



Information on our MiFID II Product Governance and FCA Consumer Duty

UBS Investment Bank



UBS IB Product Governance

1 Purpose

This document provides information on the application of MiFID II, UK MiFID Product Governance and as applicable FCA Consumer Duty by the UBS Investment Bank division within UBS AG London Branch and UBS Europe SE in the EEA and UK when manufacturing¹ financial instruments (UBS IB).

2 Regulation Overview

Directive 2014/65/EU of European Parliament and Council of 15th May 2014 and the Commission Delegated Directive 2017/593 of 7/04/2016 on Markets in Financial Instruments and as on-shored into the UK pursuant to the Market in Financial Instruments (Amendment) (EU Exit) Regulations 2018 sets out new requirements relating to Product Governance ("MiFID II"). The rules govern the framework for manufacturing, offering and recommending Financial Instruments, Structured Deposits and Services.

The UK Financial Conduct Authority (FCA) published its final rules implementing a new Consumer Duty (the "Duty") that applies to UK in-scope firms as of 31 July 2023. Under the Duty, UK regulated firms are required to act to deliver good outcomes for end retail customers.

In the context of Product Governance, UBS IB can act as manufacturer, distributor or both. When acting as manufacturer, UBS IB has put in place the following arrangements.

3 Product Approval Governance Process

Within UBS IB, there is a comprehensive framework and approval process to assess products that are manufactured and/or significantly adapted and sold to Clients either directly or via third party distributors.

A Product Governance Forum is responsible for the implementation of the product approval governance process as well as on-going oversight, monitoring and review of product governance policies and procedures.

The Product Governance requirements are applied in a way that is proportionate and appropriate, taking into account the nature of the investment product, the investment service and the target market of the product. For example, for more complicated products, such as structured products with complicated return profiles, the target market will be identified with more detail. For simpler, more common products it is likely that the target market will be identified with less detail.

The product approval process may incorporate quantitative and qualitative assessments and shall:

- (a) specify an identified target market of end clients for each product
- (b) ensure all relevant risks to the identified target market are assessed
- (c) ensure that the intended distribution strategy is consistent with the identified target market.
- (d) assess conflicts of interest
- (e) assess charging structure proposed for each product

¹ Manufacturer: investment firm that creates, develops, issues and / or designs financial instruments, including when advising corporate issuers on the launch of new financial instruments

4 Target Market Identification

The potential target market for each product that is manufactured by UBS IB will be assessed based on the following:

- Client type - which type of client the product is targeting. This specification is made according to the MiFID II client categorisation of "retail client", "professional client" or "eligible counterparty".
- Knowledge and experience –the knowledge that the target clients should have about elements such as: the relevant product type, product features and/or knowledge in thematically related areas that help to understand the product. UBS IB specifies "Low", "Medium" or "High" knowledge and experience
 - Low – basic investment experience and knowledge and/or no financial industry experience
 - Medium - average investment experience and knowledge, who are able to understand the risks of complex and unusual investments and/or some financial industry experience
 - High - extensive investment experience and knowledge, who are better able to understand the risks of complex and unusual investments and/or financial industry experience.
- Ability to bear losses - the losses target clients should be able and willing to afford. UBS IB specifies:
 - cannot bear / can only bear small losses on the invested capital
 - can bear losses (up to the entire amount of the invested capital)
 - can bear loss beyond capital
- Risk tolerance - the general attitude that target clients should have in relation to the risks of investment. Where applicable, UBS IB will use the risk indicator stipulated by the PRIIPs Regulation to fulfil this requirement. Otherwise, UBS IB will specify:
 - Conservative – where target clients do not wish to put all or majority of capital at risk
 - Moderate – where target clients do wish to put all capital at risk
 - Aggressive – where target clients can put more than initial capital at risk
- Client objectives and needs - the investment objectives and needs of target clients that a product is compatible with e.g. the expected investment horizon/recommended holding period and return profile:
 - Future Income Stream: indicates if the product is compatible with target clients looking for income
 - Growth: indicates if the product is compatible with target clients looking to grow their capital
 - Preservation: indicates if the product is compatible with target clients looking to preserve their capital
 - Leverage: indicates if the product is compatible with target clients looking for leveraged returns
 - Hedging: indicates if the product is compatible with target clients looking for a hedging product

UBS IB will also consider whether the product would be incompatible with certain target clients and will apply the same categories as stated above.

UBS IB will also propose the type of investment service through which the targeted clients should or could acquire the product. The distribution strategy is defined by taking into account the client type and the level of capital protection or capital at risk offered by the product.

