

**Association Belge
des Consommateurs
Test-Achats**

Association Sans But Lucratif

Rue de Hollande 13
B – 1060 Bruxelles
Tel : 32-2-542.32.11
Fax : 32-2-542.33.67
www.test-achats.be
europe@test-achats.be

Questionnaire on simplified prospectus for retail investors Ref. CESR/07-214 Contribution from the Belgian Consumers Association TEST-ACHATS
--

Test-Achats is the Belgian consumers association and has 340,000 members. Test-Achats is a member of BEUC (Bureau européen des Unions des consommateurs). It represents Belgium in the ECCG (European Consumer Consultative Group) and has been recognised by the Commission as an entity qualified to bring injunctions at Community level to protect consumer interests. Test-Achats is also a member of Euroconsumers, a European group of Belgian, Italian (Altroconsumo), Spanish (OCU) and Portuguese (Deco) consumers associations.

The present document presents a summary of the positions of the Belgian consumers association Test-Achats in the debate on disclosures retail investors should be provided with in order to make an informed decision on investment products.

From the consumer point of view, the proposed concept of key investor information (KII) made by the Commission may be considered as an answer to address consumers' needs of short, simple, adequate and comparable disclosures.

Anyway to guarantee consumers' rights KII should be given all **legal force** traditional contractual information is bearing.

KII should be delivered in a **regulated framework** defining not only a **harmonised content** but also giving consumer the assurance that that information is **effectively delivered** to any potential investor, within **appropriate time** to be useful and **whatever the distribution channel** may be.

Responsibility of an effective delivery to end-investor should be beared by the distributor, the unique real consumer's interlocutor and the only actor having a global view on local specificity linked to the chosen distribution channel or applicable tax regime. Manager should then be responsible for the delivery of the keys information (whatever distribution channel) to distributors.

Question 1: what information should be included?

To avoid falling again in the simplified prospectus (SP) drawbacks, KII should focus on the essential information from which investor can effectively make an informed decision: protection aspects, risk-reward profile, liquidity and cost aspects are the main points to be focused on.

This straightforward information should fit in a single 1- or 2-faced document without any information presented obscurely or hidden in small fonts. Multiplying the number of documents would fail the objective of keeping it short and simple and is therefore not an option to explore further.

Reference to the full prospectus and the way to get it effectively is a must. This can be achieved by mentioning website, telephone number and postal address where the information is to be found unconditionally. Full prospectus is the place where all technical information or other explanation with standard examples for instance should be made available whenever needed.

Question 2: what substantive UCITS features do consumers need to know about?

KII should focus on the following items:

- **Investment strategy** or objective explained in plain language understandable for a large public
 - **Risk** information including the existence of any **guarantee or protection** as well as the moment when that protection is effective (at any time or only at redemption in the case of structured products), the existence of a **compensation scheme**, a recommended **holding period** as well as a simple **synthetic indicator** (pictogram or other class of risk expressed in a simple way) based on the volatility
 - **Cost** information making a distinction between recurrent and not recurrent (one-shot) charges. **Recurrent charges** should be shown in the form of a Total Expense Ratio presenting in percentage ALL recurrent costs (including transaction costs) calculated on a year basis. **Non recurrent charges** should mention entry and redemption fees.
- All additional costs linked to the packaging (tax or insurance wrapper, ...) should be included so that the investor get a view on the global charge he will have to support (in)directly.
- Local information such as **Tax regime** which may influence investor's choice
 - Subscription and redemption **practical modalities**

Question 3: what information should be provided about risks and rewards?

Besides the existence of any guarantee, protection, a clear view on the global risk should be given. To best capture this often multi-aspect concept, several meaningful tools should be given to the investor such as a minimum recommended holding period AND a synthetic risk indicator.

Highlighting particular risks with a specification of their contingency and/or potential impact may also be helpful.

Information on potential gain should absolutely avoid any misleading views. This is probably one of the most sensitive issues.

Some realistic forward-looking information could certainly be a useful tool for consumer to make an informed decision. A fork indicating potential gains for a large spectrum of probability (for instance 90% or 95%) within a given time-horizon (or several ones) would help him identifying the main realistic scenarii.

This type of information should obviously be **balanced** and not only focus on the best case scenario which is often put forward in commercial communication. For instance, attention of investor should be drawn on the fact that probability to get only money back (without any gain) at final redemption of a structured product is not that negligible.

As far as past performances are concerned, a strictly regulated framework is absolutely necessary. The attention of the investor should be drawn on the fact past performance is no guarantee for the future. If presented, both fund and benchmark past performance should be mentioned in a way they are compatible with the minimum recommended holding period. No use to focus on short term performance figures if recommended holding period is long. Doing this would clearly be misleading.

Question 4: what information should be provided about strategy and objectives?

