**MiFID II – Product Governance**
**Common Minimum Standard for the identification of a target market for securities**

**5 April 2017**

* This concept applies to products requiring a more detailed identification of the target market. The concept focuses on an individual product and disregards possible combinations of the product with other financial instruments. When a distributor advises on a product as part of portfolio consulting, they will not directly allocate the product to the target market identified by the manufacturer. The relevant target market will be taken into account in the course of the portfolio composition.

The concept represents a cross-institutional minimum standard for securities.
The **German Banking Industry Committee (GBIC)** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

The **Deutscher Derivate Verband e.V. (DDV)**, the German Derivatives Association, represents 15 issuers of structured products in Germany: BayernLB, BNP Paribas, Citi, Commerzbank, DekaBank, Deutsche Bank, DZ BANK, Goldman Sachs, Helaba, HSBC, HypoVereinsbank/UniCredit, LBBW, Société Générale, UBS and Vontobel. DDV’s members are among the most significant issuers of structured products in Germany, representing more than 90 per cent of the total market. The Association’s work is supported by 16 sponsoring members, which include the Stuttgart and Frankfurt am Main exchanges, direct banks, online brokers, financial portals and service providers.

The **German Investment Funds Association (BVI)** represents the interests of the German investment fund and asset management industry. Its 97 members manage assets of EUR 2.8 trillion in UCITS, AIFs and discretionary mandates. As such, BVI is committed to promoting a level playing field for all investors. BVI members manage, directly or indirectly, the investments for 50 million private clients in over 21 million households.
* As part of the product governance process and the definition of the target market, the manufacturer also identifies those investor groups for whom the product is not compatible with respect to fulfilling their investment needs (negative target market). The Client Category and the Investment Horizon are often regarded as relevant in this respect. Technically, the issuer can specify a negative target market for all fields.
Product Category

________ (Example: Bonus Certificate)*

* With the designation of the respective product category, the issuer makes a sufficiently granular classification of the product (based on an industry standard that is yet to be developed).
I. Distribution Strategy

**Distribution Channel***

<table>
<thead>
<tr>
<th>Execution only</th>
<th>Non-advised services</th>
<th>Investment advice</th>
</tr>
</thead>
</table>

* Multiple answers possible.
II. Definition of the target market

1. Determination of Client Category*

<table>
<thead>
<tr>
<th></th>
<th>Retail Client</th>
<th>Professional Client</th>
<th>Eligible Counterparty</th>
<th>Not suitable for Retail Clients**</th>
</tr>
</thead>
</table>

* Multiple answers possible.
** Exact wording still to be agreed upon.
II. Definition of the target market

2. Knowledge and / or Experience

Client with basic knowledge of and / or experience with financial products* (1)

Examples:
- Tracker Certificates based on standard indices
- Equity funds
- Money market funds
- Bond funds
- Balanced funds

Client with advanced knowledge of and / or experience with financial products* (2)

Examples:
- Uncapped Capital Protection Certificates
- Capital Protection Products with Coupon
- Credit Linked Notes
- Reverse Convertibles
- Discount Certificates
- Express Certificates
- Bonus Certificates
- Outperformance Certificates
- Capped Outperformance Certificates
- Total Return Funds
- Absolute Return Funds
- Structured UCITs

Client with comprehensive knowledge of and / or experience with financial products* (3)

Examples:
- Warrants
- Constant Leverage Certificates
- Knock-Out Warrants
- EuVECA and EuSEF
- Commodities market-based investment funds (specific type of German investment funds with direct investments in commodities)

Client with expert knowledge of and / or experience with highly specialised financial products* (4)

Examples:
- CFDs

Not suitable for clients with only basic knowledge of and / or experience with financial products * / **

* The determination of an investor’s knowledge and / or experience can be carried out with the data the distributor has collected with their respective WpHG form.
** Exact wording still to be agreed upon.
II. Definition of the target market

3. Financial Loss Bearing Capacity

<table>
<thead>
<tr>
<th>The investor can bear no or only minor losses of the investment amount.</th>
<th>The investor can bear losses (up to the total loss of the investment amount).</th>
<th>The investor can bear losses beyond the investment amount.</th>
<th>Not for investors that can bear no or only minor losses of the investment amount*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products with capital protection / Repayment up to the nominal value</td>
<td>Products without capital protection / Repayment not guaranteed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Exact wording still to be agreed upon.
II. Definition of the target market

4. Financial Instrument Risk Assessment

Determination of the product’s risk and derivation of the recommended risk tolerance according to the risk class (PRIIPs, VaR)*

- Manufacturer assesses all relevant risks resulting from the financial instrument and discloses them by means of a risk indicator (risk of the product).