5 Value for money and fair value assessments

UBS IB value for money and fair value assessments for products it manufactures are conducted as follows where products manufactured by UBS IB are intended to be distributed to end-retail customers:

Pre-Trade:

- Stress testing and value for money testing: Stress-testing is designed to assess how a product may perform in a range of market conditions and how the target client may be affected. Backward and forward looking tests are conducted for each issuance. The metrics produced by these tests will be assessed against specific

thresholds. UBS IB will run the assessment when pricing a product or if there is any significant adaptation of a product:

- Value for money:
 - backward-looking - we look at the number of paths the product had an internal rate of return (IRR) lower than a threshold. If this occurred in more than 50% of the paths, the test will fail.
 - forward-looking – the average internal rate of return is calculated for a bull, bear and neutral scenario. If this is less than a benchmark in more than two scenarios, the test will fail.
- Capital at risk test: the capital at risk probability (excluding received coupons) is calculated. If this is greater than a threshold, the test will fail.
 - Backward-looking - Average number of results where there has been a loss of capital
 - Forward-looking – In a neutral scenario, the average number of results where there could be a loss of capital
- Distribution fees and manufacturing fees: the effects of distribution fees paid to third-parties and internal manufacturing fees in the product price are factored into the above tests.

There may be some product types where a stress test and/or value for money test is not feasible due to the nature of the products. In these cases UBS IB will conduct a fair value assessment as follows:

There are some Equity/Commodity product types where stress test methodologies are not feasible due to the nature of the products. These are:

- Leverage products (e.g. warrants and turbos)
- Delta one products
- Actively Managed Certificates
- QIS linked products

For these products, the value for money is justified by:

- Pricing anchored to a calculated fair value that factors in the benefits and charges
- Fee's constrained and reviewed for appropriateness/competitiveness against comparable products

For Notes with no underlying (e.g. fixed rate notes and callable fixed rate notes/ step up notes.), the products are deemed to provide fair value as the past and future IRR of the product is transparent and comparable to deposit rates and bonds.

UBS IB can consider that the benefits that the product offers are proportionate to the cost paid and that each product is expected to provide fair value for a reasonably foreseeable period after initial issuance or after any significant adaptations as the assessments take into account the duration of the product.

Post-Trade:

UBS IB carries out on-going monitoring of the secondary market performance of structured products which are eligible to be sold to end retail clients.

A sample of products that have recorded a decline in fair value from initial fair value or from the previous month's fair value are flagged for review by the Product Governance Forum to determine appropriate action.

If deemed necessary by the Product Governance Forum, the Intermediary who distributed the product will be informed to assess whether the product meets the identified needs, characteristics and objectives of the end-investors.

For secondary trading of all products, on-going fair value of these products are justified by:

- Pricing being anchored to a calculated fair value that factors in the benefits and charges
- Fees constrained and reviewed for appropriateness/competitiveness against comparable products

More information relating to the thresholds can be made available upon request via your UBS Sales Contact.

6 Vulnerable customers

Vulnerable customers may have additional needs or be at greater risk of harm financially. As UBS IB does not have a direct relationship or knowledge of the end retail customer, we are reliant on Distributors to undertake their own target market assessment based on the target market information provided by UBS. Where necessary distributors can communicate to us any relevant vulnerability considerations applicable to an end retail customer.

UBS IB will look to address such vulnerability considerations on a case-by-case basis in order to take appropriate action as applicable as the product manufacturer.

7 Information for Distributors

To enable distributors to understand and recommend or sell the product manufactured by UBS IB properly, it will make available to them:

- Appropriate information on the product
- Identified target market for the product
- The appropriate channels for distribution of the product
- The value for money/fair value assessment determination (when the product is being sold to retail clients). Where UBS IB identifies through its on-going monitoring and review that the product no longer provides fair value, it will inform the distributors of the product and of any changes to the product, the target market and/or the distribution strategy.

This information is available at www.ubs.com/ibterms or via your UBS Sales Contact.

Ongoing Review

UBS IB will regularly review products where it acts as a manufacturer in order to identify monitor the outcomes being received by end retail customers and whether there are any risks that UBS IB are not acting to deliver good outcomes for end retail customers. This regular review will include feedback from distributors and whether the product continues to meet the needs, characteristics and objectives of the target market. Management information will also be collected from distributors to assess if the product is being distributed to the identified target market and the intended distribution strategy remains appropriate.

Further questions

If you have any comments or questions, please contact your usual sales contact.

Disclaimer

By accepting this document, the recipient agrees to be bound by the following obligations and limitations.

Provenance and purpose. This presentation has been issued by UBS Europe SE and UBS AG London Branch (“**UBS**”) for the exclusive use of the party to whom UBS delivers this presentation (the “**Recipient**”) using information provided by the Recipient and other publicly available information.

No independent verification. The information in this presentation has been obtained from the Recipient and other publicly available sources and has not been independently verified by UBS Group AG and/or its subsidiaries, branches or affiliates (together, the “**UBS Group**”) or any of its directors, officers, employees, agents, representatives or advisers or any other person.

No representation or warranty. No representation, warranty or undertaking, express or implied, is or will be given by the UBS Group or its directors, officers, employees, agents, representatives and/or advisers as to or in relation to the accuracy, completeness, reliability or sufficiency of the information contained in this presentation or as to the reasonableness of any assumption contained in this presentation.

