Interim Research Report

Research on KII Disclosures for UCITS Products

Prepared for
European Commission

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1 Introduction, Methodology and Sample Profile

1.1 There is a widespread recognition that improvements are required in the efficiencies of the EU investment fund market. The particular challenges facing cross-border EU investment fund markets were examined in the European Commission's white paper on Undertakings for Collective Investment in Transferable Securities (UCITS) in November 2006. One of the key aspects of the underlying market failures identified by the European Commission, concerns the lack of consistency and standardisation in the way in which pre-contractual information is disclosed to consumers through a Simplified Prospectus (SP). The available evidence strongly indicates that the anticipated benefits for consumers have not materialised and that an alternative form of disclosure needs to be considered. The main drawbacks are that the SP is an ineffective tool for comparing funds based in different jurisdictions, there is too much detail in the document and that many SPs are too long and complex. Consequently, the level of consumer engagement and understanding is poor.

1.2 The European Commission has therefore proposed replacing the SP with a new form of disclosure entitled Key Information Document (KID). The KID is intended to be a concise and focused presentation of the information which it is important for a prospective investor in a UCITS fund to be aware of, covering much the same general areas as the SP but focusing much more on effective communication of key information to consumers rather than protecting against liability. The core information contained within a KID includes the fund's objectives and strategy, its risks and potential rewards, its performance and its charges. The KID is therefore a strongly harmonised document. The intention is that this core document can be used virtually unchanged across Europe, with the ultimate goal of improving the single market in UCITS.

1.3 This is an important policy change which is expected to deliver a real increase in benefits to consumers. However, moving to a harmonised document also means that significant costs being incurred within the investment management industry and it is essential that the final document is designed to deliver optimal consumer benefits balanced against the costs that the industry will have to bear. In order to test the effectiveness of different disclosure documents, the European Commission (EC) invited potential contractors to submit tenders setting out how they would undertaken a programme of consumer based testing. The EC appointed a contractor based on a consortium of two suppliers, YouGov Plc and IFF Research Ltd, to undertake a comprehensive and detailed investigation of the effectiveness of different forms of disclosure to consumers.

1.4 In summary, the research design covers two inter-related phases of work. The first phase, based around both qualitative and quantitative research methods aims to test the individual variants that constitute the core elements of a KID: strategy and objectives; risk and reward, performance; and charges. Annex A presents these mocked-up variants in more detail. The second phase of the work seeks to test two fully mocked-up documents, the design and content of which is informed by evidence gathered in phase one. The methods for phase two are again both qualitative and quantitative and capture both consumer and retail intermediary views.

1.5 This is an interim report, which presents the contractors evidence from the first phase of the research and makes recommendations on how to proceed with the second stage of the research.

1.6 The requirement for the research is challenging. The project brief seeks to identify the most optimal combination of disclosure variants, gathering evidence from both consumers and intermediaries across a range of member states each with varying models of distribution and underlying cultural differences particularly in relation to information use in financial decision making, attitudes to risk and overall investment strategy. The process of reviewing the evidence and refining the variants which constitute a KID is consultative and needs to take account of the views and expectations of different EU member states and requires close collaboration with representatives of the Committee of European Securities Regulators (CESR). In doing so, we have worked closely with representatives of the CESR working group who have helped devise and mock-up the variants that have been tested in phase one.

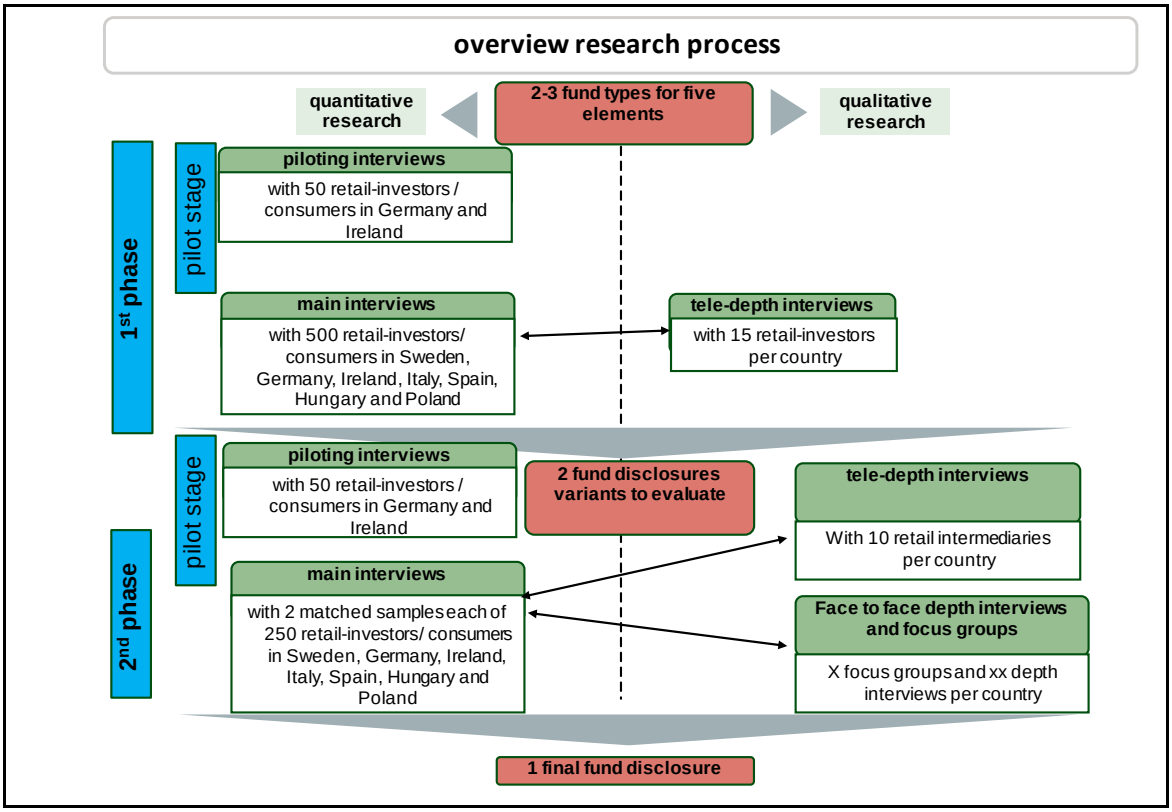
1.7 At the outset we agreed that the phase one research would seek to address the following issues:

- Whether the content of the KII responds to 'real' information needs on the part of the retail investor. We approached this issue qualitatively as we sought to explore respondents' information needs and test whether the different variants adequately address this.
- Whether the KII conveys information on the basics of the product in a clear and understandable manner. We approached this issue quantitatively as we wanted to have a good measure of which variants are more effective at promoting understanding.
- Whether the KII will engage the retail investor's attention in the decision making process. We approached this issue qualitatively as addressing look and feel of the different elements and initial reaction to different forms of presentation relates to the softer aspects of testing.
- Whether the retail investor understands the messages being conveyed correctly. We approached this issue quantitatively so that we can distinguish between those variants which are not understood vs. those which are easier to understand.
- What is the exact role of the KII in the actual choice made? We approached this issue qualitatively as we need to understand in detail the type of purchasing decisions our target group typically makes.

Methodology

1.8 We devised a multi-modal research methodology that combines both qualitative and quantitative techniques using telephone and on-line methods of data collection. Following further discussions with the Commission, we have also integrated a face-to-face approach into phase two of the work. The chart below neatly summarises the research methodology.

Figure .: Research Design



1.9 The following four key issues were key considerations that influenced our overall research design.

- First, we felt it was important to attempt to replicate as far as is possible a real life choice scenario for respondents who take part in the study. This means allowing respondents time to read relevant disclosure variants and documentation as if they were considering a possible investment. This gives time for the visual impact of the relevant materials to have an effect and enables respondents to perform any necessary calculations and give an informed opinion.
- Second, we recommended to the EC and CESR representatives that the materials produced for testing should be sufficiently distinct to allow respondents to make informed choices between the different options presented.
- Third, we felt that it would be sensible to commence with a relatively wide range of variants across the four key areas of disclosure and seek to reject those which are sub-optimal.
- Finally, we placed a significant level of emphasis on fully piloting the approach in two member states, prior to rolling out across all member states covered in the project.

Selection of Member States

1.10 We were asked to ensure that we covered a good-cross section of investment markets in the EU area including two new member states. Within the broad parameters of the project, covering all 27 member states was not feasible. The following criteria influence our final selection:

- An initial desk based review of a selection of member states to determine level of investor activity in UCITS products.
- A technical assessment of our capacity to undertake research in different member states.

- An informed view of broad market and cultural characteristics to ensure we capture an adequate spread of different circumstances.

1.11 Our final proposed selection of member states was as follows:

- Germany
- Hungary
- Ireland
- Italy
- Poland
- Spain
- Sweden

1.12 This captures a good cross-section of member states, covering markets where there is a reasonable level of UCITS activity as far as we can determine through our desk research, and where it is feasible to capture an adequate sample of investors whose profile broadly matches our target group. We also sought to exclude member states where there is already an established body of evidence on consumer preferences for disclosure material as we felt it was more effective for the outcome of this research to add to the existing body of knowledge. Hence we chose not to cover France, Netherlands and the United Kingdom.

On-line research methods

1.13 We initially carefully considered three methodological options for quantitative research: telephone, face-to-face and on-line. We recommended online for the following reasons:

- Target group: The UCITS Disclosure research is targeting 'investors' and not the general population. YouGov Consulting was able to identify 'investors' within its online panels eliminating the need for extensive screening as would be required for face-to-face or telephone.
- Use of stimuli: The research requires respondents to read document selections to answer the survey. They may also need to refer back to the document selections while considering their response, a task made easier without the presence of an interviewer potentially making the respondent feel 'pressured' for time.
- Geographic spread: The scope of the research in seven member states and the ability of YouGov Consulting to provide investor panels in these markets allowed for respondent reach to be covered.
- Incidence: The 'investor' community varies in each country with the incidence in some markets (e.g. Spain, Hungary and Poland as seen in table 1.1 below) very low. Attempting to find 'investors' among a cross-section of the population would have been expensive if using telephone or face-to-face. Having already identified 'investors' on the panels allowed us to forego this step.
- Project scope and timing: The nature of the project (testing disclosure document elements and then the entire document) leant itself to an online methodology in terms of respondent reach and timescale for project completion.
- Numbers of interviews needed: To quantify results, the project required a strong number of interviews to provide country level data which was most cost effectively met with an online methodology.

1.14 To address the potential limitations of on-line research, we have done the following:

- Conducted pilot studies to identify and correct any potential issues with incidence.
- Collected information among non-investors (those that are screened out) to determine the extent/characteristics of the investor/non-investor population.
- Monitored the study to ensure we collect a cross-section of 'investors' in terms of age, education and financial sophistication.

1.15 In addition, at stage two we will be undertaking face-to-face qualitative research with less-sophisticated investors who will not be recruited from an on-line panel.

Table .: Overview of incidence of UCITS retail investors across selected member states

Country	Population size, in Million	Incidence of retail-investors of UCITS, for the recruitment	Panel size
Sweden	9,0	22-25%	35,000
Germany	82,4	20-22%	86,250
Ireland	4,1	15-20%	35,000
Italy	58,1	10-15%	35,000
Spain	10,6	8-10%	30,000
Hungary	9,9	8-10%	48,000
Poland	38,5	5-8%	17,000

Phase one overview

1.16 The purpose of the first phase of the project is to focus on testing the effectiveness and usefulness of the proposed options for individual disclosure variants rather than testing a complete document. The purpose of this first phase is to determine the overall format and content of options for a final set of disclosure documents to be tested in phase two. The detail of the variants we have tested is described more fully in the appendix to this document. In summary, we have tested a total of 19 variants:

- 1 presentation of the strategy and objectives of the investment fund (variant A);
- 4 presentations of past performance (variants B, C, D, E);
- 7 presentations of charges (variants F, G, H, I, J, K, L);
- 4 presentations of risk-reward description and indicators (variants M, N, O, P);
- 3 presentations of performance scenarios (variants Q, R, S).

1.17 Due to the number of variants to be tested (19 in total), both the quantitative pilot stage and main stage survey designs split the number of respondents into two groups. Each group reviewed the strategy and objectives of the fund as a way to provide background and context of the fund. After review of this first presentation, Group 1 then reviewed variants on past performance and charges, while Group 2 reviewed variants on risk-reward and performance scenarios. (Full descriptions of the variants used in the research can be found in the appendix to this report).

Table .: Variants viewed by each group

Topic	Variant	Group 1	Group 2
Strategy & Objectives	A	√	√
Past Performance	B, C, D, E	√	
Charges	F, G, H, I, J, K, L	√	
Risk	M, N, O, P		√
Performance Scenarios	Q, R, S		√

1.18 Our methodology for phase one was composed of the following three key stages.

- Quantitative pilot stage: 50 online interviews among investors/consumers in Germany and Ireland. The pilot was designed to test the survey (in terms of timing and sense), stimulus, programming, response rate.
- Quantitative main stage: 500 online interviews among investors/consumers in Germany, Hungary, Ireland, Italy, Poland, Spain and Sweden. Our target was existing investors (both active and passive) as well as a small proportion of consumers that plan to invest in the next 6 months.
- Qualitative stage: 15 tele-depth interviews among investors in Germany, Hungary, Ireland, Italy, Poland, Spain and Sweden. Investors were sampled/invited from the preceding main-stage interviews.

Pilot Stage overview

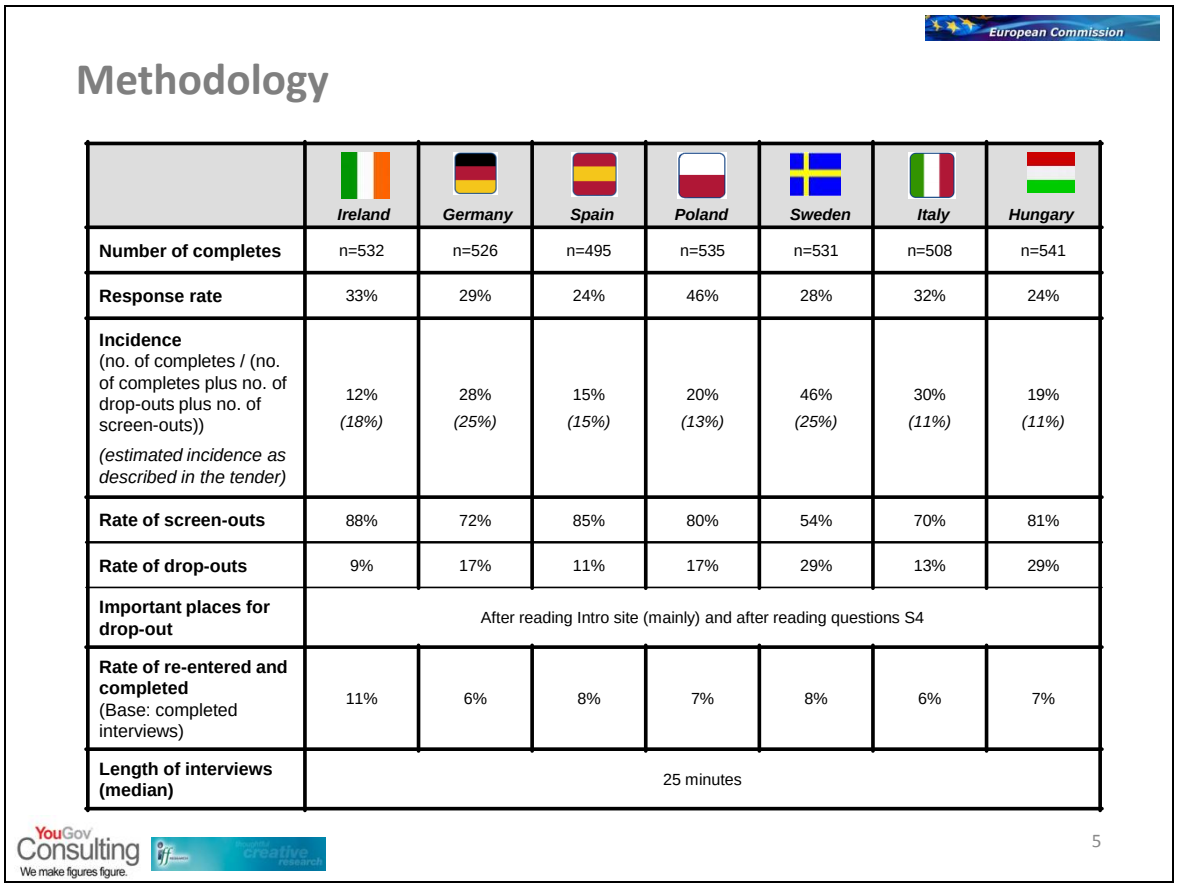
1.19 The pilot stage showed that overall, our survey methodology worked well. Respondents were generally positive in terms of the subject matter and their level of engagement with the material. However, the pilot did highlight that the questionnaires used were slightly too long (by around 3-5 minutes) with some respondents complaining about the length. Interestingly, the drop-out rate was highest at the beginning of the survey (within the first few questions) which suggests that respondents decide at that point whether the survey is of interest and once engaged with the survey they would tend to go on to complete it. The pilot also highlighted some specific improvements to the wording and format of the variants.

1.20 The questionnaires and variants were refined in light of the pilot findings.

Main Stage

1.21 Quantitative fieldwork for the main stage was carried out between 1st and 16th July 2008. The table below summarises the interviews achieved per country and overall response rate.

Figure .: Quantitative research incidence rates



European Commission

Methodology

	Ireland	Germany	Spain	Poland	Sweden	Italy	Hungary
Number of completes	n=532	n=526	n=495	n=535	n=531	n=508	n=541
Response rate	33%	29%	24%	46%	28%	32%	24%
Incidence (no. of completes / (no. of completes plus no. of drop-outs plus no. of screen-outs)) *(estimated incidence as described in the tender)*	12% *(18%)*	28% *(25%)*	15% *(15%)*	20% *(13%)*	46% *(25%)*	30% *(11%)*	19% *(11%)*
Rate of screen-outs	88%	72%	85%	80%	54%	70%	81%
Rate of drop-outs	9%	17%	11%	17%	29%	13%	29%
Important places for drop-out	After reading Intro site (mainly) and after reading questions S4						
Rate of re-entered and completed (Base: completed interviews)	11%	6%	8%	7%	8%	6%	7%
Length of interviews (median)	25 minutes						

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Quantitative research profile

1.22 Our research design sought to capture investors across a range of social and demographic groups with differing levels of engagement and financial sophistication. The tables below summarise the sample profile:

Table .: Respondent profile: investment activity

Column percentages

		Country							Level of financial sophistication		
	Total	**D**	**H**	**IRL**	**I**	**PL**	**E**	**S**	**High**	**Medium**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
UCITS Experience											
Past Purchaser (last 5 years)	82	**92**	82	**68**	79	**78**	**78**	**95**	**90**	81	**77**
Future purchaser (next 6 months)	18	**8**	18	**32**	21	**22**	**22**	**5**	**10**	19	**23**
Attitude towards risk											
Secure	15	15	**23**	**12**	16	**7**	17	12	**8**	**12**	**24**
Cautious	43	**50**	**35**	**48**	**47**	**31**	**58**	**32**	**34**	**47**	41
Balanced	33	**26**	34	33	**28**	**48**	**18**	**40**	**38**	33	**27**
Adventurous	7	6	5	5	6	**12**	**5**	**10**	**17**	**6**	**3**
Don't know	3	3	2	2	3	2	2	**6**	2	**1**	**5**
Level of financial sophistication											
High	18	20	**8**	17	**22**	**14**	16	**28**	100	**-**	**-**
Medium	56	59	**41**	**64**	**58**	**63**	**65**	**40**	**-**	100	**-**
Low	23	**19**	**45**	**18**	**17**	21	**18**	24	**-**	**-**	100
Purchase channel											
Direct	51	**59**	**40**	55	52	**46**	**57**	47	**68**	50	**40**
Used an advisor	49	**41**	**60**	45	48	**54**	**43**	53	**32**	50	**60**
Base: All	*3668*	*526*	*541*	*532*	*508*	*535*	*495*	*531*	*651*	*2043*	*860*

1.23 In terms of financial acumen and experience:

- More research participants are past purchasers of UCITS project than future purchasers, with potential investors at a higher proportion in Ireland, Poland and Spain than other markets. In fact, the German and Swedish markets appear mature in comparison.
- In general respondents tended to be cautious rather than secure in their attitude toward risk and balanced rather than adventurous. That is, investors are willing to take onboard some risk when they purchase funds. Investors in Hungary appear more risk-averse than investors in other member states, while Poland and Sweden have a higher proportion of risk-takers. Not surprisingly, there is a higher proportion of adventurous risk takers among those identifying themselves as having a high level of financial sophistication than those at medium or low levels.
- Respondents in Italy and Sweden are significantly more likely to identify themselves as having a high level of financial sophistication, a self-assessment slightly at odds with the results of this research. At the other extreme, Hungarian investors are significantly more likely to feel they have a low level of financial sophistication despite the fact they generally scored very well in many of the exercises that tested levels of understanding with the variants. Generally, investors across the member states feel they have a medium level of financial sophistication.
- Methods of purchase are nearly evenly split between those who purchase financial instruments directly and those who use the services of an advisor. Hungarian and Polish investors are significantly more likely to use an advisor, while those in Germany and Spain are more likely to purchase direct. Not surprisingly, those with a high level of financial sophistication are significantly more likely to purchase direct while those with a self-assessed low level purchase via an advisor.

