

# Prepare Now For PRIIPs

April 2016



The European Supervisory Authorities have agreed and published the regulatory technical standards on PRIIPs. We are working with our clients to ensure a smooth implementation project to successfully achieve compliance as required by end 2016.

## INTRODUCTION

By 31 December 2016 PRIIP manufacturers must prepare and publish Key Information Documents (“KIDs”) for each PRIIP they manufacture, and from that date those selling or advising on these PRIIPs must provide KIDs to retail investors.

We are working with our clients on their PRIIPs implementation projects. In this note we set out how Milliman can help you to ensure compliance with the rules in good time and to a high standard.

On 7 April 2016 the Joint Committee of the European Supervisory Authorities (“ESAs”) published the underlying detailed [rules](#) known as the regulatory technical standards (“RTS”) covering risk, performance scenarios and cost disclosures for Packaged Retail and Insurance-based Investment Products (“PRIIPs”). The RTS will now be submitted to the European Commission for approval.

We firstly draw your attention to some of the key highlights of the RTS.

## HIGHLIGHTS

We have been closely following the development of the RTS undertaken by EIOPA, the EBA and ESMA. In the final RTS agreed between the three parties some changes were introduced compared to the previous draft and certain areas have been further clarified. Some notable items include:

- The volatility bands have been increased for the market risk measure or MRM. This will have the effect of certain products being given a lower overall summary risk indicator.

For example, under the previous draft many equity-type investments would have fallen into one of the two highest MRM classes (i.e. 6 or 7) whereas now

such investments may fall into class 4 or 5 depending on their volatility.

- Three performance scenarios are to be shown in tabular format and now linked more directly to the market risk indicator. Overall the methodology is more prescriptive leaving less room for the judgement of individual product manufacturers.
- For Multi-Option Products there is no explicit requirement to show every possible combination of underlying investment but there still remains a considerable volume of information that must be made available to potential customers.
- KIDs should be designed so they don't need to be continually updated which is particularly relevant for derivative products where pricing parameters may change on a frequent basis.
- The volume of information on costs has been marginally reduced. It is now only necessary to show monetary amounts in aggregate terms rather than split by different types of costs. There still remains the requirement to show the reduction in yield (RIY) percentage split by cost type though.
- We note the removal of the requirement to publish the KID within five business days if it has been revised. The requirement now is to publish “without undue delay”.
- The ESAs are working on FAQs or “How-to” Guides and also plan to develop supporting Level 3 guidelines which will aid manufacturers in drafting their KIDs.

### CHALLENGES AHEAD

Firms should expect that implementation of the KID requirements will be costly and require a significant amount of resource and planning.

We see significant challenges ahead for firms in successfully meeting the requirements in time for the 31<sup>st</sup> December 2016 deadline. Major challenges include:

- significant data gathering exercises on past performance, cost allocations, credit ratings, risk profile, etc
- deciding how to categorise products and funds in determining their risk and reward profile particularly in relation to Multi-Option Products
- building the models needed to produce the Summary Risk Indicator or SRI
- developing governance structures around the assessment of appropriateness of risk ratings, determining recommended holding periods and target customers, signing-off of complete KIDs, etc
- improving documentation management systems and dissemination of KIDs
- drafting skills to write KIDs in clear and understandable language and in the appropriate language for the target market
- training of advisors on how to use the KID with their clients
- achieving consistency with other existing product literature

### HOW MILLIMAN CAN HELP

A PRIIPs implementation project needs to be on the agenda now for product manufacturers and detailed planning should begin setting out how the various requirements can be met with ongoing milestones to achieve success. We can assist you across various tasks including:

- carrying out a gap analysis and development of a roadmap to successful implementation
- assisting you in the data gathering

exercise and the appropriate classification of products and funds

- computing the SRI by identifying and analysing the risk class of a PRIIP and support you in setting out a PRIIP's risk and reward profile
- developing appropriate performance scenarios
- reviewing ongoing appropriateness of SRIs and the performance scenarios in light of emerging experience
- analysing cost allocations and developing the cost disclosure tables
- reviewing completed KIDs

We have been monitoring PRIIPs developments since the outset of the project and our consultants have been involved in advising our clients on product disclosures both domestically in Ireland and across the EU market over the last number of years. We have undertaken a wide range of work for clients including:

- Reviewing and drafting product disclosure information
- Reviews of benefit, risk and cost descriptions over a wide range of insurance products
- Preparation and review of tables of benefit and cost illustrations
- Assisting with development of governance structures including in the area of product development and distribution

As a result, we have a wide range of relevant experience that can benefit your business.

### FURTHER INFORMATION

In ongoing discussions with our clients we are seeing emerging industry practice on approaches to producing the PRIIPs KID and how best to integrate with existing disclosure rules and compliance.

We would be happy to meet with your firm to discuss your requirements with regards to achieving a successful PRIIPs implementation.

Please contact Karl Murray or your usual Milliman consultant for further information.

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