



## **Regulatory reporting and investor disclosures**

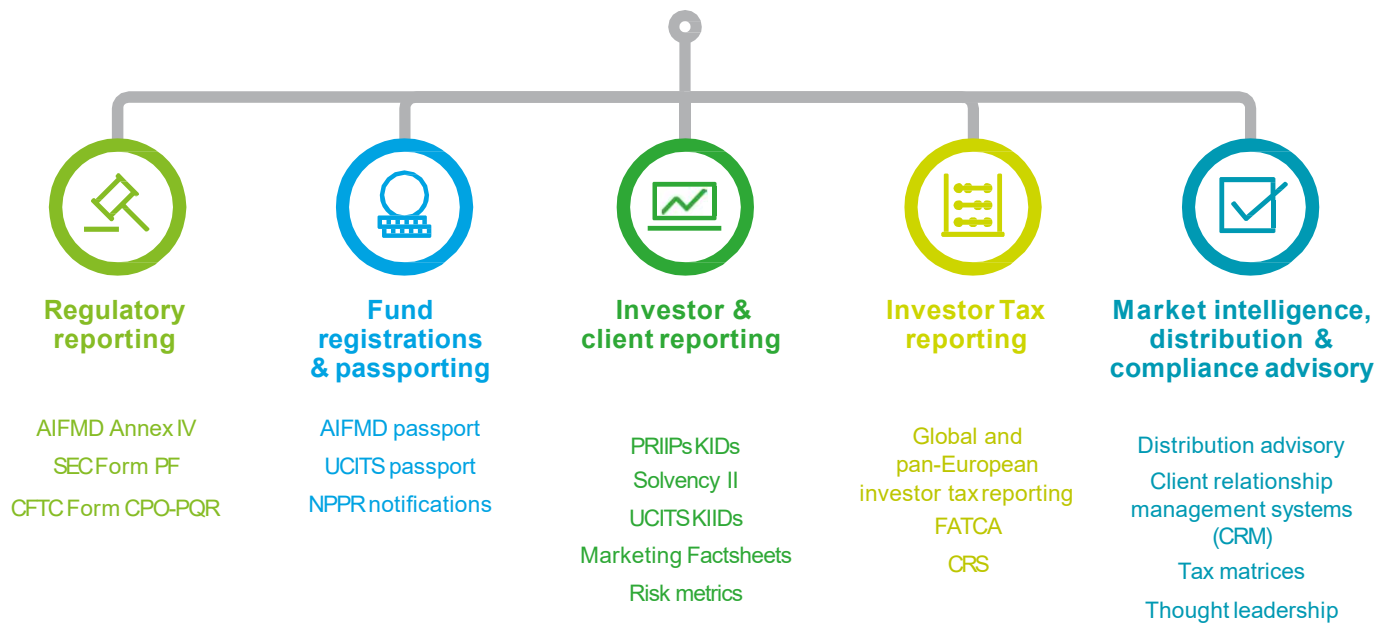
### **PRIPs managed services**

Using one set of your data to satisfy multiple investor and regulatory reporting requirements



# Investor and regulatory reporting managed services

Using one set of data to satisfy multiple reporting obligations



## Challenges faced by our clients and our solution

The current market environment has asset managers facing significant regulatory pressure. Significant increases in regulatory and reporting requirements, since the financial crisis, has meant an increased complexity of doing business. It has also been noted that global regulation has meant significant resource has been expended to ensure compliance processes are up to date and properly monitored at any given time.

The asset management landscape is changing significantly with increasing fee pressure and investor demands. In turn, this means pressure to demonstrate value for money to investors and the need for a laser-like focus on costs. However, ever-rising regulation is pressuring costs in the opposite direction.

All firms managing investment funds and products are subject to a complex set of marketing and distribution rules, including AIFMD, Dodd Frank and Solvency II, requiring different notification, registration and reporting requirements across jurisdictions and investor types. While managers grapple with the legal, operational and technology aspects of this challenge, regulators increased their focus on consistent, timely and accurate disclosures to investors.

Alternative and traditional investment managers must prepare global reports using similar information in different formats for different regulators.

Deloitte's integrated global regulatory and investor managed services provides the people and technology to help reduce this burden of essential but non-core activities for investment managers.

# PRIIPs – Regulatory reporting and investor disclosures

Deloitte produces your Packaged Retail and Insurance-based Investment Products (PRIIPs) Key Information Documents (KIDs), European PRIIPs Templates (EPTs) and manages your related ongoing compliance obligations.