1.24 There are additional differences when one looks at the demographics:

- Research respondents were primarily male, under the age of 50 and well educated.
- Respondents in Germany, Poland and Spain were significantly more likely to be male, while a majority in Hungary were female. Males were likely to identify themselves as having a high level of financial sophistication, while a majority of females believe they have a low level of financial sophistication.
- Age levels were generally well spread with fewest found over the age of 65. German and Swedish investors were comprised of a higher proportion of over 65s than other member states, while nearly half of Polish investors were under the age of 35.

1.25 Investors appear to be well-educated with over half holding at least a degree. Hungary, Ireland and Poland had the highest proportion of degree holders, while over half in Italy were at a medium level

Table .: Respondent profile: demographics

Column percentages

		Country							Level of financial sophistication		
	Total	**D**	**H**	**IRL**	**I**	**PL**	**E**	**S**	**High**	**Medium**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
Gender											
Male	58	**68**	**46**	**50**	56	**65**	**66**	54	**72**	58	**47**
Female	42	**32**	**54**	**50**	44	**35**	**34**	46	**28**	42	**53**
Age											
Under 35	35	**29**	38	**39**	33	**49**	36	**21**	33	35	37
35-49	35	33	**30**	**41**	**40**	**25**	**45**	**29**	33	35	35
50-64	24	22	**29**	**17**	26	22	**17**	**34**	24	23	24
65 or more	7	**16**	**4**	**2**	**2**	**4**	**3**	**16**	**10**	7	**4**
Level of education											
Degree level or above	57	**46**	**67**	**64**	**35**	**70**	60	54	**62**	57	**53**
Medium level (Professional/technical/A levels)	34	**46**	**29**	**30**	**54**	**17**	33	33	**29**	34	**38**
No formal education (incl. GCSEs only)	5	6	0	3	**7**	**9**	3	6	4	5	5
Group											
Group 1	51	51	**45**	54	51	52	48	52	50	51	50
Group 2	49	49	**55**	46	49	48	52	48	50	49	50
Base: All	*3668*	*526*	*541*	*532*	*508*	*535*	*495*	*531*	*651*	*2043*	*860*

Qualitative research profile

1.26 The qualitative research provides some useful context in which to place investor opinions. The investors and potential investors included in the qualitative stage were selected by member state, whether they had already invested and how well they had interpreted the variants they were shown during the online survey. A reasonably even spread was achieved as shown in Table 1.5:

Table .: Respondent profile - qualitative

	Total	Current investor	Future investor	Group 1 Correct	Group 1 Incorrect	Group 2 Well	Group 2 Not Well
Germany	16	9	7	2	2	6	6
Ireland	15	8	7	2	2	5	6
Sweden	15	13	2	2	2	6	5
Spain	15	8	7	2	2	5	6
Italy	15	8	7	2	2	5	6
Hungary	16	9	7	2	3	6	5
Poland	15	10	5	2	2	5	6
Total	107	65	42	14	15	38	40

1.27 The investors interviewed in the qualitative stage varied from those with little experience who did not understand much about investments to those who were very interested in them. The majority had up to two investments with a few having as many as ten.

1.28 Around two thirds of investors and potential investors described their knowledge of investments as basic:

"Beginners knowledge...but not in a way that I could say 'this form or that form would be best'" **Germany**

"I don't really know how they work" **Italy**

1.29 Whilst around a third felt they had good knowledge of investments, taking a keen interest:

"It's my hobby" **Italy**

"I've worked in the life insurance industry for the last 25 years so I know them like the back of my hand" **Ireland**

1.30 Those in Poland, Germany, Sweden and Spain were more likely to feel that their knowledge of investments was basic whilst there was a fairly even split between those claiming good and basic knowledge in Hungary, Italy and Ireland.

1.31 The most common ways of obtaining knowledge on investments were the internet, information from banks and other financial providers and newspapers or magazines. There were also significant proportions who talked to family or friends about investments or who worked in a related industry (or knew someone who does).

1.32 Investors in Ireland and Sweden were particularly likely to mention newspapers as a source of their investment knowledge whilst those in Hungary, Sweden and Poland were particularly likely to mention the internet.

2 Strategy and Objectives

2.1 This chapter looks at views of a text-based variant to describe the strategy and objectives of a simple UCITS fund (Variant A). Only one approach to displaying this information was tested. Respondents were asked to consider the objectives part of the variant first and to answer questions about this before going on to look at the strategy part separately. They were asked to comment on how clear each of these two elements were, state what (if anything) they found difficult to understand and then to respond to a series of true/false statements to test their understanding of the variant.

Clarity of objectives

2.2 Respondents were asked to state whether they felt the description of the objectives of the fund was very clear, fairly clear, neither clear nor unclear, fairly unclear or very unclear. Overall, around three-quarters (73%) of investors found the objectives very (14%) or fairly (59%) clear. Just over one in ten (12%) felt the objectives were unclear, including 2% who felt they were very unclear.

2.3 Viewing these ratings in isolation it is difficult to understand how well this variant performs. We would suggest that the ratings given for clarity of variants should not necessarily be interpreted as an absolute measure of clarity (since as explained later on there is not always a strong relationship between perceived clarity and levels of understanding). These 'clarity tests' instead help to obtain a measure of investors' basic willingness to engage with the material. The fact that a relatively small proportion of respondents state that they find the variant unclear indicates that on the whole investors do not find the material off-putting.

2.4 As shown in Table 2.1, Italy had the highest proportion of investors who found the objectives clear (79%) and Sweden the lowest proportion (61%).

Table .: Clarity of objectives by member state and level of financial sophistication

Column percentages

		Member State							Financial Sophistication		
	Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
Very clear	14	15	18	8	11	17	16	14	**25**	14	7
Fairly clear	59	60	60	53	64	62	53	63	57	63	54
Neither clear nor unclear	13	12	9	17	13	11	21	11	10	12	19
Fairly unclear	10	10	10	13	10	8	8	10	6	9	14
Very unclear	2	2	4	3	2	2	1	2	1	2	3
Don't know	1	1	*	6	*	1	*	1	1	1	2
CLEAR	73	75	77	**61**	75	79	69	77	82	77	62
UNCLEAR	12	12	13	**16**	12	9	9	12	7	11	17
Base: All	*3668*	*526*	*532*	*531*	*495*	*508*	*541*	*535*	*651*	*2043*	*860*

2.5 As would be expected, those with the highest level of (self-assessed) financial sophistication were the most likely to say they found the objectives clear (82% cf. 77% medium level, 62% low). Even among those considering themselves to have a low level of financial sophistication, the proportion stating that the explanation of objectives was unclear was still relatively low (17%).

2.6 There was no difference in the perceived clarity of the variant between those who already held UCITS products and those likely to purchase them in the future. Those describing their attitude towards risk as 'secure' and those aged over 65 were slightly less likely than average to see the variant as clear (61% and 67% respectively).

2.7 Those who found the objectives unclear were asked which part of the description they found unclear. Of all investors, two per cent found all or most of it unclear but were unable to give more specific feedback whilst a similar proportion found the objectives too complicated and would have liked the financial terms used to be defined. Two per cent wanted to know more about the objectives and a further two per cent needed more detail on the Morgan Stanley Capital Investment Emerging Markets Index which is not explained in Variant A. Other detail requested was exactly which member states were in the index and what performance benchmark could be expected for the index (2%). One per cent of current or future investors felt that the information did not seem credible.

2.8 It probably would not be possible to include all the additional information requested within a strategy and objectives variant of manageable length. In the case of requests such as more detail on the Index and how it works, it could perhaps be argued that the information is working to alert investors to elements of the operation of the fund that they might want to investigate further (and that provider websites or their financial advisor would be an appropriate mechanism to do this). That said the most common request was for a general simplification and avoidance or definition of financial terms which makes an argument for reviewing the language used in the variant to make it as simple as possible.

Understanding of objectives

2.9 As well as asking investors how clear they *felt* the objectives were, their understanding was tested through a series of true or false statements. To some extent this is a more useful measure than the clarity test since the ultimate aim of amending the way investment information is presented is to optimise understanding and this is more important than whether investors *feel* the information to be clear or not.

2.10 As shown in Chart 3.1, whilst investors understood the overall aim of the fund, they were less sure on how the aims might affect the value of the fund.

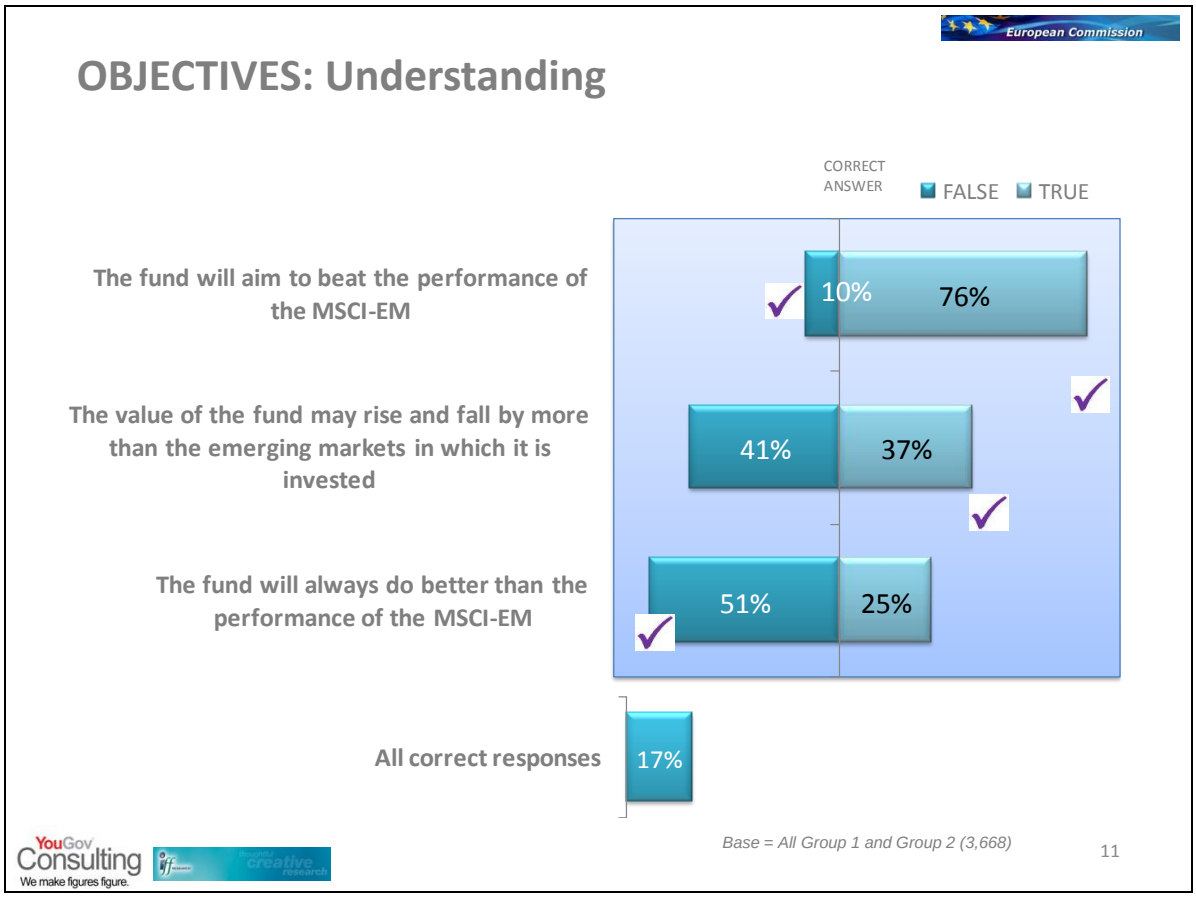
2.11 Three quarters of investors (75%) were correct in answering that the fund will aim to beat the performance of the MSCI EM and only 10% felt the statement was false, with the remainder unsure. Half (51%) of investors correctly answered that the statement *'the fund will always do better than the performance of the MSCI EM'* was false, compared to a quarter (25%) who felt it was true and a quarter (24%) who were unsure.

2.12 Responses were more mixed for the third statement with the proportion of investors agreeing (correctly) that *'the value of the fund may rise and fall by more than the emerging markets in which it is invested'* (37%) being slightly less than those who felt that this statement was false (41%). It is worth noting that the information presented in the variant only overtly told respondents about the potential of the fund rising more than the emerging markets and not about the corresponding potential of falling more than the emerging markets which may account for the answers given.

2.13 Nonetheless, the responses to this last statement seem to indicate that it cannot be assumed that all investors who may interact with this material have a good base level of understanding about how investments work. While the disclosure documentation itself cannot take on the task of educating investors about the way in which investments operate, this finding (and others explored later in this report) do perhaps make a case for exploring the possibility of including some basic level warnings about the nature of investments within the KII document.

2.14 Fewer than one in five (17%) got the responses to all three statements correct.

Figure .: Understanding of objectives



2.15 As shown in Table 2.3, Ireland was the member state most likely to have all correct responses (31% cf. 17% total) whilst fewer than average in Sweden, Spain and Hungary had all correct responses (13%, 12% and 10% respectively).

2.16 Respondents in Spain, Poland and Hungary were most likely to grasp that the aim of the fund is to beat the performance of the MSCI EM (81%, 81%, 79% cf. 75% total) with Germany, Sweden and Italy least likely to (71% each).

2.17 Those in Ireland, Hungary and Poland were more likely than average to know that the fund will *not* always do better than the MSCI EM (59%, 56%, 56% cf. 51% total) whilst fewer than average in Italy and Spain were able to answer this true/false statement correctly (45% and 32%). Those in Spain were more likely to answer the statement incorrectly than to give the correct answer.

2.18 The statement that *'the value of the fund may rise and fall by more than the emerging markets in which it was invested'* provided the greatest range of responses by member state with Ireland well above average in realising it was true (65% cf. 37% total) and Hungary and Sweden faring least well (25% and 24% respectively). As mentioned earlier, there is perhaps some ambiguity surrounding this statement and this may have some influence on the differences in findings by member state.

2.19 Those with a high level of financial sophistication had a better understanding of the objectives, as proved by their higher correct scores on each of the true/false statements. At an overall level, 23% of those with high sophistication answered all statements correctly compared to just 12% of those with low financial sophistication.

Table .: Understanding of objectives by member state and level of financial sophistication

Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
The fund will aim to beat performance of MSCI EM (true)	Correct	75	**71**	73	**71**	**81**	**71**	**79**	**81**	**80**	77	**71**
	Incorrect	10	10	11	7	8	12	11	8	9	10	10
The fund will always do better than the performance of the MSCI EM (false)	Correct	51	52	**59**	54	**32**	**45**	**56**	**56**	54	**53**	**45**
	Incorrect	25	21	14	16	47	30	25	21	27	24	24
The value of the fund may rise and fall by more than the emerging markets in which it is invested (true)	Correct	37	38	**65**	**24**	34	41	**25**	35	**44**	**39**	**28**
	Incorrect	41	41	20	38	49	36	55	46	39	41	43
ALL CORRECT RESPONSES		17	19	**31**	**13**	**12**	18	**10**	17	**23**	18	**12**
Base: All		*3668*	*526*	*532*	*531*	*495*	*508*	*541*	*535*	*651*	*2043*	*860*

2.20 Likelihood to answer all three statements correctly increased with appetite for risk from 10% of those describing their approach to risk as 'secure' to 26% considering themselves to be 'adventurous'.

2.21 The table below analyses the relationship between perceived clarity of objectives and the likelihood to score well on the 'understanding test' outlined above.

Table .: Perceived clarity of objectives by number of correct responses to understanding statements

Column percentages

		Perceived clarity of objectives			
	Total	**Very clear**	**Fairly clear**	**Neither clear nor unclear / Don't know**	**Very or Fairly Unclear**
	%	%	%	%	%
No correct responses / Don't know	36	18	27	73	57
1 correct response	31	27	32	29	35
2 correct responses	40	46	42	33	35
3 correct responses	17	**23**	**19**	9	11
Base: All	*3668*	*519*	*2171*	*538*	*440*

2.22 Those respondents who felt the objectives were clear were more likely to answer the statements testing understanding of the objectives correctly: 23% of those who felt the objectives were very clear and 19% of those who felt they were fairly clear gave a correct response to all the statements compared to just 11% of those who felt the objectives were unclear.

Clarity of strategy

2.23 Turning to the strategy, the perceived clarity of this reflected that of the objectives with three quarters (74%) finding it clear, including 10% who found it very clear. Only eight per cent found the strategy to be unclear, including just two per cent who felt it was very unclear.

2.24 As shown in Table 2.4, Poland and Ireland were the most likely to find the strategy clear (86% and 79% cf. 74% total) whilst Sweden was the least likely to (55%).

2.25 Four in five (80%) of those with a high level of financial sophistication found the strategy clear compared to three in five (62%) of those with low sophistication.

Table .: Clarity of strategy by member state and level of financial sophistication

Column percentages

		Member State							Financial Sophistication		
	Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
Very clear	10	8	**14**	**6**	**7**	9	**14**	**13**	**19**	10	**5**
Fairly clear	64	63	65	49	67	67	61	73	61	68	57
Neither clear nor unclear	16	17	11	25	16	13	21	9	13	14	23
Fairly unclear	6	9	7	7	8	7	3	3	4	6	9
Very unclear	2	1	2	3	1	1	1	1	1	1	3
Don't know	2	1	1	9	1	2	1	1	2	1	4
CLEAR	74	72	**79**	**55**	74	76	74	**86**	**80**	**78**	**62**
UNCLEAR	8	10	9	11	9	8	4	4	6	7	12
Base: All	*3668*	*526*	*532*	*531*	*495*	*508*	*541*	*535*	*651*	*2043*	*860*

2.26 As with the objectives element of the variant, there was no difference in the perceived clarity of the variant between those who already held UCITS products and those likely to purchase them in the future but those describing their attitude towards risk as 'secure' and those aged over 65 were slightly less likely than average to see the variant as clear (61% and 63% respectively).

2.27 In a similar way to with the objectives element of the variant, those who found the strategy unclear were asked which part of the description they found unclear. Of all investors, two per cent felt that all or most of it was unclear with one per cent saying it was too complicated and that financial terms were not defined. One particular term which investors were unsure of was the 'specific financial techniques' which are mentioned: one per cent wanted to know more about these techniques. A similar proportion (1%) felt that the descriptions and terms used were vague and that there were too many 'might's involved although this might indicate a desire for a more certain / less risky fund rather than anything being wrong with the information provided. A further one per cent wanted to know more about the strategy in general.

Understanding of strategy

2.28 As for the objectives, as well as asking investors how clear they *felt* the strategy was, their understanding was tested through a series of true or false statements.

2.29 Four of the six statements tested related to where and how the fund may be invested and two related to the results of this in terms of risk to the investor.

