



**EUROPEAN COMMISSION**

**STATEMENT**

Brussels, 15 April 2014

**The right investment to suit your needs: basic information document will help retail investors make the right choice**

The European Parliament today endorsed the outcome of the inter-institutional trilogue of 1 April and voted in a new pre-contractual information document for retail consumers. This document will have to be given to all retail consumers before they buy an investment product offered to them by a bank, an insurance company or an investment fund. The new information document will have to indicate what the product invests in, what its risks and potential rewards are and what total costs will come the consumers' way in the course of the product's life cycle.

Internal Market and Services Commissioner Michel Barnier said: *"Too often, retail investors are caught out because the financial industry sells them products they neither understand nor need. European consumers need to know in simple language what they are investing in, and what the risks are. In line with the Commission's original proposal, Parliament has agreed that all investment products offered to retail investors must have a basic information document to help consumers make the right choice. This measure is essential to restore consumers' confidence in the financial sector. I want to thank the European Parliament, particularly the rapporteur, Pervenche Beres, and the shadow rapporteurs for their work on this proposal."*

The new information document will cover a wide range of investment products that retail consumers can buy through banks, financial intermediaries and on the internet. The document will explain the essential features of structured products offered by banks, insurance-based investments (including unit-linked and 'with-profit' products) and investment funds.

The new information document will enable retail investors to compare products and make a more informed investment choice. The document addresses the fact that consumers often cannot make sense of the multiple and confusing products offered by the financial sector. The document is designed in a user-friendly format that aims to facilitate a true and fair comparison of a product's risks and costs. To allow comparisons to be made, the financial sector will also be required to specify whether products provide for guarantees covering the invested capital or whether all the invested capital is permanently 'at risk'.

However, a Key Information Document (KID) has only to be produced when the products are to be sold to retail investors: this is not a document for professional investors. Occupational pension schemes, 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, do not need the document.

In addition, other pension products that are recognised or certified under national laws as providing income in retirement will not be covered. Savings products that are structured as providing an income stream in retirement but that have not received official recognition or certification as a pension product will, however, be covered. The exceptions for recognised pension products will be subject to a thorough review four years after the new rules have entered into force.

The new rules are a response to a myriad of problems that retail investors faced in the past. For example, a consumer Ombudsman in one Member State recently found 12-year subordinated notes, carrying significant losses in case the issuer defaults, 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 wanted to get out of long-term investments prematurely, indicating investments made were not suited to their needs. On an EU-wide level, a mystery shopping exercise on behalf of the Commission indicated that up to 60% of sales of investments could be considered unsuitable or not in the best interest of the consumer.

The quality and neutrality of advice is part of addressing these problems, but the Commission's impact assessment also points to improved transparency of the investments themselves as a necessary remedy. Better disclosures about the features, risks and costs of products through the KID will really help. Retail investors have themselves called precisely for better, more standardised information, seeing lack of comparability as a key barrier to more informed shopping for investments.

## **Background**

On 3 July 2012 the Commission adopted a proposal for a regulation for a new Key Information Document (KID) to be produced by investment product manufacturers and provided to retail customers when they are considering buying investment products. ([IP/12/736](#)).

## **Next steps:**

After the European Parliament's vote, the proposal will be formally adopted by the Council before publication in the EU Official Journal.

See also [MEMO/14/299](#)

## **More information:**

[http://ec.europa.eu/internal\\_market/fin services-retail/investment\\_products/index\\_en.htm](http://ec.europa.eu/internal_market/fin services-retail/investment_products/index_en.htm)

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](http://ec.europa.eu/consumers/rights/docs/swd_retail_fin_services_en.pdf)

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