



Proposal for a Regulation on Key Information Documents on investment products. July 2012.

On the 3 of July the European Commission (EC) adopted a proposal of regulation which introduces new consumer-friendly standards for information about investments (Regulation on key information documents on investment products). The genesis of this proposal is a request from the ECOFIN Council in May 2007 for the European Commission to examine the coherence of EU law applying to different types of retail investment products.

The EC noted two areas of work in this regard: rules applying to sales, and rules on product disclosures. This proposal, also known as PRIIPs, stems from the latter work stream on product disclosures and, forms part of a wider legislative package dedicated to rebuilding consumer trust in financial markets including a review of the IMD (Insurance Mediation Directive) and a review of the UCITS directive. It is also complemented by the review of MiFID directive currently underway. PRIIPs stands for packaged retail investors products, as those are the financial instruments under the scope of this proposal of regulation. PRIIPs typically combine exposures to multiple underlying assets; are designed to deliver capital accumulation over a medium- to long-term investment period; entail a degree of investment risk, although some provide capital guarantees; and are normally marketed directly to retail investors.

Broadly speaking, PRIIPs can be categorised into four groups: investment funds, insurance-based investment products, retail structured securities and structured term deposits. Private pension funds are also under the scope of this regulation as are often the same or extremely similar to other kinds of investments. PRIIPs regulation, in consequence, is a cross-sectoral regulation which sets up common disclosure provisions to products that although legally different are economically the same.

The reasons for this proposal are the following: 1) PRIIPs are the investment products retail investors would typically be offered by their bank when they want to make an investment; 2) In addition, it is considered that the complexity of these products is higher compared to direct investments; and 3) information provided to investors can be overly laden with jargon, complex and difficult to use for comparisons between different investment products. There are also conflicts of interest in the sales and advice process which may not result in outcomes that are in the best interest of the investor.

This proposal sets up the Key Information Document (KID), which is short, plainly-worded documents –no more than a few pages long– that will provide retail investors with answers to the key questions they have about the features, risks and costs of investment products. Manufacturers are responsible for producing this document and whoever is selling an investment to a retail investor is responsible for giving the document to them. The KID is designed to help retail investors make an investment decision; for this reason it is vital they are given it while they are weighing their investment options, before they make a decision.

In general, the proposal is for a high degree of standardisation of KIDs, but the goal is not to impose a ‘one size fits all’ approach. Differences between products need to be reflected too.

The Commission’s proposal will now go to the European Parliament and the Council for their consideration

under the codecision procedure. Once they reach agreement, detailed work would be done by the Commission with the input of experts, consumers and stakeholders on the implementing measures. The full proposal could be expected to be in place by the end of 2014.

If you are interested in more detail please click on:
http://ec.europa.eu/internal_market/finances-retail/docs/investment_products/20120703-proposal_en.pdf