Product Risk Classification (PRC)

Advanced Risk Assessment Tool for Optimal Advisory

Regulatory pressures affect the advisory process of banks. The Product Risk Classification (PRC) enables financial institutions to optimize the quality of their advisory process with a synthetic risk classification, aimed at defining a level of risk associated to any instrument, from all asset classes.

Regulatory background: going one step further
Investor Protection regulations, such as MiFID, PRIIPs and FinSA, have imposed the calculation and the use of a risk indicator in the advisory process to offer a simple and clear understanding of the level of risk attached to an in-scope instrument. This initial step has led to the creation of various indicators covering different asset classes, often focusing on market and credit risks only. That means that not all facets of risk are covered, and financial professionals have to use similar yet not identical indicators to compare securities. To go beyond compliance and support the industry with a single indicator, covering all asset classes and major risk categories, SIX has developed its Product Risk Classification.

The Product Risk Classification (PRC) by SIX
The Product Risk Classification is an indicator calculated according to a proprietary methodology based on market standards. It covers all financial instruments across asset classes (PRIIPs in-scope or not) and integrates market risk, credit risk as well as liquidity risk, making it a truly universal indicator. With its scale from 1 (low risk) to 5 (high risk), it is very easy to compare instruments even for retail investors, when professional financial advisors can have an in-depth view of the specific risks and the calculations.

Key Advantages

- ✓ Robust and popular methodology. Based on market standards, the methodology is easy to understand and covers all risk elements.
- ✓ Covering all asset classes. No question about in-scope instruments, the PRC is available for all financial instruments.
- ✓ Cost effective. One single indicator, one single fee whatever securities your portfolio may contain.
- ✓ Easy to access. The PRC data set is made available through the same channels our clients already use for regulatory services.

Why choose SIX

The Product Risk Classification (PRC) from SIX supports several purposes:

- Comprehensive Regulatory Coverage: PRC complements the well acknowledged SIX regulatory offering, allowing customers to get different related services out of one hand. PRC specifically extends the available data universe required for suitability assessments (e.g., Target Market).
- Alternative Product Risk: PRC is independent of local regulations and, thus, offers an alternative risk figure to the established SIX PRI (Product Risk indicator) which is mainly driven by the European PRIIPs regulation.
- Risk Comparison: It provides a standardized framework for comparing the financial risks associated with different investment products. This allows investors, financial institutions, and regulators to assess and understand the relative risks of various products.
- Product Suitability: PRC helps ensure that investment products are suitable for investors based on their risk tolerance, investment objectives, and financial situation. Financial advisors use PRC to recommend products that align with their clients' needs and preferences.
- Regulatory Compliance: Many financial regulations require the assessment and disclosure of product risks to investors. PRC helps financial institutions comply with these regulations by providing a systematic approach to evaluating and communicating risks associated with investment products.
- Transparency and Disclosure: PRC promotes transparency in the financial markets by providing investors with clear and understandable information about the risks associated with investment products. This allows investors to make informed decisions and understand the potential outcomes of their investments.

Overall, our PRC plays a crucial role in supporting the promotion of financial stability, the protection of investors, and the integrity of the financial markets.

The components calculated for the PRC:

COMPONENTS	RISK MEASURES	FEATURES
MARKET RISK	VaR, Expected shortfall or Volatility.	Quantitative measures, employing a historical simulation approach
CREDIT RISK	Expected Loss 1Y (EL1Y)	Quantitative measures, extraction of default probabilities from the market
LIQUIDITY RISK	Synthetic Liquidity Indicator (ISL)	Quantitative measures, based on market spread and qualitative measures, based on product characteristics.

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