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PRIIPs Regulation and the new KID

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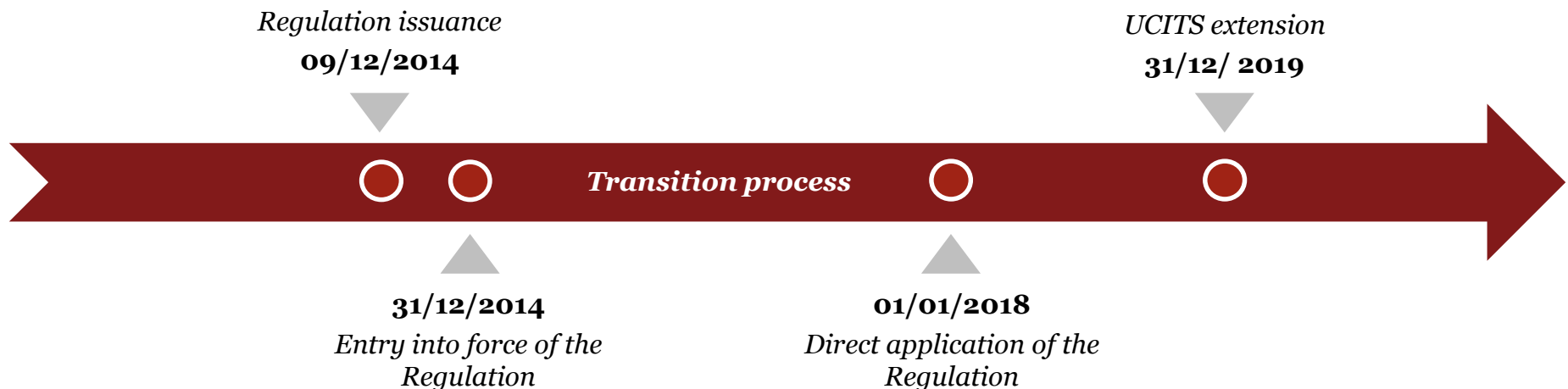
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PRIIPs Regulation in a nutshell

- On 9 December 2014, the Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on *Key Information Documents (KID) for Packaged Retail and Insurance-based Investment Products* (“*PRIIPs Regulation*”) has been published in the Official Journal of the European Union.
- The Regulation applies to both PRIIPs **manufacturers and distributors**. Manufacturers are required to prepare a **KID** (Key Information Document) for each **product** defined as PRIIP. This document will be provided by **distributors** to **retail investors** within the pre-contractual package.
- The main goal of the PRIIPs Regulation is to enhance **investor protection** standards for retail clients and increase **transparency** in the market, particularly with respect to sales and distribution. This is consistent with Markets in Financial Instruments Regulation (MiFID 2) and Insurance Distribution Directive (IDD), whose joint aim is to recover investors’ trust in the financial markets.
- Further to these aims, the Regulation sets out mandatory rules for the form and content of the KID to allow retail investors to easily **compare products**. Manufacturers should provide retail investors with accurate, clear and not misleading information on the range of products available by disclosing information such as the main investment objectives, risk and reward profile, associated costs, and different performance scenarios into a short and uniform KID.

Timeline

- The Regulation will be applicable from **1st January 2018**. Manufactures and distributors need to provide retail investors with the KID from the indicated deadline.
- Although **UCITS** (Undertakings for Collective Investment in Transferable Securities) meet the definition of PRIIPs, the existing UCITS Directive (2009/65/EC) contains a requirement for Key Investor Information Documents (KIID) which are similar to those of KIDs. For this reason, the regulator has given UCITS manufactures and persons advising on, or selling, units of such funds a transitional period up to **31 December 2019** during which they will be exempt from its terms (see article 32 (1) of Regulation (EU) n° 1286/2014). UCITS may be impacted earlier than expected as underlying in **Unit-Linked**.
- By 31 December 2018, the European Commission will review the PRIIPs Regulation after an investigation of the applicability of its requirements.



What are PRIIPs?

The PRIIPs Regulation defines a PRIIP as any product which meets one of the following definitions:

- **packaged retail investment product**, which is an investment where the amount repayable to the investor is subject to fluctuations because of the exposure to reference values or to the performance of one or more assets which are not directly purchased by the investor;
- **insurance-based investment product**, which is an insurance product which offers a maturity or surrender value and where that maturity or surrender value is wholly or partially exposed, directly or indirectly, to market fluctuations.