- Based on the risk indicator, the manufacturer derives a recommendation for the requisite willingness of clients to bear risks relating to the investment (recommended risk tolerance).

* Once the risk indicator according to PRIIPs is determined, it should be assessed whether the risk indicator is appropriate for the target market assessment; this applies particularly for the requirements under the UCITS KID regulation.

** Exact wording still to be agreed upon / Assessed according to categorisation of distributor.
II. Definition of the target market

5. Risk- and Reward Profile according to PRIIPs (depending on the specific design at Level II)

- Risk category 1:
  - Security oriented / very low risk tolerance
  - Very low to low return / very small to small price fluctuations

- Risk category 7:
  - Very high risk tolerance
  - Highest return / highest price fluctuations

- Not for investors with the lowest risk tolerance*

* Exact wording still to be agreed upon / Assessed according to categorisation of distributor.

• The lowest and highest risk categories are described.

• This description allows the classification of the other risk categories.
II. Definition of the target market

Client Objectives

6. Investment Objectives*

| Specific pension scheme | General capital formation / asset optimisation | Over-proportional participation in price changes | Not suitable for pension schemes*** |

Hedging**

* Multiple answers possible.

** Generally not applicable to securities, only optionally relevant to some specific products, such as exchange-traded derivatives.

*** Exact wording still to be agreed upon.
II. Definition of the target market

### Client Objectives

#### Investment Horizon*

| Short-term (less than 3 years) | Medium-term (3 - 5 years) | Long-term (more than 5 years) | Not suitable for investors with a short-term investment horizon** | Not suitable for investors with a long-term investment horizon** |

* Where applicable according to PRIIPs; multiple answers permitted (e.g. "medium to long-term"); costs are taken into consideration (e.g., product-related acquisition costs).

** Exact wording still to be agreed upon.
II. Definition of the target market

Client Needs

*If applicable: particular client needs*

**Green investment**  **Ethical investment**  **Islamic banking**  **________***

Labelling of products complying with the investment preferences of the client

- The labelling does not mean that the product is not appropriate to clients who do not express that preference. The labelling should instead be regarded as an indicator that the product is particularly appropriate to a client who explicitly expresses that investment preference in the course of investment advice.

- Investment preferences are generally independent of the product’s risk or the client’s investment horizon. They are based on the general product architecture (e.g., investment only in sustainable investments).

*Free text fields cannot be processed automatically. This can lead to a stop in distribution.*
III. Example of implementation

**Structured UCITS** are aimed at retail clients, professional clients and eligible counterparties [1.], who intend general capital formation / asset optimisation [6.] and have a long-term investment horizon of over five years [7.]. These Structured UCITS are products for investors with advanced knowledge of and / or experience with financial products. [2.]. The investor can bear financial losses [3.] and attaches no importance to capital guarantees [3.]. On a scale of risk ranging from 1 (security oriented / very low to low return) to 7 (very high risk tolerance / highest return) [5.], Structured UCITS fall in risk category 2 [4.].
III. Example of implementation

The Tracker Certificate is aimed at retail clients, professional clients and eligible counterparties [1.], who intend general capital formation / asset optimisation [6.] and have a medium- to long-term investment horizon [7.]. This Tracker Certificate is a product for investors with at least basic knowledge of and / or experience with financial products. [2.]. The investor can bear financial losses (up to the total loss of the invested amount) [3.] and attaches no importance to capital guarantees [3.]. On a scale of risk ranging from 1 (security oriented / very low to low return) to 7 (very high risk tolerance / highest return) [5.], the Tracker Certificate falls in risk category 3 [4.].