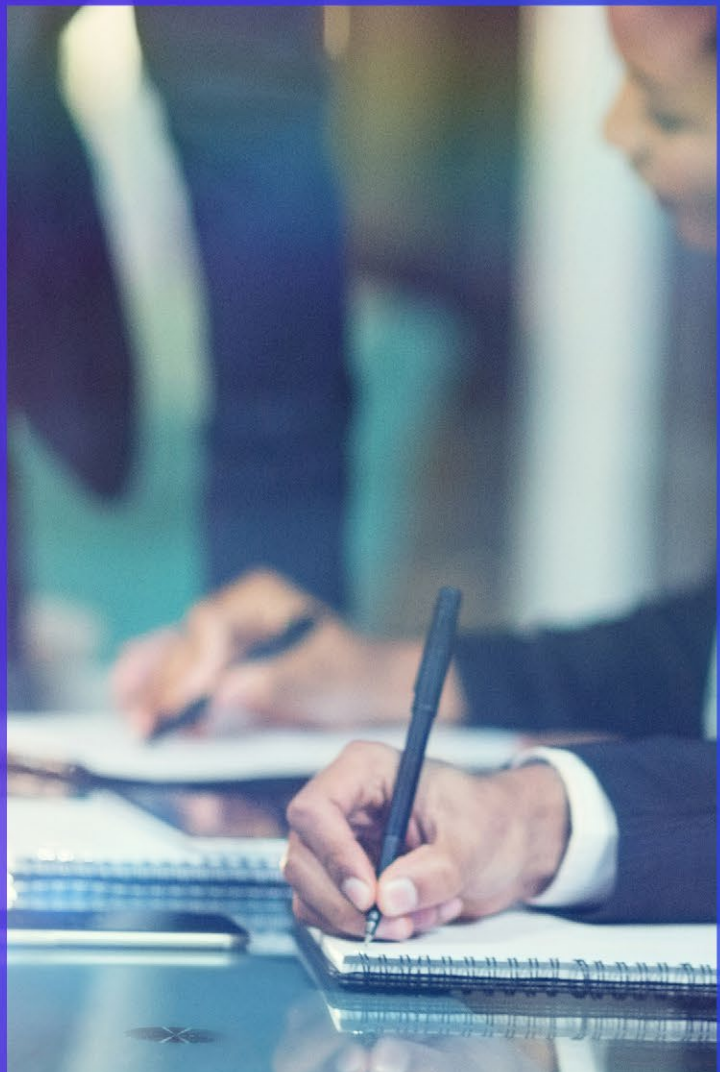




MiFID Structured Retail Product Review



KPMG Ireland

April 2023

Background:

Last year, we published [our insights](#) on the Central Bank of Ireland's (CBI) [Dear CEO](#) letter ('the SRP Letter') to MiFID investment firms outlining its findings from a series of targeted reviews of Structured Retail Products (SRPs). In March 2023, the CBI issued a further [Dear CEO](#) letter supplementing the April 2022 letter which aims to provide additional supervisory clarification to firms on how to meet the expectations set out in the SRP Letter and comply with the relevant MiFID II investor protection requirements.

Summary of Guidance

Following further engagement with firms and observation of marketing practices since the issuance of the SRP letter, the CBI is providing clarity on two important information disclosure items in order to promote consistency in interpretation and application:

01. Decrement Index
02. Presentation of back-testing



01. Decrement Index

The April 2022 SRP letter requires Firms using a decrement index to include a specific warning in a prominent position in its marketing communications, and to fully explain the feature in its product documentation. The supplementary Dear CEO letter now provides examples of warnings and gives further guidance on how firms should interpret these requirements:

- Prominent warnings should be included both on the front cover of marketing materials or brochure as well as on the page where the index is described, in a separate text box to improve customer visibility.
- Firms should use one or more example scenarios to illustrate how fixed dividend deductions being higher than actual dividends paid can cause a 'drag' on performance in a stable market. Scenarios should illustrate the cumulative effect of this drag over the product lifecycle, and should be based on the most recently available data.
- Firms should also be cognisant that where fixed dividend deductions are in the form of a fixed point value (as opposed to a %), this drag on performance will be accelerated where the index falls below its initial level and a sustained fall in markets will accelerate the decline in the value of the index. This should be clearly reflected in the firm's example scenarios.



02. Presentation of Back-Testing

The April 2022 SRP letter highlighted the importance of Firms not downplaying or masking the risk of capital loss in any way through their presentation of past performance information, noting that past performance representations that only capture periods of positive client outcomes may not reflect the true likelihood of future capital loss.

- The supplementary Dear CEO now adds that in 'capital at risk' SRPs, Firms whose back-testing simulations present overwhelmingly positive outcomes and illustrate minimal instances of capital losses are at risk of misleading investors.
- The CBI cited examples of simulations they have viewed that used daily hypothetical launch dates of products, resulting in thousands of positive simulations with zero or minimal examples of capital loss, given the relatively positive market conditions in recent years. This can present an overwhelmingly positive outlook to investors and diminish their perception of the risk of capital loss.
- Therefore, while Firms may continue to illustrate asset performance over an appropriate period, where that period shows displays predominantly positive outcomes and shows little or no cases of capital loss, Firms should avoid presenting a large number of overlapping simulations.

Contact us

Our team of Risk & Regulatory experts have extensive experience in helping our clients to translate regulatory expectations into practical, operational and compliant controls and processes that protect our clients and their investors. We can assist with product governance, target market assessment frameworks, distribution and MiFID sales processes appropriate to the nature, scale and complexity of your business. Feel free to reach out to our team or to your usual KPMG contacts, we would be delighted to discuss how this guidance impacts you.



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