



EUROPEAN COMMISSION

MEMO

Brussels, 3 July 2012

Key Information Documents (KIDs) for packaged retail investment products - Frequently asked questions

1. What are Packaged Retail Investment Products (PRIPs)?

PRIPs are at the core of the retail investment market. They cover a range of investment products that are marketed to retail investors which, taken together, make up a market in Europe worth up to €10 trillion. These are the investment products retail investors would typically be offered by their bank when they want to make an investment, e.g. to save for retirement or some other target like buying a house or paying for their children's education.

Although there is no rigid definition of PRIPs and they take a variety of legal forms, they can be distinguished by the broadly comparable functions they perform for retail investors. They typically combine exposures to multiple underlying assets; they are designed to deliver capital accumulation over a medium- to long-term investment period; they entail a degree of investment risk, although some provide capital guarantees; and they are normally marketed directly to retail investors. Broadly speaking, they can be categorised into four groups: investment funds, insurance-based investment products, retail structured securities and structured term deposits.

2. What problems are being addressed?

The retail investment market is a difficult market for consumers to navigate. There is a gulf in understanding between providers and distributors on the one hand and retail investors on the other. This is particularly the case for PRIPs which, while offering considerable benefits for retail investors, are often complicated and opaque. The information that is available to investors can be overly laden with jargon, complex and difficult to use for comparisons between different investment products. There are also conflicts of interest in the sales and advice process which may not result in outcomes that are in the best interests of the investor.

It can be difficult to quantify precisely the impact of these problems on retail investors, although evidence gathered through the consultation process¹ indicated that it can be substantial. Consumers were not always fully aware of the scale or nature of the risks they are taking on, or they purchase investments which are not well-suited to their needs, or which represent poor value for money. These problems can lead not only to financial losses for the investor, but, when taken together, a wider loss of confidence in the retail investment markets. The problems have implications for the efficiency of the market and the ability of retail investors to make appropriate use of their savings.

3. What are Key Information Documents (KIDs) and what will they include?

KIDs are short, plainly-worded documents – no more than a few pages long – that will provide investors with answers to the key questions they have about the features, risks, and costs of investment products.

They are designed for the retail investor rather than the professional. They will help the retail investor make a more informed decision on whether an investment is right for them.

So the investor can better compare investment products, every KID will follow the same structure. They will answer a standard set of questions, such as: What is the investment? Can I lose money? What are the risks and what might I get back? What are the costs?

Information that is vital for comparing different investments – on how risky the investment is, on whether it has guarantees and what these are, on the costs of the investment – will be carefully selected and presented so as to make comparisons as easy and as accurate as possible.

4. Why do we need KIDs?

A very wide range of investment products are sold to EU consumers. However, these investment products are often complex, and information about them is written in a very technical way or presented so it is difficult to compare different investments. Because of this, consumers can fail to properly appreciate the risks, costs or features of products. The financial crisis has underlined the impact of this: retail investors lost on investments, sometimes in a personally devastating fashion, where the possibility of these losses was not understood beforehand. Investments believed to be safe were not always as safe as they appeared.

¹ http://ec.europa.eu/internal_market/consultations/2010/priips_en.htm

This has undermined consumers' trust in financial services. A recent consumer market monitoring survey from 2011² showed low levels of consumer confidence specifically in financial services – which scored lowest for services – and this lack of confidence itself undermines sound and effective investment and growth in the EU. Clear and transparent information is a vital foundation for sound markets, a necessary building block, which can also be a foundation for empowering consumers themselves.

5. Why is the EU taking action on KIDs rather than leaving the issue to the Member States?

The EU has a unique vantage point for creating a consistent approach – something that is crucial for comparisons across products, including where these are sold across the EU and not only in one Member State.

This proposal from the Commission is an effective and proportionate way to ensure consumers can rely on strong rules for different products throughout Europe and across all industry sectors. Consumer-friendly documents about investments should always be available that are easy to compare.