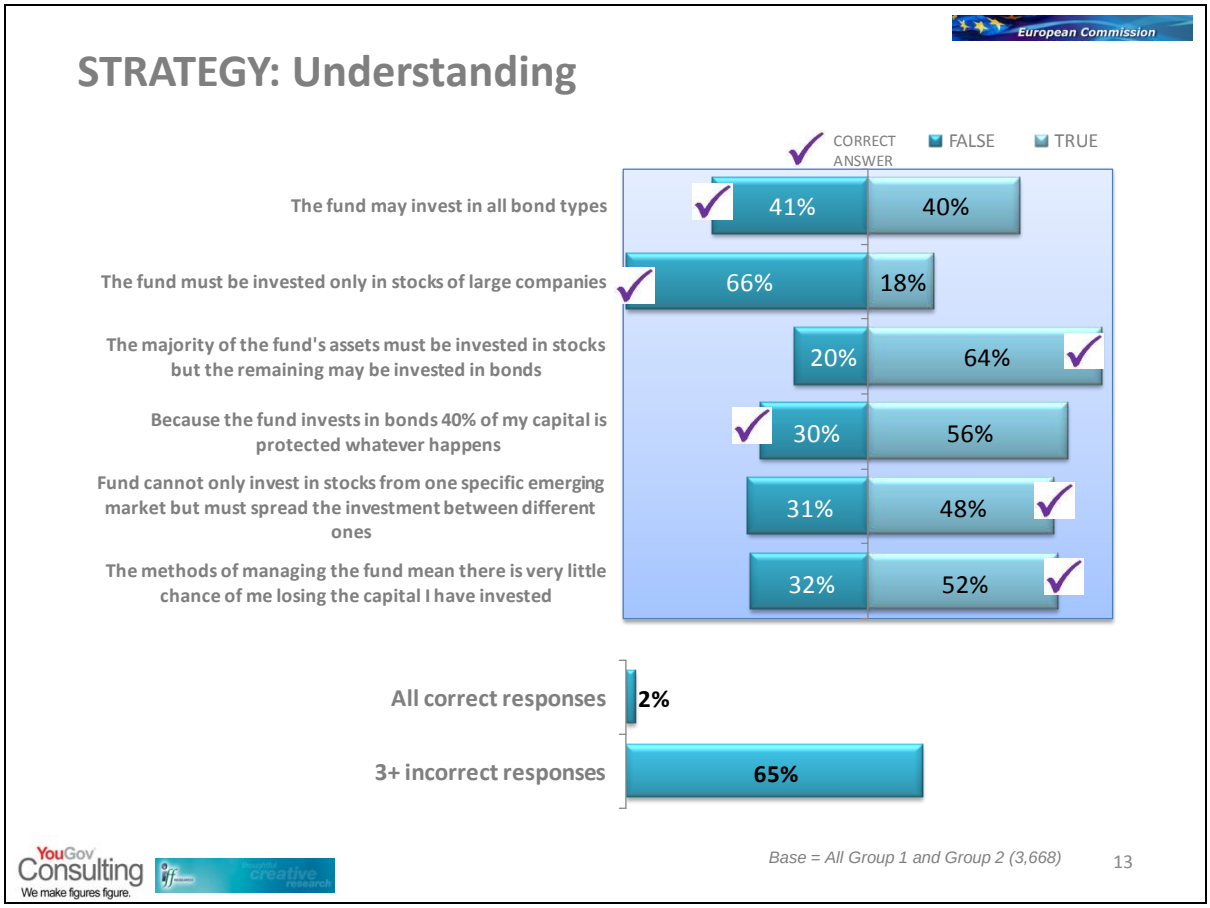
2.30 As shown in Figure 2.2, two thirds (66%) of current or future investors realised that the statement *'the fund must be invested only in the stocks of large companies'* was false and a similar proportion (64%) realised it was true that *'the majority of the fund's assets must be invested in stocks but the remaining part may be invested in bonds'*. Continuing to look at those statements relating to where and how the fund may be invested, just under half (48%) correctly thought it was true that *'the fund cannot only invest in stocks from one specific emerging market but must spread the investment between different ones'* whilst just two in five (41%) realised it was false that 'the fund may invest in all types of bonds'.

2.31 The statements relating to the risk to the investor resulting from the strategy were not as well understood as some of the other statements. Around half (52%) correctly thought that *'the methods of managing the fund mean there is very little chance of me losing the capital I have invested'* and only three in ten (30%) correctly thought it was false that *'because the fund invests in bonds 40% of my capital is protected whatever happens'.* Again this perhaps makes a case for considering the inclusion of some basic warnings about the lack of capital guarantee in investments within the KII document.

2.32 At an overall level, just two per cent of current or future investors got the responses to all six statements correct, with over three in five (65%) getting at least three of the six statements incorrect[1].

[1] This includes those who said 'don't know' as incorrect.

Figure .: Understanding of strategy



2.33 As shown in Table 2.6, there is no clear pattern to be seen in how well respondents in each member state answered the true/false strategy statements. Investors in Poland and Ireland were more likely than average to know it was false that *'the fund must only be invested in the stocks of large companies'* (73% and 71% cf. 66% total) while those in Poland and Hungary were more likely to correctly think that *'the majority of the fund's assets must be invested in stocks but the remaining part may be invested in bonds'* (74% and 68% cf. 63% total). Respondents in Spain and Italy were slightly more likely to incorrectly think that 'the fund cannot only invest in stocks from one specific emerging market but must spread the investment between different ones' (53% each cf. 48% total) while those in Hungary and Spain were most likely to correctly think it false that 'the fund may invest in all types of bonds' (56% and 47% cf. 41% total).

2.34 In terms of the statements relating to the safety of the capital invested, Spain, Hungary and Poland knew that *'the methods of managing the fund mean there is very little chance of me losing the capital I have invested'* (64%, 62%, 58% cf. 51% total) whilst Italy and Sweden were most likely to correctly think it false that *'because the fund invests in bonds 40% of my capital is protected whatever happens'* (35% and 34% cf. 30% total).

2.35 At an overall level, investors in Sweden and Ireland were most likely to have three or more incorrect responses (78% and 70% cf. 65% total) whilst Hungary was least likely to (55%).

2.36 As would be expected, those with a high or medium level of financial sophistication were more likely than those with a low level to get each of the true/false statements correct. The exception to this is for one of the risk statements *'the methods of managing the fund mean there is very little chance of me losing the capital I have invested'* where 55% of those with low financial sophistication correctly labelled it as true whilst only 45% of those with high financial sophistication did so. The pattern is reversed (and back in line with expectations) for the statement *'because the fund invests in bonds 40% of my capital is protected whatever happens'* (42% high correctly labelled it false vs. 21% low). It may be that the highly financially sophisticated had a different interpretation of the phrase '*very little chance'* in the first statement but this cannot be proved from the research.

Table .: Understanding of strategy by member state and level of financial sophistication

Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
The fund must be invested only in the stocks of large companies (false)	Correct	66	69	**71**	**56**	**59**	65	69	**73**	63	**69**	**63**
	Incorrect	18	12	16	17	27	19	18	15	23	17	16
The majority of the fund's assets must be invested in stocks but the remaining part may be invested in bonds (true)	Correct	63	60	65	**55**	**58**	63	**68**	**74**	66	**65**	**59**
	Incorrect	20	20	17	18	30	20	19	15	21	20	18
The methods of managing the fund mean there is very little chance of me losing the capital I have invested (true)	Correct	51	51	**40**	**31**	**64**	54	**62**	**58**	**45**	53	**55**
	Incorrect	32	32	42	42	26	30	24	29	45	32	25
The fund cannot only invest in stocks from one specific emerging market but must spread the investment between different ones (false)	Correct	31	29	29	26	32	27	38	37	30	32	31
	Incorrect	48	48	51	46	**53**	**53**	**42**	45	**55**	50	**41**
The fund may invest in all types of bonds (false)	Correct	41	44	**36**	**21**	**47**	45	**56**	38	43	**43**	**37**
	Incorrect	40	33	48	53	38	37	28	43	42	40	38
Because the fund invests in bonds 40% of my capital is protected whatever happens (false)	Correct	30	33	31	**34**	**25**	**35**	**25**	**25**	**42**	30	**21**
	Incorrect	56	50	56	41	66	48	65	63	46	58	59
ALL CORRECT RESPONSES		2	2	1	1	1	2	2	2	1	2	1
3+ INCORRECT RESPONSES		65	63	**70**	**78**	67	64	**55**	61	**63**	**64**	**68**
Base: All		*3668*	*526*	*532*	*531*	*495*	*508*	*541*	*535*	*651*	*2043*	*860*

2.37 The table below analyses the relationship between perceived clarity of strategy and the likelihood to score well on the 'understanding test' outlined above.

Table .: Perceived clarity of strategy by number of correct responses to understanding statements

Column percentages

		Perceived clarity of strategy			
	Total	**Very clear**	**Fairly clear**	**Neither clear nor unclear / Don't know**	**Very or Fairly Unclear**
	%	%	%	%	%
No correct responses / Don't know	26	8	15	62	47
1 correct response	8	7	7	12	14
2 correct responses	21	19	22	20	20
3 correct responses	27	29	29	20	19
4 correct responses	22	**25**	**24**	15	**19**
5 correct responses	11	15	12	7	7
6 correct responses	2	2	2	1	1
Base: All	*3668*	*374*	*2335*	*671*	*288*

2.38 Those who felt the strategy was unclear were significantly more likely to not be able to give any correct answers to the statements designed to test understanding (47% cf. 8% very clear, 15% fairly clear). Similarly, 42% of those who felt the strategy was very clear were able to give four or more correct responses compared to just 27% of those who found the strategy unclear.

2.39 To summarise, three quarters of current and future investors found both the strategy and objectives shown in Variant A to be clear. The reasons why some found them unclear indicate the necessity of balancing the wishes of those who want more detail with the needs of those for whom Variant A is already too complicated.

2.40 Specific detail requested by more than one in ten of those who found the strategy or objectives unclear was more information on the MSCI EM (14%), including which member states are in the index and a performance benchmark for it (14%) as well as what specific financial techniques are used in managing the fund (13%).

2.41 Key messages from the strategy and objectives which were understood by only a minority were:

- The value of the fund may rise and fall by more than the emerging markets in which it is invested (True: 37% correct).
- The fund may invest in all types of bonds (False: 41% correct).
- Because the fund invests in bonds 40% of my capital is protected whatever happens (False: 30% correct).

3 Past Performance

3.1 This section examines investor reaction to presenting the past performances of funds in 5-year and 10-year time periods as a method to help investors in their decision to invest in a particular fund. As a further test of investor understanding, a comparison of a fund's past performance to a market index, in this case the MSCI EM (Morgan Stanley Capital Investment Emerging Markets Index), was also shown to gauge investor reaction.

3.2 Investors were presented with four variants displaying past performance: Variant B (5-year past performance with comparison to the MSCI EM); Variant C (10-year past performance with comparison to the MSCI EM, including references to negative growth); Variant D (5-year past performance with no MSCI EM comparison); and Variant E (10-year past performance with no MSCI EM comparison). An initial description of the fund was presented in Variant A which outlined the strategy and objective of the fund as reported in the previous section. Copies of the variants can be found in Appendix A.

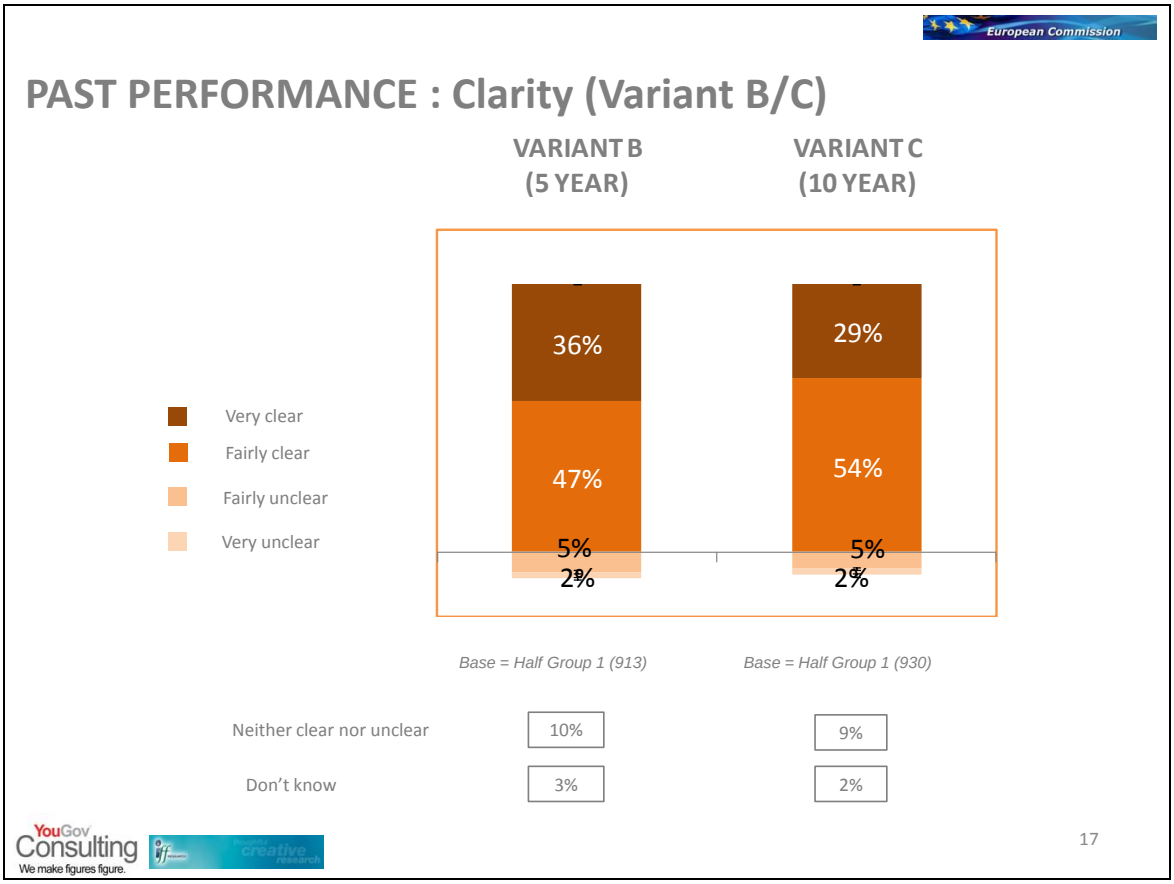
3.3 To ensure that the evaluation of the 5-year and 10-year past performance examples was unbiased, the order of presentation was rotated among respondents. Half of the Group 1 respondents were first presented with Variant B while the other half was first shown Variant C. Later questions presented respondents with paired comparisons: Variant B to Variant D and Variant C to Variant E.

Clarity of past performance variants

3.4 The Past Performance variants first shown to investors compared a fund's performance to the MSCI EM (Morgan Stanley Capital Investment Emerging Markets Index) over a 5-year (Variant B) or 10-year (Variant C) period.

3.5 Overall levels of clarity are similar between Variant B (5-year) and Variant C (10-year) with 83% in each group stating that the display of the fund's past performance was clear to them. However, more investors initially say Variant B is very clear in displaying past performance compared to those viewing Variant C (36% vs. 29%). Few (7% for Variant B; 7% for Variant C) found them unclear:

Figure .: Clarity of Past Performance Variants B and C



3.6 In terms of financial sophistication, investors with a high level (37%) or medium level (38%) of financial sophistication (self-defined) were significantly more likely to find Variant B very clear than those with low financial sophistication (26%). For Variant C, investors with a high level of financial sophistication (35%) were significantly more likely to find that variant very clear compared to those with medium (28%) or low (24%) levels.

3.7 There were also differences in perceived clarity by member state. Investors in Ireland were significantly more likely to find variant B very clear (60% cf. 36% total), whilst Spanish and Swedish investors were less likely to find it very clear (21%, 23% cf. 36% total). Similarly, investors in Ireland (44%) and Hungary (37%) were significantly more likely than average (29%) to find Variant C very clear whilst their counterparts in Spain (13%) or Sweden (21%) were less likely to.

3.8 Most investors viewing Variants B and C (86% in both groups) indicate they understood the graphs. There were some parts of the Variants that investors did not understand:

- General vague description: (Variant B 4%; Variant C 5%)
- Unclear labelling: (Variant B 4%; Variant C 3%)
- The MSCI EM: (Variant B 2%; Variant C 2%)

Understanding of past performance variants

3.9 Levels of understanding were tested for each variant through a series of 5 true/false statements. Among the five statements tested, one was determined, after interviewing, to be ambiguous in wording: *'The years of good performance of the fund outnumber the years of poor performance.'* Looking across the statements for Variant B, a majority of investors correctly answered three of the five statements.

3.10 However, only 5% of the investors reviewing Variant B (5-year past performance) were able to correctly answer all five true/false statements pertaining to the graph, while over half (52%) provided incorrect answers to three or more statements:

Table .: Understanding of 5-year past performance (Variant B)

Column percentages

			Member State						Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
1. The year when the fund grew most as 2003 (**FALSE**)	True	32	31	35	**19**	38	31	**46**	25	31	33	31
	False	52	54	56	56	44	51	**41**	57	51	54	47
2. Performance of the fund has been steady over the years (**FALSE)**	True	19	19	24	21	**32**	**11**	20	**10**	23	19	18
	False	68	67	71	**56**	**54**	**79**	44	**78**	64	**73**	64
3. The years of good performance of the fund outnumber the years of poor performance (**FALSE**)	True	51	**61**	50	47	**67**	43	52	**40**	58	51	50
	False	35	**25**	39	**26**	**24**	42	40	**48**	31	**38**	**28**
4. From the start of 2003 to the end of 2004 the value of shares from the fund grew by around 60% (**TRUE**)	True	30	31	31	27	32	28	29	32	**40**	31	**20**
	False	51	51	53	**42**	49	54	59	49	**43**	52	28
5. In 2007 the value of the shares from the fund grew by around 30% (**TRUE**)	True	51	57	51	53	50	49	48	46	55	53	**43**
	False	32	25	32	**19**	32	32	**42**	**40**	26	31	36
ALL CORRECT RESPONSES		5	7	5	4	2	5	7	7	7	6	3
3+ INCORRECT RESPONSES		52	55	49	52	61	49	58	40	49	47	63
Base: All		*919*	*150*	*133*	*135*	*117*	*127*	*123*	*134*	*149*	*531*	*209*

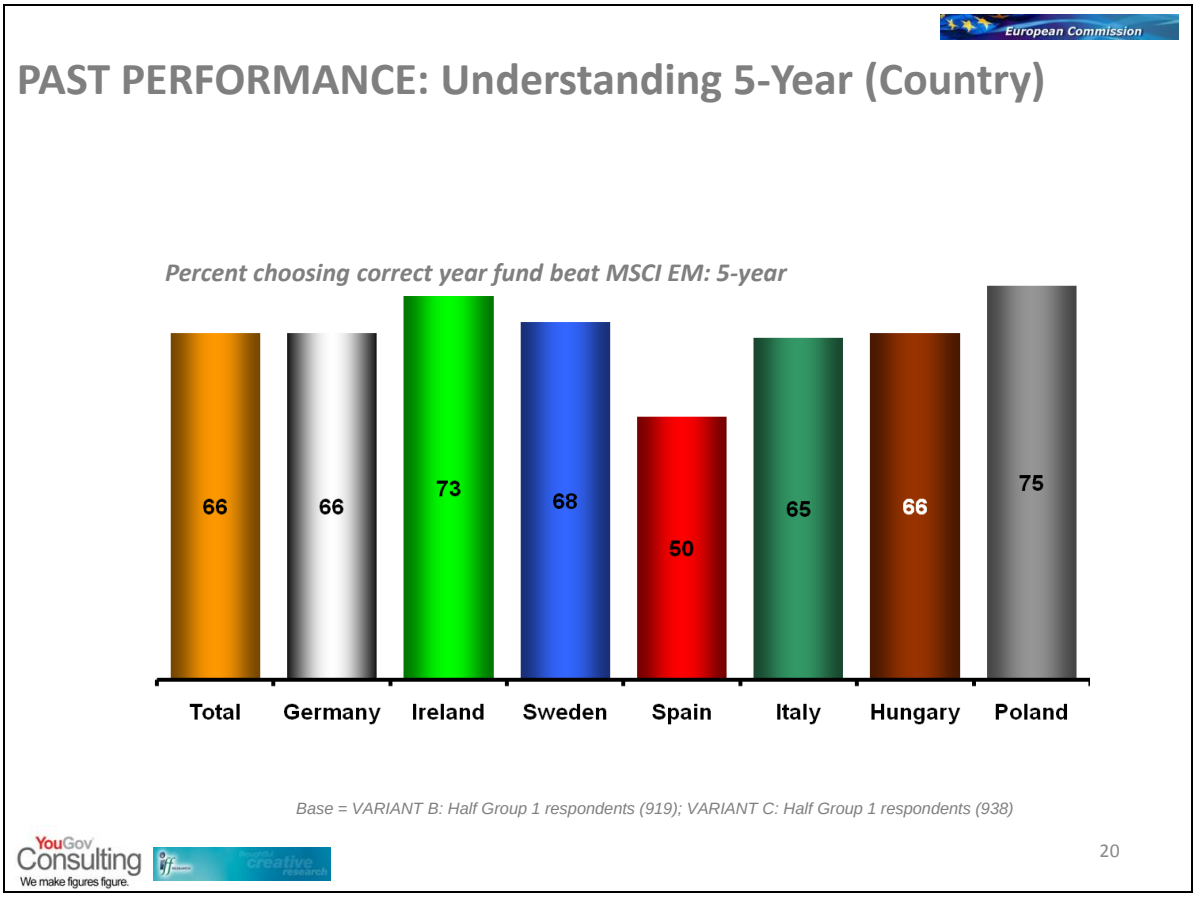
3.11 Looking at the subgroups reveals some differences in understanding overall:

- Investors with high or medium levels of financial sophistication were more likely to correctly answer these statements than those with low levels
- Spanish investors were more likely to answer statements incorrectly than their counterparts. (In contrast, Polish investors had the lowest level of correct responses, with only 40% providing three or more incorrect responses.)
- In terms of attitudes to risk, investors classified as 'adventurous' were significantly more likely (12%) to answer all five statements correctly compared to those classified as secure (2%), cautious (5%) or balanced (6%) in their approach to risk.
- Investors who earlier indicated that Variant B was clear to them were significantly more likely (6%) to correctly answer all five statements than those who found Variant B unclear (0%) or found it neither clear nor unclear (3%).

