

Common Standard for the Determination of the Target Markets for Securities - updated May 2021

As part of the MiFID II product governance requirements, manufacturers of financial instruments have to define a target market of end clients for the products they launch. Distributors have to take account of this target market when they distribute the relevant product.

The latter is only possible in the mass retail market, if the target market for all products is determined according to uniform criteria.

For this reason, the German Banking Industry Committee (GBIC), together with the German Investment Funds Association (BVI) and the German Derivatives Association (DDV) have developed a common standard for the determination of the target markets for securities. The common standard is almost universally used in the German market.

The standard that had been developed in 2017 was updated in 2021. The updated version contains editorial changes as well as the following modifications:

- The criterion "Client category" (slide 6) has been supplemented by a reference to Chapter 16 Question 1 of ESMA's "*Questions and Answers On MiFID II and MiFIR investor protection and intermediaries topics*" (ESMA35-43-349). According to ESMA CoCo-Bond-Funds are generally not compatible with the retail market. Therefore, manufacturers should not choose "Retail client" when defining the target market for CoCo-Bond-Funds.
- With regard to the criterion "*Knowledge and / or Experience*" (slide 7) one has to distinguish when defining the target market for Tracker Certificates. Tracker Certificates based on standard indices (see the new definition in a footnote) should be classified as "*Client with basic knowledge of and / or experience with financial products (1)*". Other Tracker certificates should be classified as "*Client with advanced knowledge of and / or experience with financial products (2)*".
- Furthermore, with regard to the criterion "*Knowledge and / or Experience*" (slide 7) it was stated that structured securities that qualify as leverage product according to Art. 62 para 2 MiFID II delegated regulation 2017/565 are to be filed as "*Client with comprehensive knowledge of and / or experience with financial products (3)*".
- On slide 13 a further note has been added stating that the criterion "*Client Needs*" will be supplemented by the aspect of sustainable investment (ESG) in the future.

Manufacturers are kindly asked to consider these aspects when providing target market definitions to German distributors.

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

21 May 2021

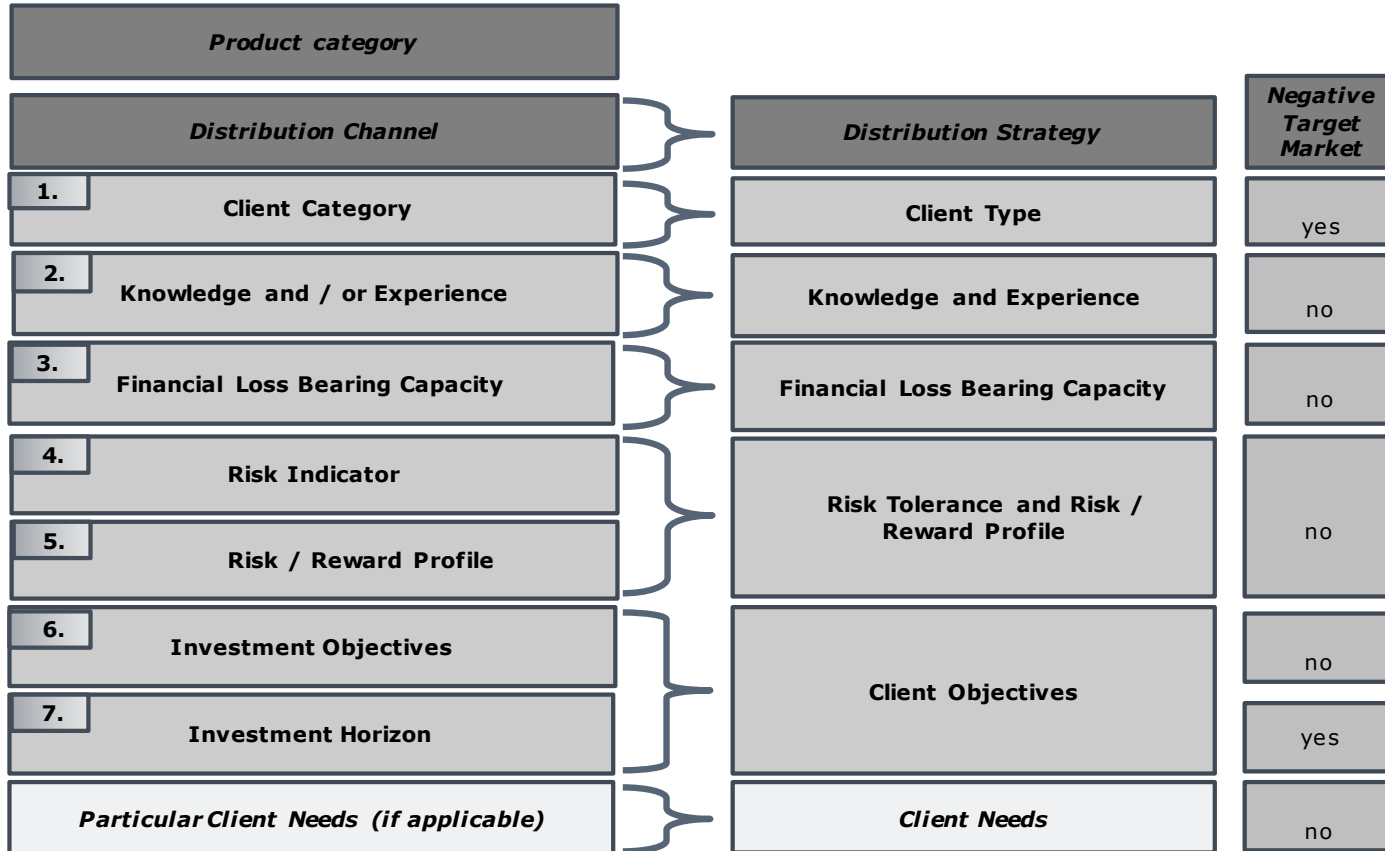
* This concept applies to products requiring a more detailed identification of the target market. The concept focuses on an individual product and disregards possible combinations of the product with other financial instruments.