6. What investments will the KIDs cover?

All the key investment products are covered. This includes structured products, whatever the underlying legal form these take, insurance-based investments (including unit-linked and 'with-profit' products), and all kinds of funds. These products carry particular risks for the investor or are more complex to understand and compare. To allow for comparisons, KIDs will also be required for products that have guarantees, for instance for the invested capital, as long as the returns on the investment vary (are 'at risk').

Some of these investments might be used for private pensions. KIDs will be needed for these too so consumers can compare them. However, a KID has only to be produced when the products are to be sold to retail investors: this is not a document for professional investors. However, the proposal does not apply to occupational pension schemes or to pension products for which the employer is required by law to contribute financially and where the employee has no choice as to the pension provider.

7. Why are some direct investments or simple savings not covered?

For direct investments, the investor is buying assets such as shares in companies themselves. In this case, banks, insurers and fund managers are not 'packaging' the investment into a 'shrink-wrapped' product to be marketed and sold to retail investors as a convenient way of investing.

This packaging of investments raises costs and complexity and makes investments more difficult to compare. All these aspects warrant stronger investor protection and transparency measures for packaged investments compared with direct investments. The Commission's impact assessment work³ also suggests that packaged investments make up the important core of the retail investment market in the EU, so focusing on these to begin with makes good sense.

² See http://ec.europa.eu/consumers/strategy/docs/EC_Market_Monitoring_2011_en.pdf p. 31.

³ See http://ec.europa.eu/internal_market/finservices-retail/investment_products_en.htm.

Simple savings products are not covered because these are easier to compare and understand; the saver generally only has to consider different interest rates. In general, the information needed to compare these differs from that needed for the products covered by the KID.

8. Does the Commission plan on expanding the type of investment products covered by KIDs?

Once the KID has been established for packaged investment products, it should be reviewed to see whether the scope of the document can be practically extended to cover a wider range of investment products. Assessing whether to extend the scope of the KID also depends on future innovation in the financial markets.

9. What about other disclosures that investment product manufacturers or distributors might be required to produce or provide?

The KID is a new concept that is innovative. It places a new emphasis on keeping information short and focused on the key features of the products. For this reason it has been designed to stand on its own. In the future, we will assess whether other disclosures produced under different regulations – which can provide more detailed information than in the KID, or information for other purposes – should be amended or adjusted in the light of the development of the KID.

Additionally, proposals on how investment products are *sold* are being examined separately, through the revision of the Insurance Mediation Directive (see [MEMO/12/516](#)) and of the Markets in Financial Instruments Directive (see [IP/11/1219](#) and [MEMO/11/716](#)).

10. How are UCITS (Undertakings for Collective Investment in Transferable Securities) funds being treated?

A similar document to the KID has only just been introduced for UCITS – the key investor information document. UCITS however also fall within the scope of the KID proposals.

To allow the key investor information document for UCITS to flourish, we propose that UCITS are exempt from the new requirements for a transitional period of five years. The ultimate aim is however for all investment products to be accompanied by KIDs, and that the documents for all investments products are as comparable as possible. Possible refinements to the UCITS key investor information document will therefore be considered in light of the end of this transitional period.

11. Why are the proposals not exactly the same as the key investor information documents for UCITS?

The UCITS key investor information documents are designed for UCITS. For this reason they contain information that is not relevant for some of the other investments being sold in Europe; and, in some cases other investments have features not found in UCITS – such as insurance benefits, or fixed investment terms. The kinds of risks the products have can also be different.

For these reasons the KID cannot completely follow the UCITS model.

However, key information – for instance on costs, risks and performance amongst others – need to be made as comparable as possible. To take this into account, it is proposed that the KID includes risk information including a risk indicator that can be directly compared with that for UCITS, and information on costs that shows the real costs of different products so they can be compared in a neutral and objective way.

12. Who will have to produce the KID?

Because investment product manufacturers know their investment products best and are responsible for creating them, we propose that they should be responsible for producing the KID. They may delegate production but would remain ultimately responsible for the document.