This year, all firms issuing PRIIPs have a pressing need to address key regulatory changes to their client communications. From January 1, 2018 investors buying PRIIPs need to see a KID before they invest. The implementation of European PRIIPs rules<sup>2</sup> for distribution to retail and high net worth clients captures a range of products including life insurance policies with an investment element, structured products, structured deposits, certain OTC instruments as well as non-UCITS investment funds. The accurate and timely preparation of a KID presents manufacturers with a significant challenge and takes a considerable amount of time and resource to prepare and deliver.

## What is the PRIIPs KID?

The KID is a three page standardised pre-contractual fact sheet about the PRIIP in simple language, to be distributed to retail investors in each country and language of distribution. It is intended to constitute pre-contractual information and its contents shall be consistent with any binding contractual documents and relevant parts of the offering documents and terms and conditions of the PRIIP. It shall be accurate, fair, clear and not misleading. The KID has to be a stand-alone document separate from marketing documents and shall not contain cross-references to marketing material. It may have a maximum of three A4 pages, shall be easy to read using characters of readable size. Colors can be used provided that the understanding is not altered when printed in black and white.

## What is an EPT?

The European PRIIPs Template (EPT) is a standard file format for asset managers to share PRIIPs details with life insurers and others who wrap or distribute their products. It contains all of the main elements of the KID document, in a format that can easily be read and interpreted by computer systems (unlike a KID document, which is designed to be read by a human). Details of many funds may be included in a single EPT file, and they are normally refreshed on the same cycle as the KID documents themselves.

## It contains the following sections structured as questions:

- Identity of manufacturer
- “What is the product?”
- “What are the risks and what could I get in return?”
- “What happens if (name of PRIIP manufacturer) is unable to pay out?”
- “What are the costs?”
- “How long should I hold it and can I take my money out early?”
- “How can they complain?”
- “Other relevant information”

2. On 9 December 2014, the Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) (“PRIIPS Regulation”) has been published in the Official Journal of the European Union.

# What are the challenges?

PRIIPs is more than a factsheet – it's a regulatory program

1. **Timely production and volumes** – The KID is a pre-contractual document required for a very wide scope of products. For some firms this amounts to a requirement for thousands, and in some cases hundreds of thousands of fact sheets each year. Some OTC derivatives and structured products may be created and traded in the same day, and must also adapt their product launch procedures to be able to provide a KID to an investor prior to transaction.
2. **Risk calculations and performance scenarios** – A risk calculation is required (in some cases a variant of VaR) pre-investment, and for products continuously available for sale this risk calculation and performance scenario must also be monitored for material changes. For some investment products, including securitised derivatives, structured products and other OTC derivatives, manufacturers must define payoff profiles including future values to define their performance scenarios, many based on actively traded underlying securities.
3. **Assembly** – Co-ordination between various departments including sales, trading, legal, operations and technology is crucial to a seamless delivery.
4. **Language translation** – Firms require efficient and timely translation, approvals, and controls to ensure quality result within the three page A4 limits.
5. **Firm inventory for in-scope PRIIPs** – manufacturers must establish an inventory for all PRIIPs within scope.
6. **Data Sourcing** – Manufacturers need to source and collect accurate and up-to-date information about each PRIIP from the right department in the firm to populate the KID. This may prove particularly challenging with respect to the calculations of risk, performance scenarios and costs where the information may not be readily produced by existing systems.
7. **Drafting text** – The KID needs to be written in clear and understandable language that avoids financial jargon, while remaining accurate and not misleading. Experience from the implementation of the UCITS KIID suggests that this could prove particularly challenging in a document intended to be concise.
8. **Lifecycle management** – The KID must be kept up to date at least annually and also where the manufacturer concludes it is no longer accurate, fair, clear and not mis-leading. Therefore for those KID's continuously available for sale, a firm must monitor events, performance and risk calculations. Manufacturers need to ensure that KIDs are kept up to date and made easily available on their website, and that distributors receive sufficient training.
9. **Dissemination** – KIDs must be made available on paper or on a durable medium, on a firm's website for example.

## Liability

It is important to get the KID right, as manufacturers are liable where damage is suffered by the retail investor as a result of reliance on a KID that is misleading and/or inaccurate, or inconsistent with pre-contractual or contractual documentation. Firms will struggle to do this on a manual or ad hoc basis. Instead, they will need a streamlined process, with robust governance arrangements.

# Our Solution

Deloitte's end-to-end technology and managed service provides a complete PRIIPs KID and EPT solution, simplifying your compliance response and management of the PRIIPs regulatory program. We have designed a service built on our firm's experience, our clients' needs and our existing innovative infrastructure. This operating model and supporting technology reflects the market's preference to outsource the assembly, production and dissemination of these KIDs, given the tight timeframes, costs, maintenance and resources of an internal build.

