



MEDIOBANCA

**PRODUCT GOVERNANCE  
INFORMATION ABOUT THE PRODUCT APPROVAL  
PROCESS OF MEDIOBANCA**

**December 2023**



## 1 Scope

This document has been prepared to provide distributors with information about the product approval process of Mediobanca – Banca di Credito Finanziario S.p.A. (the “**Bank**” or “**Mediobanca**”) according to Directive 2014/65/EU (“**MiFID II**”), Delegated Directive 2017/593/EU as implemented in Italy by the Consob Resolution n. 20307/2018 “Regulation containing implementation rules of Italian Legislative Decree no. 58 of 24 February 1998 on intermediaries” (“**MiFID II Product Governance rules**”).

## 2 Product Governance Policy

In compliance with MiFID II product governance rules the Bank has adopted a Product Governance Policy that provides *inter alia* that any financial instrument and product manufactured and/or distributed by Mediobanca is subject to an internal specific approval process with respect to the analysis of the product and the definition of the target market and the distribution strategy.

## 3 Analysis of the Product, definition of the Target Market and the distribution strategy

Any instrument manufactured by Mediobanca is evaluated and approved with respect to its financial features, its complexity, charging structure, risks, conflict of interests, its target market and distribution strategy.

### 3.1 Charging structure

The Bank has identified maximum cost limits applicable to the instruments manufactured, taking into account the type of instrument, its duration and, if relevant, its underlying assets.

For each instrument manufactured, the Bank assesses that the costs and charges are compatible with the needs, objectives and characteristics of the target market; charges do not undermine the instrument's return expectations; and the charging structure of the instrument is appropriately transparent for the target market, such as that it does not disguise charges or is too complex to understand.

### 3.2 Scenario analysis

The Bank undertakes a scenario analysis to assess the risks of poor outcomes for end investors posed by the instrument and in which circumstances these outcomes may occur.

Where applicable, the Bank assesses the instrument under negative conditions covering what would happen if for example: the market environment deteriorates; the Bank or a third party involved in manufacturing and or functioning of the instrument experiences financial difficulties; the instrument fails to become commercially viable.

For PRIIPs instruments addressed to retail clients, the Bank performs scenario analysis based on the favourable, moderate, unfavourable and stress performance scenarios calculated with the methodology set forth by Regulation 653/2017/UE.

### 3.3 Conflict of interests



The Bank implemented procedures and measures to ensure the manufacturing of the instruments complies with the requirements on proper management of conflicts of interest, including remuneration.

In particular, the Bank ensures that the instruments manufactured do not adversely affect end clients, including by taking into account its exposures, and assesses whether the instrument may represent a threat to the orderly functioning or to the stability of financial markets.

### 3.4 Potential Target Market

For any instrument manufactured and addressed to the distribution, the Bank identifies its "potential" target market, specifying the type(s) of investors for whose characteristics the instrument is/is not compatible with (positive and negative target market). The Bank identifies also the type(s) of investor for whose characteristics the instrument is not compatible nor incompatible (neutral target market).

The identification of the target market is made on the basis of the ESMA categories<sup>1</sup> as specified here below:

#### 1. Types of investors to whom the instrument is addressed.

The Bank distinguishes between:

- retail clients, as defined by MiFID II, i.e. clients different from professional clients;
- professional clients, as defined by MiFID II and by the implementing regulations in each member state;
- eligible counterparty, as defined by MiFID II and by the implementing regulations in each member state.

#### 2. Knowledge and experience of the investor.

The Bank distinguishes between:

- Basic Investor: investor having no financial industry experience, but having basic knowledge related to the specific financial instrument and therefore able to make an informed investment decision based on the offering documentation of the instrument or with the help of basic information provided at the time of the investment;
- Informed Investor: investor having a moderate financial industry experience and/or average knowledge of the financial instruments and therefore able to make an informed investment decision based on the offering documentation of the instrument, being able to independently understand the specific characteristics and risk factors represented therein;

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<sup>1</sup> ESMA Guidelines on MiFID II product governance requirements (03/08/2023 - ESMA35-43-3448).



- Advanced Investor: investor with experience in the financial sector or to whom portfolio management service has been provided or who has an in-depth knowledge of financial instruments and transactions.

### 3. Ability to bear losses of the investor.

The Bank distinguishes between:

- investor that cannot bear any losses on the invested amount<sup>2</sup>;
- investor that can bear partial losses of the invested amount (until a certain percentage);
- investor that can bear losses up to 100% of the invested amount;
- investor that can bear losses exceeding the invested amount.