3.12 Investors were also asked to select from a list the years in which the fund beat the performance of the MSCI EM. In total, two-thirds (66%) of the investors reviewing Variant B correctly chose the year 2005 as the year when the fund bested the performance of the MSCI EM (from a range of years beginning from 2003 to 2007).

3.13 Investors in Poland were significantly more likely to make the correct selection, while those in Spain were significantly least likely:

Figure .: Proportion choosing correct year fund beat MSCI EM: 5 year



3.14 There are some differences among various sub-groups in their ability to correctly identify the year in which the fund beat the performance of the MSCI EM. For example, investors with a medium level of financial sophistication were significantly more likely (69%) to correctly select the year than those with a high (65%) or low (61%) level of financial sophistication. Additionally, there are notable differences seen among those with various attitudes toward risk. For example, those with a secure (46%) or cautious (67%) attitude to risk were less likely to choose the correct year than those who are balanced (75%) or adventurous (73%).

3.15 Investors reviewing Variant C (10-year past performance) were less likely to answer all five true/false statements correctly than those viewing Variant B (5-year past performance), with only 1% correctly answering all five statements. (As noted earlier, the statement '*the years of good performance of the fund outnumbers the years of poor performance'* was considered ambiguous after viewing results'):

Table .: Understanding of 10-year past performance (Variant C)

Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
1. The year when the fund grew most was 1999 (**TRUE**)	True	67	69	**81**	72	**78**	69	**87**	**20**	67	68	67
	False	20	**8**	**9**	**8**	**12**	17	**6**	**72**	19	**22**	17
2. Performance of the fund has been steady over the years (**FALSE)**	True	26	20	**35**	**45**	**37**	23	**17**	**8**	26	26	27
	False	62	65	58	**29**	56	66	**76**	**86**	62	**65**	57
3. The years of good performance of the fund outnumber the years of poor performance (**FALSE**)	True	77	74	74	73	**85**	76	77	79	74	**79**	74
	False	13	11	**18**	**7**	**7**	15	17	12	14	12	12
4. From the start of 1998 to the end of 1999 the value of shares from the fund grew by around 40% (**TRUE**)	True	38	38	**46**	**28**	44	**48**	42	**25**	44	38	36
	False	42	34	40	37	41	35	45	**63**	40	45	41
5. In 1999 the value of the shares from the fund grew by around 80% (**TRUE**)	True	35	**13**	**58**	**10**	**25**	**61**	**14**	**58**	37	38	30
	False	48	**60**	**31**	**63**	**63**	**26**	**76**	**26**	49	47	50
ALL CORRECT RESPONSES		1	3	2	0	2	1	**4**	0	2	2	1
3+ INCORRECT RESPONSES		54	44	56	62	48	57	24	82	50	55	54
Base: All		*938*	*120*	*156*	*139*	*123*	*132*	*123*	*145*	*178*	*510*	*222*

3.16 Two statements were answered correctly by an overall majority of investors:

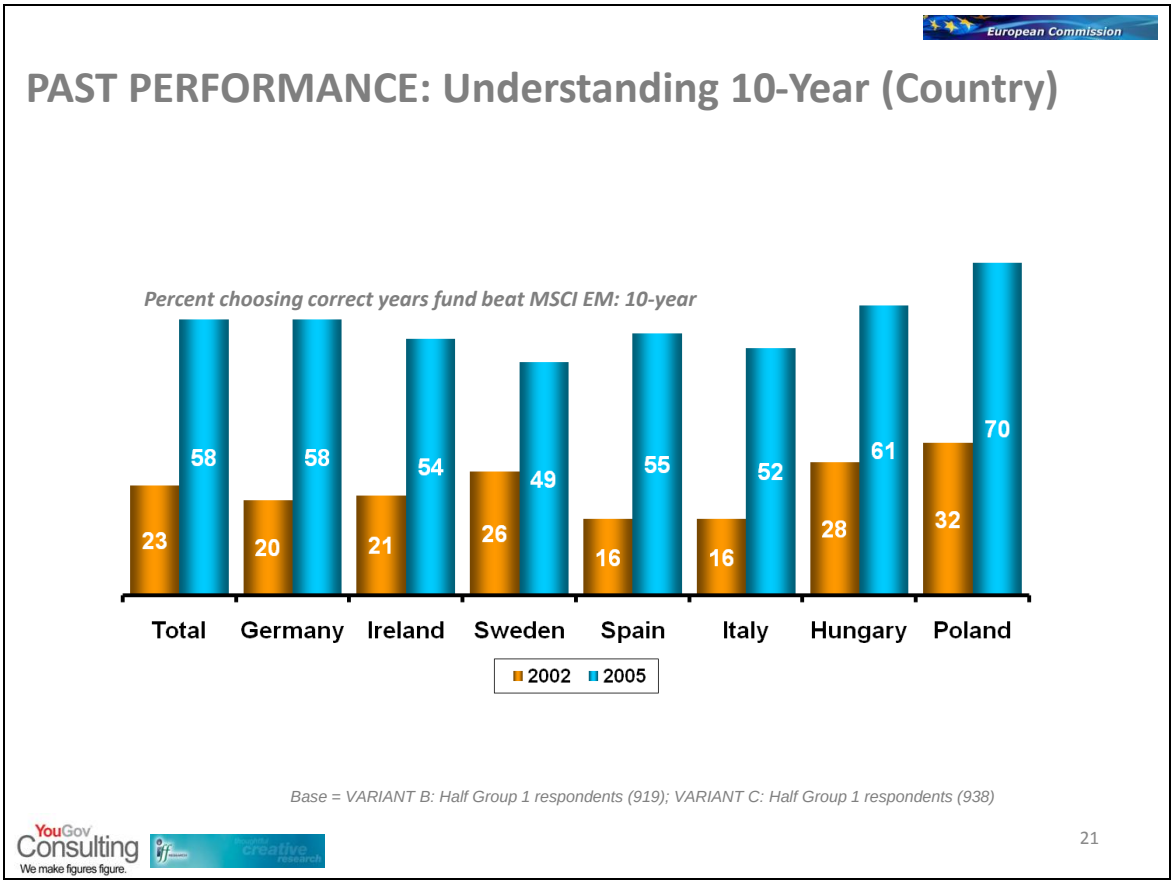
- Statement 1: The year the fund grew most was 1999 (67% correct)
- Statement 2: Performance of the fund has been steady over the years (62% correct)
- Statements 4 and 5 which asked investors to comment on the percentage growth of the fund appeared to be more difficult with slightly more investors answering incorrectly than correctly

3.17 Again, there appear to be interesting findings among the sub-groups in levels of understanding Variant C:

- There are few differences in responses based on levels of financial sophistication with at least half in each group (high 50%; medium 55%; low 54%) incorrectly answering three or more questions.
- Hungarian investors were significantly more likely to answer all questions correctly than investors in other markets; in fact, only one-fourth answered three or more questions incorrectly. There were no Polish or Swedish investors that answered all questions correctly.

3.18 Compared to those viewing Variant B, somewhat fewer investors overall were able to correctly select the two years (2002 23%: 2005 58%) in which the fund beat the performance of the MSCI EM. In the case of 2002, the graph showed negative growth for both the fund and the MSCI EM which appears to have confused some respondents when making the assessment:

Figure .: Proportion choosing correct years fund beet MSCI EM: 10-year

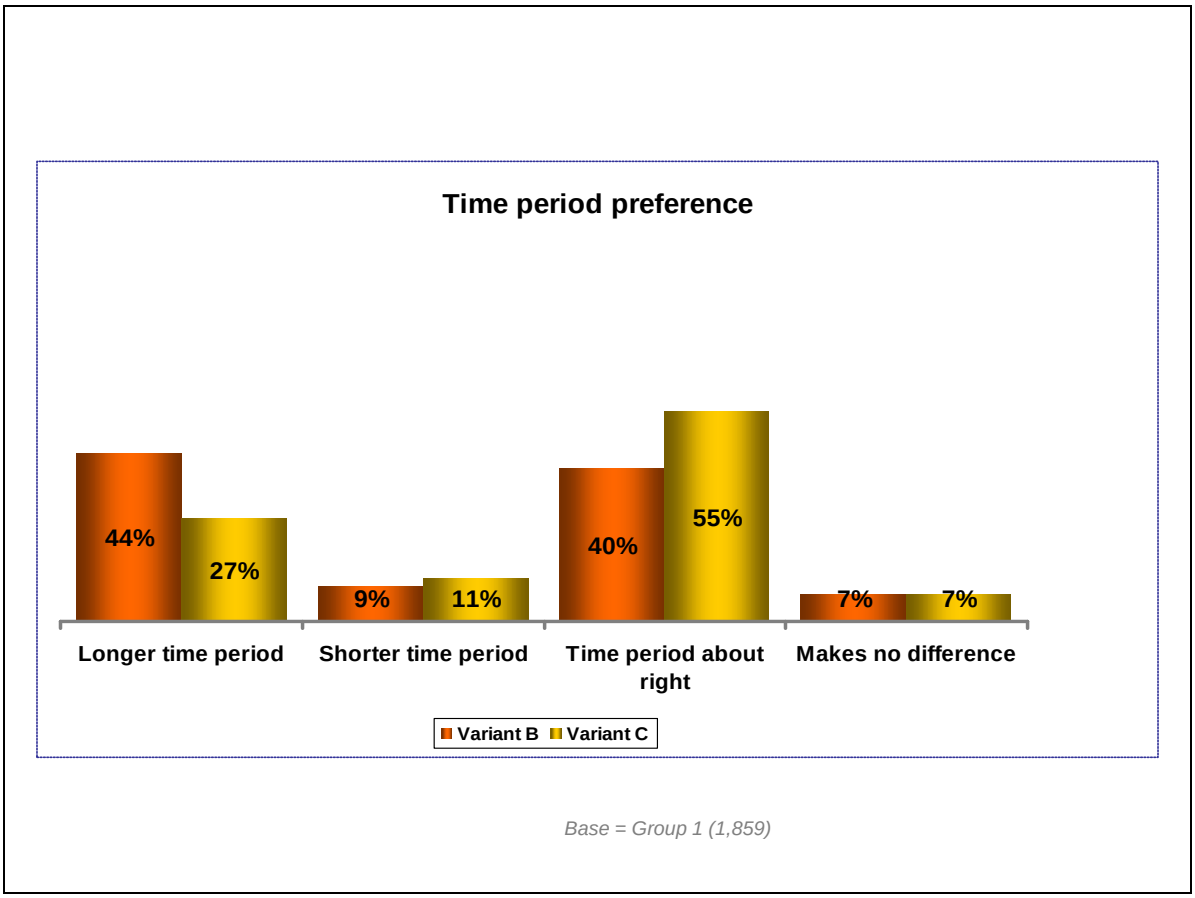


3.19 In terms of variations by member state, investors in Poland were significantly more likely than those in other markets to choose the correct year. Polish investors were also significantly more likely to limit their answers to the two correct ones (31%) than other markets; those in Italy (12%) were significantly less likely to do so. Other differences were as follows:

- Those with a higher level of financial sophistication had an easier time identifying 2002 as one of the years (29%, a significant difference) compared to those with medium (23%) or low (18%) sophistication.
- Those with a balanced view of risk were more likely to correctly identify 2002 (31%) and 2005 (69%) than those with secure (2002 14%; 2005 46%), cautious (2002 22%; 2005 56%) or adventurous (2002 21%; 2005 60%) attitudes to risk.

3.20 Generally, investors prefer to see past performance information displayed on a period longer than 5-years. Among those viewing Variant B (5-year), 44% would prefer to see the information over a longer period. This contrasts with over half viewing Variant C (10-year) saying that this time period is about right:

Figure .: Time period preference

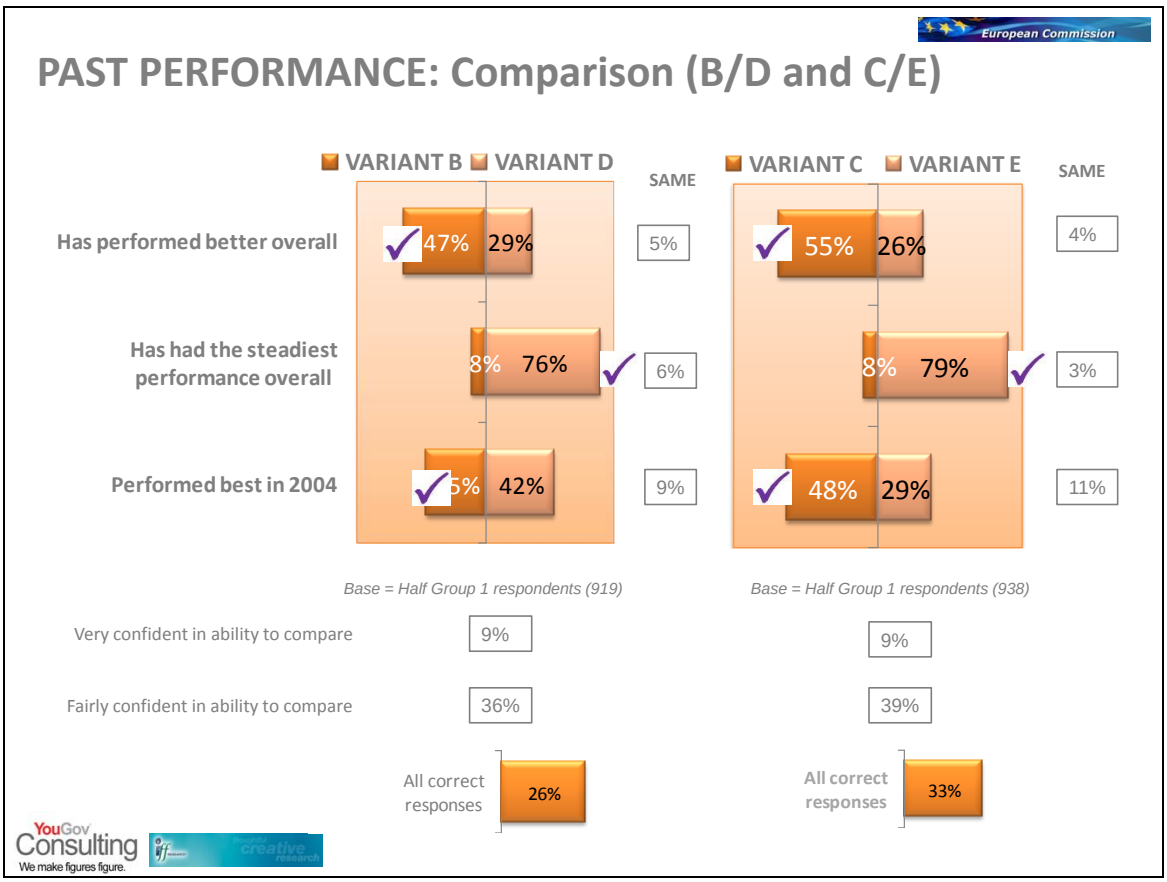


Comparison of past performance variants

3.21 After reviewing Variant B separately, investors were asked to compare Variant B with Variant D, another 5-year past performance variant that did not display the MSCI EM comparison. Similarly, those who reviewed Variant C were asked to then compare it with Variant E, another 10-year past performance variant which did not display the MSCI EM comparison.

3.22 In comparing these two 5-year variants, only one quarter (26%) were able to correctly answer all three statements. Investors found it easier to determine which Variant displayed the fund that had the steadiest performance overall and more difficulty in selecting which fund performed best in 2004, possibly due to the different scales on the axes. The scale displayed on Variant B went from 0% to 60% while the scale in Variant D went from .00% to 5.00%, and some investors appear simply to have chosen the longest bar for 2004 rather than referring to the scale. This perhaps makes a case for either standardisation of axes (so that they are of a specified length) or using 'data labels' to mark percentages at the end of each bar. The latter may be more realistic given the range of funds that the KII will look to cover.

Figure .: Comparison of Variants B/D and C/E



3.23 Among the various member states, investors in Hungary (42%) and Poland (36%) were significantly most likely to answer all questions correctly while those in Spain (15%) and Sweden (5%) were significantly less likely. In terms of the statement 'performed best in 2004', investors in Hungary (52%), Ireland (45%) and Poland (44%) were significantly more likely to correctly select Variant B than investors in other markets.

3.24 Again, those with a high level of financial sophistication were more likely to answer all questions correctly (30%) than those at medium (27%) or low (20%) levels. Investors with a balanced (31%) or adventurous (35%) attitude toward risk were more likely to answer all three statements correctly than those with a secure (16%) or cautious (24%) risk attitude.

3.25 Investors comparing the two 10-year variants (Variant C with the MSCI EM comparison and Variant E without) seemed to find it somewhat easier to read and compare the graphs than those reviewing Variants B and D, despite having a different scale in each variant (Variant C went from 40% to 100% while Variant E went from .00% to 6.00%.

3.26 Overall, one-third (33%) correctly answered all of the statements regarding Variants C or E (compared to 26% for Variants B and D). Those comparing the 10-year variants were also more likely to determine which fund performed better overall and performed best in 2004 compared to investors reviewing Variants B and D.