PRIIPs

- Mutual funds (UCITS funds benefit from a 3 years exception from the entry into force of the Regulation)
- Insurance-based investment products (Unit-linked, with profit policies, etc.)
- Structured products and deposits
- Convertible bonds
- Derivatives
- Products issued by SPV

NOT PRIIPs

- Shares
- Bonds
- Non-structured deposits
- Life insurance contracts and indemnity insurances contracts
- Non-life insurance contracts
- Pension funds

Regulation (UE) n. 1286/2014 requires manufacturers to prepare 'Key Information Documents' (KIDs) for each PRIIP. The KID will be disseminated to the final client through manufacturer's website, before its distribution.

Requirements for manufacturers and distributors

- The Regulation applies to all **manufacturers and distributors**.
- Whereas the **obligation to produce the KID falls on the manufacturer** of the PRIIP, the obligation to **provide retail clients with the KID is under the responsibility of the distributor**.
- **The key information document** must be provided to retail investors **in good time** before those retail investors are bound by any contract or offer relating to that PRIIP.

Manufacturers



Players that **structure** a PRIIP or **modify** an existing PRIIP, such as:

- Asset management companies
- Life insurance companies
- Issuing bank

Main requirements:

- The PRIIP manufacturer is required to prepare the KID, send it to Supervisory Authority and publish it on its website before the PRIIP is made available to retail investors.
- The KID should be added to the pre-contractual information package.
- The product manufacturer must review the KID on an ongoing basis and revise the document when needed. The revised version shall be made available promptly.

Distributors



Players advising on or selling a PRIIPs, such as:

- Credit institutions;
- Investment firms.

Main requirements:

- The PRIIP distributor is required to deliver the KID in good time before the retail investor is bound by any contract or offer relating to that PRIIP.
- In case of further investments in the same PRIIP, the distributor may provide the retail investor with the KID only if relevant changes in information occur.

The new KID

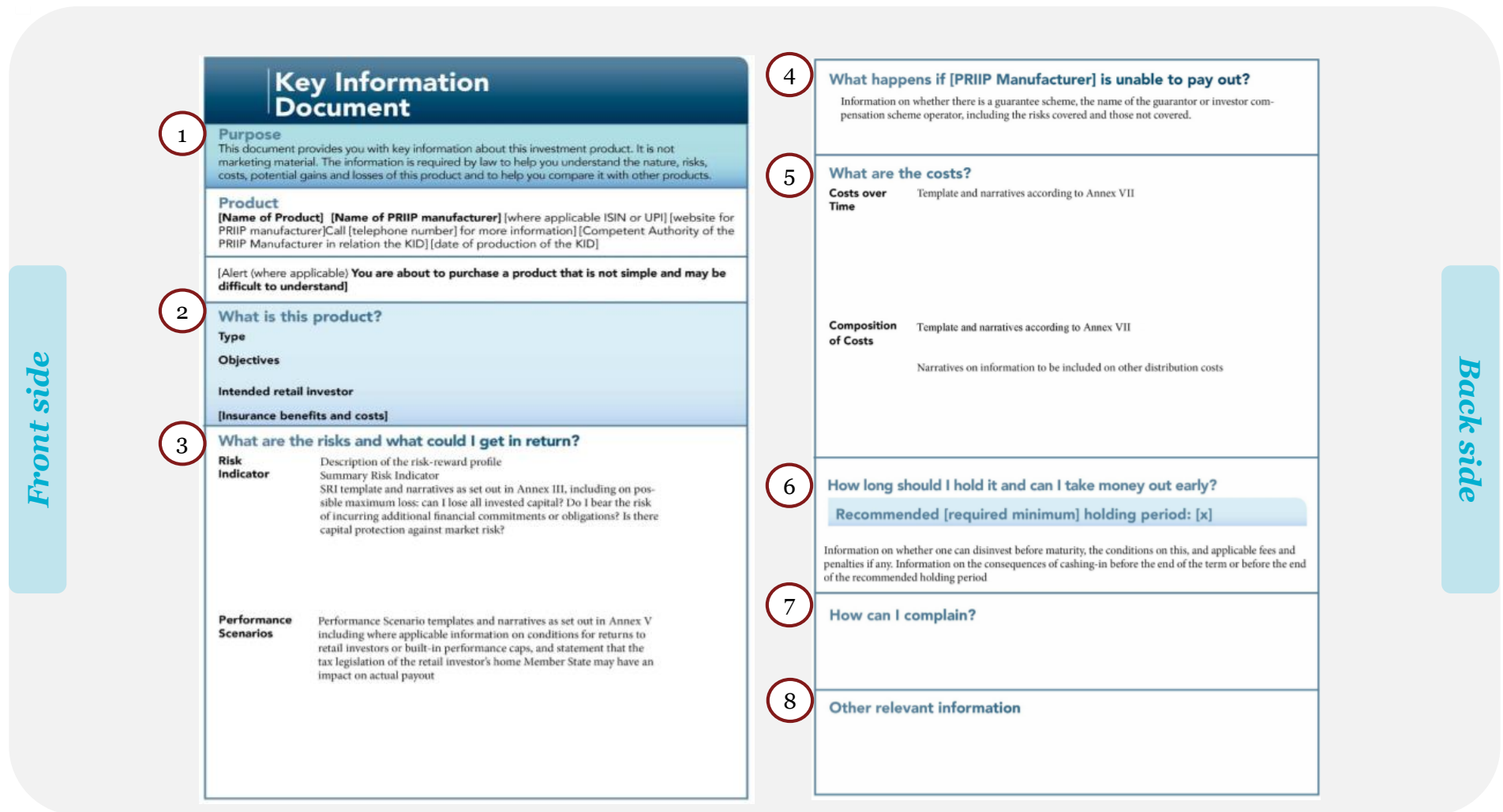
- The KID must be short, well written so that retail investors can easily understand the main features of the products and embedded risks and compare similar products. It will be part of the **legal offering documentation**.
- By reading the KID the investors shall be able to autonomously understand the main elements of the financial instrument, without requiring additional documentation.
- The Regulation requires the KID to be provided to retail investors through the manufacturer's website and the distributor channel, before it is sold to clients, since it is a pre-contractual document.

