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EU financial regulation

Mis-selling fears erupt over 'returns of 1m% plus'
New European rules over Priips

Wildly misleading projections suggesting that savers could earn an annual return of more than one million per cent on some financial products are being published under new European rules intended to strengthen protection for investors. Rules introduced this month have been designed to help retail investors understand and compare the key features, risks, rewards and costs of a range of investment products sold by asset managers, banks and insurers.

Providers of Priips — packaged retail investment and insurance-based products — are required to publish future performance scenarios outlining a range of returns that an investment may deliver in different market conditions. Some short-term investment products where the recommended holding period is a single day, such as leveraged exchange-traded notes, can, however, generate annualised returns of more than one million per cent under the approved calculation method.
A senior executive at one of Europe's largest issuers of structured products, who did not wish to be named, said: "We agree with the objectives of the Priips regulations but we have been put in an impossible situation with the requirement to publish highly misleading information. Sales staff are screaming at us that it will lead to mis-selling."
Townsend Lansing, an executive director at ETF Securities, the London asset manager, said providers had no choice but to follow the regulations. We have communicated our concerns to the regulator," he said.

Annualised returns of more than 523,000,000,000 per cent could be delivered in a favourable investment scenario for a three-times leveraged note linked to US natural gas prices, says the key information document published on ETF Securities' website. The main trade body representing issuers of structured products in Europe has called for regulators to undertake an urgent review. "We are keen that investors avoid taking any decision on the basis of information that obviously is nonsensical. We urgently ask regulators and the European Commission to review the relevant rules and methodologies and to provide updated guidance," said Thomas Wulf, secretary-general of the European Structured Investment Products Association. Eusipa's members oversee assets of about €257bn spread across 1.7m financial products. Mr Wulf said some structured products that had no expiry data faced a "complete lack of clarity" in determining an appropriate holding period that could be used to model a realistic range of possible returns. A range of other products would show zero or negative costs for investors under the new rules. An interim fix may be found by adapting the regulatory technical standards but a long-term solution will need to be agreed between regulators, the European Parliament and the commission. This was likely to be a lengthy process, said Mr Wulf.

The European Fund and Asset Management Association, the Brussels-based trade group, has also appealed for European policymakers to take urgent action. Efama said in late December that the new rules were "threatening to cause serious detriment" by mandating information, particularly in relation to performance and costs, that would "at best confuse investors and at worst mislead them.
"Under the new Priips rules, product providers are no longer required to publish historic performance data. Efama warned that as a result of the very strong performance of financial markets in recent years investors would be provided with "excessively optimistic" future performance scenarios.