

**EXPLANATORY MEMORANDUM TO  
THE CONSUMER COMPOSITE INVESTMENTS (DESIGNATED ACTIVITIES)  
REGULATIONS 2024**

**2024 No. [XXXX]**

**1. Introduction**

- 1.1 This explanatory memorandum has been prepared by HM Treasury and is laid before Parliament by Command of His Majesty.
- 1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

**2. Declaration**

- 2.1 Tulip Siddiq, the Economic Secretary to the Treasury and City Minister at His Majesty's Treasury confirms that this Explanatory Memorandum meets the required standard.
- 2.2 Tom Duggan, Deputy Director for Securities and Markets, at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

**3. Contact**

- 3.1 Brandon Thompson at HM Treasury, email: [retail.disclosure@hmtreasury.gov.uk](mailto:retail.disclosure@hmtreasury.gov.uk) can be contacted with any queries regarding the instrument.

**Part One: Explanation, and context, of the Instrument**

**4. Overview of the Instrument**

*What does the legislation do?*

- 4.1 When the UK left the EU, the body of EU legislation that applied directly in the UK at the point of exit was transferred onto the UK statute book by the European Union Withdrawal Act 2018. This is known as assimilated law.
- 4.2 The Financial Services and Markets Act 2023 (FMSA 2023) repeals assimilated law relating to financial services, subject to commencement. Assimilated law will be repealed and replaced with rules set by the independent financial services regulators, operating within a framework set by government and Parliament.
- 4.3 This instrument replaces assimilated law in relation to the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, establishing a new legislative framework for the regulation of Consumer Composite Investments (CCIs), formerly PRIIPs.
- 4.4 This instrument specifies activities relating to CCIs as designated activities for the purposes of the Financial Services and Markets Act 2000 and provides the Financial Conduct Authority (FCA) rule-making and certain supervision and enforcement powers to enable the FCA to set the regulatory provisions that apply to persons carrying out designated activities relating to CCIs. The instrument also makes transitional provisions and consequential amendments to other legislation to ensure the CCI regime remains operable.

- 4.5 With the FCA responsible for firm facing rules on retail disclosure, financial services firms and consumers will benefit from more agile, tailored rule-making that is bespoke to UK markets.

*Where does the legislation extend to, and apply?*

- 4.6 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales, Scotland and Northern Ireland.
- 4.7 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales, Scotland and Northern Ireland.

## **5. Policy Context**

*What is being done and why?*

- 5.1 The government is committed to commence the repeal, and replace, Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs Regulation).
- 5.2 The current PRIIPs regime was widely criticised for imposing prescriptive requirements – which are overly burdensome to comply with and do not improve consumer understanding – and leading to the presentation of misleading information to retail investors.
- 5.3 This SI replaces the PRIIPs regime, allowing the FCA to make rules to deliver a new UK retail disclosure regime. This instrument therefore replaces assimilated law relating to PRIIPs to create a new legislative framework for the regulation of CCIs, empowering the FCA to address the commonly recognised and widespread issues with the existing framework, many of which were raised by industry during the consultation process.

*What was the previous policy, how is this different?*

- 5.4 The PRIIPs Regulation came into force on 1 January 2018 and, following the UK's departure from the EU, was subsequently transferred into UK law by the European Union (Withdrawal Act) 2018. The PRIIPs Regulation was designed to provide greater transparency to retail investors by standardising disclosure (e.g. for costs, risks and performance) across a wide range of financial instruments to enable comparison between products across EU member states.
- 5.5 The current Regulation applies to manufacturers of, and persons advising on or selling PRIIPs. A 'PRIIP' is an investment product marketed to non-professional retail investors where the amount repayable is subject to fluctuation because of exposure to reference values, or to the performance of one or more assets which are not directly purchased by the retail investor.
- 5.6 The PRIIPs Regulation requires manufacturers to produce a "Key Information Document" (KID), a standardised disclosure document which sets out specified information including descriptions of the nature of the product, the expected performance, and potential risks and returns. It also requires persons advising on or selling PRIIPs to provide the KID to retail investors. Commission Delegated Regulation (EU) 2017/653 supplements the PRIIPs Regulation, setting out regulatory technical standards on the presentation, content, review and revision of the KID.
- 5.7 This instrument replaces assimilated law relating to PRIIPs with a model where the FCA sets the detailed rules that firms must adhere to, within a framework set by

government and Parliament. This instrument maintains an overarching regulatory framework to facilitate the regulation of designated activities relating to CCIs by the FCA. The instrument also establishes core definitions relevant to CCIs and gives the FCA broad powers to implement the new regime, including powers to make firm-facing rules which set requirements for the provision of disclosure to retail investors.