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 fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset Managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 115 members manage assets of nearly 4 trillion euros for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 27%, Germany represents the largest fund market in the EU.



* 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.

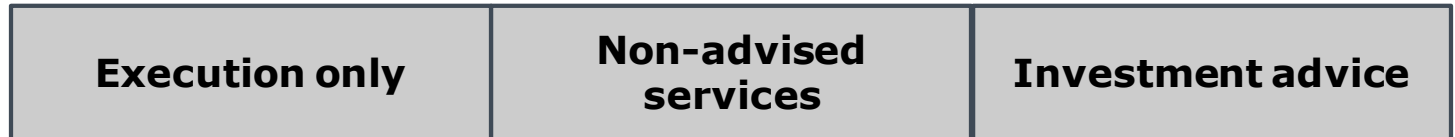
Product Category

_____ (Example: Bonus Certificate)*

* With the designation of the respective product category, the issuer makes a sufficiently granular classification of the product.

I. Distribution Strategy

Distribution Channel*



* Multiple answers possible.

II. Definition of the target market

1.

Determination of Client Category*

Retail Client	Professional Client	Eligible Counterparty	Not suitable for Retail Clients**
---------------	---------------------	-----------------------	-----------------------------------

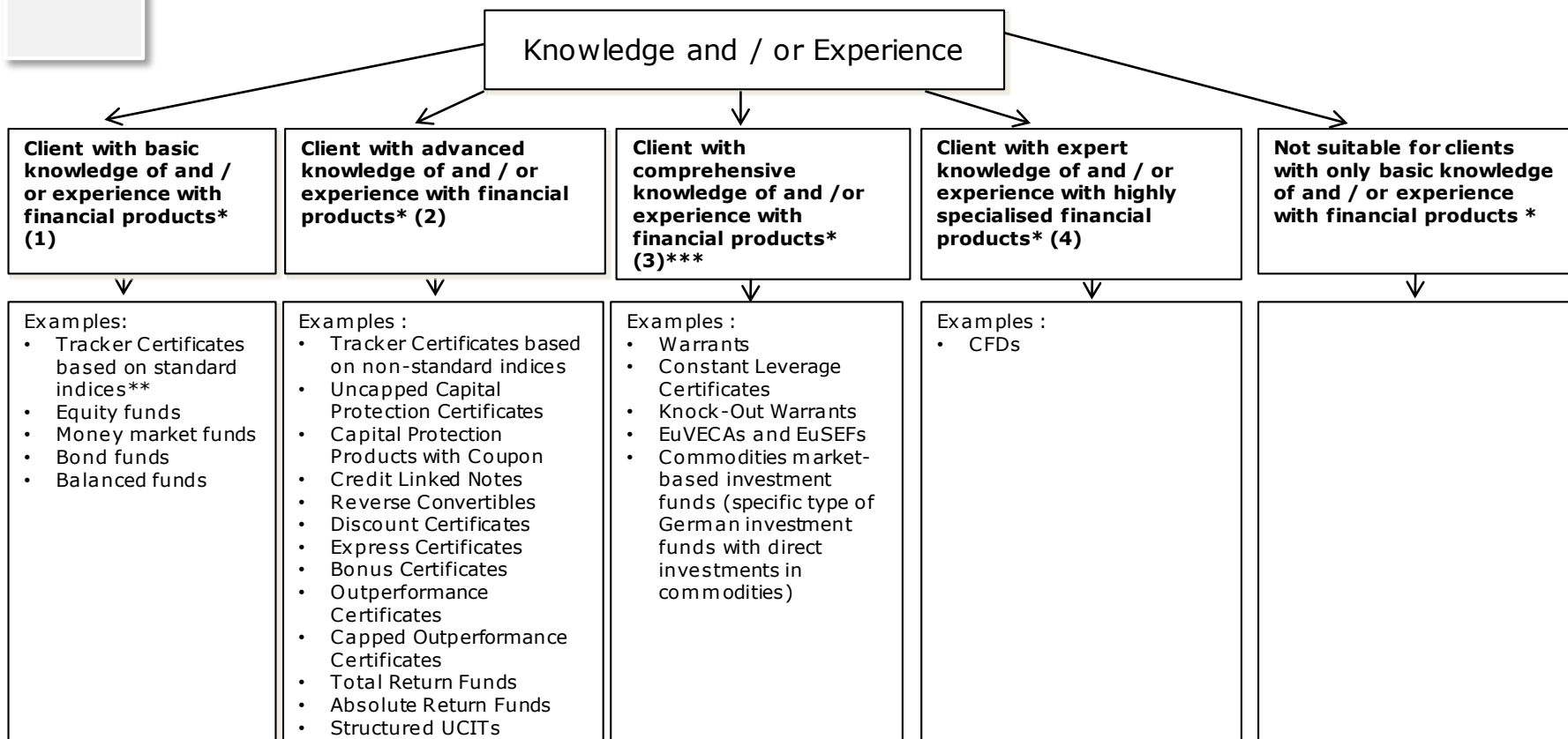
* Multiple answers possible.

**According to Chapter 16 Q. 1 of ESMA`s „Questions and Answers On MiFID II and MiFIR investor protection and intermediaries topics“ (ESMA35-43-349) CoCo-Bond-Funds are generally not compatible with the retail market – technical implementation by distributors not yet finalized.

II. Definition of the target market

2.

Knowledge and / or Experience



* 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.

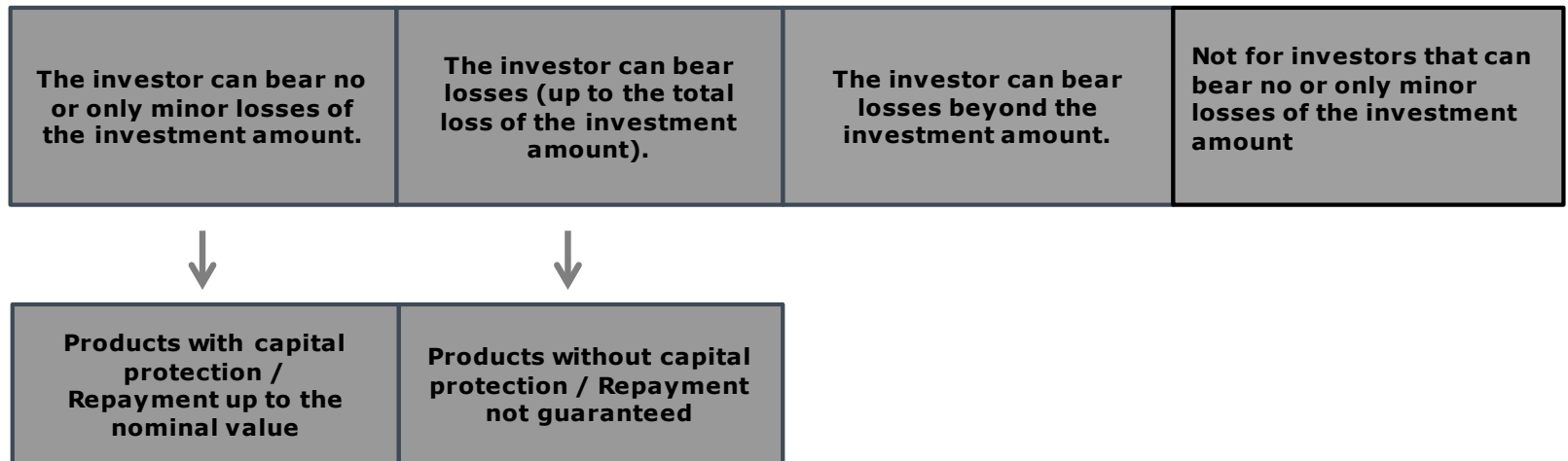
** Commonly known leading indices and/or European / International leading indices in particular: DAX, EURO STOXX 50, Dow Jones Ind. Av., NASDAQ, S&P 500, NIKKEI 225, Hang Seng, MSCI World.