In this way we offer a market leading managed service, integrating technology, risk, and valuation, regulatory and operational expertise. We believe our PRIIPs KID solution is differentiated from any other on the market as we offer a complete end-to end solution, incorporating all aspects of KID production, including template creation and maintenance, risk and performance scenario calculation, language translation and document-hosting.

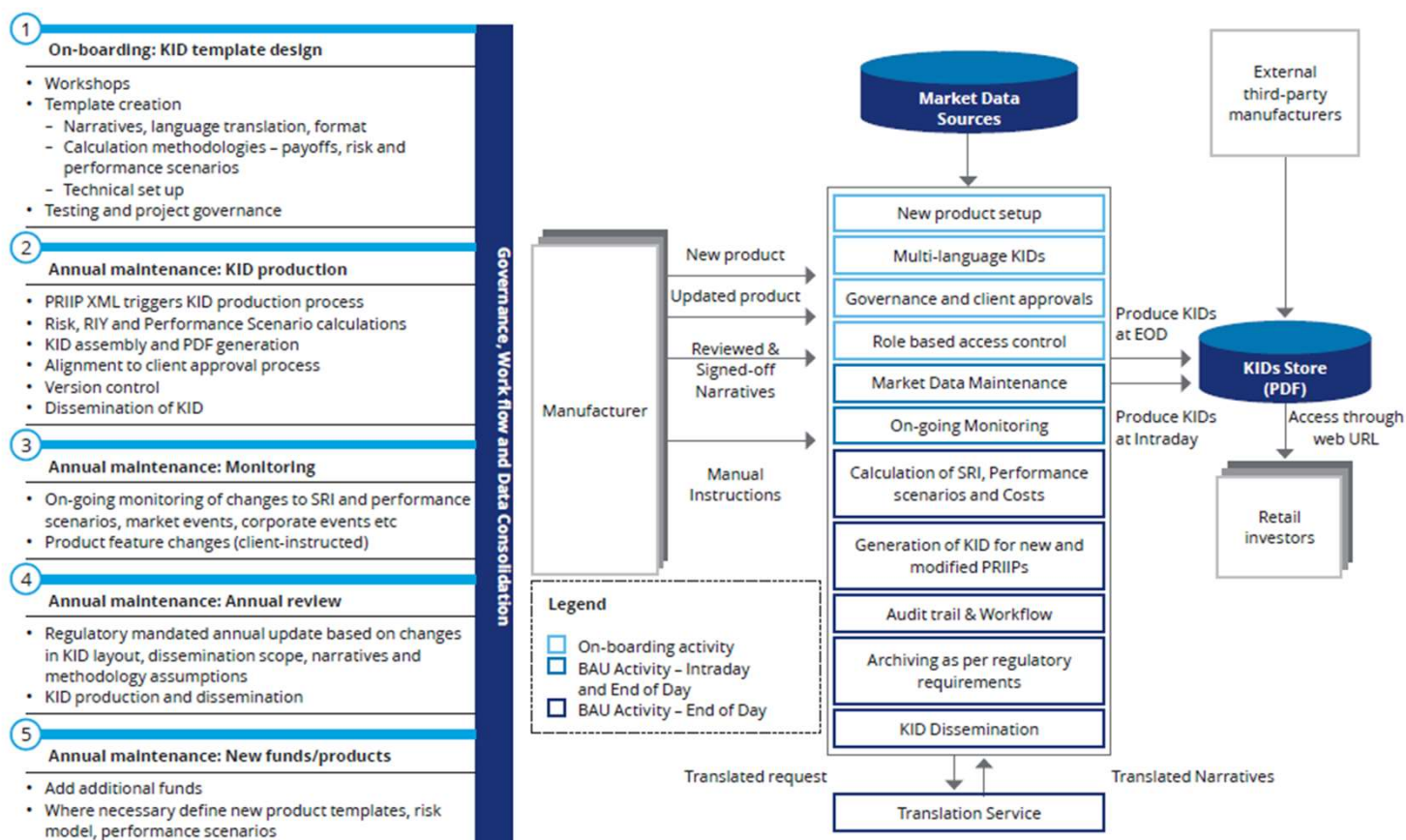
On the back of our deep experience for a range of clients from Tier 1 global investment banks to leading asset management firms, we have built and continue to maintain our proprietary risk and performance scenario engine. Our Risk Engine tool and our combined experience with Tier 1 investment and other global banks ensures the widest possible product coverage and flexibility to quickly incorporate new products.

