PRIIPS – the latest acronym for retail investors to learn

New regulations are producing some strange figures in investor information documents.

There is a new acronym causing furrowed brows among investment managers, financial advisers and regulators: PRIIPS. PRIIPS are ‘Packaged Retail and Insurance-based Investment Products’, which includes most fund and investment-related products aimed at retail investors. Since 1 January 2018, a new set of EU regulations have set out what a new Key Information Document (KID) must tell potential PRIIP investors.

The idea behind KIDs is a sensible one. For some years collective funds, such as unit trusts, have had to produce a KIID (Key Investor Information Document), but there was no equivalent document for other personal investment products. This meant comparisons between different products were somewhere between difficult and impossible. The new KID was designed to provide a common set of information on risks, performance scenarios, costs and other factors in a standardised way. The aim was to make investors’ lives easier.

In practice there have been some glitches. Firstly, the transitional rules mean that KIIDs (not KIDs) can still be provided by investment managers until the end of 2019. The extra “I” adds plenty of difference – for example the old KIID includes past performance data, whereas the new KID does not. To make matters worse, the new KID rules can produce some strangely optimistic numbers covering four future ‘performance scenarios’.

In late January the Financial Conduct Authority (FCA) took the unusual step of issuing a statement about the new regulations. It said, “Where a PRIIP manufacturer is concerned that performance scenarios in their KID are too optimistic, such that they may mislead investors, we [FCA] are comfortable with them providing explanatory materials to put the calculation in context and to set out their concerns for investors to consider”.

Regulations rightly require both KIDs and KIIDs, but the latest problems are a reminder that standardised information is just that. It is not the personalised guidance we aim to provide.

The value of your investment can go down as well as up and you may not get back the full amount you invested.
Past performance is not a reliable indicator of future performance.
Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.