



Discussion Forum – 8 March 2011



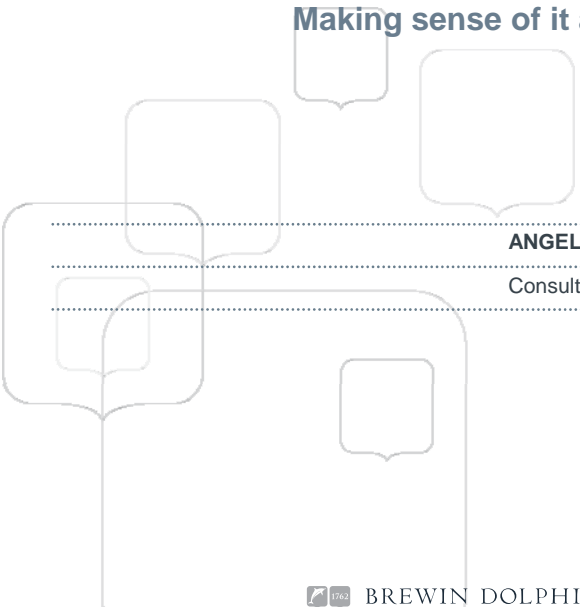
leading on tax incentivised savings

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PRIPs, RIPs and MiFID II

Making sense of it all



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Agenda

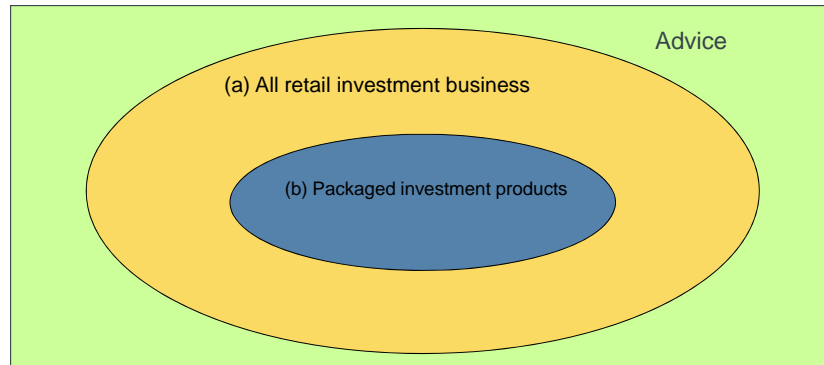
- What are PRIPs?
- Comparison with RIPs?
- Connection with MiFID

What is the problem?



- Product information about investments is weak and difficult to use
- Conflicts of interest ‘bedevil’ the distribution of products
- Regulation is fragmentary and inconsistent

What is in scope?



All key packaged investment products marketed domestically and cross-border in the EU

PRIP definition (draft)

‘A PRIP is a **product** where the amount payable to the investor is exposed to fluctuations in the market value of assets or payouts from assets, through a combination or wrapping of those assets, or other mechanisms than a direct holding.’

Concern: By packaging a product you modify the exposure compared to direct investment (not in a good way)

In Scope

- All products with guarantees (capital, return etc)
- All investment funds (closed end and open end)
- All structured products (inc structured deposits)
- Derivatives
- 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.

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Exclusions

- Products where a precise rate of return is set in advance for the entire life of the product as the amount payable is not subject to fluctuations in the values of other assets
- Vanilla shares and bonds
- Deposits (which are not structured deposits)
- Pure protection (no surrender value)
- Other insurance products where any surrender value is not wholly or partially exposed, directly or indirectly, to market fluctuations

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Pensions (out of scope at the moment)

- Pensions are so diverse across the EU that they require particular attention and for now are out of the scope of PRIPs.
- **Commission Green Paper** – pension provision, distribution and transparency

Institutional / Professional products (not excluded)

Products designed for professional clients can end up being sold to retail clients.

Therefore, PRIPs definition **does not** include any reference to a product being **intended** for retail use.

The problem



- Product information about investments is weak and difficult to use
- Conflicts of interest ‘bedevil’ the distribution of products
- Regulation is fragmentary and inconsistent

How will change be implemented?

Pre-contractual Disclosure		Sales Rules	
Solvency II	} PRIPs KIID	MiFID →	MiFID 2
PD		IMD →	IMD 2
MiFID		UCITS →	UCITS 4
IMD			
UCITS →	UCITS KIID		

Key Investor Information Document (KIID)

- Key information must be provided in a timely fashion (pre-contractual)
- Understandable and useable by a retail investor
- Purpose of aiding investment decision making
- Document must not be overburdened with unnecessary information

Matters to resolve

- Who is responsible for production of KIID – distributor or product manufacturer?
- Socially responsible investments – rules on transparency
- Provided to clients in a durable medium
- Kept up-to-date

Implementation of PRIPs

2014 / 15

Does anyone know more specifically?

RDR - RIPs definition and scope



- **Life Policy;**
- **A unit;**
- **Stakeholder pension scheme;**
- **Personal pension scheme;**
- **Interest in an investment trust savings scheme;**
- **A security in an investment trust;**
- **SCARPs**
- **Any other designated investment which offers exposure to underlying financial assets in a packaged form which modifies that exposure when compared with a direct holding in the financial asset.**

RDR v PRIP (via MiFID 2)

- | | |
|---|---|
| <ul style="list-style-type: none">• Qualifications• Transparency
(Independent / Restricted rules applied to RIPs)• Charging (unbiased) | <ul style="list-style-type: none">• No reference in PRIPs• Independent and fair analysis (sufficiently large number of instruments, types of instruments, providers)• MiFID inducements rules apply (including ban on inducements for discretionary managers and those giving advice) |
|---|---|

Cross border issues?

- RDR applies to UK authorised firms only
- PRIPs will be harmonised across EC

Summary

- PRIPs is important
- RDR is happening now
- MiFID 2 / IMD 2 / UCITS 4

Further reading:

- **MiFID 2**

http://ec.europa.eu/internal_market/consultations/docs/2010/mifid/consultation_paper_en.pdf

- **Insurance Mediation Directive (IMD)**

http://ec.europa.eu/internal_market/consultations/docs/2010/insurance-mediation/consultation-document_en.pdf

- **PRIPs**

http://ec.europa.eu/internal_market/finservices-retail/investment_products_en.htm