

## Investment funds and PRIIPs regulation - action now?



Investment funds that power unit linked pension and life insurance products will need to be ready for PRIIPs by year-end. What strategy should they adopt?

All retail financial products with an investment element will need to be accompanied by a key information document (KID) from January 1, 2017, a key element of the packaged retail and insurance investment products (PRIIPs) directive. UCITS KIIDs are similar, meaning UCITS funds are compliant until at least 2020. Despite this, many funds are

directly implicated by PRIIPs and need to act now.

### WHO NEEDS TO ACT NOW?

Those vehicles at the heart of unit-linked pension and life insurance products must provide a host of synthetic and raw data. Each PRIIPs KID will feature measurements of risk/reward profiles, market and credit risk, and potential performance scenarios, as well as a summary of fees. The insurance and pension industries have worked to establish common standards and data templates, but company-specific requirements are inevitable. Underlying UCITS and AIFs will need to provide this data. Occasionally this information will be similar to that required for the UCITS KIID, but not always. Moreover, there will be different monthly, quarterly, half-yearly or annual schedules.

Some asset managers have opted for an ad hoc approach, providing data on a case-by-case basis directly to the insurers and pension funds, requiring them to build their own reports. While this avoids up-front investment and planning for the asset manager, it presents a tricky challenge to these intermediary clients. This would be a negative for any fund seeking to maintain or grow activity in the unit-linked space. Or the fund could choose to process this data in-house, with the resultant cost and complexity of dealing with multiple formats and client needs.

### STREAMLINED HUB

Alternatively, the industry could opt for a centralised hub. Data is taken from a variety of sources in different formats, it is then standardised and verified centrally, and communicated to the PRIIPs KID manufacturer.

A centralised hub contributes to ensure data integrity. Quality is important: as well as the risk of sanction and reputational damage from publishing an inaccurate KIID, there is a strategic element. Many players see these documents as helping to explain packaged investment products to European savers. It could also have wider implications by enhancing competition across products, sectors and countries. To reap these benefits, industry players must ensure that data is accurate, is explained clearly, is up-to-date, and is provided at an acceptable cost.

“Many fund managers have been using centralised, hub-and-spoke utilities for their UCITS KIIDs since they were made mandatory by UCITS IV,” explained Paolo Brignardello, Product Manager of Fundsquare, the Luxembourg-based, industry-owned, industry-run data services hub.

“For example, our facility is central to the production of 1.1 million UCITS KIIDs annually, and this functionality has been extended for other packaged financial products” he added.

This new development was made with a view to easing the transition to PRIIPs, and features separate, specially designed data-collection and data-dissemination services.

This streamlined hub-and-spoke model, if supported effectively by the asset management community, would cut the risk inherent in a mass of cross-cutting point-to-point connections. Ultimately costs will be lowered and quality boosted in a timely fashion.

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