



The European Federation of Investors and Financial Services Users  
Fédération Européenne des Épargnants et Usagers des Services Financiers



# Performance/Cost transparency in retail investment

**Guillaume Prache**  
**Managing Director of Better Finance**

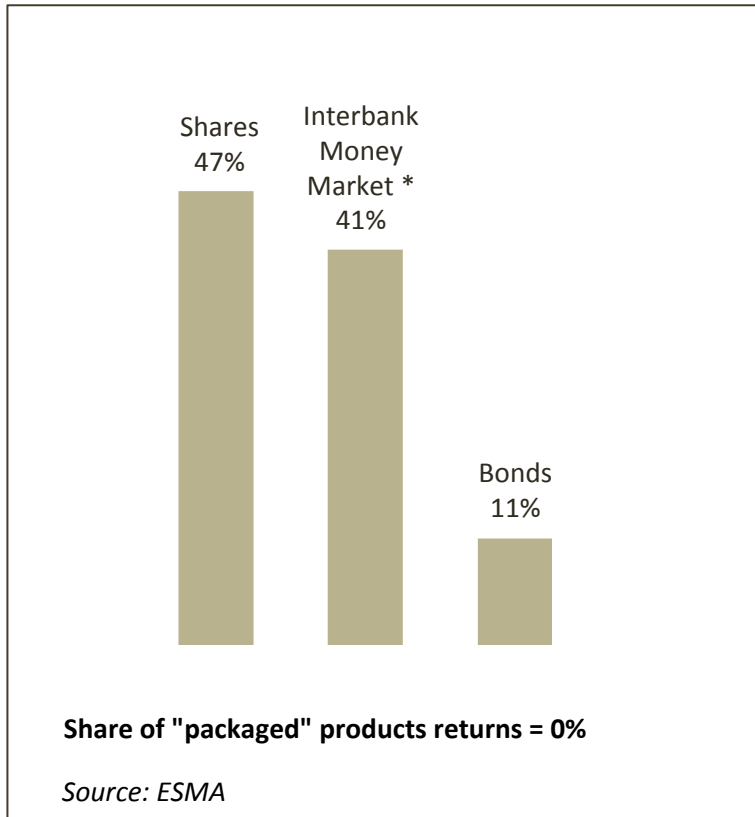
**Fostering Retail Investment in Capital Markets**  
**European Commission, Brussels, 7 February 2017**

# Scarce and sometimes flawed data on savings' returns

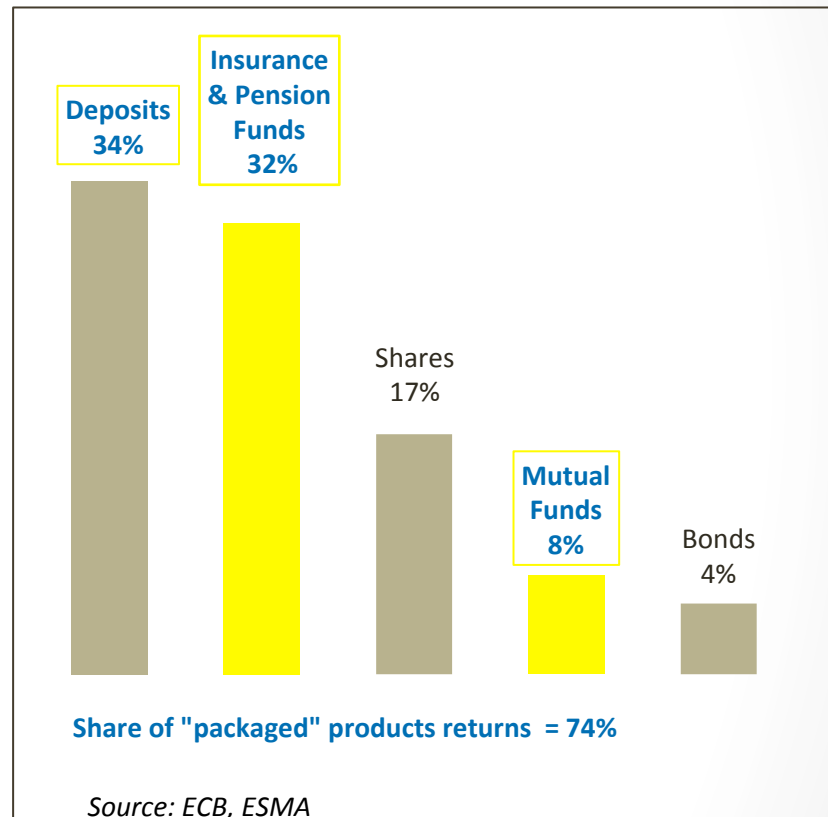
## Composition of EU households' financial savings

