ESAs call for improvements in product descriptions intended for retail investors

The European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) issued today a joint supervisory statement regarding the *'What is this product?'* section of the key information document (KID) for packaged retail and insurance-based investment products (PRIIPs). The expectations put forward in the supervisory statement aim at improving the quality of descriptions provided by PRIIPs manufacturers and thereby contribute to better protection of retail investors.

The ESAs have identified a range of poor practices in how PRIIP manufacturers describe products under this section. Most issues relate to a general lack of clarity in the text, which makes it difficult for retail investors to understand the key features of products.

The supervisory statement provides an overview of these issues and sets out the

authorities' expectations in each area to ensure that information is presented to retail investors in an adequate, clear and accessible manner.

Some of the main issues identified include:

- the use of overly broad, general categories when specifying the type of product;
- poor practices regarding the overall clarity of the language and layout of the text, including as a result of automation in creating such texts;
- insufficient information regarding capital protection levels and potential losses for the investor;
- imprecise description of early termination features;
- lack of clarity concerning the nature and timing of the coupon payments;
- limited information about the specific nature of the underlying assets to which investors are exposed;
- inadequate description of any leverage factors and the risks related to them;
- undifferentiated and abstract descriptions for the 'intended retail investor'.

Background

The key information document includes a section titled *'What is this product?'*, which needs to contain information on the type of the product, its objectives, the type of retail investor targeted, any insurance coverage and the term of the product, if known.

VIEW THE SUPERVISORY STATEMENT