The KID is a synthetic document made up by 8 sections:

- 1. Basic Information:** PRIIP name, manufacturer and competent authority, and date of the document
- 2. What is this product?:** type, investment objectives and main characteristics of the PRIIP
- 3. What are the risks and what could I get in return?:** a brief description of **risk/return profile, including a synthetic risk indicator, possible maximum loss of invested capital and possible performance scenarios**
- 4. What happens if the PRIIP manufacturer is unable to pay out?:** a brief description of whether the related loss is covered by a compensation or guarantee scheme and risks covered/not covered
- 5. What are the costs?:** costs associated with PRIIP (direct and indirect)
- 6. How long should I hold it and can I take money out early?:** applicable cancellation period, minimum holding period, disinvestments before maturity, consequences of cashing in early
- 7. How can I complain?:** information on how and to whom send complaints (manufacturer and distributor)
- 8. Other relevant information:** additional documents that must be provided (pre-contractual and during the holding period)

The KID template

The KID has a defined structure and comprises 8 sections with a well-defined order; no limit in relation to the length of such sections.



The KID template

1. Basic Information

- The «Purpose» section is not editable.
- The section shall include: name of PRIIP, ISIN or other identifying information of PRIIP, the manufacturer, web address and contact information of the manufacturer, Member State competent authority, date of issuance of PRIIP.

2. What is this product?

- The «type» corresponds to the legal form of PRIIP.
- The «objective» of PRIIP is represented giving notice of factors such as investment policy, the main underlying assets, the relationship between the yield of PRIIP and performance of the underlying products.
- The «Intended retail investor» section includes a description of PRIIP's retail investor target.
- The «Insurance Benefits» section describes the insurance premium.

3. What are the risks and what could I get in return?

Risk Measures

- The section shall include an illustrative measure of the Synthetic Risk Indicator
- Other relevant risk information

Performance

- This section shall include favourable, moderate, unfavourable and stress scenarios.
- The insurance scenario should be added for insurance investment products.

4. What happens if the PRIIP manufacturer is unable to pay out?

- The section shall include the manufacturer insolvency case: brief description of how the loss is covered by a guaranteed deposit scheme and its details.

Key Information Document 1

Purpose
This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

Product
European Growth Equities Fund XYZ Fund Managers
www.ourhomepage.eu
Call (telephone number) for more information Regulated by ABC Published X

What is this product? 2

Type
This product is an investment fund.

Strategy
This product invests in European stock markets, concentrating on France and Germany. We mostly invest in older more established companies, but 35% of our portfolio is in younger companies with more potential for growth. The balance is designed to reduce the risk of investing only in younger companies. The return you get will depend on how the value of these companies goes up and down; if the value goes down you could lose capital. We make a small proportion of other investments, including in corporate bonds.