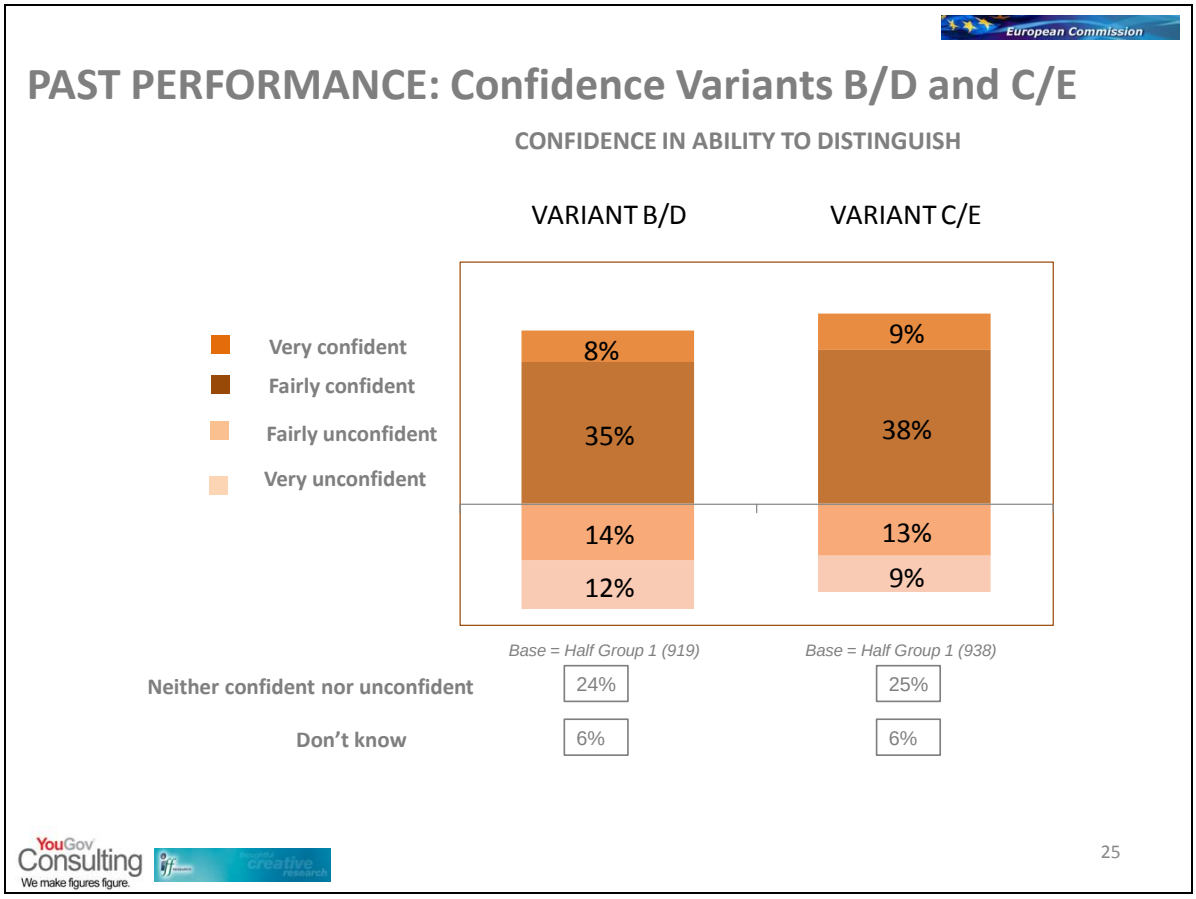
3.27 Investors in Poland (52%) and Hungary (44%) were significantly more likely to answer all questions correctly while those in Spain (23%) and Sweden (9%) were significantly less likely. (In Sweden's case, it should be noted that 50% thought that the funds in both Variants performed best in 2004. This result lowered their overall correct response rate as answers to the two previous statements were similar to the overall total. For Spain, investors were nearly equally divided in answering the first statement, with slightly more investors choosing Variant E than Variant C, which lowered their overall correct response rate.).

3.28 Investors with medium levels of financial sophistication (36%) were significantly more likely to answer all three statements correctly than those with high or low (29% each) levels. This is another instance where those who have self-assessed their level of financial sophistication as high have underperformed those at a medium level suggesting that they are over-estimating their level of knowledge.

3.29 Investors with a balanced attitude to risk (42%) were more likely to correctly answer all three statements than those who are secure (23%), cautious (32%) or adventurous (36%).

3.30 Despite the low numbers of investors able to correctly answer all statements (Variants B and D 26%), more of those viewing Variants B and D (43%) expressed confidence in their ability to distinguish between past performances of the two funds, compared to those that felt unconfident (26%).

Figure .: Confidence in ability to distinguish between Variants B and D



3.31 Interestingly, Spanish investors are significantly more likely (55%) to have confidence in their ability to distinguish between the two variants, despite having one of the lowest proportions of all-correct answers. (Irish investors are also significantly more likely to display confidence; 54%). At the other extreme, Hungarian investors express a significantly lower level of confidence (33%) despite having one of the highest proportions of correct responses.

3.32 While investors reviewing Variants C and E had a higher level of correct responses than those reviewing Variants B and D (33% vs. 26%), their levels of confidence in their ability to distinguish between the two are similar (47% vs. 43%).

3.33 Confidence levels in the ability to distinguish between C and E by member state are similar to those for Variants B and D. Spanish investors have a significantly higher confidence level (55%) than others in relation to their significantly lower score regarding correct answers. Irish investors also have a significantly higher confidence level: 57%. As before, Hungarian investors are significantly more likely to have a lower confidence level (36%) compared to their ability to correctly answer all statements on Variants C and E.

3.34 Investors with high (58%) or medium (50%) levels of financial sophistication are significantly more likely to display confidence in distinguishing between the variants compared to those with low (32%) levels.

3.35 Investors had difficulty in assessing which of the two funds was likely to perform better over the next five years based on their past performance. In comparing Variants B and D, investors were divided on whether either (Variant B 24%, Variant D 28%) or neither (29%) would provide this information.

Table .: Perception of likely future performance: Variants B and D

Column percentages

		Member State							Financial Sophistication		
	Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
Variant B	24	19	20	23	20	28	**32**	25	23	26	20
Variant D	28	25	29	21	**48**	31	**16**	27	26	29	26
Neither, you can never tell from past performance **(CORRECT)**	24	29	29	20	18	24	21	27	**32**	24	20
Neither, you can sometimes tell from past performance but not from these examples	11	16	15	14	**3**	**4**	15	10	9	11	12
Don't know	13	11	8	22	11	13	15	10	9	10	**22**
Base: All	*919*	*150*	*133*	*135*	*117*	*127*	*123*	*134*	*149*	*531*	*209*

3.36 No member states were any more likely than others to correctly state that you can never determine future performance from past performance, although those with high financial sophistication were more likely to realise this (32% cf. 24% total) and those with low financial sophistication were more likely to be uncertain (22% cf. 13% total).

3.37 Investors comparing Variants C and E were also similarly divided in their opinions when reviewing which, if any, was likely to perform best over the next five years:

Table .: Likely Future Performance of Fund: Variants C and E

Column percentages

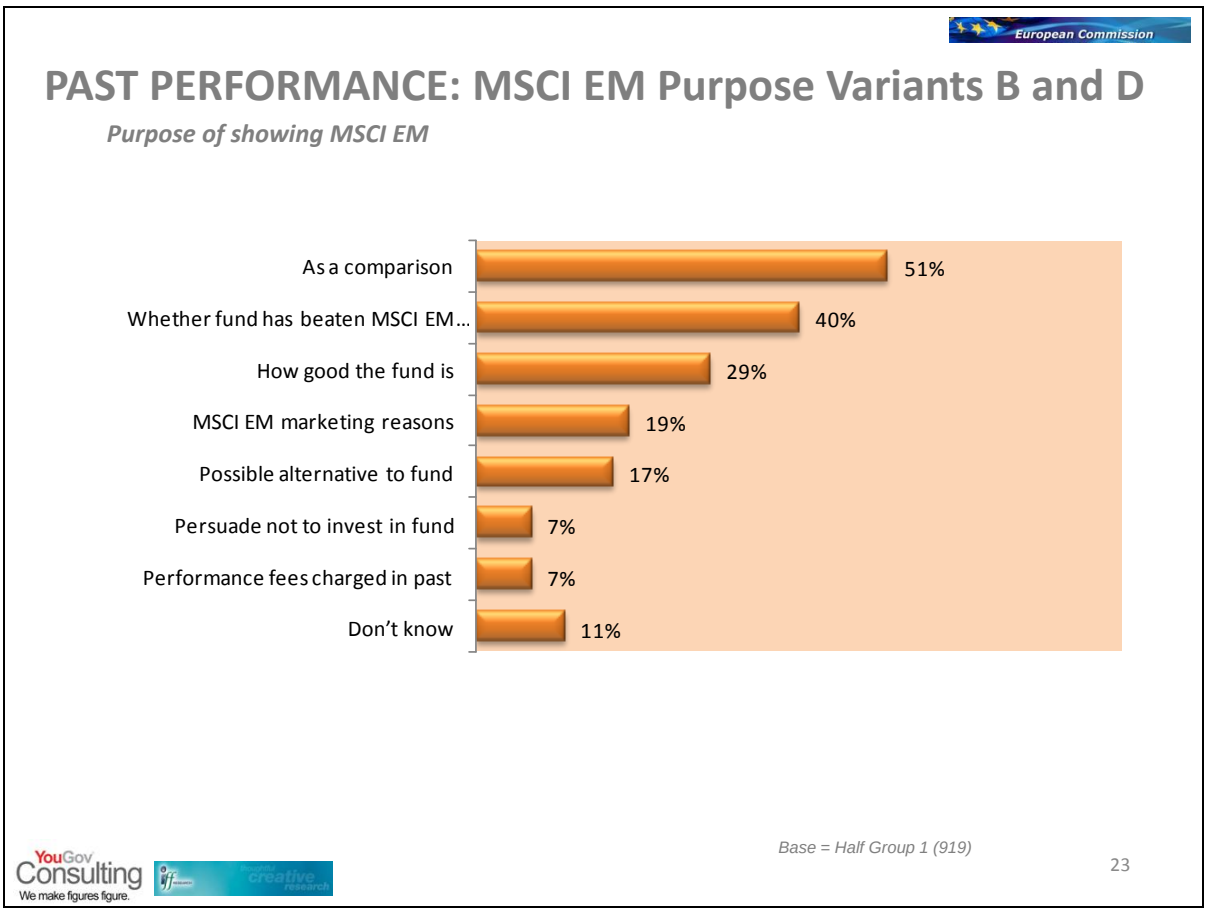
		Member State							Financial Sophistication		
	Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
Variant C	26	28	**19**	22	28	20	28	**34**	26	25	27
Variant E	24	19	29	**14**	**33**	**36**	**12**	24	26	25	22
Neither, you can never tell from past performance **(CORRECT)**	29	32	**36**	28	26	25	26	28	30	31	24
Neither, you can sometimes tell from past performance but not from these examples	10	8	8	**16**	**4**	8	**20**	8	11	11	9
Don't know	11	13	8	**20**	9	11	13	**6**	7	8	**17**

Base: All	*938*	*120*	*156*	*139*	*123*	*132*	*123*	*145*	*178*	*510*	*222*

3.38 Investors in Ireland (36%) were significantly more likely than investors in other member states to recognize that neither fund would provide information on likely future performance. Investors in Poland (34%) were significantly more likely to select Variant C as providing the best indication of future performance, while those in Spain (33%) and Italy (36%) opted for Variant E. There was little difference among investors based on level of financial sophistication. (However, those with a low level of financial sophistication were significantly more likely to be uncertain).

3.39 As a final question to close the section on 'past performance', investors reviewing Variants B and D were asked their thoughts on why the MSCI EM is shown with the fund. They were presented with seven statements and asked to select all that apply. The first three statements were correct; only one statement was selected by more than half the respondents:

Figure .: Purpose of showing MSCI-EM: Variant B and D

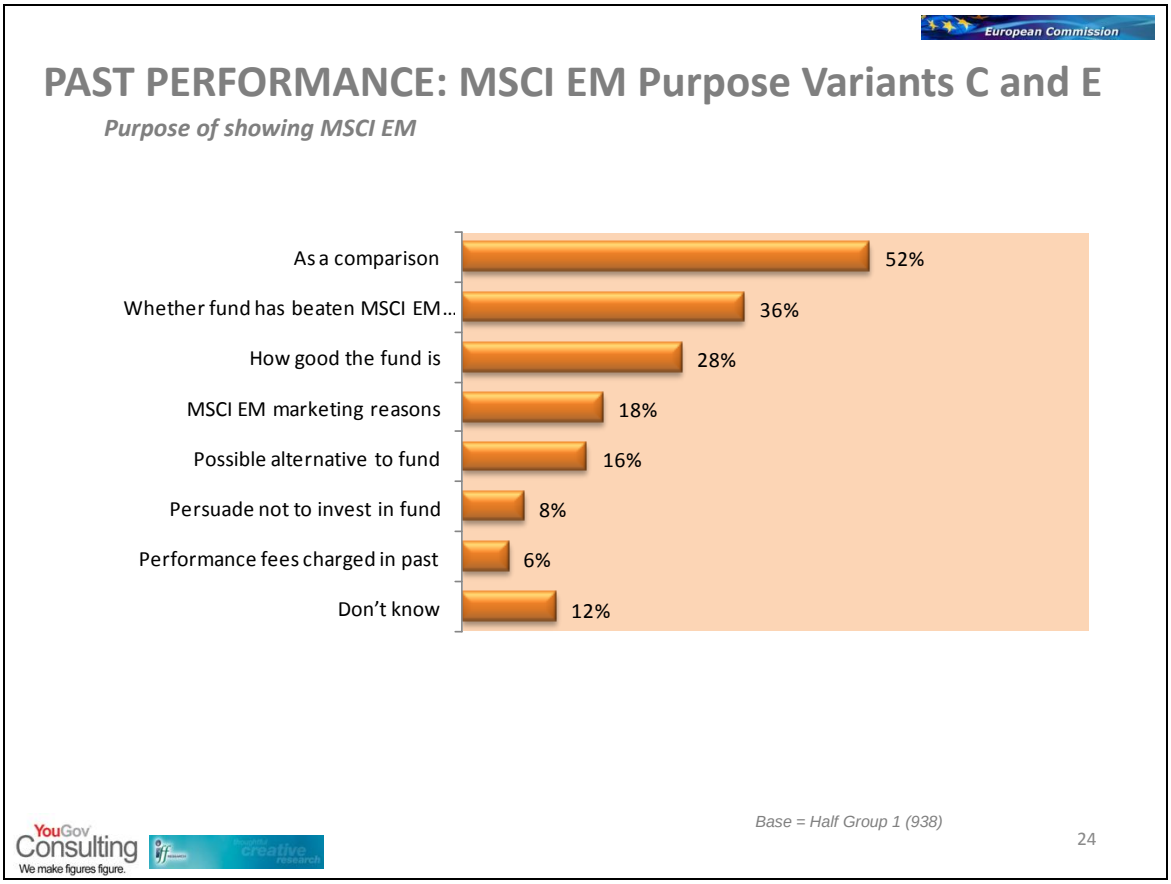


3.40 In terms of response by member state, investors in Hungary (61%) and Ireland (60%) were significantly more likely to see the MSCI EM as a comparison while those in Spain (32%) were significantly less likely. (Interestingly Irish investors were also significantly more likely to see the MSCI EM as marketing ploy; 35%). There was little difference among investors in terms of financial sophistication, while those with a balanced (59%) or adventurous (58%) attitude to risk were more likely to view the MSCI EM as a comparison for the fund than those with a secure (45%) or cautious (47%) attitude toward risk.

3.41 Investors answering these statements after reviewing Variants C and E also displayed some uncertainty about the purpose of the MSCI EM. While over half felt its use was for a comparison,

one-third believed the MSCI EM is shown to determine whether the fund has performed better in the past:

Figure .: Purpose of showing MSCI EM: Variant C and E



3.42 Hungarian investors (64%) were significantly more likely to see the MSCI EM as providing a comparison to the fund, while those in Italy (42%) and Spain (44%) were significantly less likely. Again, there were no notable differences in terms of financial sophistication, while those with a balanced (58%), adventurous (67%) or cautious (52%) attitude to risk were more likely to see the MSCI EM as a fund comparison than those with a secure (43%) attitude to risk.

4 Charges

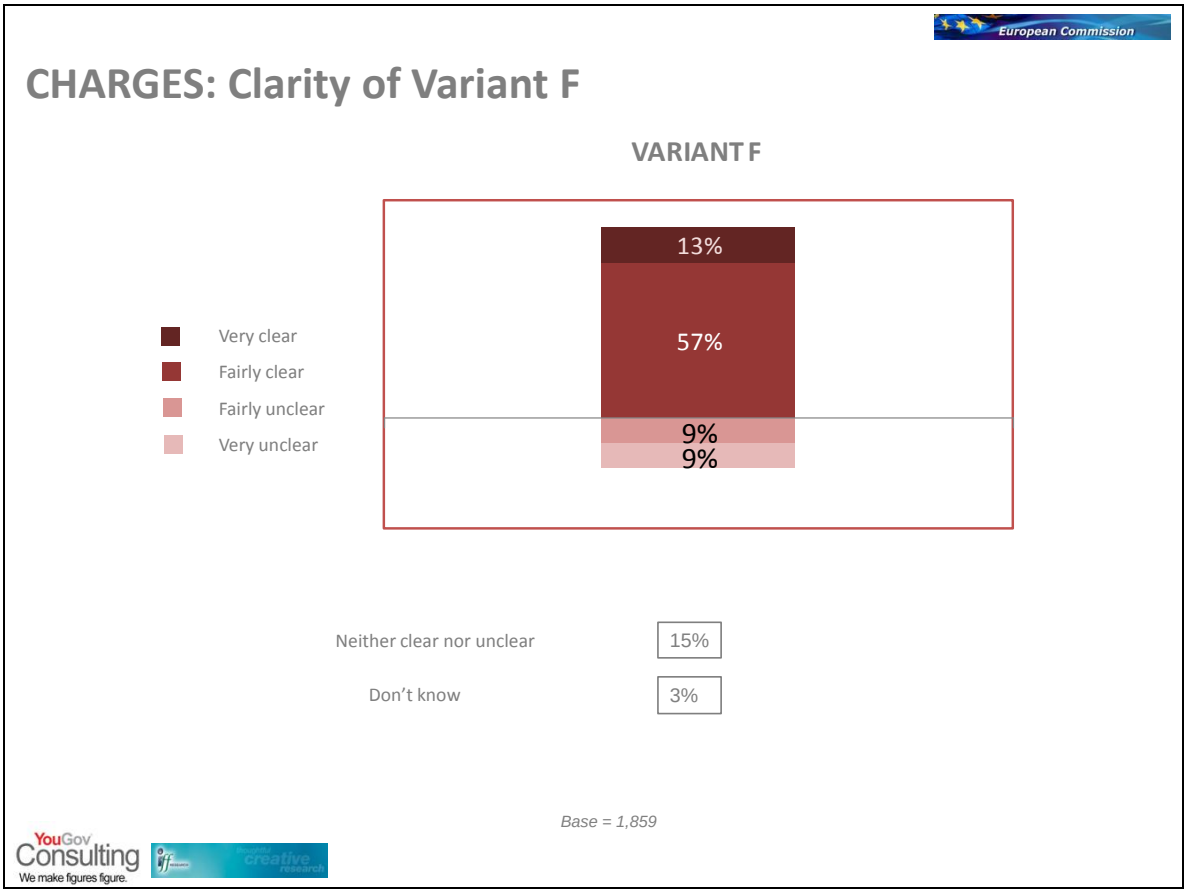
4.1 Fund charges and fees are often used by investors to determine whether they will invest in a certain fund. However, this information can often be misinterpreted by investors. This section details investor thoughts on the presentation of fees and charges for various investment funds. Three different types of approach were shown to investors;

- A 'short' text based variant (Variants F, G and H)
- A version with an added illustration of charges in text format (Variants I and K)
- A version with an added illustration of charges in table format (Variants J and L)

4.2 All investors were shown Variant F first, which provided a 'short' description of fees and charges for a fund. Variant F provided information on the entry charge, ongoing charges and performance fees:

4.3 In general, investors found the description of charges in Variant F clear with a majority saying it was fairly clear. Less than one-fifth (18%) thought Variant F was unclear:

Figure .: Clarity of Variant F



4.4 Investors in Sweden were significantly less likely to find the Variant F description clear than others, particularly when compared to Irish investors who were significantly more likely to feel that the description was very clear. Investors with low levels of financial sophistication express less clarity in reviewing Variant F than their high or medium counterparts:

Table .: Variant F: Level of Clarity

Column percentages

* Statistically significant difference	Member State								Financial Sophistication		
	Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
Very clear	13	11	**23**	**9**	**7**	12	16	15	**21**	13	**10**
Fairly clear	57	61	**51**	**39**	62	61	52	**70**	54	**60**	53
Neither clear or unclear	15	**10**	13	**21**	15	17	**22**	**10**	12	15	**18**
Fairly unclear	9	**13**	8	**17**	9	**5**	**5**	**4**	8	8	**11**
Very unclear	3	3	3	**6**	5	3	2	**0**	3	3	4
Don't know	3	3	2	**8**	2	2	2	**0**	2	2	4
Base: All	*1859*	*270*	*289*	*275*	*240*	*259*	*246*	*280*	*328*	*1042*	*431*

4.5 Responding to a follow-up question, 20% state that there are aspects of the Variant F description they do not understand. Among the aspects cited were:

- The charges themselves 8%
- Performance fees per annum 2%
- No definition of financial terms 2%
- Benchmark is missing 2%

Swedish investors in particular cited the charges as an aspect they did not understand (18%).

