

PRIIPS KID Update – UCITS Funds

Introduction

The UCITS Key Investor Information Document (“UCITS KIID”) is a document intended to provide clear and comparable information to investors. It has been utilised since 2011. However, from 2022, the UCITS KIID is set to be replaced in Europe by a more data-centric successor, the Packaged Retail Investment and Insurance Products Key Information Document (“PRIIPs KID”). The European Commission initially required all in-scope UCITS management companies to provide EEA retail investors with a PRIIPs KID from 1 July 2022 onwards. It is now likely that this deadline will be pushed out to 31 December 2022.

The European Union PRIIPS Regulation imposes obligations on any entity that manufactures or sells PRIIPs to retail investors in the European Economic Area (“EEA”). PRIIPs is a broad term and refers to investment funds, life insurance policies with an investment element, structured investment products and structured deposits. The KID is a pre-contractual document with disclosure requirements which are designed to improve the quality of information provided to retail investors when considering investments and allowing them to compare products.

On 7 September 2021, the European Commission adopted revisions to the PRIIPs regime in the form of a revised Level 2 Regulation (“Level 2”). Level 2 incorporates a number of UCITS-specific rules into the PRIIPs regime which should enable a smoother transition and application of PRIIPs rules to UCITS.

Key Differences between UCITS KIIDS and PRIIPS KIDs

General

Despite the similarities in appearance and structure, the PRIIPs KID is fundamentally different from the UCITS KIID. Eighty percent of the underlying data for the PRIIPs KID comes directly from the European PRIIPs Template (“EPT”), which contains over one hundred individual data points.

Whilst both the UCITS KIID and PRIIPs KID include information on charges, risk and investment profile they may substantially differ due to differences in the calculation methods and the technical standards underlying their production. The PRIIPs KID contains eight sections versus six sections within the UCITS KIID. It should also be noted that, unlike a UCITS KIID, PRIIPs KIDs should show a recommended holding period for the UCITS together with information on any consequences of redeeming before the fund recommended holding period has expired.

Performance

Past performance is required to be displayed in the UCITS KIID itself. The PRIIPs KID must contain a signpost to where past performance information can be accessed, such as a link to a website.

Forward-looking performance scenarios are not required in a UCITS KIID. They are required in a PRIIPs KID. Under the PRIIPs regime, UCITS funds must include forward looking performance scenarios which provide an indication of expected performance of the UCITS in four different scenarios:

- A favourable scenario;
- A moderate scenario;
- An unfavourable scenario; and
- A stress scenario.

The Level 2 measures set out different rules for the calculation of each of the above different performance scenarios depending on the product/category/availability of historical data.

For UCITS which do not have sufficient historical data a benchmark (proxy) can be used. For UCITS with a recommended holding period between one and ten years, performance in each of the four scenarios must be shown at two different holding periods: at the end of the first year and at the end of the recommended holding period.

Summary risk indicator (“SRI”)

The UCITS KIID must disclose the potential risks and rewards associated with investing in the UCITS using a synthetic indicator as well as a narrative explanation of the indicator, its main limitations and of material risks which are not covered by the indicator. The UCITS KIID summary risk and reward indicator (“SRRI”) ranges from 1-7 according to the increasing level of volatility/risk-reward profile.

The same 1-7 range applies to the PRIIPS KID. However, the PRIIPs SRI is not the same as KIID SRRI as it has a different calculation methodology. SRI is comprised of market risk (MRM) and credit risk (CRM). Due to the fundamental difference in calculation methodology used, the SRI disclosed for a UCITS in its PRIIPS KID may be lower than the SRRI figure disclosed by that UCITS in its UCITS KIID to date.

Other risk disclosures in the PRIIPS KID are limited to two hundred characters whereas the UCITS KIID usually reflects the prospectus content.

Costs and Charges

Similar to the UCITS KIID, the PRIIPS KID must disclose information on the entry costs, exit costs and performance fees which may be borne by the investor. However, while the UCITS KIID must disclose the amount of the performance fee charged during the last financial year as a percentage figure, the PRIIPS rules require performance fee disclosures to be calculated using historical data covering the last five years so that the investor is provided with an estimate of the performance fee they may be charged based on the average charged over the past five years.

One other significant change from the UCITS KIID is the requirement for a PRIIPS KID to disclose transaction costs expressed as a percentage of the value of the investment per year. This figure must be calculated on an annualised basis based on an average of the transaction costs incurred by the UCITS over the previous three years. For UCITS KIIDs, transaction costs are not included in ongoing charges.

A PRIIPS KID is also required to show a *Reduction in Yield (“RIY”)* calculation which shows what impact the total costs the investor pays will have on the investment return they might get. The total costs take into account one-off, ongoing and incidental costs. A *Costs Over Time* table is required which illustrates how costs reduce the investor’s return over the recommended holding period, assuming an investment of €10,000. The disclosure varies depending on the holding period. For example, for a UCITS with a holding period between one and ten years, the costs figure will be shown based on redemption at the end of the first year and based on redemption at the end of the recommended holding period.

KB Associates’ Services

KB Associates provides a range of services to investment funds including:

- The provision of UCITS management company/AIFM services
- The provision of designated persons to perform UCITS business plan/AIFMD programme of activity functions.
- The provision of operational and compliance services to both UCITS and AIFMD compliant structures.

If you would like to discuss this note or KB Associates’ services in general, please contact:

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