Intended Market
This product is intended for investors who are prepared to take on a relatively high level of risk of loss to their original capital in order to get a higher potential return, and who plan to stay invested for at least 5 years. It is designed to form part of a portfolio of investments.

What are the risks and what could I get in return? 3

Risk Indicator

1 2 3 4 5 6 7
← Lower risk Higher risk →

This risk indicator helps you assess the risks with this product and compare them with other products. It takes into account the likelihood of possible losses. It reflects the different factors that determine what you will get back, in particular how much you could lose due to fluctuations in the value of the fund's investments. The product does not include any capital protection, so in the worst case you could lose your investment.

Investment

Scenarios 1 year 10 years Recommended holding period

Scenario	1 year	10 years	Recommended holding period
Stress scenario	What you might get back after costs	Average return each year	
Unfavourable scenario	What you might get back after costs	Average return each year	
Moderate scenario	What you might get back after costs	Average return each year	
Favourable scenario	What you might get back after costs	Average return each year	

What happens if [PRIIP Manufacturer] is unable to pay out? 4

Information on whether there is a guarantee scheme, the name of the guarantor or investor compensation scheme operator, including the risks covered and those not covered.

The KID template

5. What are the costs?

Costs over time

- The section shall include: the synthetic representation of the costs of investment over time and the percentage of costs components (one-off costs, recurring and incidental costs).
- The information must be coherent with the *Performance* section.

Composition of costs

- The section shall include the composition of costs (one-off costs, recurring and incidental costs) declines in the subset of detailed costs.

6. How long should I hold it and can I take the money out early?

- The section shall include the expiry date of PRIIP, the reasons for recommending holding period the minimum holding period, any penalties for early repayment.

7. How can I complain?

- The section shall include all the information that investors need to make a complaint to both PRIIP manufacturer or distributor.
- The section shall include the link to a competent web site for claims and an updated postal and an email address where you can send complaints.

8. Other relevant information

- The section shall include indication of additional PRIIP documentation available on investor's request (contact email address shall be included).
- Update KID indication, at least once a year: *«without prejudice to ad hoc reviews, this key information document is updated at least every 12 months»*

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What are the costs?

Costs over time

The RY (Reduction in Yield) shows the impact total costs have on what you get back. The total costs take into account one-off, recurring and incidental costs. The costs that are shown here are the costs of this product. There may be other costs charged to you by the person who is either selling or advising you on this product. They will provide you with information about these costs, and show you the impact that all the costs will have on your investment over time.

Investment (1000)	If you cash in after 1 year	If you cash in after 2 years	If you cash in after 3 years (recommended)
One-off costs	€20	€20	€20
+ Recurring costs	€27	€32	€35
+ Incidental costs	€5	€15	€20
Total costs	€52	€67	€75
RY	5.5%	2.6%	2.2%

The table shows what the costs, including potential exit penalties, could mean for different holding periods. The figures assume you invest €1000. The figures shown are partially based on data from the past and therefore may change in the future.

This table shows the impact on return per year

Category	Cost Type	Impact	Description
One-off costs	Entry costs	[-] 1%	The impact of the costs you pay when entering your investment. (This is the price you will pay, and you could pay less.) [AND/OR where the costs are embedded in the price, for instance in the case of PRIIPs other than investment funds]. This impact of the costs already included in the price. (This is the more you will pay, and you could pay less.) [Where distribution costs are included in entry costs] This includes the costs of distribution of your product.
	Exit costs	[-] 1%	The impact of the costs of exiting your investment when it matures.
Ongoing costs	Portfolio transaction costs	[-] 1%	The impact of the costs of us buying and selling underlying investments for the product.
	Other ongoing costs	[-] 1%	The impact of the costs that we take each year for managing your investment and the costs presented in Section II.
Incidental costs	Performance fees	[-] 1%	The impact of the performance fee. We take these from your investment if the product outperforms its benchmark by 2% or more.
	Carried interests	[-] 1%	The impact of carried interests. We take these when the investment has performed better than 4% (A payment of 1% of the final return will take place subsequently to the end of the investment).

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How long should I hold it and can I take money out early?

Recommended holding period: 5 years

This product is designed for longer term investments; you should be prepared to stay invested for at least five years. However, you can redeem your investment without penalty at any time during this time, or hold the investment longer. Redemptions are possible on every working day; it will take 2 working days for you to be paid. The price for the day, reflecting the actual value of the fund, is set each day at noon, and published on our website.

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How can I complain?