4.6 In order to understand their comprehension of the information displayed in Variant F, investors were asked to respond to a series of true/false statements. The responses to these questions are shown in Figure 4.2 below.

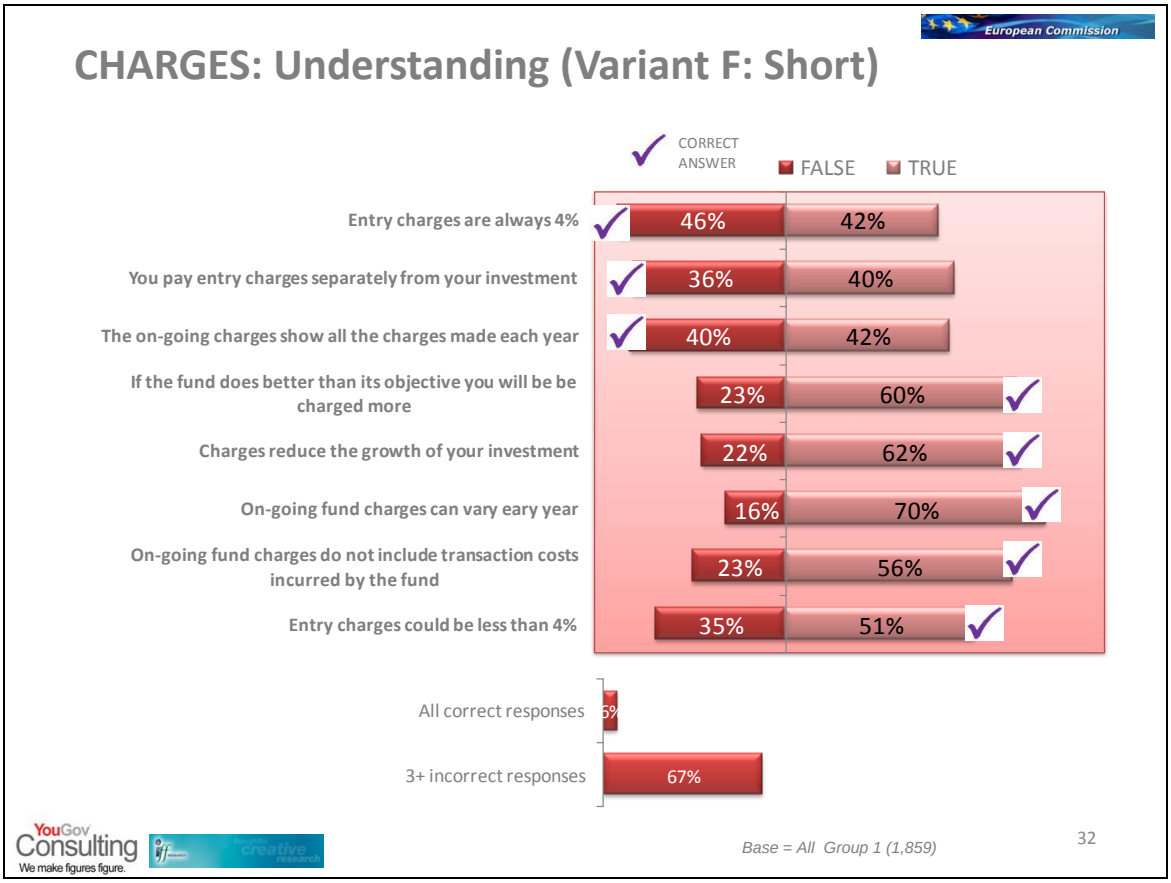
4.7 The proportions selecting the correct response was reasonably high (at between 56% and 70%) for the four statements shown below:

- *"If the fund does better than its objective you will be charged more"*
- *"Charges can reduce the growth of your investment"*
- *"On-going fund charges can vary each year"*
- *"On-going charges do not include transaction costs incurred by the fund"*

In the cases of all these statements, the information required is spelt out in the text of the variant but this does at least indicate that respondents are able to sort through the text contained to find the information required.

4.8 In the cases of statements requiring slightly more interpretation of the data, there is a smaller difference between the proportion answering correctly and the proportion answering incorrectly. Half answered correctly that the statement 'entry charges could be less than 4%' is correct; a third had not understood that the figure provided in the variant was a maximum charge (also reflected in the fact that 42% felt it was true that entry charges were always 4%). Respondents were equally as likely to answer correctly or incorrectly in terms of whether entry charges are paid separately from their investment or that the on-going charges show all the charges that could be made each year. This makes a case for possibly attempting to clarify these two points within the variant (particularly since minsunderstanding could lead to lower returns than anticipated).

Figure .: Understanding of Variant F



4.9 Looking at results by member state, investors in Poland (10%) and Ireland (8%) were significantly more likely to answer all eight statements correctly, while those in Spain (1%) were least likely. Additionally, as seen previously, investors who feel they have a medium level of sophistication were significantly more likely (7%) than those with high (5%) or low (4%) levels to answer all questions correctly:

Table .: Understanding Description of Charges (Variant F)

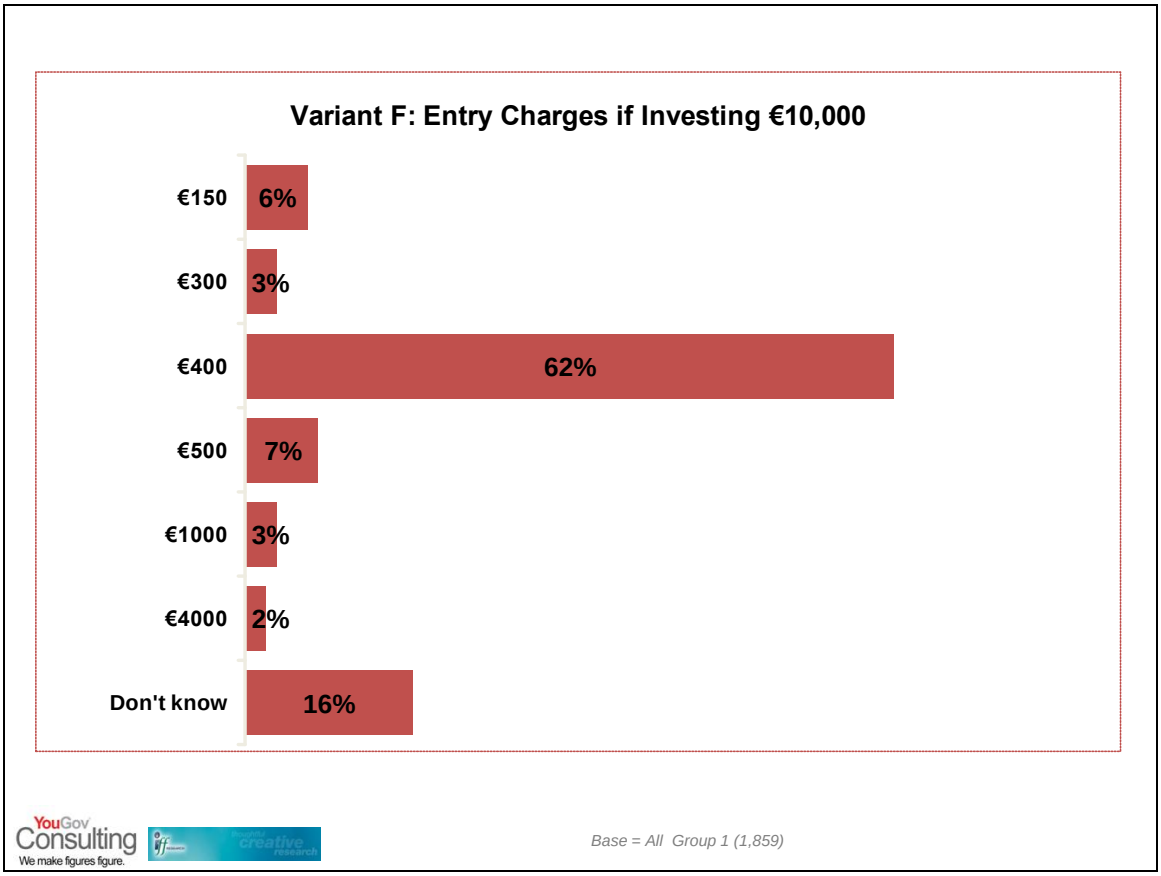
Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
1. Entry charges are always 4% (**FALSE**)	True	42	**49**	42	37	45	38	37	43	**50**	41	39
	False	46	**39**	49	**40**	**40**	50	**57**	50	**41**	**49**	45
2. You pay entry charges separately from your investment (**FALSE)**	True	40	41	**48**	**33**	39	37	**31**	**48**	44	41	**35**
	False	36	34	35	**14**	37	**46**	**55**	34	39	37	**32**
3. The ongoing charges show all the charges made each year (**FALSE**)	True	42	48	**34**	**30**	**53**	**49**	47	38	45	41	44
	False	40	39	**48**	38	**30**	35	42	**46**	41	**43**	**33**
4. If the fund does better than its objective you will be charged more (**TRUE**)	True	60	61	**74**	**50**	55	56	63	61	58	**64**	**54**
	False	23	22	**16**	**17**	**30**	**29**	26	24	27	22	24
5. Charges reduce the growth of your investment (**TRUE**)	True	62	60	**68**	**54**	**45**	**54**	**75**	**73**	66	**64**	**54**
	False	22	24	19	**15**	**32**	**32**	**15**	**16**	23	22	20
6. Ongoing fund charges can vary each year (**TRUE**)	True	70	**63**	**79**	65	66	66	72	**78**	67	**72**	68
	False	16	**24**	**12**	**11**	18	**22**	16	**12**	**24**	16	**13**
7. Ongoing fund charges do not include transaction costs incurred by the fund (**TRUE**)	True	56	57	**66**	52	**47**	**47**	**63**	58	57	57	53
	False	23	23	**18**	**13**	27	**32**	26	22	26	23	**18**
8. Entry charges could be less than 4% (**TRUE**)	True	51	**40**	52	**45**	46	55	**61**	**58**	49	53	50
	False	34	**44**	37	**29**	39	31	30	31	39	35	**30**
ALL CORRECT RESPONSES		6	5	**8**	4	**1**	5	6	**10**	5	**7**	4
3+ INCORRECT RESPONSES		67	72	62	70	79	71	56	63	70	55	54
Base: All		*1859*	*270*	*289*	*275*	*240*	*259*	*246*	*280*	*328*	*510*	*222*

4.10 When viewing Variant F, respondents were asked to identify the entry charges that would apply if they were to invest €10,000 and the charges that would accrue over a 5 year investment.

4.11 Figure 4.3 shows respondents estimates of the entry charges that would apply. Overall, 62% correctly stated that they would pay €400 if maximum charges were taken at the time of investing €10,000. This implies that the majority of investors are able to take a percentage figure and apply it to their investment to obtain a monetary sum.

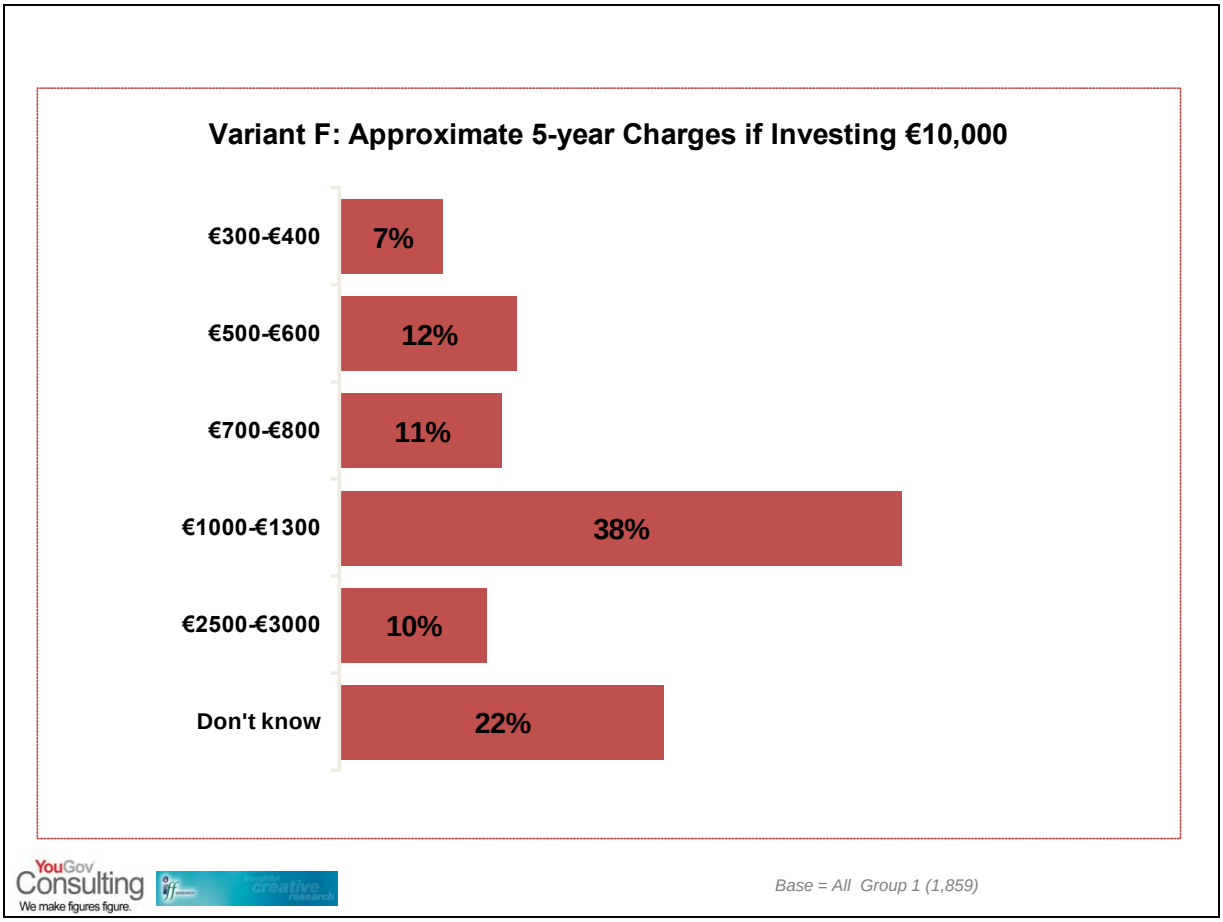
Figure .: Variant F: Entry charges if investing 10,000 Euro



4.12 Investors in Germany (77%), Hungary (71%), Ireland (71%) and Italy (71%) were significantly more likely to select the correct entry charge when investing €10,000, while those in Poland (48%) and Sweden (35%) were significantly less likely. Results by level of financial sophistication reveal that investors with a self-assessed high or medium level (64% each) were more likely than those with a low (57%) level to correctly select proper amount. In terms of risk attitude, those regarded as secure (53%) were significantly less likely to answer €400 than those who are cautious (65%), balanced (68%) or adventurous (61%).

4.13 Investors had more difficulty in calculating charges over a 5-year. Only 38% correctly selected €1000-€1300. However it is perhaps encouraging that the next most common response was 'don't know' indicating that a reasonable number of respondents accepted their inability to make the calculation rather than guessing (and perhaps would therefore seek further advice in this area). The investors perhaps of most concern are the third that underestimate the charges from the information given.

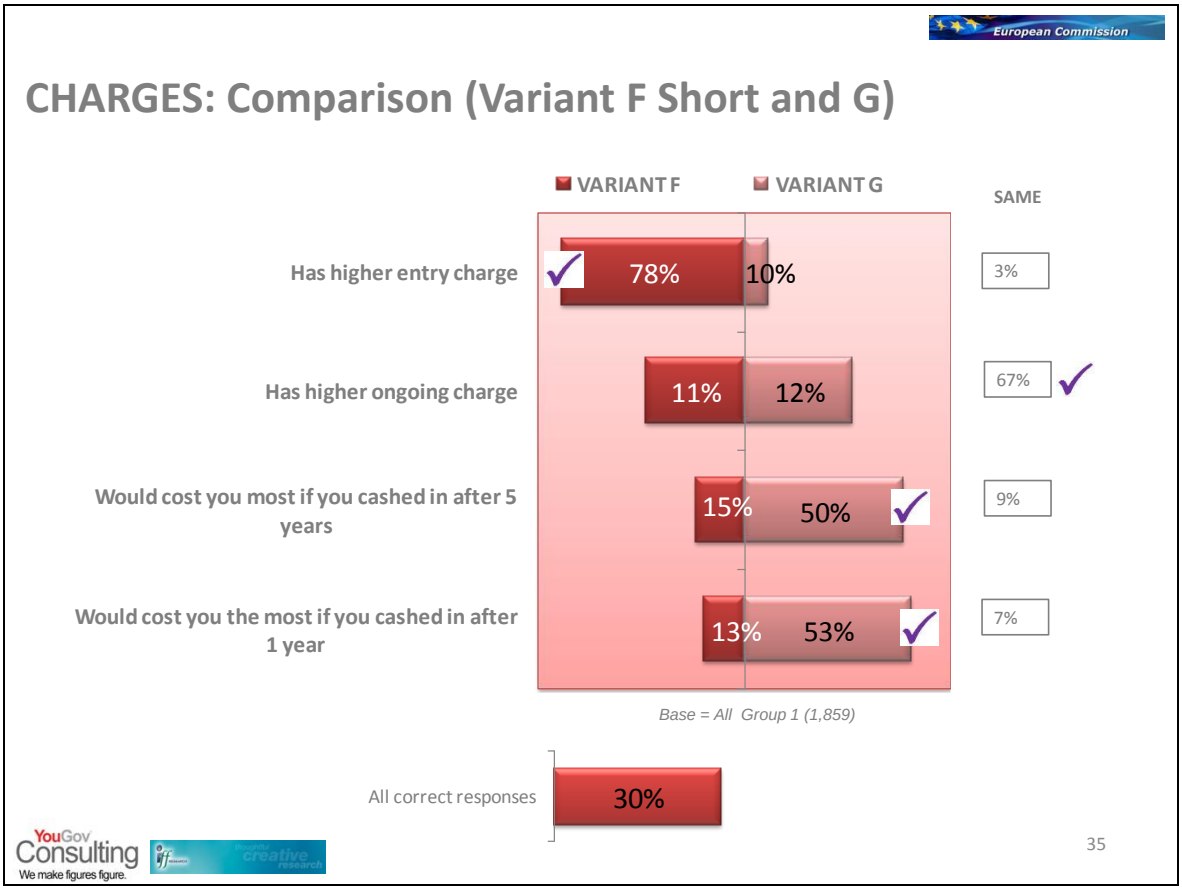
Figure .: Variant F Approximate 5-year charges if investing 10,000 Euro



4.14 The calculation of entry and ongoing charges was a somewhat easier task for investors in Germany (46%) and Ireland (45%), who were significantly more likely to correctly select the proper amount while those in Spain (25%) and Sweden (32%) were significantly less likely. Financial sophistication also makes a difference: investors with high (45%) or medium (41%) levels were significantly more likely to select the correct level of charges/fees compared to those with low (30%) levels. As seen in other examples, investors with secure (28%) or cautious (37%) attitudes towards risk were less likely to select the correct level of charges/fees than those who are balanced (47%) or adventurous (44%).