- 5.8 The CCI Regime will be more proportionate and tailored to UK markets than its predecessor, balancing burdens for UK businesses with the need to ensure retail investors receive appropriate disclosure to make informed investment decisions. HMT and FCA intend for the new regime to be less prescriptive than PRIIPs, providing flexibility for firms to tailor their disclosure to enhance retail investor understanding.
- 5.9 As part of this fundamental overhaul of UK retail disclosure, this instrument will also bring Undertakings for the Collective Investment in Transferable Securities (UCITS) funds into scope of the new regime. UCITS were previously exempt from providing the KID across the EU and instead provided modified disclosure specifically for UCITS. The government will continue this transitional arrangement until 31 December 2026 as the FCA finalises the replacement retail disclosure framework, which will apply to UCITS. UCITS funds may also choose to transition earlier to the new disclosure requirements under the CCI Regime, once FCA rules are in place.

## **6. Legislative and Legal Context**

### *How has the law changed?*

- 6.1 The assimilated law that concerns PRIIPs, and therefore CCIs, being replaced by this instrument is:
- Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs Regulation),
  - The Packaged Retail and Insurance-based Investment Products Regulations 2017,
  - Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents, and
  - Commission Delegated Regulation (EU) 2016/1904 of 14 July 2016 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council with regard to product intervention.
- 6.2 FSMA 2023 establishes a number of new legislative powers for the government to replace and amend assimilated law, where necessary.
- 6.3 This instrument exercises powers in Part 5A of FSMA 2000 – the Designated Activities Regime (DAR). The DAR was inserted into FSMA 2000 by FSMA 2023 in order to provide a proportionate framework for regulating activities related to financial markets, exchanges, instruments, products or investments, including those currently regulated through assimilated law. The FCA has powers for making rules related to each designated activity, as described further in this instrument. Any person

conducting a designated activity will be required to follow the rules and regulations related to it, except where specifically exempt.

6.4 This instrument uses the powers in Part 5A of FSMA 2000 to:

- Define key concepts including a Consumer Composite Investment (CCI) and retail investor to support interpretation of this instrument, tailoring definitions established in the PRIIPs Regulation to UK markets and law.
- Establish the regulatory perimeter of the new framework by defining the designated activities which will require firms to provide disclosure to UK retail investors, specifically: manufacturing, advising, offering and selling a CCI to a UK retail investor. Persons engaged in any of these activities, regardless of their authorisation status, will be in scope of FCA rules in respect of retail disclosure.
- Provide the FCA with rule-making powers to create tailored UK rules for retail disclosure without requiring FCA authorisation under the Regulated Activities Order (RAO).
- Provide the FCA with tailored supervision and enforcement powers, including the ability to exercise a power of direction under section 71O of FSMA 2000.
- Establish civil liability for breaches of FCA rules made under this instrument.

*Why was this approach taken to change the law?*

6.5 This is the only possible approach to make the necessary changes as current regulation is in statute which is repealed (subject to commencement) by FSMA 2023.

## 7. Consultation

*Summary of consultation outcome and methodology*

7.1 The government consulted on its proposal to repeal and replace the PRIIPs Regulation with a new UK retail disclosure framework in December 2022<sup>1</sup>. The consultation received broad support from industry, with the majority of respondents agreeing with the issues outlined regarding the PRIIPs Regulation and supporting the governments' proposals for a new regime which addresses these issues. The government's response was published in July 2023 confirming its intentions to move forward with proposals largely as consulted<sup>2</sup>.

