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CESR's questionnaire on simplified prospectus for retail investors
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Danish Shareholders Association, DAF, is the organisation representing private investors in Denmark.

General Comments

Economic theory is based on the concept of "economic man". The person who reads the full prospectus and who knows the law by heart. His decisions are always based on full information and understanding of economic consequences. Economic man does not need a simplified prospectus.

But the "average private investor" does not read the full prospectus. He does not know the law and his decisions are based on very little information and a lack of understanding of economic consequences. The average private investor reads only very little, he needs a simplified prospectus written in a clear and understandable language and printed on not more than 2 A4 pages. And then he needs a qualified, independent advisor who can help him through this simplified prospectus.

The following is a reply to the questionnaire, but the questionnaire in itself calls for answers that will lead to a simplified prospectus, that will neither be simple nor used.

The simplified prospectus (SP) should be a document giving the private investor an overall picture of the UCITS and especially information about the risks, the risk profile, the costs, and the possibility to exit the investment. In addition the SP should give information about how to get access to the full prospectus.

The SP should be a document that an advisor would be interested in using when discussing investment possibilities and strategies with a private investor.

SP should disclose the information needed for a considered investment decision. The information should be presented so that comparisons between different UCITS are easy.

Another approach could be to create not a new SP but a “fact sheet” giving only the most crucial information: Strategy, risks, costs, exit conditions. Such fact sheets could be developed for other investment possibilities as well and used for comparison at a very basic level.

1. What information should be included?

Information should be presented in a way that eases the reading and understanding.

One possibility would be to highlight key information in a first part of the document and then give more information and important legal information in a second part. Special technical information and terms should be explained and illustrated by examples, if possible.

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

When the unit was created
Place/country of registration
Structure of the unit (different compartments)
Management Company
Depositary
Auditors

The strategy
Guarantees
Type of investor aimed at
Tax regime
Entry and exit conditions and costs
Compensation schemes

The SP should aim at the “average consumer”, a person with very little knowledge and understanding about financial matters and the risks and costs that can be related to an investment.

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

A synthetic risk statement spanning from “very low” to “very high” can be an opening statement. It should be followed by tables and/or text showing the pros and cons of this investment highlighting the particular risks with quantification of their contingency and/or potential impact whenever possible.

If a minimum holding period is recommended, an explanation should be given about the extra risks, costs or uncertainty related to early exit.

Information about potential gains is a must. The strategy cannot be disclosed without saying something about the gains expected as a result of the strategy. The balance between risk and reward should be disclosed.

Funds as well as benchmarks past performance should be disclosed.

In case of start-up funds scenarios, the returns should be presented under different hypotheses.

It is important that the risks are explained so that it is possible for the investor (and his advisor) to understand how this fund is correlated with other products/markets.

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

The information on strategy and objectives should make it possible for the investor to understand the “nature” of the fund. Plain-language description of main investment features is part of such an approach. Benchmarks especially objective benchmarks such as official indices or interest rates should be used.

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

It is important to signal that information on past performance is no guarantee of future performance.

If a certain holding period (investment horizon) is recommended, then information should be given about how differences in holding periods would have influenced the results in past periods and how different entry dates have influenced the results.

If information is only given on past performance, information on the two worst years should be mandatory.

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

In addition to or instead of total expenses ratio (TER) should be given information on “TER plus transaction costs” which is a more informative figure. The information should be calculated for a fixed holding period e.g. 7 years.

A general standard fact-sheet approach – not only regarding costs - will significantly improve investors possibility to compare the quality of different UCITS.

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

Information related to packed funds should be given by the provider of the end-product.

This provider should be obliged to give information on the package following corresponding to the SP information. This “package SP” should especially give information about potential new or added risks and costs. The conditions related to exit should be explained.

The “package SP” should disclose information on the costs (TER and /or “TER plus transaction costs”) of the packed UCITS and the costs added by the packing.

The provider should be obliged to deliver the SP’s of the involved UCITS to the clients on request.

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

The SP today is only partly harmonized between member states.

If the internal market shall be a reality for the private investors will it be necessary to harmonize the content (and presentation) of SP’s totally between member states.

In each host country information must be added on local conditions.

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

A standard fact-sheet presentation would make comparisons easier – over time and across borders.

10. In what form should the information be delivered?

The SP should be available on the web and as hardcopy.

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

It should not be possible to buy UCITS on the net or otherwise without being offered the SP and without being asked: Have you read the SP?

Intermediaries should use the SP in their relations with retail clients from an early stage.

It should be part of the duties of an advisor to use the SP to compare and discuss different investment opportunities, the risks and the costs.

Yours sincerely

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