(as used to assess retail investor returns)

### The view of the EU Regulator

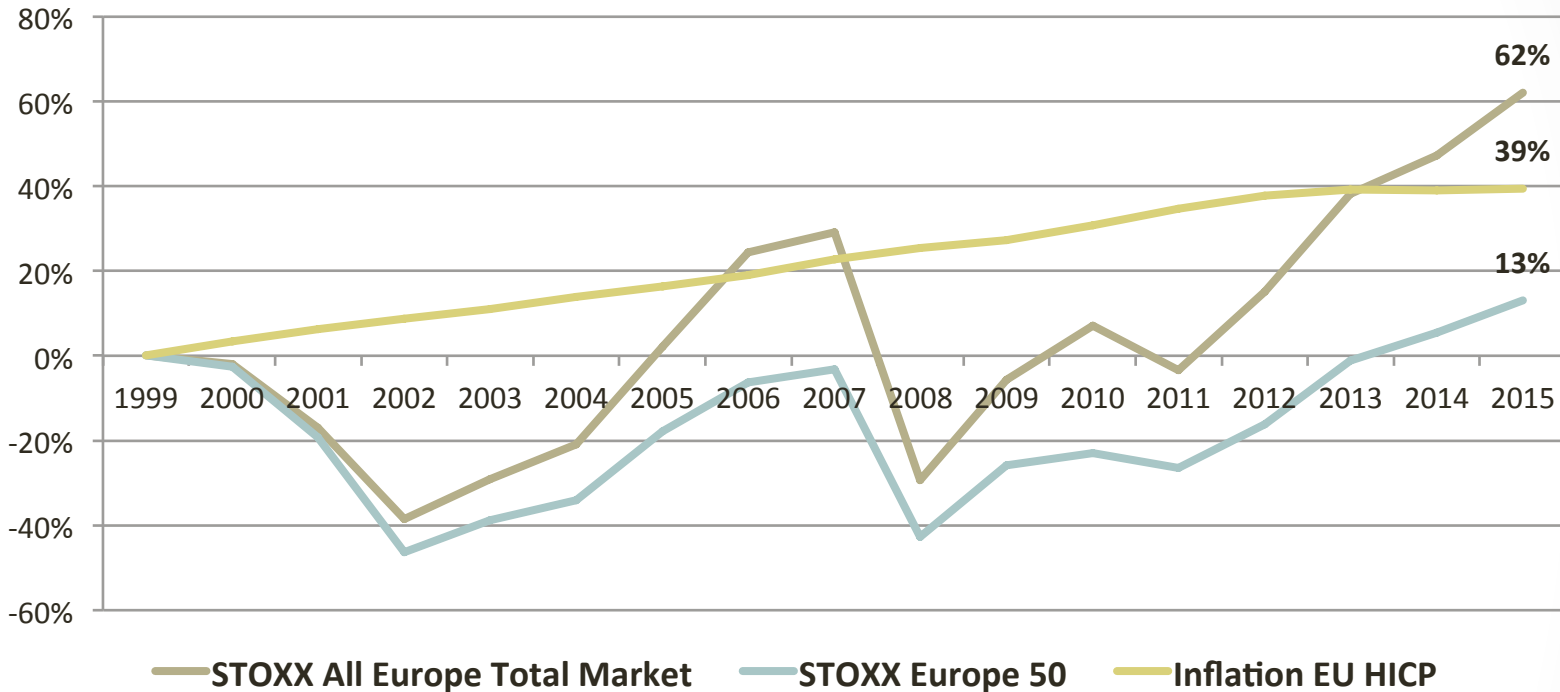


### The reality



\* Return proxy for bank deposits used by regulator is 1y Euribor (shares: Stoxx 600, bonds: Barclays euro aggregate 7-10 years)

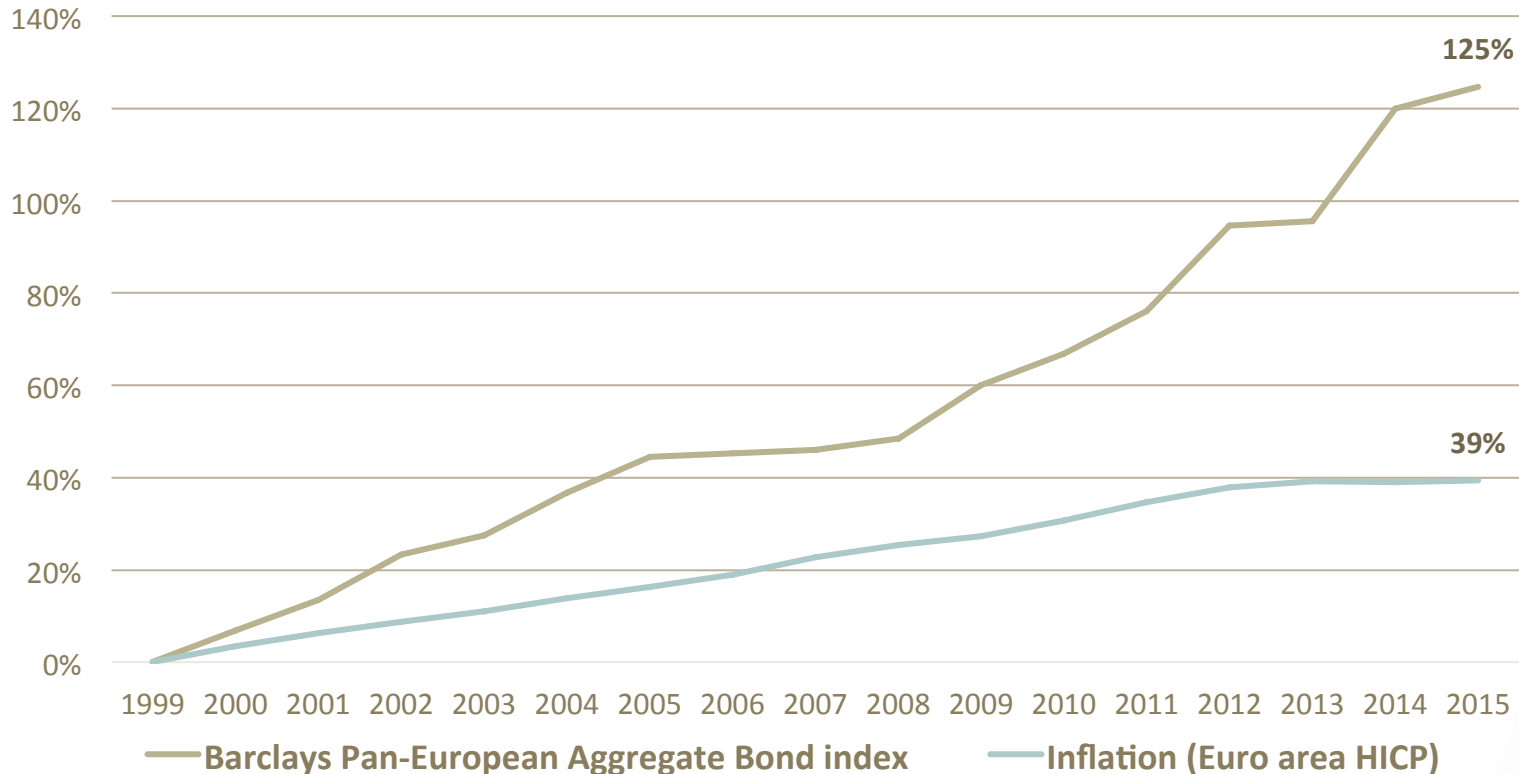
# European Equity market performance: broad market vs. big caps market 16 years (2000-2015)



