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SUBJECT: Questionnaire on Simplified Prospectus (SP) for Retail Investors

DECO is the Portuguese Consumers Association and, at the moment, we have more than 300.000 associates. DECO is member of BEUC (Bureau Européen des Unions de Consommateurs), which represent 36 national consumers associations.

General Considerations

We completely agree on a short document with key information and legal strength.

The new document with “key investor information” should include succinctly meaningful information on cost, risk and potential benefits of proposed UCITS investment in a manner which is helpful and comprehensible to a potential retail investor. Therefore, we think that the retail investor needs to know the most important information:

- Legal information about de Management Company and Distributor;
- Objectives of the fund and strategy pursued (investment policy);
- About the three main aspects for investments (Security, Liquidity, Income)
 - Security (existence or not of the investment guarantee; existence or not of the compensation scheme)
 - Liquidity (number of days of in which the investment is available in account - previous delay for liquidation; information about the minimum recommended investments holding period; forms of transaction - market or banks)
 - Income (tax regime; costs; existence or not of minimum guarantee profit)

Question 1

Consumers prefer short documents, and they do not want references back to other documents or websites, to maintain the focus in important aspects. Naturally, a short paper isn't able to contain all the details concerning the UCITS investment, so the mention to the existence of other documents or websites is still necessary. The complete prospect must always be present on the web site of the

distributor. However, all the important information concerning the investment's decision, all the essential details to retail investor should be included in the new SP. We don't think that splitting the SP in two different parts, with the key investor information (KII) highlighted in the first one, is the best solution. Last, but surely not the least, consumer do not want to have significant information presented obscurely, or hidden away in the last page or in very small letters.

Question 2

First of all, the KII shouldn't target the average consumer, but the less financially capable investors – if the SP isn't comprehensible to all investors, than we have failed our purpose.

Consumers need to know some general information, including: UCITS name, category, legal aspects of both distributors and intermediaries, short presentation of managers, like we mention in the "General information" above.

One key aspect is security: retail investor wants to know if there is a compensation scheme, or if there is any additional contrat guarantee associated to ther fund.

Other important item is liquidity: when can retail investor sell his participation (period in which he has to hold his participations), and if the transaction period is wide open or, on opposite, if is closed to some periods.

Finally, consumer want to know about income: if there is a guaranteed profit, the UCITS' tax regime, the total expense ratio (TER).

Question 3

Risks and rewards are a delicate subject. Thus, the retail investor must understand very carefully the potential gains, but also the possible risks that his investment's decision holds. The use of financial leverage doesn't help his decision, so we think that the information about risks should be presented in a synthetic risk statement, drawn from a scale spanning from "very low" to "very high" risk¹. The inclusion of a minimum recommended investment holding period is essential.

Regarding the potential gains, the new vSP should include the description of funds and benchmarks past performances, with a standard period for all kinds of funds (5 years). We think that it's not suitable to give simulated scenarios or the results of back-testing, because that would surely confuse the retail investor – in case of new innovative funds or benchmarks, investors must be clearly advised to this situation.

Question 4

¹ On our weekly financial analisys, *POUPANÇA QUINZE*, we have a similar evaluation

We consider that the objective of the fund and the strategy pursued are essential components of the KII, so we support the introduction of main investment features and benchmarks in the SP.

Therefore, if the strategy has been changed lately, the indication of past performances must reflect that different approach, in order to avoid misjudgments by the retail investor when considering funds and benchmarks past performances (see question 3).

Question 5

In fact, past performances can be misleading for some consumers, but we think that this information should be presented to the consumer in a very simple way: a table²; bar charts or graphs are less objective. And we also think that it's essential that, in each and every Member State, the past performances are presented in the same standardised way, so retail investors can understand the SP wherever they are.

On the other hand, 10 years is too much time, a period of 5 years (if not possible, at least 3) is enough to retail investor understand the fund's evolution.

The display of past performance should indicate a recommended holding period but, moreover, that indication must contain a sentence referring to the fact that past performance is no guarantee of future performance – this is an essential remark, which every new SP have to include.

Question 6

Retail investors must know:

- initial fees in percentage rates;
- exit fees in percentage rates;
- management costs in percentage rates (and depositary costs if it's not included in the management cost);
- inclusion of an example with figures in cash terms (to show the impact of the different costs);
- 'Total expenses ratio' (TER). The term 'total expenses ratio' (TER) is, in fact, misleading, so we think that the overall charges should be represented in two different ways (lines): in the first one, TER would include initial, transaction, management and exit charges; in the second, TER would be presented without the initial costs.

Question 7

When the UCITS are sold on a different context, for example as parts of other products, the retail investor has even more difficult to comprehend all the information. In these cases, a full, complete explanation of the charges, features and restrictions of that kind of products must be presented to the consumer.

² We use a table to present past performance information on *POUPANÇA QUINZE*

That's the reason that we want a standardized form with key investors information for all financial products. The investor must have the possibility to compare all kinds of financial proposals, and that includes the UCITS. Why a structured product, saving account or life insurance should have a different treatment?

Question 8

Consumers live in a large Single Market, where competition between sellers and producers is a key factor, so naturally it's important for retail investors to compare the UCITS of different firms and those sold cross-border from other Member States. For comparison purposes, the information about costs, risks and potential benefits has to be included, and presented in the same way.

The standardisation of KII is extremely important in promoting investor understanding, so the SP format must be defined previously by European Regulators and applied to all European Members, in order to improve the consumers educational level of the financial services – a simple and clear way, repeated exhaustively, could solve this problem.

Question 9

Although it seems an irrelevant question, the way that KII is presented isn't a minor aspect: consumers prefer visually appealing information, with highlights on key elements and clear underlined warnings. More important, all of this should be given on standardised form, as we have mentioned above.

Question 10

Information should be delivered in every possible forms to the retail investor, mainly by hardcopy, a simple way to keep a record of it. Moreover, that same information should be accessible through the web, in every subscription channels used (or possibly used), and also in the websites of distributors and intermediaries. The investment decision shouldn't be accepted if the consumer doesn't confirm that he had access to KII.

Question 11

Consumers need KII in order to make his decision, so all documents must be available to everyone. Our association demand a kind of guarantee, destined to assure and prove that retail investors effectively know the KII and afterwards decided to invest.

Yours sincerely,

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