*** Independent from the product category all structured securities are to be filed here if classifying as leverage product according to Art. 62 para 2 MiFID II delegated regulation 2017/565.

II. Definition of the target market

3.

Financial Loss Bearing Capacity



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).

Risk of the product
(PRIIPs)

1

2

3

4

5

6

7

*Not for investors with the lowest risk tolerance***

- 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).

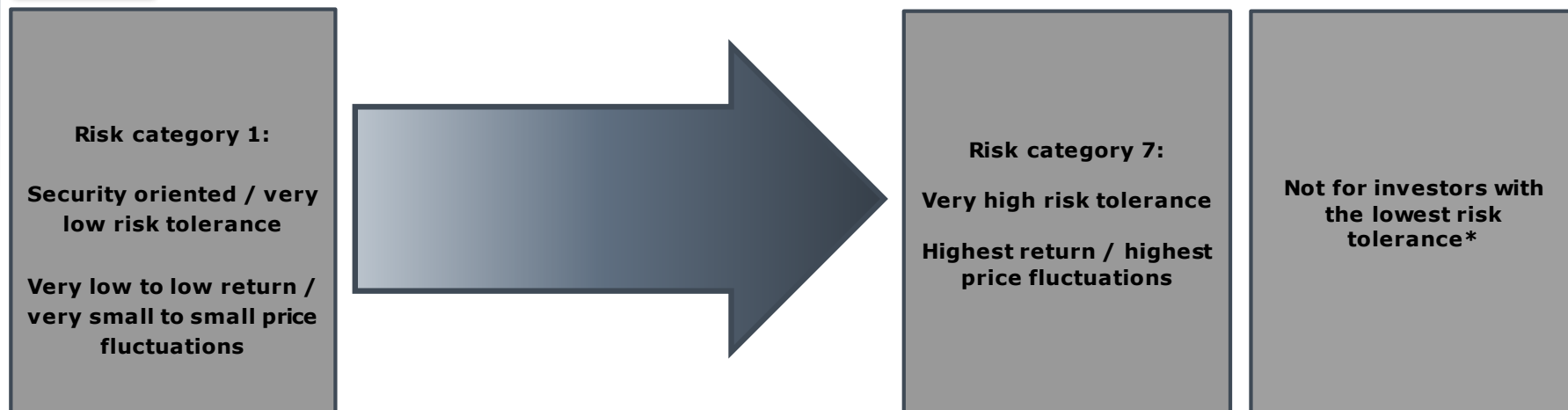
* Once the risk indicator according to PRIIPs is determined, it should be assessed whether the risk indicator is appropriate for the target market assessment; this applies particularly for the requirements under the UCITS KID regulation.

** 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)



- The lowest and highest risk categories are described.
- This description allows the classification of the other risk categories.

* Assessed according to categorisation of distributor.

II. Definition of the target market

6.

Client Objectives

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.

II. Definition of the target market

7.

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).

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).

*** In the future to be supplemented by the target market criteria "Sustainability (ESG)".**
****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 based on a standard index** 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.]**.