

Deloitte Regulatory News Alert

Key Information Documents (KIDs) for Packaged Retail Investment Products (PRIPs)



On 20 November 2013, the European Parliament approved the draft rules defining the Key Information Documents (KIDs) for Packaged Retail Investment Products (PRIPs). The KID has to be provided by professionals to small investors beforehand contracting for investment products. The KID aims to provide clear, comparable and complete information on investment products.

The Targeted Products

According to the current texts, the following investment products should be accompanied by a KID when sold to retail investors :

- Products with capital guarantees, and those where, in addition to capital, a proportion of the return is also guaranteed;
- Investment funds, whether closed-ended or open-ended (including UCITS);
- All structured products, whatever their form (e.g. packaged as insurance policies, Funds, securities or banking products). The European Parliament confirmed that insurance products should remain in scope.
- Insurance products whose surrender values are determined indirectly by returns on the insurance companies' own investments or even the profitability of the insurance company itself as well as derivative instruments. Some of these products may be used as individual retail pension products, i.e. accumulation vehicles for the purposes of retirement planning.

The provisional text adopted on 20 November 2013 by the European Parliament confirmed the scope and the exclusion from the rules of insurance products which do not offer a surrender value.

As the Council has a different opinion on the scope of the investment products concerned by the law, the negotiations on the exact scope of targeted products may however continue.

KIDs drawn up by the product manufacturers

The KID is a stand-alone document to be produced by the product manufacturer and that will need to be published on its website. It must be clearly distinct and separate from any marketing materials. Making the KID available, as per the current proposal, is only compulsory for retail investors.

The product manufacturer shall employ a risk-management process which enables it to monitor and measure at any

time the risk profile of the investment product. The current proposal contains multiple measures and criteria on independence in valuation of derivatives, managing global exposure and calculating value-at-risk.

Warning Label for Complex Products

For investment products considered as complex, the following standard text should be included at the top of the first page of the Key Information Document: "This product is considered to be very complex, and may not be appropriate for all retail investors". The initial proposal foresaw a more rigorous text ("The competent authority considers this product to be too complex to be sold to non-professional investors, and has therefore not assessed its information document for that purpose") that was now abandoned in favour of the new proposal.

The following investment products are considered as complex and hence not considered as suitable for retail investors if at least one of the following conditions is met:

- (i) The risk-reward profile or the costs are presented in an overly complicated manner;
- (ii) The risk-reward profile is conditional upon the simultaneous occurrence of two or more events linked to at least two different asset classes;
- (iii) The product invests in underlying assets not commonly invested in by non-professional investors;
- (iv) A number of different mechanisms are used to calculate the final return on the investment, creating a greater risk of misunderstanding on the part of the investor;
- (v) The investment return includes packaging features which take advantage of investors' behavioural biases, such as by offering a "teaser" fixed rate followed by a much higher floating conditional rate, or an iterative formula;
- (vi) The global exposure of the financial product, measured by its monthly value at-risk calculated within a 99% confidence interval at the time of trade, is above 20%.

Transitional Period

The council would like to grant five years after the entry into force of the regulation whereas the current proposal submitted by the European Parliament seeks to reduce this period to three years (Article 24).

Deloitte's assistance

Deloitte is providing KID-related services for a number of Luxembourg and Irish domiciled UCITS investment funds and is well positioned to assist you in understanding and preparing for the regulatory, compliance and operational aspects of these new rules which follow the principles of the UCITS Directive. Please consult our [KIID](#) website section.

We trust this information is of assistance and remain at your disposal for any further questions.

Thierry Flamand

Partner | ERS-Actuarial Insurance Solutions
Deloitte Tax & Consulting
Société à responsabilité limitée
560, rue de Neudorf, L-2220 Luxembourg
Grand-Duchy of Luxembourg
Tel/Direct : +352 45145 4920 | +352 661 451 469
tflamand@deloitte.lu

Marc Noirhomme

Directeur | ERS-Regulatory Consulting
Deloitte Tax & Consulting
Société à responsabilité limitée
560, rue de Neudorf, L-2220 Luxembourg
Grand-Duchy of Luxembourg
Tel/Direct: +352 45145 2613 | Mobile: +352 621 301 239
mnoirhomme@deloitte.lu | www.deloitte.lu

Martin Bock

Directeur | ERS-Regulatory Consulting
Deloitte Tax & Consulting
Société à responsabilité limitée
560, rue de Neudorf, L-2220 Luxembourg
Grand-Duchy of Luxembourg
Tel/Direct: +352 45145 4387 | Mobile: +352 661 452 127
mabock@deloitte.lu | www.deloitte.lu

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Deloitte General Services
Société à responsabilité limitée
560, rue de Neudorf
L-2220 Luxembourg

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