



Investment funds: Get ready for Priips-Kid

PRIIPS-KID will come into force soon. What is the impact on the investment fund industry?

The PRIIPs Regulation (the Regulation for Packaged Retail and Insurance-based Investment Products) aims at enhancing investor protection by introducing a new type of investor information document: the KID (Key Information Document). The KID is designed to help investors to easily compare investment products even amongst different categories.

Who does this affect?

All AIFs (Alternative Investment Funds) are concerned to the extent that the product is sold to a retail investor according to this definition in MiFID II (i.e. every investor not qualifying as a professional investor OR not having opted to be treated as a professional investor). Hence, various investment vehicles might be subject to PRIIPs Regulation such as:

Luxembourg UCI subject to part II
(law of 17 December 2010)

SIF

SICAR

RAIF

Other non-UCITS funds

This means that, as from January 1st 2018, a KID will be required for each subscription by family offices, high net worth individuals or even ultra-high net worth individuals, the later being considered as retail investors by default.

What about UCITS?

UCITS-KIID (Key Investor Information Document) will be affected by the PRIIPS-KID. The KIID must be adapted to comply with the PRIIPS KID disclosure requirements for the 31 December 2019 at the latest.

Whilst the KIID for UCITS has common points with the KID, these two documents address similar areas slightly differently such as target market, performance scenarios, risk calculation methodology and costs disclosures.

What the KID should include?

The KID is a short document of a maximum size of three sides of A4 paper. It should include in particular:

- The provision of basic information (nature and main features) about investment products
- The risk and return that can be expected
- The overall aggregate cost that will arise from making the investment
- Specific information about the product regarding its manufacturer and regulator

What are the key questions you need to ask you before building your KID?

- Do you know your distribution network?
- How many KIDs will you have to produce and maintain?
- Do you have the necessary data and infrastructure?
- Who will be in charge of the production of KIDs?

Actions to take before building your KID

- Classify your products
- Define where data will come from and get the required data by the end of 2017
- To do this, you may need to create and develop new processes which may require new data points and calculations

In any case, **do not underestimate the KID impact of cost and time**

We can help you through the entire process

1. Assessment

- Expertise and advice on the Regulations interpretation
- Impact identification of the new Regulation on your products
- Identification of products in scope taking into account your distribution model and classification of each product concerned

2. Design of the operating model

- Definition of the appropriate risk calculation methodology based on the product classification
- Identification of key data required and design of data flows between the various stakeholders
- Assessment of market, credit and liquidity risks for each product

3. Implementation

- Drafting and/or legal review of the narratives and disclaimers to be included in the various KID's sections
- Calculation or independent review of calculation performed for the risk, performance and costs indicators
- Technical implementation support or complete KID production outsourcing

4. Dissemination

- Legal review/update of contractual arrangements with the various stakeholders including distributors
- Consistency review of marketing documents
- Advice on KID dissemination and revision process

Arendt & Medernach works hand in hand with Arendt Regulatory & Consulting to provide a combined approach to legal advice and regulatory and compliance services. This approach, which is unique in Luxembourg, meets the growing needs of clients for complete support and efficiency.

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