

Better EU standards for investment products



The Commission published on 29th April a Communication on Packaged Retail Investment Products, announcing an important initiative to help consumers get a fair deal when buying investments.

A wide range of 'packaged' investment products are sold to consumers in the European Union. These products include investment funds, unit-linked life insurance products, and certain kinds of 'structured products'. Many of these products are complicated and difficult for investors to understand. Their risks can be opaque and their charges far from transparent. Also, those selling the products are sometimes paid by the product originator, leading to conflicts of interest.

More consistent EU standards, an identified need

To create more transparency, there are existing EU standards on the information that must be provided about the products and the ways in which the products can be sold. The aim of these standards is to ensure investors receive the information they need when they need it, and in a form they can understand. Moreover, these standards aim to ensure that investors are treated fairly by the banks or other financial institutions that are selling investment products.

So far, these standards have been developing in a piecemeal way. They differ depending on the kinds of products offered and the people who sell them. This confusion is exacerbated by the fact that there are some gaps in the system, where some products are not covered by any EU standards at all. There is also evidence that some of the existing standards are not effective enough: some products are not well explained and investors are not always treated fairly. For instance, information can still be too long and contain too much jargon, or it can be difficult for investors to separate key information from less important information. Moreover, investors can sometimes be advised to buy products which are not appropriate for their needs.

Another problem with inconsistent standards is that investors often find it hard to compare different products when deciding how to invest. Variations in standards could distort the retail market. For instance, firms might try and avoid more onerous standards by purposefully making products that are subject to lighter standards. This could increase risks to investors, as the lighter standards might be less effective.

Some Member States have already introduced rules to address these problems, but the differences in the existing EU legislation mean these rules can only go so far. Also, Member States have tackled the problems in different ways, and not all have acted, leading to even bigger differences for investors across the EU.

The Commission has been looking at these problems for a number of years, and launched a "Call for Evidence" in 2007, followed by a workshop and open hearing for concerned stakeholders in 2008. As a result of this consultative work, the Commission has concluded that improvements are necessary.

The financial crisis has made this work even more urgent: it has exposed poorly performing investments, where retail investors were taking on more risk than they intended. In some cases the guarantees on products have unexpectedly failed.

Investor's needs to take centre stage

The Communication on Packaged Retail Investment Products starts a process of making the laws on the different investment products consistent, to raise standards and to ensure that investors are guaranteed to get the key information about these products. Information will need to be written so that investors can understand the products and their risks and costs, and presented so that they can better compare different products. Another important part of this work is that when an investor buys one of these products, consistent and high standards will also always be applicable to whoever sells the product to them. The needs of the investor should always take centre stage.

These changes should help consumers to be more confident about the information and services they receive. The changes should also help consumers to make more informed choices about the kind of investments that suit their needs.

However, these improvements are not likely to be enough on their own. Work on financial education and training will also be important in helping investors to better protect their own interests.

Additional research and consultation will help the Commission fine tune the detail of the necessary changes. A first orientation on the form and content of the changes will be published by the end of 2009, paving the way for formal legislative proposals in the course of 2010.



Info

Timothy Shakesby Tel. +32 22968565
Timothy.Shakesby@ec.europa.eu