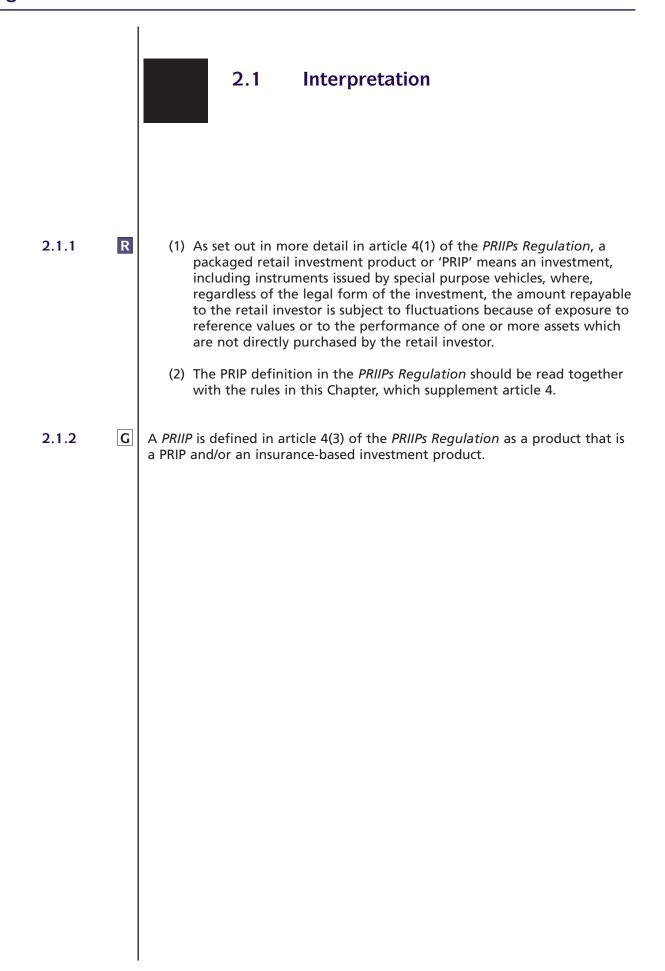
Product Disclosure sourcebook

Chapter 2

Scope rules under article 4A of the PRIIPs Regulation



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

2.2 **Scope rules** General distinction between PRIP and non-PRIP debt securities 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. 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. 2.2.3 R In DISC 2.2.2R(1)(c): the *investments* include, for example, *derivatives*, real estate holdings, a pool of receivables, or a portfolio of securities; and

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2.2.4

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

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

2.2.5

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