7.2 The government published a draft Statutory Instrument and accompanying policy note on 22 November 2023 for technical comments.<sup>3</sup> Comments on the draft instrument were carefully considered by the Treasury and addressed in the final instrument where appropriate.

7.3 In preparing this instrument, HM Treasury has worked with the Financial Conduct Authority, the regulator responsible for making replacement rules under this new CCI regime. The FCA will consult on their proposed rules to be delivered under the powers provided in this instrument.

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<sup>1</sup> [https://assets.publishing.service.gov.uk/media/63bfe4f9d3bf7f6c27b46c7b/Consultation\\_PRIIPs.pdf](https://assets.publishing.service.gov.uk/media/63bfe4f9d3bf7f6c27b46c7b/Consultation_PRIIPs.pdf)

<sup>2</sup> [https://assets.publishing.service.gov.uk/media/64a82f15404eac0013763b58/UK\\_Retail\\_Disclosure\\_Consultation\\_Response.pdf](https://assets.publishing.service.gov.uk/media/64a82f15404eac0013763b58/UK_Retail_Disclosure_Consultation_Response.pdf)

<sup>3</sup> [https://assets.publishing.service.gov.uk/media/655b2e59d03a8d000d07fc04/20231117\\_Consumer\\_Composite\\_Investments\\_Designated\\_Activities\\_Regulations\\_Draft\\_6\\_v3.pdf](https://assets.publishing.service.gov.uk/media/655b2e59d03a8d000d07fc04/20231117_Consumer_Composite_Investments_Designated_Activities_Regulations_Draft_6_v3.pdf) and [https://assets.publishing.service.gov.uk/media/655ca4c2544aea0019fb31aa/UK\\_Retail\\_Disclosure\\_Framework\\_Policy\\_Note\\_8211\\_.pdf](https://assets.publishing.service.gov.uk/media/655ca4c2544aea0019fb31aa/UK_Retail_Disclosure_Framework_Policy_Note_8211_.pdf)

## **8. Applicable Guidance**

- 8.1 No guidance accompanies this instrument.

### **Part Two: Impact and the Better Regulation Framework**

## **9. Impact Assessment**

- 9.1 A de minimis Impact Assessment is published alongside the Explanatory Memorandum on the legislation.gov.uk website.

### *Impact on businesses, charities and voluntary bodies*

- 9.2 There is no, or no significant, impact on business, charities or voluntary bodies because the main impact of this instrument is related to familiarisation costs.
- 9.3 The legislation applies to all persons who engage in designated activities relating to CCIs, including small or micro businesses. This approach is appropriate to ensure the UK's regulatory framework for CCIs supports effective market function with appropriate protections for retail investors.
- 9.4 There is no, or no significant, impact on the public sector.

## **10. Monitoring and review**

### *What is the approach to monitoring and reviewing this legislation?*

- 10.1 The approach to monitoring this legislation is engagement with industry to understand its initial and ongoing impact. FSMA 2000 also requires the regulators to keep under review any rules they have made.
- 10.2 The instrument does not include a statutory review clause and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015. The Economic Secretary to the Treasury, Tulip Siddiq, has made the following statement:  
“It is not proportionate to include a review clause in this instrument because the estimated annual net direct cost to business is less than £10 million.”

### **Part Three: Statements and Matters of Particular Interest to Parliament**

#### **11. Matters of special interest to Parliament**

- 11.1 The majority of the enforcement and supervisory mechanisms for these Regulations are set out in the (draft) Financial Services and Markets Act 2000 (Designated Activities) (Supervision and Enforcement) Regulations 2024.

#### **12. European Convention on Human Rights**

- 12.1 The Economic Secretary to the Treasury and City Minister has made the following statement regarding Human Rights:

“In my view the provisions of The Consumer Composite Investments (Designated Activities) Regulations 2024 are compatible with the Convention rights.”.

#### **13. The Relevant European Union Acts**

- 13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”). It does however relate to the withdrawal of the United Kingdom from the European Union because it relates to the relates to the repeal, replacement, or amendment of assimilated law under FSMA 2023.