4.15 To test ability to compare funds using the variant, investors were shown another 'short' fund example, Variant G, and asked to answer statements comparing Variants F and G. Responses are shown in Figure 4.5. Generally, half or more were correctly able to identify which statement was applicable to each variant; overall, 30% were able to correctly answer all four statements. In the case of comparing entry charges and ongoing charges, all respondents needed to do was a straight comparison between figures shown in the tables and it is encouraging that most were able to do this. Calculating charges over a 5 year period and a 1 year period is arguably a more challenging task. It is encouraging that half of investors were able to make this comparison effectively (although it is possibly that they concluded that Variant G would be more expensive simply because it had an exit charge in place rather than actually calculating the exact charges that would apply (although even this demonstrates some understanding of the material).

Figure .: Comparison Variant F and G



4.16 Overall, investors in Germany (40%), Ireland (39%) and Poland (39%) were significantly more likely to answer all questions correctly compared to investors in Spain (13%), Sweden (21%) and Italy (24%). In terms of financial sophistication, investors at a medium level again demonstrate a better understanding of the variants than those at a higher or lower level:

Table .: Comparison Test (Variants F and G)

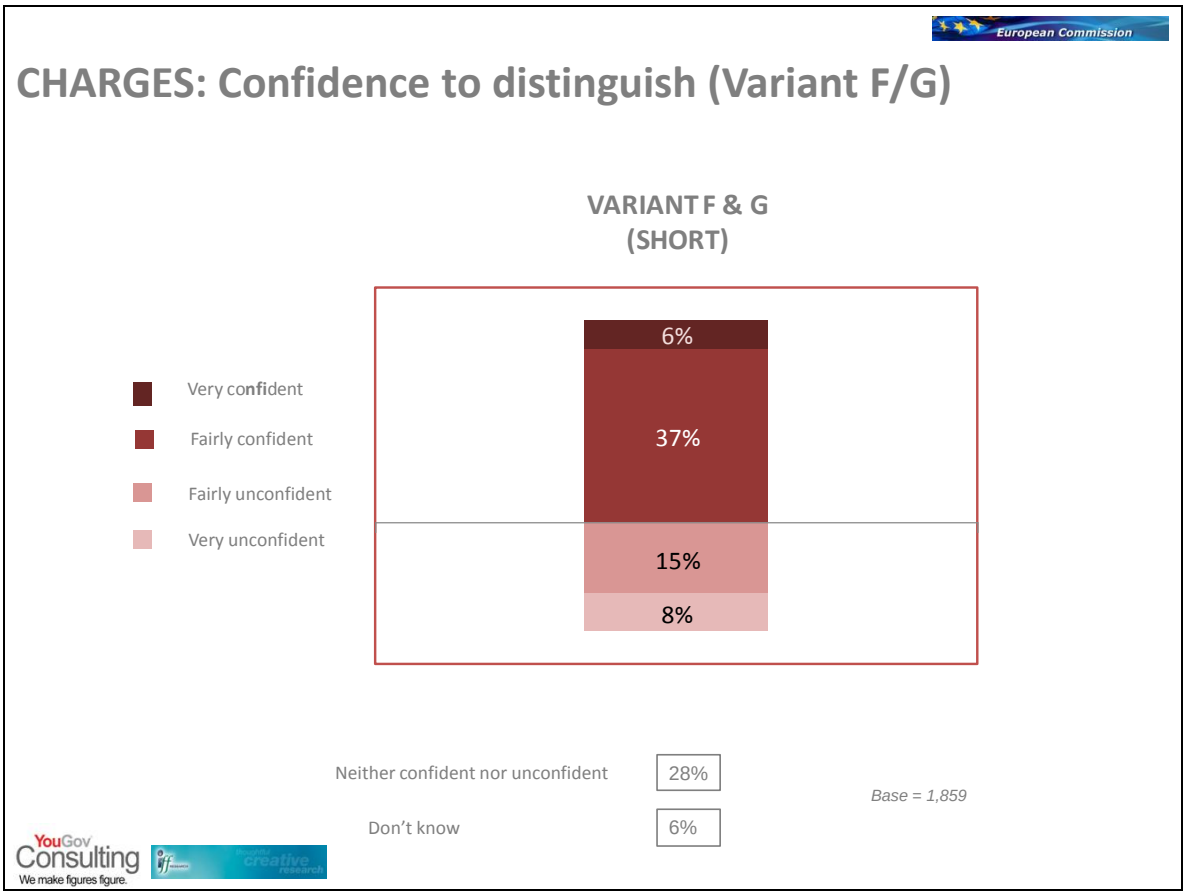
Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
1. Has the higher entry charge (Variant F)	Variant F	77	80	**83**	**64**	73	79	79	81	77	**80**	**73**
	Variant G	10	10	8	10	**13**	10	9	10	12	10	9
	Both	3	2	3	4	4	3	4	2	4	3	3
	Don't know	10	9	**6**	**23**	9	8	9	**6**	8	**7**	**16**
2. Has the higher ongoing charge (Both)	Variant F	11	13	6	**7**	**20**	**19**	**7**	9	13	12	10
	Variant G	12	11	11	10	**22**	**18**	11	**4**	15	12	12
	Both	66	67	**76**	**61**	**49**	**54**	**74**	**80**	65	**68**	64
	Don't know	10	9	**7**	**23**	10	8	7	**6**	8	8	**15**

3. Would cost you the most if you cashed in the investment after 5 years (Variant G)	Variant F	15	**9**	17	**7**	**19**	16	17	18	16	16	13
	Variant G	50	**62**	**56**	**34**	**41**	50	49	**56**	53	52	**44**
	Both	9	7	6	8	**18**	**12**	8	6	9	9	8
	Don't know	27	22	**21**	**52**	22	22	26	**21**	**22**	**23**	**35**
4. Would cost you the most if you cashed in your investment after 1 year (Variant G)	Variant F	13	7	12	**7**	**20**	15	**18**	12	15	12	13
	Variant G	53	**64**	**63**	**35**	**40**	55	48	**62**	52	**58**	**44**
	Both	7	5	5	6	**15**	9	5	**4**	**10**	7	5
	Don't know	28	28	**20**	**53**	24	**22**	28	**22**	**23**	**23**	**38**
ALL CORRECT RESPONSES		30	**40**	**39**	**21**	**13**	**24**	32	**39**	29	**33**	**24**
3+ INCORRECT RESPONSES		70	60	61	79	87	76	68	61	71	67	76
Base: All		*1859*	*270*	*289*	*275*	*240*	*259*	*246*	*280*	*328*	*1042*	*431*

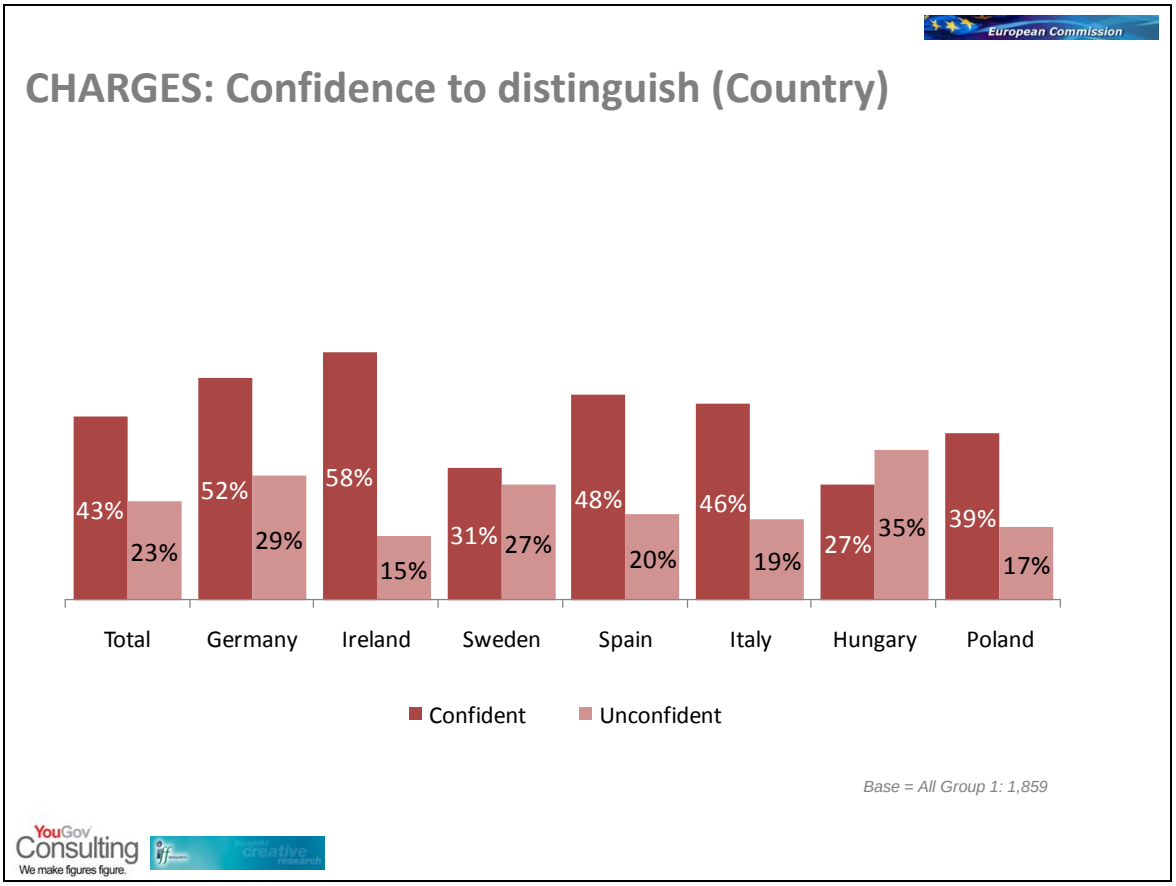
4.17 Investors show mixed levels of confidence in their ability to distinguish between Variant F and Variant G. While 43% felt confident (6% very confident; 37% fairly confident) they could differentiate charges in the two variants, the remainder were either not confident (23%) or uncertain (28%):

Figure .: Confidence to distinguish between Variant F and G



4.18 Confidence levels in ability to distinguish between the two Variants are significantly higher in Germany (52%) and Ireland (58%) and significantly lower in Hungary (27%) and Sweden (31%):

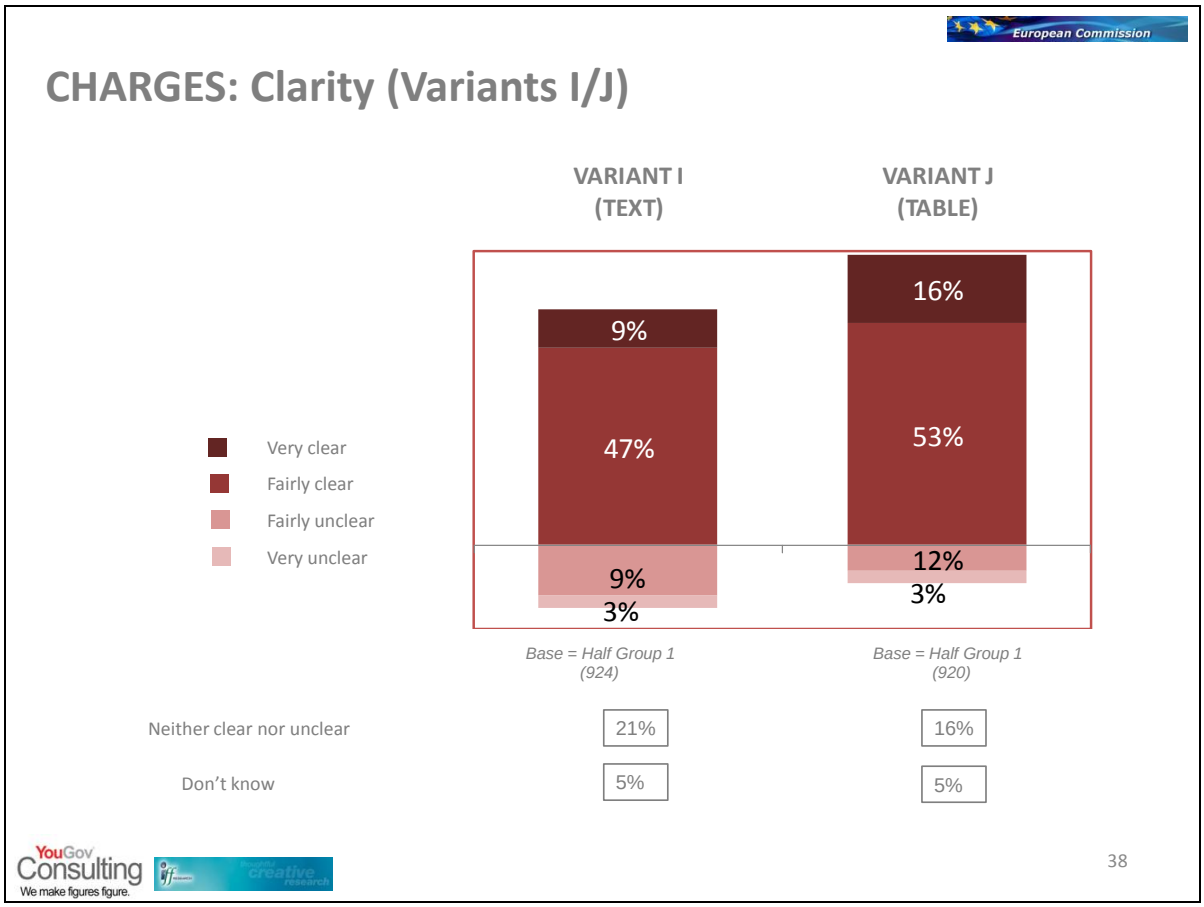
Figure .: Confidence in distinguishing between Variants F and G by country



4.19 As perhaps would be expected, confidence levels are significantly higher among those with a high level of financial sophistication (60% confident) compared to those with a medium (46%) or low (28%) level, despite the fact that those with a medium level of financial sophistication often performed better in actually answering the questions correctly. Confidence levels are also higher among those with a balanced (49%) or adventurous (58%) attitude towards risk compared to those who are secure (30%) or cautious (44%).

4.20 Investors were also shown charges variants that incorporating an illustration of charges in either text or table format (Variants I and J respectively). One group reviewed the charges in a text format (Variant I with an illustration of charges shown as a percentage) and another in a table format (Variant J with an illustration of charges shown as a monetary amount). As demonstrated in Figure 4.8, on first view, respondents were significantly more likely to find Variant J clear than Variant I.

Figure .: Clarity: Illustration of charges variants



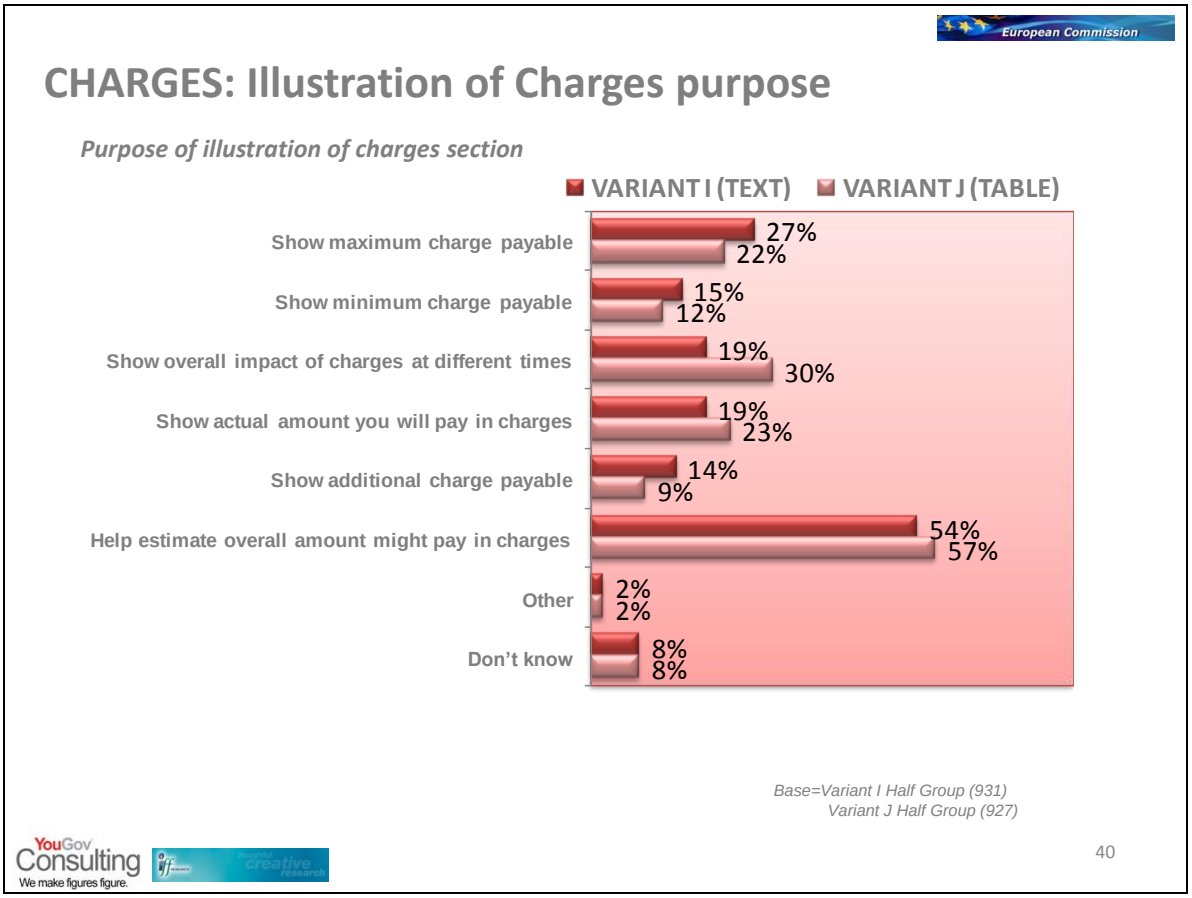
4.21 Looking across both Variant I (text) and Variant J (table), investors in Italy (67%), Ireland (65%) and Poland (62%) are significantly more likely to feel that these variants are clear, while those in Sweden (36%) are significantly less likely. Investors with high levels of financial sophistication are significantly more likely (65%) than those with medium (58%) or low (46%) levels of sophistication to find these variants clear.

4.22 Few investors found aspects of Variant I (18%) or Variant J (12%) difficult to understand. Among the aspects most mentioned:

- Calculation of charges; no example given: (Variant I 4%; Variant J 3%)
- Charges (general): (Variant I 4%; Variant J 3%)
- The single figure for investment charges each year.: (Variant I 3%; Variant J 0%)

4.23 Respondents viewing each variant were asked specifically what they felt the illustration of charges was showing. Levels of understanding varied; the majority of investors understand that both variants show illustrations rather than fixed charges; however, there is a sizeable majority that believe the illustrations display maximum charges. The interpretation of the illustration of charges did not vary much between variants (with the exception that Variant J was more likely to be seen to show the 'overall impact of charges at different times'.

