

PRIIPs, KIDs and Friends First - Frequently Asked Questions

What is a PRIIP?

A PRIIP is a Packaged Retail and Insurance-based Investment Product. This category includes life insurance investment products, investment funds, structured deposits and derivative instruments.

What is a Key Information Document (KID)?

A Key Information Document is a prescribed and standardised document which cannot be more than 3 pages long. It must be produced by the product manufacturer and provided to retail investors by the person advising on or selling the product before the consumer is bound by the contract. There are set guidelines regarding the document including its contents and a specific layout specified by legislation with little or no room for changes.

What does the new legislation mean?

From 1st January 2018, the PRIIPs (Packaged Retail and Insurance-based Investment Products) regulation introduces a new generic pre-sale disclosure requirement. The Key Information Document must be produced by the product manufacturer and provided to retail investors by the person advising on or selling the product before the consumer is bound by the contract. The products within scope of the legislation include life insurance investment products, investment funds, structured deposits and derivative instruments.

When does it come into affect?

The PRIIPs regulation comes into effect on the 1st January 2018.

What products does it affect?

The products within scope of the legislation include life insurance investment products, investment funds, structured deposits and derivative instruments.

Which Friends First products does it affect?

The products affected by the new regulation are the Friends First range of savings and investment products.

Are top-ups and fund switches to an existing policy included?

The regulation applies to new business only and does not apply to top ups/single premium injections (SPIs) or fund switches.

What products are not included?

The following products are excluded based on our understanding of the regulations (this is subject to change):

- Protection products
- Annuities including pension annuities, purchased life annuities and bulk purchase annuities
- Personal Pensions
- Executive Pensions
- ARF's and AMRF's
- Buy Out Bonds
- Group Pensions
- Group Risk

Why are there 2 risk ratings for each fund?

There are two separate indicators of risk which Friends First applies to investment funds. These are the European Securities and Markets Authority (ESMA) Risk Rating and the Packaged Retail and Insurance-based Investment Products (PRIIPs) Summary Risk Indicator (SRI).

All of the Friends First investment funds are risk rated using the ESMA scale across our supporting material. The PRIIPs regulation introduces a SRI for each fund which is included as a mandatory part of the Key Information Document.

What is the ESMA rating and how is it calculated?

The ESMA Risk Rating is based on the annualised volatility of the weekly returns of a fund. The observation period for the ESMA Risk Rating is the previous five years of weekly returns of the fund.

For absolute return funds with a full, five-year history of returns, the ESMA risk rating is calculated as the greater of (i) the actual historical annualised volatility; and (ii) the volatility that is consistent with the risk limit adopted by the fund. In the case of a total return fund, the ESMA risk rating is calculated as the greater of (i), (ii), and the annualised volatility of the returns of the pro-forma asset mix of the fund at the time of composition.

The ESMA risk indicator will correspond to an integer number designed to rank the fund on a scale from 1 to 7, according to increasing volatility.

There are seven ESMA risk indicators as outlined in Table 1 below.

Table 1

Annualised volatility	ESMA Risk Rating
< 0.5%	1
0.5% but less than 2.0%	2
2.0% but less than 5.0%	3
5.0% but less than 10.0%	4
10.0% but less than 15.0%	5
15.0% but less than 25.0%	6
> 25%	7

What is the PRIIPs Summary Risk Indicator (SRI)?

Leaving aside liquidity risks for a moment, the PRIIPs Summary Risk Indicator ("SRI") is an aggregation of two separately calculated risk indicators, namely, the market risk measure ("MRM") and the credit risk measure ("CRM").

MRM

None of Friends First's products are derivatives and investors cannot lose more than the amount they invested.

All of Friends First's PRIIP products: (i) depend only on market observable prices or levels and meet the various minimum data requirements either directly or via a representative benchmark; and (ii) based on a consideration of the pay-off profiles of their investment strategies, fall into either PRIIPs Category 2 or PRIIPs Category 3 for MRM purposes.

Put simply, Category 2 products provide a return that is linearly related to the underlying assets while Category 3 products provide a return that is not linearly related to the underlying assets.

The calculation method for MRM purposes determines a volatility figure for the PRIIP and based on that figure and the frequency of the pricing data, the MRM for the PRIIP is determined.

There are seven MRM classes for Category 2 and Category 3 products as outlined in Table 2 below.

Table 2

Annualised volatility determined for the PRIIP	MRM Class
< 0.5%	1
0.5% but less than 5.0%	2
5.0% but less than 12.0%	3
12.0% but less than 20.0%	4
20.0% but less than 30.0%	5
30.0% but less than 80.0%	6
> 80%	7

Credit Risk Measure ("CRM")

The credit risk measure ("CRM"), aims to capture the probability of default of entities related to the PRIIP and its impact on the value of investors' return. Currently, Friends First has determined that the CRM class of almost all of its PRIIPs is 2.