Investment strategy and objectives should be clear, concise and self-explanatory. The investor should be able to understand the objective of the product he is proposed. Mention of a benchmark may also help defining it if sufficiently known.

When a substantial change in investment strategy has occurred it must be mentioned as well as the moment it took place.

All technical details should be found in the Full prospectus.

Question 5: how should past performance information be presented, and for what time period?

Information about past performance shouldn't be seen as the main element to base consumer's decision on.

Nevertheless if presented in a standardized way for all products AND in relationship to relevant benchmark performance, this information could be useful for comparison purpose.

To avoid any confusion for retail investor, cumulative performance on period longer than 1 year should be prohibited.

Several time periods could cover different market situations but compatibility with holding periods should exist: if a 1-year performance figure may be relevant for a cash-fund it is clearly misleading for an equity fund.

Standardized figures in a table for **both fund and benchmark** could contribute to help investor make comparison between similar investment proposals.

Question 6: how should information about charges and fees be presented?

Charges and fees disclosure should response to both **exhaustiveness** and **transparency** considerations in a simple and understandable way.

Information should be given on **ALL** charges and fees consumers will support directly or indirectly given the wrapper he is proposed.

To make it clear and to avoid any misleading interpretation a distinction should be done between **recurrent** charges (presented on a yearly basis) and **no recurrent** charges (one-shot fees). Combining these two kinds of charges in one single figure would fail to match transparency objective in the way one-shot charge would have to be amortized on a holding period which can vary from one consumer to the other one. Holding period would also have to be different according to the intrinsic nature of the proposed investment (cash, bond, equity).

Recurrent charges should include ALL charges consumers support and be transformed into a single percentage of the investment. Percentage is the best way for the consumer to make it consistent with other information he gets. A clear percentage will give him a better view on the impact of all incurred charges. When sovereign government bonds yield 5% and the recurrent charge is 2% it's clear for him to understand the impact of recurrent charges.

Recurrent charges should be presented as a large standardized Total Expense Ratio also including transaction cost which can be converted into a percentage (a posteriori just as for other posts based on result sheets). Including those unavoidable recurrent transaction (brokerage) fees would give a better view on this post which will be clearer than an obscure portfolio turnover.

Splits of costs based on other elements than recurrent/no recurrent nature is not useful for consumers. It's no need for him to know in all details (to be found in the Full prospectus) to which post each part of the TER is constituted of.

As far as wording is concerned, the concept of Total Expense Ratio would gain in transparency if focusing on the idea it's calculated as of a yearly recurrent cost indicator.

Next to this large recurrent TER, all one-shot (not recurrent) charges should be mentioned as well as the moment when they are supported (entry, redemption fees, ...).

We insist charges should be considered in the given context the product is proposed to consumer. In other words all lays of costs for a given package (life-insurance, fund of funds, ...) must be included. Otherwise no clear global view of the total charges can be achieved and the objective of exhaustiveness wouldn't be met.

Question 7: how could the packaging of funds into different end-products be handled?

From consumer point of view no « wrapper » should be used to introduce one more charge level not included in the global view investor should have the right to be given.

KII could achieve the objective of such an exhaustiveness if left to the distributor the responsibility to include all costs end-clients support when opting for the distribution channel that specific distributor is in charge of.

KII should be harmonized so that all packaging could benefit of such disclosure, whatever the wrapper or more globally whatever the investment product.

Question 8: how far should the information be harmonized between firms and between EU Members?

Cross-border commercialization makes it necessary to provide consumer with harmonized information. That's the only way to make comparison possible and contribute to an informed decision process for the consumer.

All part of the KII should be harmonized not only to allow comparison but simply to make it **usable** for consumer. Handling 27 types of information would clearly fail the objective of providing consumer with simple and relevant information to make an informed investment decision. No need to make the jungle thicker with multiple ways of presenting information aiming the same objective.

All relevant local information should be added by distributor, the unique real interlocutor consumer faces

Question 9: would it be useful to specify how the form and mode of delivery of the information to the investors should be presented?

Being clear on the form and the mode of delivery is essential to be sure the information effectively gets through consumers.

As said before, a standard presentation will make it more usable for a larger public, just because it will be simple to find one's way if presentation is the same whatever the product, distribution channel, or wrapper,...

Accessibility to any potential client should be effective.

Question 10: in what form should the information be delivered?

Only **both** hard-copy and delivery through the web would assure any potential investor to get the information he needs.

Question 11: how should we ensure consumers get information in sufficient time for it to be useful for their investment decision?

To be useful for an informed investment decision, KII should be delivered to any potential investor before the moment the investment is executed.

It should be avoided that investor just signs a document/clicks on a disclaimer confirming he knows all information whereas he wouldn't have been given the time even to read the information.

A cooling-off period is an option which could ensure consumers has effectively been given the opportunity to make his decision on an informed way.