

Berlin, 24.05.2007

**Comments of Verbraucherzentrale Bundesverband (vzbv),
the Federation of German Consumer Organisations,
on the Questionnaire on simplified prospectus for retail investors Ref.: CESR/07-214**

We are grateful for the opportunity to comment on the Questionnaire on simplified prospectus (SP) for retail investors respecting UCITS. Many of the key issues relating to the SP are tackled in the questionnaire.

Our conclusions in brief: CESR mentioned that the current SP is ineffective and needs improvement for the average investor to be able to understand and use it. The average investor is an investor that doesn't know too much about investments and for whom the current SP is much too complicated. The danger lies ahead that the 'new' SP will also be much too complicated if it isn't reduced to the real core and key investor information. The SP has to be standardized, short (not more than two pages A4) and written in a plain, concise, understandable language that has to be the consumer's language. Consumer and market testing must be implied. The SP should be a document of its own and must ease comparisons between UCITS. Compensation must be possible without taking into account the full prospectus.

On the whole the SP should give an overall picture on the key features of the UCITS to the investor (esp. strategy, risk profile, costs, payments, termination) and tell him how to get hold of other important information (like the full prospectus or the ADR scheme).

1. What information should be included?

The Simplified Prospectus (SP) should be **standardized**. It has to be concise, focused and written in a plain and understandable language that has to be the investor's language. It should not be too long or complex (two pages A4 maximum).

The standardization also allows the **comparison of different offers**. Therefore a clear definition of the contents, structure and grouping of the SP is necessary. From our point of view the highlighting of deceiving information must be avoided, e.g. bold print of an extraordinary high historical interest yield that is unlikely to be seen in the future.

The SP should be **a document of its own**. As regards content it should not be linked to another document like to the full prospectus, to a webpage or whatever other medium of information. The existence of "special parts" of the SP like appendices where 'nasty' facts about the UCITS could be hidden should be avoided.

The incorrectness or misleading nature of a SP itself should give the **right to claim compensation** without having to take account of the full prospectus, like it is established e.g. in Germany in § 127 Investmentgesetz.

A main step in developing the new SP should be a **consumer and market testing** taking into account the different approaches to UCITS and different kinds of consumers and retail markets within the EU.

2. What substantive UCITS features do consumers need to know about?

Since UCITS has become a common financial product **the target of the SP has to be the less financially capable investor**. It is necessary that with the SP these consumers must get a chance to form an opinion about the suitability of the product and to compare different products.

The objectives of buying a UCITS can be very different: They range from short-time-investment for a quick "bargain" to long-term investment for the old-age. Therefore information about the different aspects and key features of the UCITS is needed to get an idea of what it is like.

The SP should give an overall picture on the key features of the UCITS to the investor (esp. strategy and risk profile, costs, payments, termination) and tell him how to get hold of other important information (like the full prospectus or the ADR scheme). Further ideas presented below should be taken into consideration, but always bearing in mind the objective of keeping the SP as lean and focused as possible.

Concerning the **profile of the investment** the SP should give information about the portfolio strategy and the options allowing the investor keeping influence on the investment.

The **significant obligations** of the investor should be pointed out. This illustration should include a clear description what premiums he has to pay and when he has to pay them. If significant risks arise from a non-payment of a premium those risks have to be presented clearly.

In order to get to know the **chance/risk-profile** it should be clearly described what chances and risks are included and what guarantees are given.

The **information about charges and fees** is an important part of a SP. This means information about the standardized TER (including costs for transactions within a fund), about the sales commission, loads, fees and special costs that have to be

paid by exercising special options. However it has to be worked out what the most important figures are and testing on the investor receptiveness should be done.

Information about the flexibility of the UCITS, possible options and risks/chances linked with those options should also be given.

3. What information should be provided about risks and rewards?

A **list of all significant risks** with respect to a UCITS should be included in the SP. The definition of significance must be seen in relation to the profile of the investment. If for example the portfolio strategy of a UCITS is directed towards an engagement in a special sector of industry, there must be a disclosure on the specific risks concerned.