### 4. Risk Tolerance of the investor.

If the financial instrument is a PRIIP, the Bank identifies a target market based on the *Summary Risk Indicator* ("SRI") represented in the KID drafted pursuant to EU Regulation 1286/2014. Assuming five risk profiles that can be associated with investors, Mediobanca considers in the:

- Negative target market: investors with a low risk profile when the PRIIP has SRI equal to 6 or 7 and investors with a medium-low risk profile when the PRIIP has SRI equal to 7;
- Positive target market: the investors with a risk profile equal to the SRI of the PRIIP;
- Neutral target market: without prejudice to the above, investors with a risk profile higher or lower than the PRIIPs SRI.

If the financial instrument is not a PRIIP, the Bank identifies a target market based on an internal risk indicator ("IRI") with four risk levels (low/medium-low/medium-high/high). Assuming five risk profiles that can be associated with investors, Mediobanca considers in the:

- Negative target market: investors with a low risk profile when the IRI is 'high';
- Positive target market: investors with a risk profile equal to the IRI;
- Neutral target market: without prejudice to the above, investors with a risk profile higher or lower than the IRI.

### 5. Objectives and needs of the investor.

The Bank distinguishes between investors that want to:

- obtain protection of the invested amount;

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<sup>2</sup> Please note that the Bank considers its type of investors in the neutral target market, instead of the positive one, in the case of financial instruments that, although providing for full redemption of the notional value, are denominated in a currency other than the investor's reference currency



- obtain growth of the invested amount at maturity;
- receive periodic coupons (even conditional);
- hedge the financial exposure of other operations;
- maximize its returns even through a leverage effect;
- enhance its sustainability preferences.

## **6. Time horizon of the investment.**

The Bank distinguishes between investors whose investment objectives have:

- very short term (<1 year);
- short term (1 to 3 years);
- medium term (3 to 5 years);
- long term (>5 years).

Mediobanca considers in the:

- negative target market: investors having a very short time horizon when the duration of the instrument is >5 years;
- positive target market: investors having a time horizon equal to the duration of the instrument;
- neutral target market: investors having time horizon shorter/longer than the duration of the instrument.

The Bank determines whether the instrument manufactured meets the identified needs, characteristics and objectives of the target market, including by examining if: (a) the instrument's risk/reward profile is consistent with the target market; (b) the instrument design is driven by features that benefit the client and not by a business model that relies on poor client outcomes to be profitable.

## **3.5 Potential distribution strategy**

For each financial instrument the Bank identifies a "potential" distribution strategy indicating which type of investors (professional, retail or both) are compatible with the following distribution channels:

- execution only: i.e. the provision of an execution service not preceded by an appropriateness/suitability assessment, in the cases provided for by MiFID II and by the implementing regulation in each member state;
- execution with appropriateness: i.e. the provision of an execution service preceded by an appropriateness assessment, i.e. the verification of the compatibility of the instrument with the level of knowledge and experience of the investor (such compatibility may be



assumed when the distributor provides execution services to clients classified as professional);

- investment advice: i.e. the provision of executive services preceded by a personalised recommendation to the investor on the basis of its characteristics, together with a suitability assessment - including when the assessment takes into account the entire portfolio - with positive outcome;
- portfolio management: i.e. investment decided on behalf of the investor by a professional in execution of a discretionary management mandate given by the investor, together with a suitability assessment.

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The Bank provides third-party intermediaries in charge for the distribution on the primary market with the information on the financial instrument manufactured<sup>3</sup>, its target market and the potential distribution strategy; moreover, for instruments issued by Mediobanca or entities of the Mediobanca Group available on the secondary market, the Bank provides third-party distributors, with access to the infoprovider ICE, with updated information in the form of EMT (European MiFID Template). On distributor's request, the Bank provides the intermediaries with the EMT file also through the infoprovider RegXchange.

## **4 Review of the instruments, the target market and the distribution strategy**

Mediobanca reviews the instruments manufactured in case of events that could materially affect the potential risk to the identified target market.

Mediobanca considers if the instrument remains consistent with the needs, characteristics and objectives of the target market and if it is being distributed to the target market, or is reaching other investors, for whose needs, characteristics and objectives the instrument is not compatible.

Furthermore, Mediobanca reviews all the instruments it manufactures, their target market and distribution strategy at least annually. For instruments manufactured by Mediobanca, the review is made also on the basis of the information collected from the distributors on sales outside the target market and the received complaints.

Each instrument is assessed and a determination is made as to its suitability for ongoing sale to the target market and to its distribution strategy. The review is carried out in a proportionate manner, taking into account the complexity of the financial instruments and the relevant target market.

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<sup>3</sup> Whether issued by Mediobanca or by third-party issuers with whom Mediobanca collaborates for the creation, development, issue and/or design of the financial instruments in its capacity as manufacturer or co-manufacturer.