

Chapter 10A

Appropriateness (for non-advised services) (MiFID and insurance-based investment products provisions)

10A.4 Assessing appropriateness: when it need not be done due to type of investment

10A.4.1 R

- (1) A *firm* is not required to ask its *client* to provide information or assess appropriateness if either (a) or (aa), and both (b) and (c), are met:
- (a) the service:
 - (i) only consists of execution or reception and transmission of *client* orders, with or without *ancillary services*, excluding *ancillary service* (2) in section B of Annex I to *MiFID* (granting of credits or loans), where the relevant credits or loans do not comprise existing credit limits of loans, current accounts and overdraft facilities of *clients*;
 - (ii) relates to particular *financial instruments* (see paragraph (2)); and
 - (iii) is provided at the initiative of the *client*; or
 - (aa) the *insurance distribution* activity:
 - (i) relates to particular types of *insurance-based investment products* (see (2A)); and
 - (ii) is carried out at the initiative of the *client*; and
 - (b) the *client* has been clearly informed (whether in a standardised format or not) that, in the provision of the service or *insurance distribution* activity, the *firm* is not required to assess the appropriateness of the *financial instrument* or service or *insurance-based investment product* provided or offered and that therefore the *client* does not benefit from the protection of the *rules* on assessing appropriateness; and
 - (c) the *firm* complies with its obligations in relation to conflicts of interest.
- (2) The *financial instruments* referred to in (1)(a)(ii) are any of the following:
- (a) shares in companies admitted to trading on:
 - (i) a *regulated market* or an *EU regulated market*; or
 - (ii) an equivalent third country market; or
 - (iii) an *MTF*,
except shares that embed a derivative and *units* in a collective investment undertaking that is not a *UCITS*; or
 - (b) bonds or other forms of securitised debt admitted to trading on:

- (i) a *regulated market* or an *EU regulated market*; or
- (ii) an equivalent third country market; or
- (iii) an *MTF*,
except those that embed a derivative or incorporate a structure
which makes it difficult for the *client* to understand the risk
involved; or
- (c) *money-market instruments*, excluding those that embed a
derivative or incorporate a structure which makes it difficult for
the *client* to understand the risk involved; or
- (d) shares or *units* in a *UCITS*, excluding structured *UCITS* as referred
to in the second subparagraph of article 36(1) of the *KII
Regulation*; or
- (e) *structured deposits*, excluding those that incorporate a structure
which makes it difficult for the *client* to understand the risk of
return or the cost of exiting the product before term; or
- (f) other non-complex *financial instruments*.

(2A) The *insurance-based investment products* referred to in (1)(aa) are:

- (a) *insurance-based investment products* which only provide
investment exposure to *financial instruments* referred to in (2)
and do not incorporate a structure which makes it difficult for
the *client* to understand the risks involved; or
- (b) other non-complex *insurance-based investment products*.

(3) For the purposes of this *rule*, a third country market is considered to
be equivalent to a *regulated market* if it is a market in relation to
which the Treasury has adopted an affirmative equivalence decision in
accordance with the requirements and procedure in paragraph 8 of
Part 1 of Schedule 3 to *MiFIR*.

[**Note:** article 25(4) of *MiFID*, article 30(3) of the *IDD*]

[**Note:** *ESMA* has published guidelines which specify criteria for the
assessment of (i) debt instruments incorporating a structure which makes it
difficult for the client to understand the risk involved, and (ii) structured
deposits incorporating a structure which makes it difficult for the client to
understand the risk of return or the cost of exiting the product before term
(see *ESMA/2015/1787* (EN), 4 February 2016).]

[**Note:** *EIOPA* has published guidelines under the *IDD* which specify criteria
for the assessment of insurance-based investment products that incorporate
a structure which makes it difficult for the customer to understand the risk
involved (see *EIOPA-17/651*, 4 October 2017).]

Other non-complex financial instruments

10A.4.2 UK

57 A financial instrument which is not explicitly specified in
[■ **COBS 10A.4.1R(2)**] shall be considered as non-complex for the purposes of
paragraph (2)(f) of that rule if it satisfies the following criteria:

- (a) it does not fall within Article 2(1)(24)(c) of Regulation (EU) No
600/2014 or paragraphs 4 to 11 of Part 1 of Schedule 2 to the
Regulated Activities Order;

- (b) there are frequent opportunities to dispose of, redeem, or otherwise realise that instrument at prices that are publicly available to market participants and that are either market prices or prices made available, or validated, by valuation systems independent of the issuer;
- (c) it does not involve any actual or potential liability for the client that exceeds the cost of acquiring the instrument;
- (d) it does not incorporate a clause, condition or trigger that could fundamentally alter the nature or risk of the investment or pay out profile, such as investments that incorporate a right to convert the instrument into a different investment;
- (e) it does not include any explicit or implicit exit charges that have the effect of making the investment illiquid even though there are technically frequent opportunities to dispose of, redeem or otherwise realise it;
- (f) adequately comprehensive information on its characteristics is publicly available and is likely to be readily understood so as to enable the average retail client to make an informed judgment as to whether to enter into a transaction in that instrument.

[Note: article 57 of the *MiFID Org Regulation*]

10A.4.2A G

As explained in ■ COBS 4.12A.33G, ■ COBS 10A.4 is not relevant for the purpose of complying with the *rules* requiring an appropriateness assessment under ■ COBS 4.12A in relation to *restricted mass market investments*.

Other non-complex insurance-based investment products

10A.4.3 R

An *insurance-based investment product* may be considered as non-complex for the purposes of ■ COBS 10A.4.1R where it satisfies all of the following criteria:

- (1) it includes a contractually guaranteed minimum maturity value which is at least the amount paid by the *client* after deduction of legitimate costs;
- (2) it does not incorporate a clause, condition or trigger that allows the insurance undertaking to materially alter the nature, risk, or pay-out profile of the *insurance-based investment product*;
- (3) it provides options to surrender or otherwise realise the *insurance-based investment product* at a value that is available to the *client*;
- (4) it does not include any explicit or implicit charges which have the effect that, even though there are technically options to surrender or otherwise realise *insurance-based investment product*, doing so may

cause unreasonable detriment to the *client* because the charges are disproportionate to the cost to the insurance undertaking;

- (5) it does not in any other way incorporate a structure which makes it difficult for the *client* to understand the risks involved.

[**Note:** article 16 of the *IDD Regulation*]