13. Who will have to provide the KID to investors and when?

The proposals require that whoever is selling an investment to a retail investor is responsible for giving the document to them. This would often not be the investment product manufacturer themselves, but an intermediary.

The KID is designed to help retail investors make an investment decision; for this reason it is vital they are given it while they are weighing their investment options, before they make a decision.

14. Why do you cover private pensions? Are these not very different from investments? Does the proposal not take too much of a 'one size fits all' approach?

Investments made for the purposes of a private pension are often the same or extremely similar to other kinds of investments, so it is important to be able to compare them.

There are some features of private pensions that are different however. For this reason our proposal is to include specific information for these products, e.g. on what to expect as a possible pension when you retire.

In general, the proposal is for a high degree of standardisation of KIDs, but the goal is not to impose a 'one size fits all' approach. Differences between products need to be reflected too. For this reason, the proposal allows for implementing measures to clarify how differences can be handled, and for some flexibility so that KIDs can be produced for all the different products that are within its scope.

15. What are the costs of KIDs?

Our proposal was developed after an extensive consultation period and is supported by a robust impact assessment of different options, supported by studies designed to show what kind of approach might be most effective for retail investors⁴. This work showed that simplifying and standardising information is vital for investors, since it would encourage them to use documents and to understand and compare different investment products. These findings have therefore been central to the approach developed.

⁴ http://ec.europa.eu/internal_market/finservices-retail/investment_products_en.htm

Evidence from the introduction of the key investor information document for UCITS can be used for a best estimate for the retail investment market as a whole – Commission impact assessment work suggests possible one-off costs of around €171 million, and ongoing costs of around €14 million per year.⁵ Given that new products have typically dominated sales to retail investors, costs would likely be absorbed relatively quickly as the new regime settled in. Consistency in approaches between industry sectors and national markets would also potentially reduce costs over time.

The impact assessment shows that the benefits of bringing in the KID will outweigh the costs over the longer term. Clearer, simpler, and more comparable information about products will be a strong basis on which to develop better investor confidence, trust in financial services, and sounder investment decisions. Greater trust will also contribute to more effective capital markets in the EU – markets capable of driving stable, long-term growth in the real economy.

Consistency in requirements between different industry sectors and different Member States will also help competition and the growth of the single market.

16. When will the KID be in place?

The Commission's proposal will now go to the European Parliament and the Council for their consideration under the codecision procedure. Once they reach agreement, detailed work would be done by the Commission with the input of experts, consumers and stakeholders on the implementing measures. The full proposal could be expected to be in place by the end of 2014.

17. Are there any examples of the problems the KID will tackle?

The Commission's consultation and impact assessment work have identified many examples of the problems faced by investors. For example, the Ombudsman in one Member State recently found 12-year subordinated notes being sold to the very elderly. Risks of exiting these investments were not fully explained. In another example, a study for a consumer affairs ministry in one Member State suggested that up to 50-80% of consumers could be terminating long-term investments prematurely, indicating investments were made that were not suited to their investment or savings needs. On an EU-wide level, a mystery shopping exercise by the Commission indicated that up to 60% of sales of investments could be considered unsuitable or not in the best interest of the consumer.⁶ The quality and neutrality of advice is part of addressing these problems, but so is improved transparency about the investments themselves. Better disclosures about the features, risks and costs of products through the KID are vital. Consumers have themselves called precisely for better, more standardised information, seeing lack of comparability as a key barrier to more informed shopping for investments.⁷

⁵ See the impact assessment on http://ec.europa.eu/internal_market/finservices-retail/investment_products_en.htm, p. 44.

⁶ http://ec.europa.eu/consumers/rights/docs/investment_advice_study_en.pdf.

⁷ European Commission, 2009 - Commission staff working document: on the follow up in retail financial services to the consumer market scoreboard. http://ec.europa.eu/consumers/rights/docs/swd_retail_fin_services_en.pdf, p.5.