Summary Risk Indicator ("SRI")

A matrix of CRM class and MRM class is used to aggregate the MRM and the CRM. For PRIIPs with a CRM class of 2, the MRM is not adjusted and the SRI is the same as the MRM class.

The summary risk indicator shown in the key investor information document is the aggregation of the MRM and CRM for the PRIIP and aims to reflect the risk of loss for the recommended holding period.

What are the contents of the Key Information Document?

There are 9 specific sections in a KID as follows:

Name of Section	Contents of Section
Purpose	Describes the purpose of the KID document
Product	Specific detail on the product, manufacturer and competent authority including a comprehension alert
What is this product?	Details on type, objectives, intended investor and benefits and costs
What are the risks & what could I get in return?	Description of the risk-reward profile including Summary Risk Indicator and performance scenarios
What happens if Friends First is unable to pay out?	Detail on any compensation scheme available in the event that Friends First is unable to pay
What are the costs?	Costs associated with the investment – see details over page
How long should I hold it and can I take money out early?	Detail on cooling off or cancellation period and holding period
How can I complain?	How and to whom can complaints be made
Other relevant information	Brief indication of any additional information documents, excluding marketing material

Can you explain the figures in the “Composition of costs” table in a fund KID?

To explain the figures in the “Composition of costs” table, let’s take two fund KIDs one for the Cash Fund and one for the Irish Commercial Property fund for the Conductor Investment Plan (Option C).

The figures in the “Composition of costs” table are derived from the returns in the moderate scenario over the recommended holding period of 7 years. The figures show the yearly reduction in return as a result of the different categories of costs over the recommended holding period.

It is important to note that funds with different returns over the recommended holding period will exhibit slightly different figures for similar costs such as the 1% premium levy. The higher the rate of investment return in the moderate scenario over the recommended holding period the higher the charge that will appear in the “Composition of costs” table.

If Friends First were to change the order in which it calculates the figures in the “Composition of costs” table the figures in the table would change somewhat. This is true even if there were no changes made to any of the other parameters of the product or the return of the fund in the moderate scenario over the 7 year holding period.

Approximate Explanation of the Figures in the Composition of Costs Table of a KID

