

18 October 2013

Secretariat of the Joint Forum (BCBS Secretariat)
Bank for International Settlements
CH-4002 Basel
Switzerland

Re: Point of Sale Disclosure in the Insurance, Banking and Securities Sectors

Dear Sirs,

CFA Institute appreciates the opportunity to respond to the Joint Forum of the Basel Committee on Banking Supervision, International Organization of Securities Commissions, and International Association of Insurance Supervisors consultative document on point of sale disclosures in the insurance, banking and securities sectors (the “consultative document”).

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors’ interests come first, markets function at their best, and economies grow. CFA Institute has more than 120,000 members in 139 countries and territories, including 115,000 Chartered Financial Analyst® charterholders, and 136 member societies.

We appreciate the objective of the consultative document which is to identify and assess differences and gaps in regulatory approaches to point of sale disclosures in relation to savings or investment products across the insurance, banking and securities sectors. Product disclosures at the point of sale on key information such as risks, costs, and performance facilitate the investment decision-making process. If well specified and properly calibrated, and combined with other measures addressing product distribution, such disclosure regimes can strengthen investor protection. Specifically, by providing investors with concise and standardised key information that is comparable across investment products, the risk of unsuitable product purchases should recede, resulting in a more efficient allocation of savings.

Summary

The consultative document examines a sample of products that compete with collective investment schemes for consumer savings or investment; namely, structured notes, structured deposits, unit-linked life insurance, variable annuities and indexed annuities. The Joint Forum identifies both cross-sectoral and cross-jurisdictional differences with regard to point of sale disclosure practices for these products. For example, the format of point-of-sale disclosure documents does not always facilitate comparison across products, the content of these documents varies among products, and securities regulations related to product disclosure requirements differ across jurisdictions. To address these issues, the Joint Forum puts forward 8 recommendations (see appendix) for policy makers and supervisors to consider when developing or modifying point-of-sale disclosure regulations.

General Comments

To further the aim of improving product transparency, CFA Institute recently published a report to inform policy initiatives related to point-of-sale disclosure practices. The report, *Packaged Retail Investment Products: Investor Disclosure Considerations for a Key Information Document*,¹ which is attached separately to this letter, focuses on the European Union and legislative developments in that region.

Specifically, the report analyses the main characteristics of investment funds, insurance products with an investment component (such as unit-linked life insurance), and retail structured products, and thus closely coincides with the product sample examined by the Joint Forum. Our report examines the form and content of existing pre-sale disclosures, with a focus on costs, drawing from examples among European Union countries. Cost disclosures are particularly important because many retail investors fail to adequately comprehend the impact of costs on investment returns; consequently, fees and costs are often overlooked or are afforded insufficient weight in the investment decision-making process.

On the basis of the aforementioned analysis, the report sets out policy recommendations for a key information document. These recommendations address the scope of EU regulation, the format of the key information document, and disclosures in the areas of costs, risks, and performance. The key considerations are summarised below:

1. *Format* - To allow flexibility, consideration should be given to setting a maximum length for the key information document, rather than a fixed number of pages. This approach would allow those products that require additional detail to be adequately disclosed, rather than left out or reduced to insufficient disclosures. The number of pages should, of course, be few (for example, a maximum of three pages) to maintain a concise presentation.
2. *Costs disclosure*
 - Costs should be disclosed under a standard label and location within the key information document. Common cost components should include entry/exit fees, ongoing charges, performance fees, transfer fees and any penalties, and any other administrative charges.
 - Information should also include a statement, where relevant, specifying the total amount in percentage terms the product manufacturer or sponsor receives from distribution arrangements (inducements).
 - For life insurance products, a table illustrating the effect of costs in monetary terms over predefined time horizons should be provided. Depending on space constraints, this type of disclosure at least should be signposted to a website containing the relevant information.
 - Cost disclosures for structured products should include a narrative explanation of the total costs included within the amount paid for the product.
3. *Risk profile* – Determination of the risk of the product should incorporate its volatility, such as the standard deviation of returns (where possible). Narrative disclosures should describe significant risks arising from the investment strategy for the product, details of any national financial compensation scheme protecting investors in the event of default or failure of the product manufacturer, and details of the creditworthiness of the issuer where appropriate.

¹ The report is also available at <http://www.cfapubs.org/toc/ccb/2013/2013/10>

4. *Past performance* – Data should be included in the form of a bar chart that shows yearly net performance in percentage terms, alongside relevant narrative disclosures. For structured or guaranteed products and funds, a tabular presentation of prospective performance scenarios would be appropriate in place of past performance data.

Concluding Remarks

CFA Institute welcomes initiatives to identify and address deficiencies in relation to point-of-sale disclosures in the insurance, banking and securities sectors. We support the contribution and recommendations of the Joint Forum to assist the development of point-of-sale disclosure regulations. Key information on risks, costs, and performance (among other disclosures) that is concise, standardised, and comparable will support more informed product selections and help engender a more efficient allocation of savings.

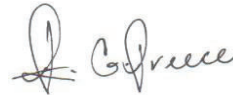
We hope you find the attached report informative and useful. Please do not hesitate to contact us should you wish further elaboration of the points raised.

Yours faithfully,



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Appendix: Joint Forum Recommendations

Recommendation 1: Jurisdictions should consider implementing a concise written or electronic POS (Point of Sale) disclosure document for the product sample identified in this report, taking into account the jurisdiction's regulatory regime.

Recommendation 2: The POS disclosure document should be provided to consumers free of charge, before the time of purchase.

Recommendation 3: A jurisdiction considering POS disclosure should consider requiring that a POS disclosure document disclose key characteristics including costs, risks and financial benefits or other features of a given product and any underlying or referenced assets, investments or indices, irrespective of the financial sector from which the products are derived.

Recommendation 4: The POS disclosure document should be clear, fair, not misleading and written in a plain language designed to be understandable by the consumer.

Recommendation 5: The POS disclosures should include the same type of information to facilitate comparison of competing products.

Recommendation 6: The POS disclosure document should be concise, set out key information about a product and may include, as appropriate, links or refer to other information. It should make clear that it does not provide exhaustive information.

Recommendation 7: Allocation of responsibility for preparing, making available and/or delivering the POS disclosure document should be clearly established, and the POS disclosure document should identify which entity is responsible for its content.

Recommendation 8: A jurisdiction considering POS disclosure should consider how to use its capabilities and powers to implement these POS recommendations, taking into account the jurisdiction's regulatory regime.

Implementation: There are numerous ways to implement a POS disclosure regime. The above recommendations have been developed with the goal of enhancing consumer protection by providing guidance to regulators/supervisors and Parent Committees that are considering developing or reviewing their POS disclosure requirements. These recommendations are intended to allow for a wide range of application and adaptation in different jurisdictions.