The SP should also contain **a list of all significant guarantees** that are given including a clear description what is guaranteed concretely and for what point of time or timeframe. If significant risks arise out of taking advantage of a guarantee, those risks have to be described clearly.

The SP should include a statement of the **minimum recommended investment holding period** and explanations on the specific risks and costs related to an early termination.

The SP may include **a list of likely possible gains**, if such a possibility can be derived from generally accessible facts. A description of the possible risks linked to the gains has to be added. Mere historical figures can only seldom be seen as sufficient to manifest such a likely possible gain.

4. What information should be provided about strategy and objectives?

In the SP information should be given about the **basic philosophy and main objectives of the UCITS**. This should include information if the following objectives are also followed, and - if yes - in what way: ecological objectives, objectives of sustainability and social objectives.

Information about benchmarks or very complex portfolio strategies are difficult to mention in the SP because the necessary explanation for benchmarks or a complex strategy could be too complex for an SP and runs contrary to the idea of a plain, concise, focused and understandable SP.

5. How should past performance information be presented, and for what time period?

If past performance information is presented there should be **a standardized way of presentation and notation with fixed timeframes** (e.g. 2, 5 and 10 years) that must be used in all Member States. If the UCITS is younger than the given timeframe it should be explained that this UCITS is too young to give that information and that the significance of figures would be strongly reduced (this also applies for the use of a zero figure).

6. How should information about charges and fees be presented?

The SP should contain a **description of all significant charges and fees**, first of all the **TER**. Therefore a clear, European-wide definition of the TER – given as a percentage of a premium - has to be developed (also see our comments under 2.).

In addition information about the **sales commission**, the **load** and **further additional costs** – e.g. management fee, administrative expense – could be added (in cash terms) as well as costs that arise from exercising special options e.g. by terminating the UCITS before the agreed date (also see our comments under 2.).

The consumer should have the right to get current information about these figures and an explanation for the measurement of them whenever he asks for it.

7. How could the packaging of funds into different end-products be handled?

It is obvious, that the range of possible end-products containing UCITS can vary a lot. Especially the last years have shown that it is not predictable what kind of new end-products will be developed in the future. Therefore in addition to all UCITS the SP-regulation should be used also for those end-products, where a significant component of the product consists of UCITS or UCITS-a-like-components. Providers of those end-Products should be obliged to give information on the package supported by a kind of 'UCITS-package-SP'. Also information on the costs added by the packing should be included here.

8. How far should the information be harmonized between firms and between EU members?

In order to improve transparency and comparability and cross-border selling of UCITS it is very important to **harmonize the contents and presentation of the SP between firms and EU members**. The SP must be given **in the consumer's language**.

9. Would it be useful to specify how this information should be presented?

To ensure the comparability between various SP the layout of the SP must be specified and standardised. This means for example a specific order of the given information. We recommend **a special form** - respecting the different kinds of UCITS – being developed. This process should be supported by **consumer testing**.

10. In what form should the information be delivered?

The SP must be available as hardcopy and on the web. The investor should always have the **right to get the SP as a hardcopy**. If he doesn't wish to or if it is not possible to hand him the SP in time it should be possible to provide the SP in another media. In this case the provider of the UCITS has to ensure an active sending of the SP to the consumer, e.g. via E-Mail. The investor should be asked if he has received the SP. It should not be sufficient that for the investor it is only possible to find the SP somehow on the web.

In addition the consumer should have **the right to get the information he wants about current charges and fees (whenever they change) as hardcopy**.

11. How should we ensure consumers get information in sufficient time for it to be useful for their investment decision?

The consumer should always have **sufficient time** to decide if he wants to invest in the UCITS or not and if he agrees with the given terms. Therefore he should have the right to get an SP that is plain, concise, focused and understandable within the given time. It should be taken care that in preparing the investor decision also intermediaries and advisors must make use of the SP.