

SOURCEBOOK

DISC Product Disclosure sourcebook

Table of Contents

DISC 1 Application

DISC 1.1 Purpose

DISC 1.2 General application

DISC 2 Scope rules under article 4A of the PRIIPs Regulation

DISC 2.1 Interpretation

DISC 2.2 Scope rules

DISC 2.3 Guidance on when a PRIIP is not ‘made available’ to a retail investor

DISC TP 1 Transitional provisions

DISC TP 1 Transitional provisions

CHAPTER

DISC 1 Application

Section : DISC 1.1 Purpose

DISC 1.1.1

G

(1) The *PRIIPs Regulation* lays down uniform rules on the format and content of the *key information document* to be drawn up by *PRIIP* manufacturers and on the provision of the *key information document* to retail investors by *PRIIP* manufacturers and those selling or advising on *PRIIPs*.

(2) The *key information document* introduces a common standard for setting out information to help retail investors understand and compare the main features, risks, potential rewards, and costs of investing in a *PRIIP*, thus supporting informed investment decisions by *consumers* in the retail market.

(3) The detailed requirements concerning the content and presentation of the *key information document* are set out in the *PRIIPs technical standards*.

DISC 1.1.1

G

(1) The *PRIIPs Regulation* lays down uniform rules on the format and content of the *key information document* to be drawn up by *PRIIP* manufacturers and on the provision of the *key information document* to retail investors by *PRIIP* manufacturers and those selling or advising on *PRIIPs*.

(2) The *key information document* introduces a common standard for setting out information to help retail investors understand and compare the main features, risks, potential rewards, and costs of investing in a *PRIIP*, thus supporting informed investment decisions by *consumers* in the retail market.

(3) The detailed requirements concerning the content and presentation of the *key information document* are set out in the *PRIIPs technical standards*.

DISC 1.1.2

G

Chapter 2 of this sourcebook sets out *rules* made by the *FCA* under article 4A of the *PRIIPs Regulation* (as amended by section 38 of the Financial Services Act 2021) which are intended to address areas of uncertainty concerning whether certain products, or categories of products, fall within the definition of a *PRIIP* for the purposes of the *PRIIPs Regulation*.

DISC 1.1.2

G

Chapter 2 of this sourcebook sets out *rules* made by the *FCA* under article 4A of the *PRIIPs Regulation* (as amended by section 38 of the Financial Services Act 2021) which are intended to address areas of uncertainty concerning whether certain products, or categories of products, fall within the definition of a *PRIIP* for the purposes of the *PRIIPs Regulation*.

Section : DISC 1.2 General application

DISC 1.2.1	R	The <i>rules</i> and <i>guidance</i> in Chapter 2 apply to all <i>persons</i> who are subject to obligations under the <i>PRIIPs Regulation</i> , but they do not apply in relation to the activities of <i>Gibraltar-based firms</i> .
DISC 1.2.1	R	The <i>rules</i> and <i>guidance</i> in Chapter 2 apply to all <i>persons</i> who are subject to obligations under the <i>PRIIPs Regulation</i> , but they do not apply in relation to the activities of <i>Gibraltar-based firms</i> .
DISC 1.2.2	G	The <i>PRIIPs technical standards</i> also apply to all <i>persons</i> who are subject to obligations under the <i>PRIIPs Regulation</i> . The <i>PRIIPs technical standards</i> apply to <i>Gibraltar-based firms</i> subject to Regulation 11 of the Gibraltar (Miscellaneous Amendments) (EU Exit) Regulations 2019 (SI 2019/680).
DISC 1.2.2	G	The <i>PRIIPs technical standards</i> also apply to all <i>persons</i> who are subject to obligations under the <i>PRIIPs Regulation</i> . The <i>PRIIPs technical standards</i> apply to <i>Gibraltar-based firms</i> subject to Regulation 11 of the Gibraltar (Miscellaneous Amendments) (EU Exit) Regulations 2019 (SI 2019/680).
DISC 1.2.3	G	<i>COBS 13.1</i> and <i>COLL 4.7</i> provide <i>guidance</i> relating to the application of the <i>PRIIPs Regulation</i> to <i>funds</i> .
DISC 1.2.3	G	<i>COBS 13.1</i> and <i>COLL 4.7</i> provide <i>guidance</i> relating to the application of the <i>PRIIPs Regulation</i> to <i>funds</i> .
DISC 1.2.4	G	<i>COLL 4.7</i> sets out <i>rules</i> and <i>guidance</i> on the <i>key investor information</i> and marketing communications as applicable to an <i>ICVC</i> , an <i>authorised fund manager</i> of an <i>AUT</i> , <i>ACS</i> or <i>ICVC</i> , and any other <i>director</i> of an <i>ICVC</i> where, in each case, the <i>AUT</i> , <i>ACS</i> or <i>ICVC</i> is: <ul style="list-style-type: none"> (1) a <i>UCITS scheme</i>; or (2) a <i>KII-compliant NURS</i>.
DISC 1.2.4	G	<i>COLL 4.7</i> sets out <i>rules</i> and <i>guidance</i> on the <i>key investor information</i> and marketing communications as applicable to an <i>ICVC</i> , an <i>authorised fund manager</i> of an <i>AUT</i> , <i>ACS</i> or <i>ICVC</i> , and any other <i>director</i> of an <i>ICVC</i> where, in each case, the <i>AUT</i> , <i>ACS</i> or <i>ICVC</i> is: <ul style="list-style-type: none"> (1) a <i>UCITS scheme</i>; or (2) a <i>KII-compliant NURS</i>.