\* Inflation used is HICP (2015 = 100), European Union 28. Monthly data index  
 \* MSCI Europe data used for 2000-2001 as proxy for STOXX All Europe Total Market (no data)  
 \* Gross returns used for both STOXX All Europe Total Market and Euro STOXX 50 except for Euro STOXX 50 2000 (net returns)

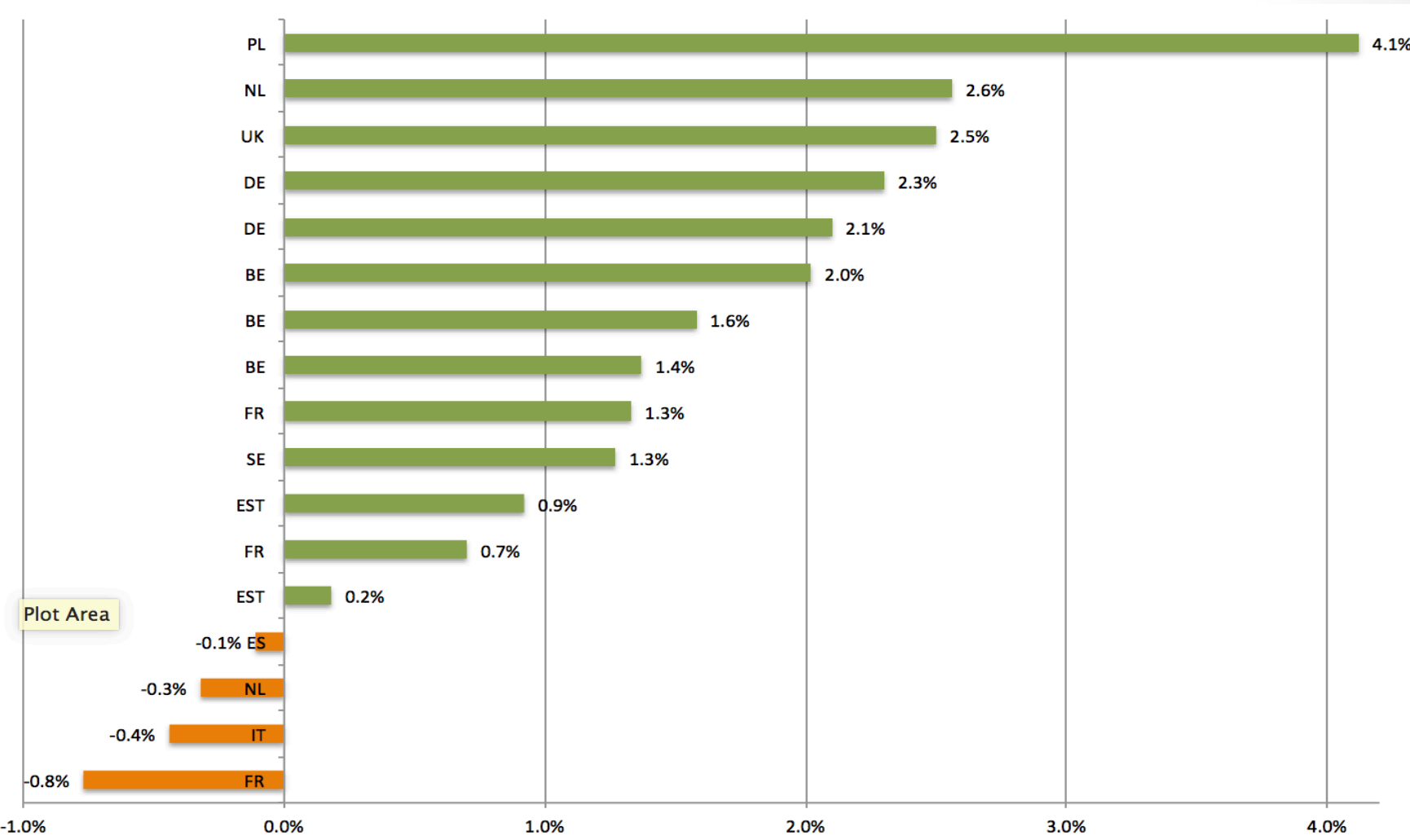
Source: Pension savings – the real return, Better Finance research report , September 2016