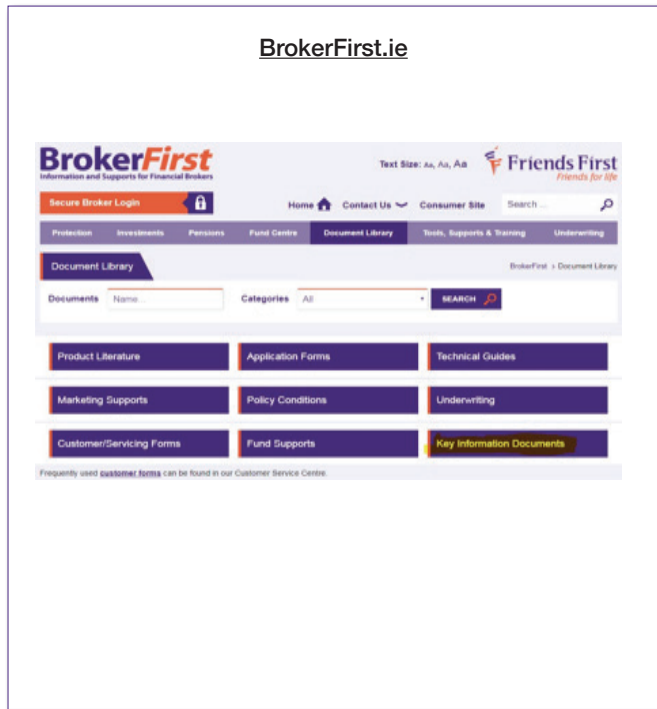
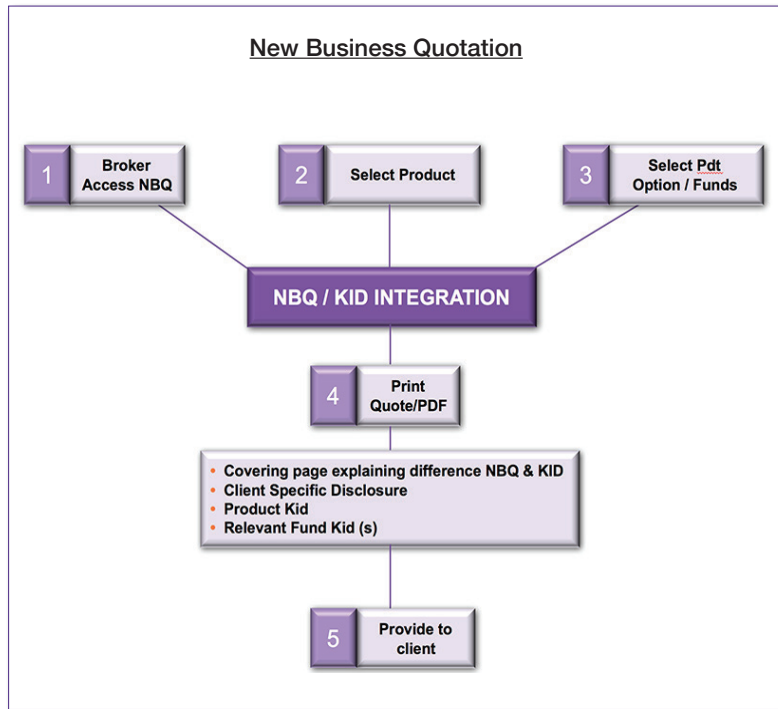
	Comment	Cash Fund KID	Irish Commercial Property Fund KID
Entry costs	This cost is the 1% premium levy spread over the 7 year holding period. As such, the figure shown in the KID ought to be approximately 1% divided by 7 or 0.14% per year.	The figure is exactly 0.14%	The figure is slightly higher than for the Cash fund due to the higher rate of return on the Irish Commercial Property fund relative to the Cash fund.
Exit costs	There are no exit costs on Conductor Investment Plan (Option C) where it is held for the recommended holding period of 7 years.	NOT APPLICABLE	NOT APPLICABLE
Portfolio transaction costs	This is the impact of the costs of buying and selling the underlying investments.	To two decimal places of percentage, these costs are zero for the Cash fund.	These costs are 0.56% or 56 basis points for the Irish Commercial Property fund.
Other ongoing costs	For the Conductor Investment Plan (Option C), other ongoing costs are composed of: an annual management fee of 0.75%, an additional plan management charge of 0.25% per year, and allowance is made for the cost of the MAXIMUM trail commission of 0.75% of assets per year.	At 1.74%, this figure is very close to the 1.75% estimate that we set out in the cell to the left.	At 2.65%, this figure is higher than for the Cash fund due to additional ongoing costs such as rent collection charges and legal fees associated with operating a property portfolio. These additional ongoing costs contribute approximately 0.6% per year to the 2.65%. The remaining difference is accounted for by method of calculating the other ongoing costs.
Performance fees	There are no performance fees on either of these funds.	NOT APPLICABLE	NOT APPLICABLE
Carried interests	Currently, there are no carried interests on any of the Friends First range of funds.	NOT APPLICABLE	NOT APPLICABLE

How often are the figures in the performance scenario tables updated?

Currently, PRIIPs KID documents are updated on a quarterly basis.

How have Friends First complied with the new regulations?

Friends First will be fully compliant with the new regulation from the 1st January 2018. Key Information Documents will be available automatically at point of quotation through the New Business Quotation system and also will be published on our website.



How does a customer receive a KID for a Friends First product?

All the KIDs are available through the Customer Service Centre on friendsfirst.ie.

Policy conditions

Find the [policy conditions](#) for the current range of Friends First products.

Key information documents

Find the [key information documents](#) relevant to the Friends First products.

Have proposal forms changed as a result of the PRIIPs regulation?

Yes a new declaration has been included which must be signed by the client.

PART F: KEY INFORMATION DOCUMENT	
I/We confirm that I/We have been provided with the Key Information Document(s) (KIDs) relevant to my chosen product and investment funds	
Signature of Policyholder <input checked="" type="checkbox"/>	Date <input checked="" type="checkbox"/>
Signature of Policyholder <input checked="" type="checkbox"/>	Date <input checked="" type="checkbox"/>

How many KID documents will be provided to a potential client?

Each potential client must be given a Product KID in addition to a Fund KID for each fund selected. For example, if a client selects the Conductor Investment Bond investing in Irish Commercial Property and Magnet Stable (2 funds) they will receive 3 separate KID documents.

What are Friends First's obligations?

The regulation specifies that a Key Information Document must be produced by the product manufacturer.

What are a Financial Brokers obligations?

The regulation specifies that a Key Information Document must be provided to retail investors by the person advising on or selling the product before the consumer is bound by the contract.

Will Friends First be sending the KIDs at policy issue?

No the KIDs are a pre-sale document and must be provided to the client before they are bound by a contract.

What other information is available?

There are a number of additional documents on the above page which contain more information including a comparison of the Key Information Document and Personal Illustration and overview of ESMA Risk Rating versus the SRI Risk Rating.