CHAPTER

DISC 2 Scope rules under article 4A of the PRIIPs Regulation

Section : DISC 2.1 Interpretation

DISC 2.1.1

R

(1) As set out in more detail in article 4(1) of the *PRIIPs Regulation*, a packaged retail investment product or 'PRIP' means an investment, including instruments issued by special purpose vehicles, where, regardless of the legal form of the investment, the amount repayable to the retail investor is subject to fluctuations because of exposure to reference values or to the performance of one or more assets which are not directly purchased by the retail investor.

(2) The PRIP definition in the *PRIIPs Regulation* should be read together with the rules in this Chapter, which supplement article 4.

DISC 2.1.1

R

(1) As set out in more detail in article 4(1) of the *PRIIPs Regulation*, a packaged retail investment product or 'PRIP' means an investment, including instruments issued by special purpose vehicles, where, regardless of the legal form of the investment, the amount repayable to the retail investor is subject to fluctuations because of exposure to reference values or to the performance of one or more assets which are not directly purchased by the retail investor.

(2) The PRIP definition in the *PRIIPs Regulation* should be read together with the rules in this Chapter, which supplement article 4.

DISC 2.1.2

G

A *PRIIP* is defined in article 4(3) of the *PRIIPs Regulation* as a product that is a PRIP and/or an insurance-based investment product.

DISC 2.1.2

G

A *PRIIP* is defined in article 4(3) of the *PRIIPs Regulation* as a product that is a PRIP and/or an insurance-based investment product.

Section : DISC 2.2 Scope rules

General distinction between PRIP and non-PRIP debt securities

DISC 2.2.1

R

- (1) A *debt security* is not a PRIP if it meets the following criteria:
- (a) it does not fall within *DISC 2.2.2R*;
 - (b) the *issuer's* default risk is wholly or predominantly determined by the economic performance of the commercial or industrial activities of the *issuer* (or, where the *debt security* is guaranteed by a *group person*, that *person*); and
 - (c) the terms of the *debt security* do not impose any modification, structuring, or conditionality on the *issuer's* obligation to pay interest or repay the principal save for the effect of any feature listed under *DISC 2.2.4R*.
- (2) For the purposes of (1)(b), lending, investment, and any other financial sector activities are not commercial or industrial activities.

DISC 2.2.1

R

- (1) A *debt security* is not a PRIP if it meets the following criteria:
- (a) it does not fall within *DISC 2.2.2R*;
 - (b) the *issuer's* default risk is wholly or predominantly determined by the economic performance of the commercial or industrial activities of the *issuer* (or, where the *debt security* is guaranteed by a *group person*, that *person*); and
 - (c) the terms of the *debt security* do not impose any modification, structuring, or conditionality on the *issuer's* obligation to pay interest or repay the principal save for the effect of any feature listed under *DISC 2.2.4R*.
- (2) For the purposes of (1)(b), lending, investment, and any other financial sector activities are not commercial or industrial activities.

