

Packaged retail and insurance-based investment products (PRIIPs): key information documents

2012/0169(COD) - 15/04/2014 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 637 to 26 votes, with 16 abstentions, a proposal for a regulation of the European Parliament and of the Council on key information documents for investment products.

The report was referred back to the responsible committee at the plenary session of 20 November 2012. Parliament adopted its position at first reading following the ordinary legislative procedure. The amendments adopted in plenary are the result of a negotiated agreement between the European Parliament and the Council. They amend the proposal as follows:

Purpose of the regulation and products covered: it is stated that the regulation would aim to enable retail investors (small non-professional investors) to understand and compare the key features and risks of investment products.

The regulation should apply to the initiators of **retail investment products based on insurance** (that is to say, insurance products with a life or commuted value exposed to market fluctuations) and to persons who sell these products or offer advice thereon.

However, **the new provisions shall not apply to the following products:**

- non-life insurance products;
- life insurance contracts where the benefits provided by the contract are payable only in the event of death or disability due to an accident, illness or disability;
- deposits other than structured deposits and securities;
- officially recognised pension schemes;
- retirement products recognised by national law as having the primary objective of providing the investor with income in retirement;
- individual retirement products for which an employer's financial contribution is required.

Drawing up the Key Information Document (KID): before placing a retail investment product on the market, the investment product manufacturer shall draw up a KID and publish the KID on its website. Member States may require the initiator to **notify the document in advance to the competent national authority** empowered to supervise investment product manufacturers in the Member State concerned.

Form and content of the document: before a binding agreement is made, the retail investor should receive a KID of a **maximum of three A4 pages** allowing them to take an informed decision and to compare retail investment products as well as insurance products.

The KID should be **accurate, fair, clear and not misleading**. It should be a **stand-alone document, clearly separate from marketing materials**, and be compatible with any binding contractual document.

The document should **help investors to understand the features, risks, costs, potential gains and losses** associated to it. To this end, it should contain specific information such as:

- the **name** and address of the initiator, information relating to the relevant national authority and the date of the document;

- a notification of **specific environmental or social outcomes** targeted by the investment product, as well as the way in which performance is measured;
- a description of the **types of investors** for whom the investment product is intended, especially in terms of risk appetite and investment horizon;
- a brief description of the **risk and reward profile** of the investment product, including for example, the maximum possible loss of invested capital;
- a brief description outlining, in the event of the initiator being unable to make the payments covered, whether the investment product is covered by a **compensation scheme**;
- the required minimum holding period and cashing in early;
- information about how and to whom a client can make a claim.

Complex products: some of the investment products covered by the scope of the regulation are not simple and may be difficult for investors to understand. This is why Parliament has ensured that investors receive, when necessary, the following notice, “**You are about to purchase a product that is not simple and which may be difficult to understand**”.

Responsibility in the case of losses: the amended text foresees that if a retail investor shows that they suffered a loss through the use of the KID by investing in the retail investment product for which the KID was produced, this retail investor could **seek redress** from the initiator of the investment product for this loss, under the provisions of national law.

Intervention powers of the European Supervisory Authorities (ESAs): the ESAs should monitor investment products or financial instruments which are marketed, distributed or sold in the Union. Thus, the European Insurance and Occupational Pensions Authority (EIOPA) may **temporarily prohibit or restrict in the Union the marketing, distribution or sale** of investment products.

The competent authorities would also exercise supervision of the marketing of insurance-based products which are sold, distributed or sold in the Member State concerned or apart from this. They should publish a notice on their website each time they decide to impose an interdiction or restriction.

Complaints: the retail investors should have an effective way of submitting a complaint against the initiator of an investment product based on insurance. Effective redress procedures should also be available to retail investors in the event of cross-border disputes.

Penalties: the competent authorities designated by the Member States should have the power to impose penalties such as the suspension or prohibition of the sale of a product, by publishing a public notice and imposing administrative fines of at least **EUR 5 000 000 or at least 3% of annual turnover** in the case of a moral person or a maximum amount of at least **EUR 700 000** for individuals.