes](#)

## 2. What has changed?

The revised RTS includes a number of significant changes to the original document in order to address the issues raised by the European Parliament. These can be summarised as follows:

### 2.1 Performance Scenarios

Despite some suggestions that a different approach was being considered, 3 performance scenarios based on 5 years of historic data are still required. However, an additional 'stress' performance scenario has been introduced which produces an outcome considerably worse than the existing unfavorable scenario. This is intended to present a very severe adverse outcome to the customer and address the risk that 5 years of benign investment performance would mislead investors about the true level of risk of an investment. The stress scenario is calculated using a higher volatility and the 5<sup>th</sup> percentile return (for holding periods greater than 1 year).

### 2.2 Biometric Risk

Insurance costs are no longer required to be separately disclosed in the 'Composition of costs' table in the 'What are the costs?' section of the KID. However, the cost part of biometric risk premiums should be included in 'other ongoing costs'.

### 2.3 UCITS and PRIIPs

Where some or all the underlying investments of a multi-option PRIIP are UCITS funds, the UCITS KIIDs can now be used to provide the specific information on each investment option required under PRIIPs up until 31 December 2016.

In this case, the UCITS Synthetic Risk and Reward Indicator (SRRI) can be used in place of the PRIIPs Summary Risk Indicator (SRI). In cases where the underlying investment options are only UCITS, then the costs can also be disclosed in line with UCITS requirements. In other cases, UCITS costs can be estimated in a similar manner to a new PRIIP.

It is not clear at this point, exactly what constitutes the underlying investment option being a UCITS. For example, does a life wrapped UCITS fund count as a UCITS for the purposes of this derogation?

### 2.4 Comprehension Alert

The circumstances in which a PRIIP requires a comprehension alert have been clarified. The definition of a complex PRIIP is now linked to similar requirements under the Insurance Distribution Directive and MiFID.

## 3. What happens next?

There is now a two month period during which the draft will be subject to scrutiny by the European Parliament and Council. The ECON (Economic and Monetary Affairs) Committee of the Parliament is the main decision making body in this regard.

Assuming that ECON is happy that the issues they highlighted with the original draft have been addressed, then the RTS will subsequently enter into force. This will finally provide certainty for PRIIP providers on what the requirements will look like and when they will need to be implemented.

It will also pave the way for the ESAs to begin issuing Level 3 guidance to address the remaining areas of uncertainty (for example, technical aspects of the treatment of regular premiums and the determination of the recommended holding period). It is our understanding that substantial work has already been done on this so some material may be published relatively quickly.

## 4. What are the next steps?

Over the last few months, most people have 'taken their foot off the pedal' in terms of their PRIIPs projects. This was a prudent approach given the uncertainty over what the final requirements would look like.

While still subject to parliamentary approval, the publication of the revised RTS should act as a prompt to re-engage on PRIIPs. We believe it is unlikely that the Commission would have published this document without informally consulting with the Parliament. Indeed, first vice-chairman of the ECON committee Markus Ferber was quoted in the media recently as saying that the Commission's proposals "reflect the parliament's priorities quite well" and "would allow for a swift adoption of the [RTS] by the Commission and also by the [parliament]" and given this and the political pressure to implement PRIIPs at the start of 2018, we would expect that what has now been published will become the 'final' RTS'.

January 2018 is only 9 months away. By taking prompt action now, you can ensure a smooth transition to the new regime. Some concrete steps you can now take include:

- Reconvening your PRIIPs Steering Committee / project group to update them on the latest developments;
- Refreshing your project plan based on the new timescales;

- The revised PRIIPs implementation date is just one month before the introduction of the Insurance Distribution Directive (IDD). There are a number of areas of overlap between these two requirements and your project planning should aim to take advantage of any available synergies;
- The data requirements underlying the production of the KID have not changed so we would recommend re-engaging with your asset managers to ensure all of the required information is available;
- Two recent consultation papers have recently been published that are relevant to PRIIPs. The [first](#), published by EIOPA, deals with the definition of a complex product under the IDD. This definition has been carried over to PRIIPs

in the new RTS. The [second](#) seeks to introduce additional governance and disclosure requirements around PRIIPs with environmental or social objectives. The requirements outlined in both of these documents should input to your project planning now to avoid having to rework your plan later on.

The longer timescale to PRIIPs implementation raises the possibility of changes to the existing domestic life disclosure regime to ensure consistency with PRIIPs. The possibility of wider changes to the disclosure regime and the resulting compliance effort is a key reason to ensure that you have a robust PRIIPs and IDD implementation plan in place.

Please contact us if you would like to discuss the above or any aspect of PRIIPs or the IDD.

## Contact us:



### **Stuart Redmond**

#### **Senior Manager**

Tel: + 353 (1) 414 2277

Mobile: + 353 (0) 87 136 5201

Email: [stredmond@deloitte.com](mailto:stredmond@deloitte.com)



### **Ciara Regan**

#### **Partner**

Tel: + 353 (1) 407 4856

Mobile: + 353 (0) 87 698 7092

Email: [cregan@deloitte.com](mailto:cregan@deloitte.com)

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