# European bond market 16-year performance (2000-2015)



Source: Pension savings – the real return, Better Finance research report , September 2016

# Selected Annualised Real Net Returns of Pension Savings (%)



Source: Pension savings – the real return, Better Finance research report , September 2016

# Transparency of performance and costs at product level: inconsistent and deteriorating

- Most regulatory transparency : UCITS funds (2010 Regulation on the “KIID”: Key Investor Information Document”:
  - 10 year minimum performance net of fees of the fund
  - together with the fund’s benchmark’s performance
- Currently no such EU-wide disclosure requirements for any other retail investment product
- But not adequately enforced for funds:
  - Funds which do have a benchmark but do not disclose benchmark performance
  - Funds that do disclose a false benchmark performance and very difficult to cross check
- All these EU-wide past performance disclosures for funds :
  - standardised,
  - supervised,
  - long term,
  - relative to benchmarkwill most likely be eliminated with the PRIIPS Regulation implementing rules (“RTS”)
- Cost comparability will also most likely be eliminated by the PRIIPs RTS

# Performance and cost transparency at the macro level (by product category /country/EU level)

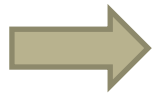
- *“ We can start by measuring how personal pensions perform over the long term, since, as Better Finance, the European Federation of Investors and Financial Services Users, points out at the beginning of the 2016 edition of its ‘Pension savings: the real return’ report, **“one can supervise only what one can measure”**. Thus far – bizarrely – it has been left to Better Finance to try to do this. »*

Fiona Rintoul, Funds Europe, December 2016



- *“To further promote transparency in retail products, the Commission will ask the European Supervisory Authorities (ESAs) to work on the transparency of long term retail and pension products and an analysis of the actual net performance and fees, as set out in Article 9 of the ESA Regulations”*

European Commission: Action Plan on Building a Capital Markets Union, September 2015



**« Sunlight is said to be the best of disinfectants; electric light the most efficient policeman. »**

(Louis D. Brandeis, *Other People's Money and How the Bankers Use It*, 1914)

Transparency is still dramatically lacking for actual net returns and fees of long term and pension savings

- **All supervisory authorities must better comply with their legal duty as required by the EU Regulations to collect, analyse and report on long term and pension saver product trends.**
- **The European Commission's CMU Action - must be completed ASAP**  
"To further promote transparency in retail products, the Commission will ask the European Supervisory Authorities (ESAs) to work on the transparency of long term retail and pension products and an analysis of the actual net performance and fees, as set out in Article 9 of the ESA Regulations"
- **The upcoming implementing rules on the Key Information Document for packaged retail investment products ("PRIIPs") must not eliminate the standardised/comparable disclosure of the products' long term past performances relative to their benchmarks"**





*« We agree that information on past performance is of great importance to form reasonable expectations on possible future outcomes – in particular if measured in a standardized and comparable manner. »*

Olivier Guersent, Director General of FISMA, European Commission, november 2016

**Thank you for your attention!**