DISC 2.2.2

R

- (1) A *debt security* is a PRIP where the level of interest payable, any conditionality of principal repayment, or the *issuer's* default risk, is linked to or materially dependent on the following, whether or not modified by a pre-determined formula:
- (a) fluctuations in reference indices or benchmarks relating to investment assets or a class of investment assets, for example a stock market index;
 - (b) the value or performance of reference investment assets, such as a basket of *shares* or specified *commodities*; or
 - (c) the value or performance of *investments* held by the *issuer* (or by a *person* connected to the *issuer*).
- (2) For avoidance of doubt, the following are excluded from (1)(a):
- (a) the Bank of England official Bank Rate; and
 - (b) any benchmarks or indices tracking the rate of inflation, money market interest rates, or other indicators pertaining to the performance of the general economy.

DISC 2.2.2

R

(1) A *debt security* is a PRIP where the level of interest payable, any conditionality of principal repayment, or the *issuer's* default risk, is linked to or materially dependent on the following, whether or not modified by a pre-determined formula:

- (a) fluctuations in reference indices or benchmarks relating to investment assets or a class of investment assets, for example a stock market index;
- (b) the value or performance of reference investment assets, such as a basket of *shares* or specified *commodities*; or
- (c) the value or performance of *investments* held by the *issuer* (or by a *person* connected to the *issuer*).

(2) For avoidance of doubt, the following are excluded from (1)(a):

- (a) the Bank of England official Bank Rate; and
- (b) any benchmarks or indices tracking the rate of inflation, money market interest rates, or other indicators pertaining to the performance of the general economy.

DISC 2.2.3

R

In *DISC 2.2.2R(1)(c)*:

- (1) the *investments* include, for example, *derivatives*, real estate holdings, a pool of receivables, or a portfolio of *securities*; and
- (2) a *person* is connected to the *issuer* if it is a member of the same *group* as the *issuer*, has a relevant business relationship with the *issuer*, or otherwise does not have an arm's-length relationship with the *issuer*.

DISC 2.2.3

R

In *DISC 2.2.2R(1)(c)*:

- (1) the *investments* include, for example, *derivatives*, real estate holdings, a pool of receivables, or a portfolio of *securities*; and
- (2) a *person* is connected to the *issuer* if it is a member of the same *group* as the *issuer*, has a relevant business relationship with the *issuer*, or otherwise does not have an arm's-length relationship with the *issuer*.

Neutral features

DISC 2.2.4

R

The following features do not cause a *debt security* to meet the criteria for a PRIP in article 4(1) of the *PRIPs Regulation*:

- (1) a fixed *coupon* rate, including where:
 - (a) a set *coupon* rate applies until maturity, including a nil or zero rate; and
 - (b) the *coupon* rate is subject to pre-defined changes at fixed times prior to maturity – that is, a stepped *coupon*;
- (2) a floating or variable *coupon*, provided that:
 - (a) the interest payable is determined by an index or benchmark of the kind described by *DISC 2.2.2R(2)*, with or without a spread reflecting the credit risk of the *issuer*; and
 - (b) the interest payable is not subject to any additional modification or structuring such as, for example, a cap, or a floor other than zero;

- (3) a put *option* giving the investor a discretion to demand early repayment of the *debt security* on pre-agreed terms, or giving the investor the choice to convert or exchange their *debt security* into one or more *shares* of the same *issuer* at a pre-determined price;
- (4) a call *option* allowing the *issuer* to redeem a *debt security* early at a price higher than or equal to par, where:
 - (a) the *option* becomes exercisable due to changes in the financial health, market confidence in, or control of, the *issuer*, or general economic conditions, but not including *options* exercisable in response to fluctuations, price movements or performance of an index, benchmark, specified asset or underlying asset falling within *DISC 2.2.2R(1)*; and
 - (b) the mechanism to calculate the net present value of the future *coupon* payments is made clear to the investor in the terms of the *debt security*;
- (5) a perpetual or indefinite term; or
- (6) the *debt security's* subordination in the creditor hierarchy in the event of the *issuer's* insolvency.

