

# Product Intervention and Product Governance Sourcebook (PROD)



# Who does it affect?

Pretty much everyone. Providers (who are referred to as ‘Manufacturers’) and advisers (who are referred to as ‘distributors’) involved in any sort of investment product or service need to do PROD.

# What is the point?

To improve firms’ product oversight and governance process, systems and controls to ensure products:

- ▶ meet the needs of one or more identifiable target markets
- ▶ are sold to clients in the target markets by appropriate distribution channels
- ▶ deliver appropriate client outcomes

# Is it going to be a hassle?

Doesn’t need to be. The process could be relatively simple for simple financial instruments that are compatible with the needs and characteristics of the mass retail market.

# Is it optional?

No – it is primarily made up of rules. Rules are not optional. Helpfully, it does also include guidance, to help you understand a ‘best practice’ approach.

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## Manufacturers MUST

- ▶ specify an identified target market of end clients within the relevant category of clients for whose needs, characteristics and objectives the financial instrument IS AND IS NOT compatible;
- ▶ ensure that all relevant risks to the identified target market are assessed;
- ▶ determine the needs and characteristics of the clients for whom the product is compatible;
- ▶ ensure that the intended distribution strategy is consistent with the identified target market (scenario analysis to assess the risks of poor outcomes for end clients posed by the financial instrument and in which circumstances those poor outcomes may occur);
- ▶ consider the charging structure proposed for each financial instrument;
- ▶ consider whether the financial instrument may represent a threat to the orderly functioning, or to the stability, of financial markets before deciding to proceed with the launch of the financial instrument;
- ▶ make available to any distributor of that financial instrument all appropriate information on the financial instrument, all appropriate information on the product approval process, the identified target market of the financial instrument, including information about the target market assessment undertaken, information about the appropriate channels for distribution of the financial instrument;
- ▶ review financial instruments at their own determined regular intervals to assess whether they function as intended and with regard to any event that could materially affect the potential risk to the identified target market, review financial instruments prior to any further issue or re-launch if they are aware of any event that could materially affect the potential risk to clients and identify crucial events that would affect the potential risk or return expectations of the financial instrument and take appropriate action;
- ▶ ensure that the design of each financial instrument, including its features, does not adversely affect end clients or lead to problems with market integrity by enabling the firm to mitigate and/or dispose of its own risks or exposure to the underlying assets of the product where the firm already holds the underlying assets on own account;
- ▶ ensure that their management bodies have effective control over their product governance process. Compliance reports to the management body must include information about the financial instruments that the firm has manufactured, including information on the distribution strategy. Manufacturers must make the compliance reports available to their competent authority on request;
- ▶ be monitored by the person allocated the compliance oversight function of a firm in order to detect any risk of failure by the manufacturer to comply with applicable provisions of PROD;
- ▶ possess the necessary expertise to understand the characteristics and risks of the financial instruments they intend to manufacture.

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## Distributors MUST

- ▶ understand the financial instruments it distributes to clients;
- ▶ assess the compatibility of the financial instruments with the needs of the clients to whom it distributes investment services, taking into account the manufacturer's identified target market of end clients;
- ▶ ensure that financial instruments are distributed only when this is in the best interests of the client;
- ▶ consider what impact the selection of a given manufacturer could have on the end client in terms of charges or the financial strength of the manufacturer, or possibly, where information is available to the distributor, how efficiently and reliably the manufacturer will deal with the distributor or end client at the point of sale (or subsequently, such as when queries/complaints arise, claims are made, or a financial instrument reaches maturity);
- ▶ obtain from MiFID manufacturers information to gain the necessary understanding and knowledge of the financial instruments they intend to distribute in order to ensure that the financial instruments will be distributed in accordance with the needs, characteristics and objectives of the target market;
- ▶ determine the target market for the respective financial instrument, even if the target market was not defined by the manufacturer;
- ▶ identify the target market and their distribution strategy using the information obtained from manufacturers; and information they have on their own clients;
- ▶ have in place adequate product governance arrangements to ensure that the financial instruments and investment services they intend to distribute are compatible with the needs, characteristics and objectives of the identified target market; and the intended distribution strategy is consistent with the identified target market;
- ▶ appropriately identify and assess the circumstances and needs of the clients they intend to focus on to ensure that their clients' interests are not compromised as a result of commercial or funding pressures;
- ▶ must identify any groups of end clients for whose needs, characteristics and objectives the financial instrument or investment service is not compatible;
- ▶ periodically review their product governance arrangements and must take appropriate actions where necessary to ensure they remain robust and fit for their purpose;
- ▶ have in place procedures and measures to ensure that when deciding the range of financial instruments and investment services to be distributed, and the target market, all applicable rules are complied with, including but not limited to disclosure, suitability, appropriateness, inducements and conflicts of interest;
- ▶ ensure development and periodic review of product governance arrangements must be monitored by the person allocated the compliance oversight function of a firm in order to detect any risk of failure by the distributor to comply with applicable provisions of PROD;
- ▶ possess the necessary expertise to understand the characteristics and risks of the financial instruments that the firm intends to distribute, the investment services provided by the firm and the needs, characteristics and objectives of the identified target market;
- ▶ have effective control over the firm's product governance process to determine the range of financial instruments the firm offers or recommends the investment services provided to the respective target markets;
- ▶ ensure compliance reports to the management body must include information about the financial instrument

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