

Parliament agreed to delay draft investor protection rules to allow time for improvements

[29-11-2016 - 17:55]

Small investors need to be much better informed about possible risks and fees related to investment products they might buy, say MEPs. On Thursday they agreed to delay implementation of new rules under which investment companies have to provide a consumer-friendly document to guide prospective investors of “packaged retail and insurance-based investment products” (Priips).

The delay comes after MEPs rejected previously proposed standards as “flawed and misleading.”

Contacts

Hyun-Sung KHANG

Press Service

Telephone number: +32 2 28 34710 (BXL)

Telephone number: (+33) 3 881 72420 (STR)

Email: hyun-sung.khang@europarl.europa.eu

Email: econ-press@europarl.europa.eu

Twitter: EP_Economics

Background

What are PRIIPs?

PRIIPs or “packaged retail and insurance-based investment products” target small investors. Ordinary consumers typically invest in them when saving for a certain amount of money, for example to buy a house or pay for their children’s education. The market is estimated to be worth up to €10 trillion in Europe.

However, unlike guaranteed-income products, the value of PRIIPs can go up or down because of the performance of one or more of the underlying assets, or due to market fluctuations.

Background

How will the new legislation protect consumers?

The aim is to provide better protection for consumers by obliging investment providers to give them more and clearer information about their selected investment.

Central to the PRIIPs legislation is the “Key Information Document” (KID) a clearly-worded, three page document which will provide investors with a simple overview of the most important details of the product they are buying, including fees, risks and possible performance. This document aims to make it easier for ordinary people to compare the risks, costs and performance of different investment products.

Background

Why the objections to the proposals?

In the aftermath of the financial crisis, the initial proposal to provide consumers with more and clearer information about their investment was widely welcomed by the fund industry as well as legislators. Opposition emerged when the Commission tabled complementary draft Regulatory Technical Standards (RTS) that underpin the format and methodology used to compile the Key Information Document. While debating these standards in September, MEPs said they were so flawed that consumers could be misled.

Over-optimistic forecasts

The Key Information Document will have to include “appropriate scenarios” about the likely performance of an investment. One parliamentary opponent of the existing proposal objected that the formulas used to calculate future returns were deeply flawed and could result in an overly optimistic forecast.

Financial industry reactions

Asset managers, in turn, dislike the omission of historic performance data from the KID. They want past performance to be included alongside the future scenarios, while insurance companies say the current proposals put them at a disadvantage compared to other PRIIPs providers because of the way in which insurance products are categorised and transaction costs are calculated.

Background

Legislative process to date

March 2014: European Parliament and Council agree on initial rules requiring a KID for PRIIPs

March 2016: European Supervisory authorities (ESAs) finalise their proposed rules for the KID, which are signed off by the Commission three months later.

September 2016: MEPs vote overwhelmingly to reject the rules by 602 to 4 votes, with 12 abstentions, saying that the rules which investment providers had to meet, were inadequate to protect investors.

Council asks for a 12 month delay in introducing the PRIIPs legislation.

Commission proposes delaying the entry into force of the PRIIPs legislation by a year to allow European supervisory authorities to draft new proposal covering the KID (delegated act).

1 December 2016: Parliament votes to support the delay by 561 to 9 votes with 75 abstentions.

Parliament expects the Commission to draft a new delegated act on regulatory technical standards in 2017. If those new standards are accepted by Parliament and Council, the PRIIPs legislation could be applicable from 1 January 2018.