## Comprehensive PRIIPs product coverage

Our flexible payoff scripting tool enables the widest variety of products on the market. A full list of product templates is available on request, covering the following product groups:

OTC Derivatives  
Structured Products  
Funds  
Insurance products

## Overview – Deloitte PRIIPs KID managed service and technology components



# Why a managed service?

## Total cost of ownership for a PRIIPs KID regulatory program

PRIIPs KID solution components	Key steps and activities	Deloitte managed service	Technology solution
<b>Team – People &amp; Skills</b>	Regulatory and compliance	Yes	Only technology
	Risk & valuation		
	Technology		
	Project management		
<b>Solution build and project delivery</b>	Technology	Yes	Yes
	Project and stakeholder management, translations and workflow		No
<b>Template creation (during on-boarding and over the life of the product)</b>	Narratives – draft, edit, manage approval process	Yes	No
	Calculation methodologies		Yes
	Complete project documentation of methodologies and assumptions for audit trail for each aspect of the program		No
	Translation management and approvals based on language distribution matrix		No
	KID layout format – accounting for language differences		No
<b>PRIIPs production</b>	Ongoing service team to accommodate and document different client requirements, technology, bespoke risk etc.	Yes	No
	Perform risk and performance scenario calculations, produce the document		Yes
	Workflow tool		No
	Website and third party manufacturer distribution hosting		No
<b>Data orchestration and market data management</b>	All aspects of maintaining centralised market data	Yes	No
<b>Monitoring</b>	Events monitoring – risk and performance scenarios	Yes	Yes
	Client led – Other material changes – costs, narratives, language translations, format, corporate events, audit trail and workflow management		No
<b>Annual review</b>	Project management of annual updates: validate methodologies, narratives, format, disclaimers etc.	Yes	No
<b>Production quality control and workflow management</b>	Workflow monitoring and audit trail, management information, approval history including external parties (legal counsel etc.)	Yes	No
<b>Technology</b>	Simple ongoing management requirements	Yes	No
	Support team to manage all aspects of KID production (not only technology)		No

Note: For the “no” responses, where this service is not provided, you will need to dedicate your own resources to fulfil these obligations and requirements.



# Deloitte's key differentiators



## People

- Cross functional team
- Institutional memory



## Quality control

- Periodic testing
- Validation
- Management information
- Business rules



## Annual update

- Project management
- Stakeholder approvals



## Distribution management

- Hosting
- Third party aggregation



## Consistent workflows

- Governance
- Stakeholder approvals



## Fully hosted technology

- Market data
- Hardware
- Data feeds



## Event monitoring

- Risk & Performance scenario
- Material changes
- Client led updates



## Translation workflow management



# Why Deloitte?

Deloitte's Risk and Regulatory Managed Services Practice has over 15 years of experience in providing innovative solutions to top-tier Financial Services clients. Our Solutions remove the burden that the reporting requirements place on your business allowing you to focus on your core strategy.

**Complete end-to-end service** – Complete Priips managed solution comprising all aspects required to meet the regulation including template creation and advisory, language translation, risk, performance scenarios, Reduction in Yield (RIY) and Costs, market data sourcing, ongoing events monitoring, annual updates, publication, dissemination and hosting.

**Transparency and control** – We propose narratives and calculations models, you approve and ultimately own the content and methodologies. We provide extensive supporting documentation and maintain a full audit trail of all approval actions and events; all KIDs are timestamped and uniquely identifies.

**Wide Product Coverage** – Multiple products already modelled within Deloitte's Risk Engine, and a flexible scripting language enables you to tailor performance and payoff calculations.

**Hosted Solution** – No local installation of technology required on your systems. Deloitte technology build involves agreeing appropriate data feeds and access points for you rather than a full technology implementation requiring your operation and ongoing maintenance.

**Distribution and hosting** – Deloitte hosting services brings together manufacturers (banks, insurers and asset managers) and distributors (wealth manager and insurers) under one portal to help their investors better understand and compare the features, risk and rewards and costs in relation to their investments in packaged products.

**Faster set-up** – our managed service and operating model, as well as work cross all client types and products ensures a faster set-up and smoother implementation. Fully compliant audit trail and archiving – transparent approval workflow, document history and audit trails.

**Wider application** – Fully configurable to meet wider needs including production of UCITS KIID's, marketing factsheets and term-sheets.

**Proven track record and existing platform** – Proven experience delivering managed services for an extensive and broad range of clients. Existing infrastructure and knowledge of working practices means faster set-up and delivery. Proven experience supporting other PRIIP/KID implementations and delivering similar regulatory and investor factsheets.

# Deloitte team

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