No Liability. By accepting receipt of this presentation, the Recipient acknowledges and agrees that to the maximum extent permitted by applicable law, the UBS Group and its directors, officers, employees and agents expressly disclaim any liability which may arise from this presentation, or any other written or oral information provided in connection with this presentation, and any errors contained therein and/or omissions therefrom or from relying on or any use of the contents of this presentation or otherwise in connection with this presentation.

Forecasts. The valuations, projections, estimates, forecasts, targets, prospects, returns and/or opinions (including, without limitation, projections of revenue, expense, net income and stock performance) contained herein involve elements of subjective judgment and analysis. Any opinions expressed in this material are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of the UBS Group as a result of using different assumptions and criteria. This presentation may contain forward-looking statements. UBS gives no undertaking and is under no obligation to update these forward-looking statements for events or circumstances that occur subsequent to the date of this presentation. Nothing contained herein is, or shall be relied upon as, a promise or representation as to the past or future or that any of the estimates or projections contained herein will be achieved.

No duty to update. This presentation speaks as at the date hereof (unless an earlier date is otherwise indicated in the presentation) and in furnishing this presentation, no obligation is undertaken and nor is any representation or undertaking given by any person to provide the recipient with additional information or to update, revise or reaffirm the information in this presentation or to correct any inaccuracies therein which may become apparent.

Information only. This presentation has been prepared solely for informational or educational purposes and does not suggest taking or refraining from any action. It does not constitute or contain an offer, invitation, recommendation or a solicitation to buy or sell any securities or related financial instruments or any of the assets, business or undertakings described herein and it does not constitute, and should not be construed as, a proposal, a commitment or an offer to arrange, underwrite, syndicate or otherwise provide any financing or any other transaction.

No advice given. The Recipient should not construe the contents of this presentation as legal, tax, accounting or investment advice or a personal recommendation. The Recipient should consult its own counsel, tax and financial advisers as to legal and related matters concerning any transaction described herein. This presentation does not purport to be all-inclusive or to contain all of the information that the Recipient may require or request upon a due diligence if it wishes to proceed further. By providing this presentation, UBS does not have the responsibility or authority to provide, nor has provided, investment advice to the Recipient in a fiduciary capacity with regard to the matters contained herein. No investment, divestment or other financial decisions or actions should be based solely on the information in this presentation. This presentation should not be viewed as an investment recommendation because it is provided as part of the general marketing and advertising activities of UBS.

No distribution. This presentation has been prepared on a confidential basis solely for the use and benefit of the Recipient. Distribution of this presentation to any person other than the Recipient and those persons retained to advise the Recipient, who agree to maintain the confidentiality of this material and be bound by the limitations outlined herein, is unauthorized. This material must not be copied, reproduced, published, distributed, passed on or disclosed (in whole or in part) to any other person or used for any other purpose at any time without the prior written consent of UBS. The UBS Group and suppliers (“**Content Providers**”) do not guarantee the accuracy, adequacy, completeness, timeliness or availability of the content of this presentation and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content in this presentation. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the content of this presentation. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the content is not a recommendation to buy, sell or hold such investment or security, does not address the suitability of an investment or security and should not be relied on as investment advice.

Role of UBS. By accepting this presentation, the Recipient acknowledges and agrees that UBS is acting, and will at all times act, as an independent contractor on an arm’s length basis and is not acting, and will not act, in any other capacity, including in a fiduciary capacity, with respect to the Recipient. UBS may only be regarded by you as acting on your behalf as financial adviser or otherwise following the execution of appropriate documentation between us on mutually satisfactory terms.

Conflicts of Interest. The UBS Group may from time to time, as principal or agent, be involved in a wide range of commercial banking and investment banking activities globally (including investment advisory, asset management, research, securities issuance, trading (customer and proprietary) and brokerage), have long or short positions in, or may trade or make a market in any securities, currencies, financial instruments or other assets underlying the transaction to which this presentation relates. The UBS Group’s banking, trading and/or hedging activities may have an impact on the price of the underlying asset and may give rise to conflicting interests or duties. The UBS Group may provide services to any member of the same group as the Recipient or any other entity or person (a “**Third Party**”), engage in any transaction (on its own account or otherwise) with respect to the Recipient or a Third Party, or act in relation to any matter for itself or any Third Party, notwithstanding that such services, transactions or actions may be adverse to the Recipient or any member of its group, and the UBS Group may retain for its own benefit any related remuneration or profit.

Research. This presentation may contain references to research produced by the UBS Group. Research is produced for the benefit of the firm's investing clients. The primary objectives of each analyst in the research department are: to analyse the companies, industries and countries they cover and forecast their financial and economic performance; as a result, to form opinions on the value and future behavior of securities issued by the companies they cover; and to convey that information to the UBS Group's investing clients. Each issuer is covered by the Research Department at its sole discretion. The Research Department produces research independently of other business areas of the UBS Group and UBS AG business groups.

UBS Europe SE is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank (ECB).

UBS AG London Branch is authorised and regulated by the Financial Market Supervisory Authority in Switzerland. It is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom.

© UBS 2023. All rights reserved. UBS specifically prohibits the redistribution of this material and accepts no liability whatsoever for the actions of third parties in this respect.