



Asset Management & Investment Funds Update

June 2022

ESA Issue PRIIPs Level 3 Guidance

On 10 May 2022, the ESA issued a joint supervisory statement on the PRIIPs KID setting out regulatory expectations for adequate, clear and accessible disclosures.

The ESA supervisory statement, which serves as Level 3 guidance under the PRIIPs regime, sets out expectations for the 'What is this product?' section of the KID, containing information on the type of the product, its objectives, the type of retail investor targeted, any insurance coverage and the term of the product, if known.

The ESA expectations, aimed at improving the quality of descriptions provided by those PRIIPs for which the regime has been in effect for several years (i.e., PRIIPs other than UCITS), address a range of poor disclosure practices including:

- the use of overly broad, general categories when specifying the type of product
- poor practices regarding the overall clarity of the language and layout of the text, including as a result of automation in creating such texts
- insufficient information regarding capital protection levels and potential losses for the investor
- imprecise description of early termination features
- lack of clarity concerning the nature and timing of the coupon payments
- limited information about the specific nature of the underlying assets to which investors are exposed
- inadequate description of any leverage factors and the risks related to them
- undifferentiated and abstract descriptions for the 'intended retail investor'.

Next steps

While the poor practices are not targeted at UCITS, the expectations set out in the statement provide useful guidance for UCITS preparing for compliance with the PRIIPs regime from January next year.

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