If you have any complaints, you can contact our complaints hotline on (telephone number) who will explain what to do. If you have a complaint about the person that advised you about this product, or who sold it to you, they will tell you where to complain.

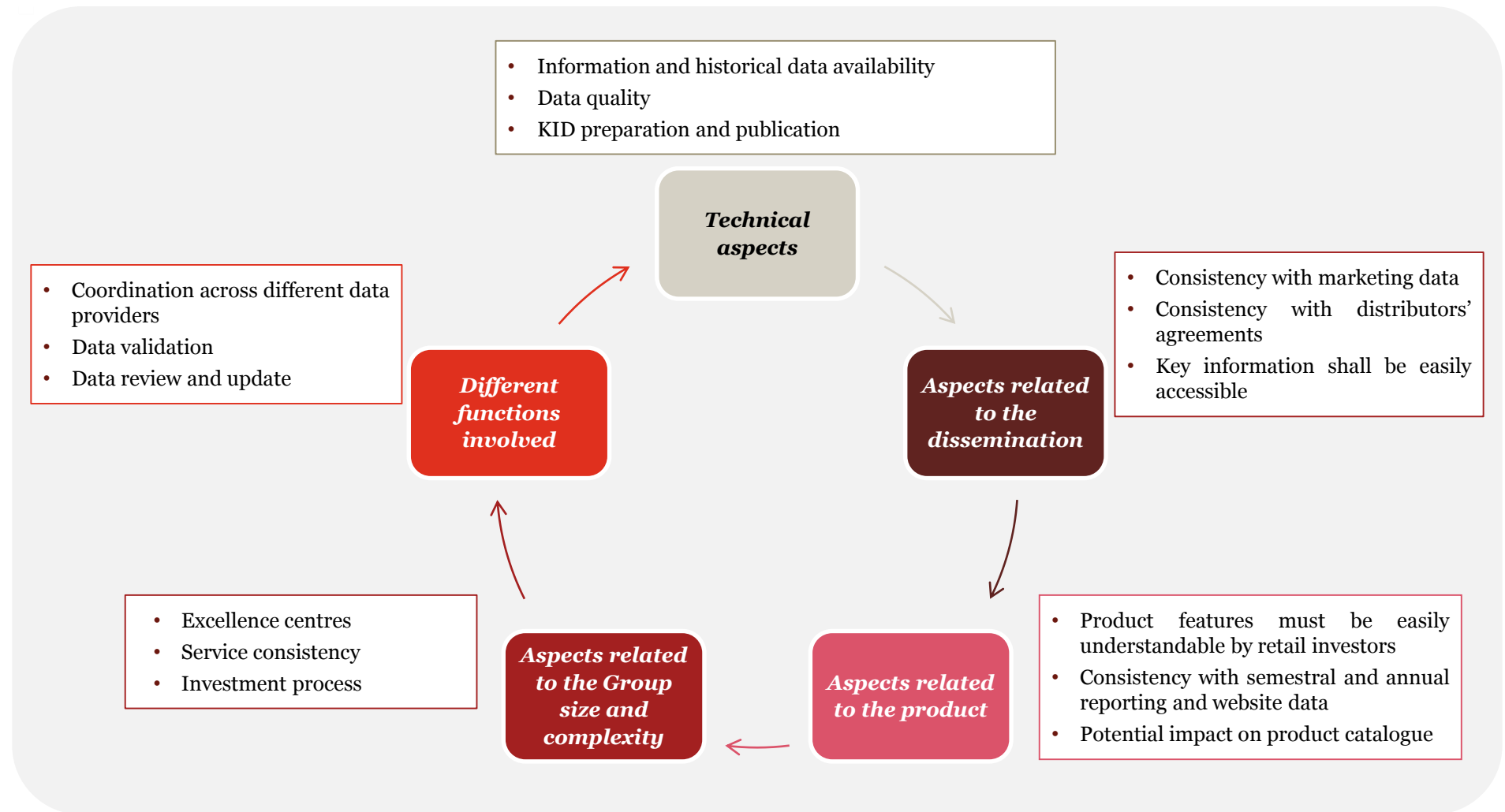
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Other relevant information

Our depositary is ABC Bank based in France. We publish a full prospectus on this product; you can find it at www.ourhomepage.eu/prospectus. Each year we also publish a report with more information on how this product is doing at www.ourhomepage.eu/report. We also review and republish this Key Information Document each year; you can find the new version on www.ourhomepage.eu/KIDs after 31 January.

KID preparation process

Different organization areas are impacted by new requirements



Thank you !



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