DISC 2.2.4

R

The following features do not cause a *debt security* to meet the criteria for a PRIIP in article 4(1) of the *PRIPs Regulation*:

- (1) a fixed *coupon* rate, including where:
 - (a) a set *coupon* rate applies until maturity, including a nil or zero rate; and
 - (b) the *coupon* rate is subject to pre-defined changes at fixed times prior to maturity – that is, a stepped *coupon*;
- (2) a floating or variable *coupon*, provided that:
 - (a) the interest payable is determined by an index or benchmark of the kind described by *DISC 2.2.2R(2)*, with or without a spread reflecting the credit risk of the *issuer*; and
 - (b) the interest payable is not subject to any additional modification or structuring such as, for example, a cap, or a floor other than zero;
- (3) a put *option* giving the investor a discretion to demand early repayment of the *debt security* on pre-agreed terms, or giving the investor the choice to convert or exchange their *debt security* into one or more *shares* of the same *issuer* at a pre-determined price;
- (4) a call *option* allowing the *issuer* to redeem a *debt security* early at a price higher than or equal to par, where:
 - (a) the *option* becomes exercisable due to changes in the financial health, market confidence in, or control of, the *issuer*, or general economic conditions, but not including *options* exercisable in response to fluctuations, price movements or performance of an index, benchmark, specified asset or underlying asset falling within *DISC 2.2.2R(1)*; and
 - (b) the mechanism to calculate the net present value of the future *coupon* payments is made clear to the investor in the terms of the *debt security*;

(5) a perpetual or indefinite term; or

(6) the *debt security's* subordination in the creditor hierarchy in the event of the *issuer's* insolvency.

Legacy products traded on secondary markets

DISC 2.2.5

R

A *financial instrument* issued prior to 1 January 2018 is not a *PRIIP*.

DISC 2.2.5

R

A *financial instrument* issued prior to 1 January 2018 is not a *PRIIP*.

Section : DISC 2.3 Guidance on when a PRIIP is not ‘made available’ to a retail investor

DISC 2.3.1

G

In the *FCA’s* view, and for the purposes of the *PRIPs Regulation*, a *financial instrument* is not ‘made available’ to a retail investor where the following conditions are met:

(1) the marketing materials for the *financial instrument* (including the *prospectus*, if there is one) feature prominent and clear disclosures to the effect that the *financial instrument*:

(a) is being offered only to investors eligible for categorisation as *professional clients* or *eligible counterparties* under the *FCA’s rules*; and

(b) is not intended for retail investors;

(2) the *issuer* of the *financial instrument* or, in relation to secondary market offers, the distributor, has taken reasonable steps to ensure the offer and any associated promotional communications are directed only to investors eligible for categorisation as *professional clients* or *eligible counterparties*; and

(3) a denomination or minimum investment of £100,000 applies to the *financial instrument*, or equivalent amount for a *financial instrument* denominated in another currency, where the equivalent amount is calculated not more than 3 *business days* before the date of issue of the *financial instrument*.

DISC 2.3.1

G

In the *FCA’s* view, and for the purposes of the *PRIPs Regulation*, a *financial instrument* is not ‘made available’ to a retail investor where the following conditions are met:

(1) the marketing materials for the *financial instrument* (including the *prospectus*, if there is one) feature prominent and clear disclosures to the effect that the *financial instrument*:

(a) is being offered only to investors eligible for categorisation as *professional clients* or *eligible counterparties* under the *FCA’s rules*; and

(b) is not intended for retail investors;

(2) the *issuer* of the *financial instrument* or, in relation to secondary market offers, the distributor, has taken reasonable steps to ensure the offer and any associated promotional communications are directed only to investors eligible for categorisation as *professional clients* or *eligible counterparties*; and

(3) a denomination or minimum investment of £100,000 applies to the *financial instrument*, or equivalent amount for a *financial instrument* denominated in another currency, where the equivalent amount is calculated not more than 3 *business days* before the date of issue of the *financial instrument*.

CHAPTER

DISC TP 1 Transitional provisions

Section : DISC TP 1 Transitional provisions

DISC TP 1

TP 1.1 Transitional Provisions table

(1)	(2) Material to which transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
1.1	DISC	R and G	A <i>firm</i> may choose not to comply with DISC	From 25 March 2022 to 31 December 2022	25 March 2022