Figure .: Purposes of illustration of charges section

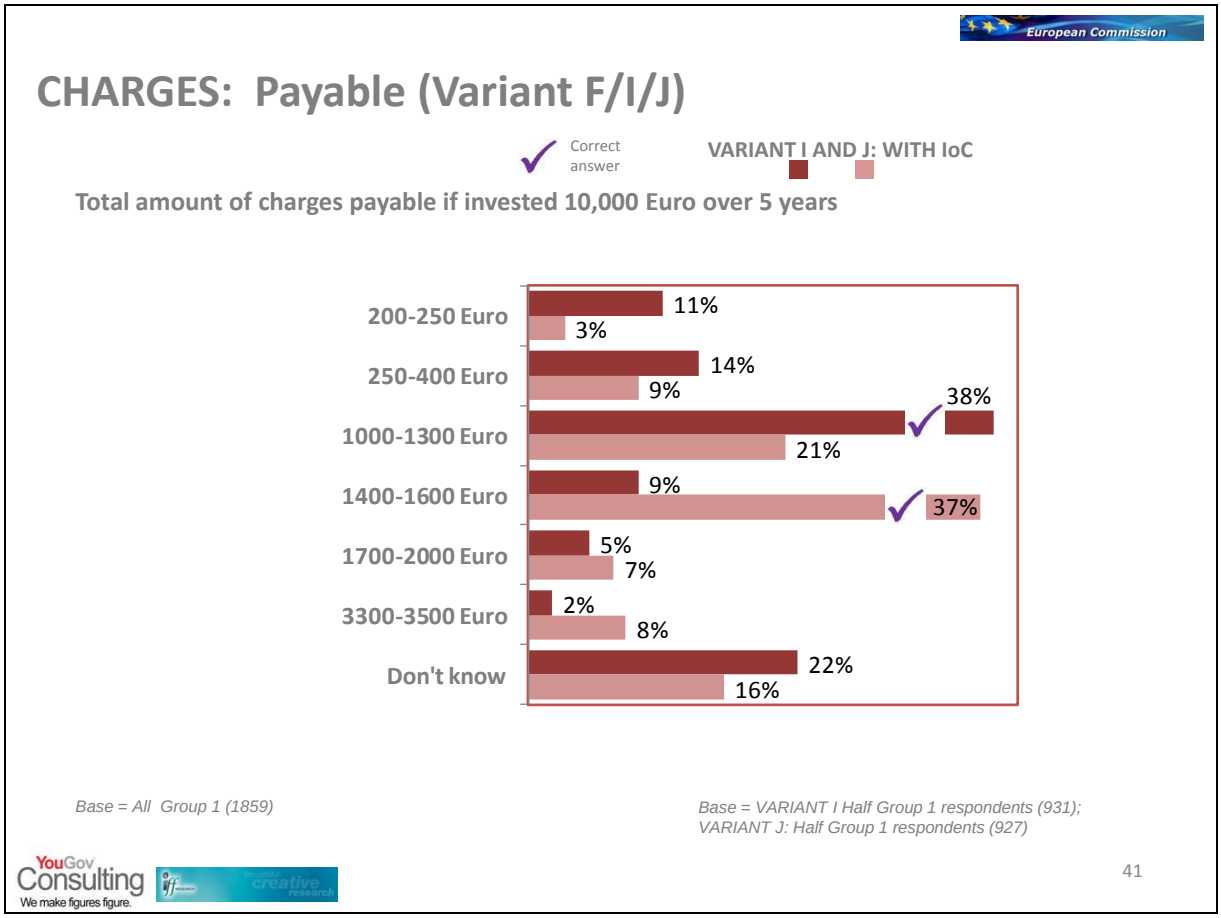


4.24 There are some differences between investors when interpreting the statements on the illustration of charges:

- Investors reviewing Variant J were more likely to see Variant J as showing the overall impact of charges at different times compared to those viewing Variant I
- Investors reviewing Variant I were more likely to feel that Variant I displayed the maximum charge payable than those viewing Variant J

4.25 Investors were also asked to use the variants with illustration of charges to estimate the total amount of charges one would pay over a 5-year period if €10,000 were invested in the fund shown. Interestingly the proportion able to select the correct level of charge for each fund was the same regardless of whether they viewed Variant I or Variant J and was also at a similar level as for the Variant F which included no illustration of charges (Figure 4.3) despite the differential clarity ratings of the three variants. Many investors expressed uncertainty about what the charges would be although the fact that levels of 'don't know' responses were slightly lower for Variant J indicated that the tabular presentation does give investors more confidence in estimating charges (even though they are no more likely to estimate them correctly). The proportion underestimating the charges that would accrue is correspondingly higher for Variant J than for Variant I.

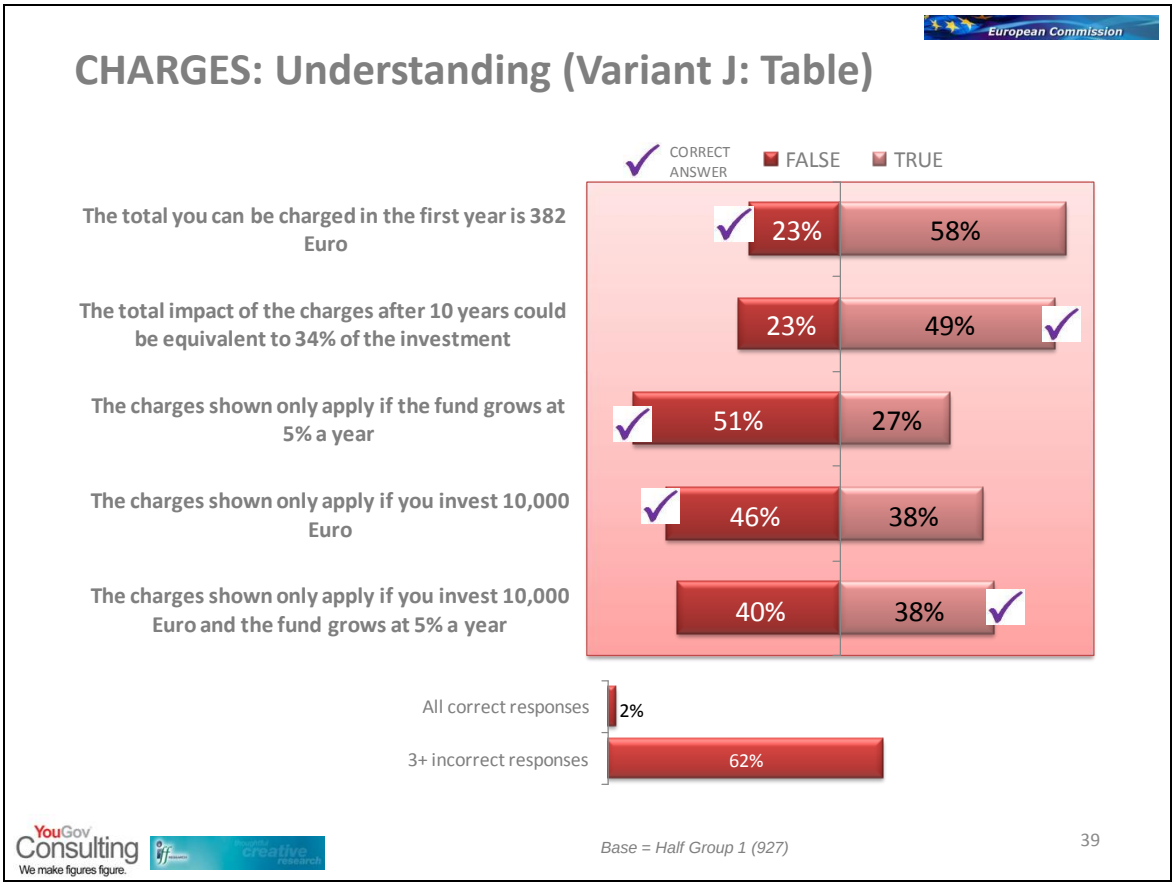
Figure .: Total amount of charges payable if invested 10,000 Euro over 5 years



4.26 Looking at Variant I, investors in Germany (47%) were significantly more likely to correctly estimate charges, while those in Sweden were significantly less likely (27%). In terms of Variant J, there were no significant differences among the member states in terms of correctly selecting the charge amount.

4.27 Investors reviewing Variant J (table) were asked some additional questions about their understanding of the variant. Responses to these questions (shown in Figure 4.11) show some difficulty in correctly answering statements, particularly regarding charges incurred during the first year. Overall, only 2% correctly answered all statements, while two-thirds (62%) answered three or more statements incorrectly. (Although it is worth noting that concern has been expressed that the statement 'the total you can be charged in the first year is 382 Euro' is ambiguous). Responses do seem to understand that there is a fair degree of misunderstanding about the circumstances under which the charges shown in the table would apply (with 40% stating that it is incorrect that the charges shown would only apply if the investment was 10,000 Euro and the fund grew at 5% per annum).

Figure .: Understanding of Variant J (Table)



4.28 Overall results were fairly even across the member states with the exception of Hungary, where half of the investors (51%) incorrectly answered three or more statements, the best performance among investors. Investors with high (56%) and medium (60%) levels of financial sophistication also had fewer incorrect responses compared to those with low levels (71%):

Table .: Understanding of charges (Variant J)

Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
1. The total you can be charged in the first year is 382 Euro (**FALSE**)	True	58	53	52	57	61	**66**	57	59	**67**	58	**50**
	False	23	23	**34**	**8**	21	19	**33**	22	19	24	22
2. The total impact of the charges after 10 years could be equivalent to 34% of the investment (**TRUE)**	True	49	50	52	47	44	49	51	49	**56**	49	44
	False	23	20	22	**10**	29	25	**33**	21	25	23	19

3. The charges shown only apply if the fund grows at 5% a year (**FALSE**)	True	27	**16**	28	**9**	33	**46**	28	34	21	29	30
	False	51	**60**	**60**	**53**	47	**41**	**60**	**44**	**62**	52	37
4. The charges shown only apply if you invest 10000 Euro (**FALSE**)	True	37	**47**	**55**	**13**	39	34	**25**	**47**	41	39	33
	False	46	**36**	**35**	53	42	48	**68**	41	48	46	42
5. The charges shown only apply if you invest 10000 Euro and the find grows at 5% a year (**TRUE**)	True	38	**30**	**54**	**13**	**49**	33	34	**51**	40	**41**	**29**
	False	41	46	**28**	**51**	**28**	46	**56**	**30**	**48**	39	39
ALL CORRECT RESPONSES		2	1	2	0	2	1	3	2	2	2	2
3+ INCORRECT RESPONSES		62	61	64	62	60	63	**51**	66	56	60	71
Base: All		*927*	*135*	*138*	*134*	*126*	*132*	*120*	*142*	*170*	*529*	*195*

4.29 Given the cross-border opportunities to purchase UCITS products, there is the possibility that charges and fees could be shown in a variety of currencies. Overall, there is some preference among investors to show charges in their own currency rather than another:

Table .: Charges: Currency Preference

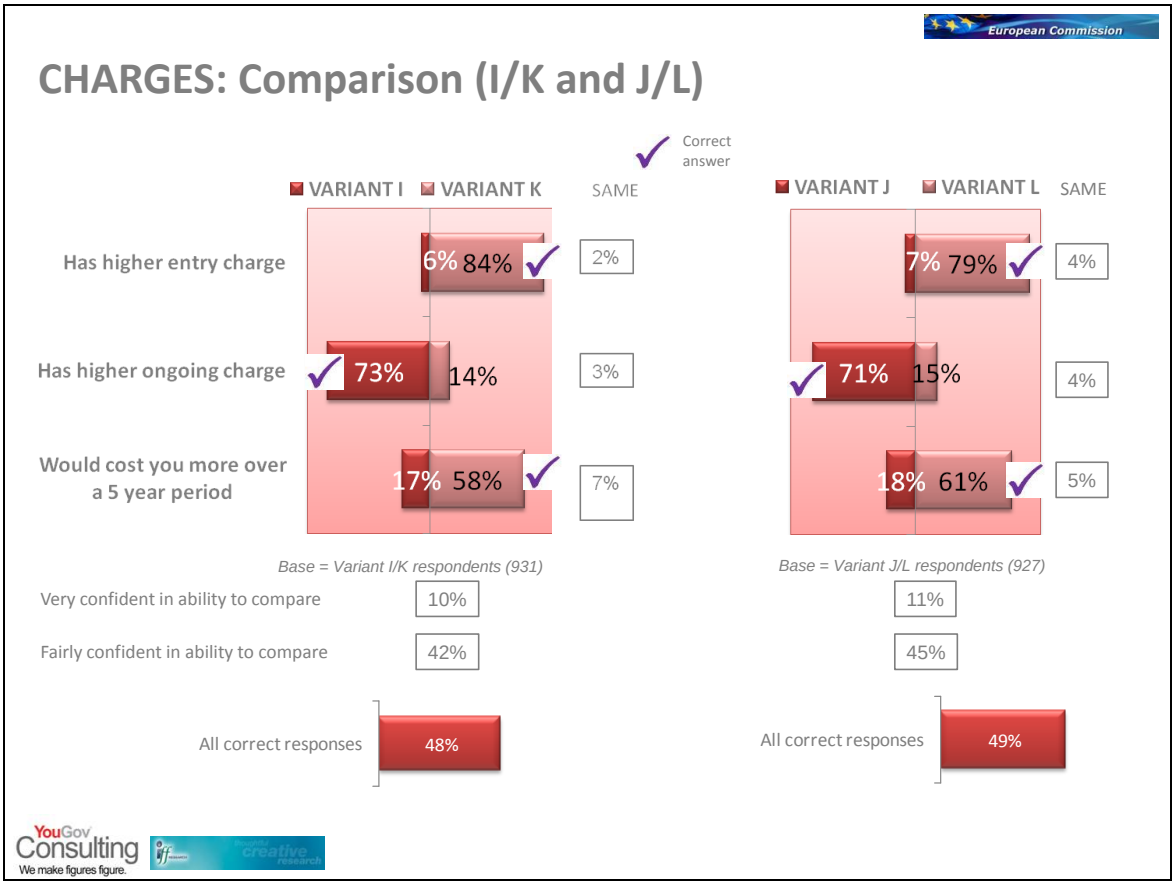
Column percentages

		Member State							Financial Sophistication		
	Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
Only use figure if in own currency	34	**46**	**26**	**28**	30	37	33	35	34	34	32
Could use figure in another currency but would prefer own	40	36	**47**	**50**	**50**	43	44	**32**	38	42	39
Equally happy with either	15	**10**	**19**	**20**	**10**	**8**	13	**24**	18	15	13
Don't know	11	8	**7**	**22**	10	12	9	9	10	9	**16**
Base: All	*1859*	*270*	*289*	*275*	*240*	*259*	*246*	*280*	*328*	*1042*	*431*

4.30 German investors (46%) are significantly more likely than investors in other markets to indicate a preference for their own currency. Those in Ireland (47%), Spain (50%) and Sweden (50%) are significantly more likely to indicate they could work with any currency.

4.31 To further test investor understanding, paired comparisons of charges shown in text form (Variants I and K) and table form (Variants J and L) were presented to separate groups of investors. There was little difference in correctly identifying statements related to each, with nearly half in each group (Variants I and K 48%; Variants J and L 49%) correctly answering all three statements. It is interesting to note that the table presentation does not seem to make it markedly easier to compare charges over a 5 year period (even though this is the example used for the illustration in Variants J and L).

Figure .: Comparison between I/K and J/L



4.32 Investors in Ireland had the greatest level of correct responses (60%) while those in Spain had the lowest (28%) in comparing Variants I and K. Investors with a medium level of financial sophistication continue to demonstrate they underestimate their knowledge; half (50%) answered all statements correctly compared to those with high (44%) or low (42%) levels of sophistication, a statistically significant difference:

Table .: Comparison Test (Variants I and K)

Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
1. Has the higher entry charge (Variant K)	Variant I	6	7	5	3	9	8	4	7	6	6	6
	Variant K	83	**90**	87	**72**	81	83	84	85	80	**87**	**78**
	Both	2	0	3	1	4	**6**	2	0	**4**	1	3
	Don't know	9	**4**	5	**23**	7	**4**	10	8	9	**6**	**13**
2. Has the higher ongoing charge (Variant I)	Variant I	73	**83**	**80**	67	**52**	69	73	**82**	70	**76**	**68**
	Variant K	14	13	**9**	9	**33**	20	12	**9**	15	15	14
	Both	3	1	4	2	**8**	5	4	1	**6**	3	4
	Don't know	9	**3**	7	**22**	7	6	11	8	9	**6**	**15**
93. Would cost you more over a 5-year period (Variant K)	Variant I	17	20	17	15	18	16	13	19	20	17	15
	Variant K	58	58	**66**	50	53	56	61	58	56	**61**	**52**
	Both	7	10	5	**1**	**12**	**12**	5	4	6	7	7
	Don't know	19	**13**	**12**	**33**	17	17	21	20	18	**15**	**26**
ALL CORRECT RESPONSES		47	49	**60**	45	**28**	41	54	50	44	**50**	42
3+ INCORRECT RESPONSES		13	**6**	11	**26**	18	17	13	10	15	**10**	**17**
Base: Group 1 Variant I		*931*	*135*	*151*	*141*	*114*	*127*	*126*	*137*	*158*	*512*	*236*

4.33 In contrast to Variants I and K, investors in Hungary (65%) and Poland (61%) were significantly more likely to correctly answer all statements regarding Variants J and L. Spanish (34%) and Italian (35%) were significantly less likely. In this instance, there are no significant differences based on financial sophistication:

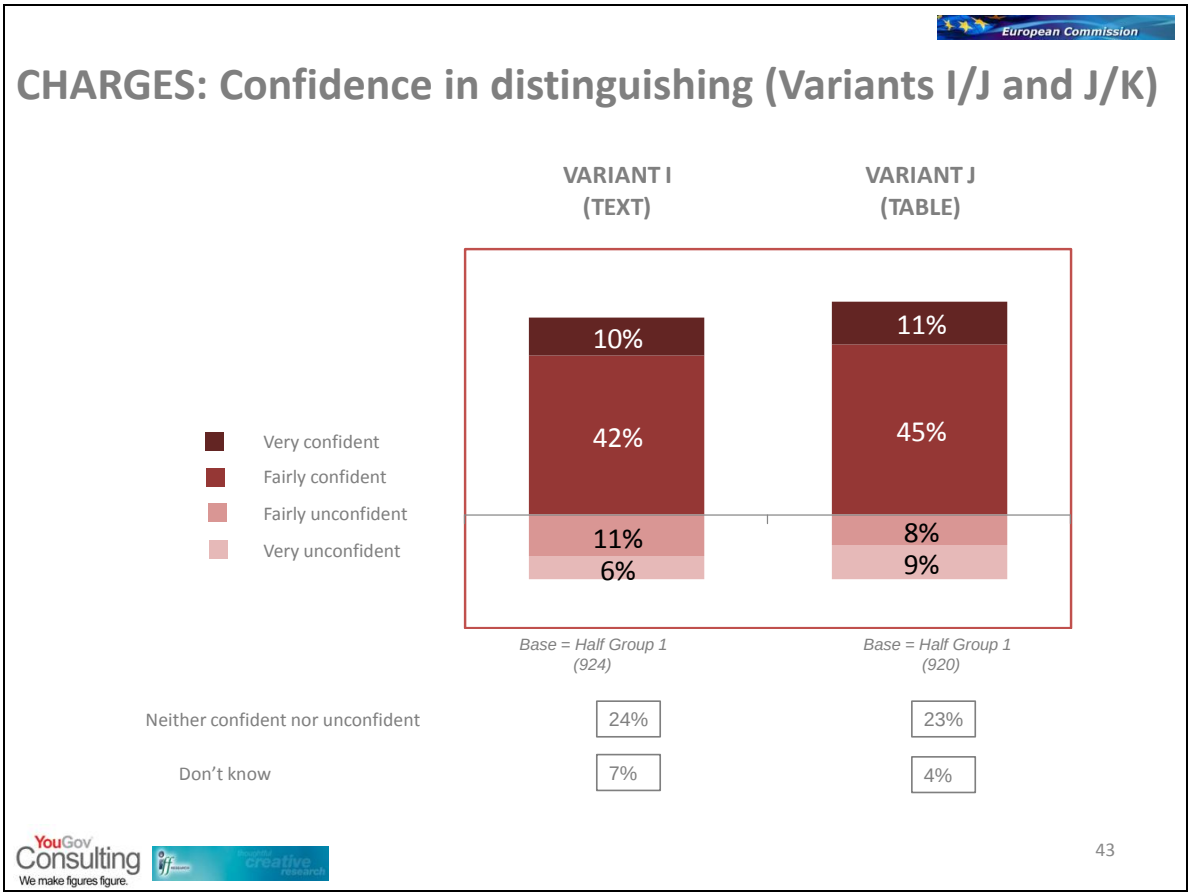
Table .: Comparison Test (Variants J and L)

Column percentages

			Member State						Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
1. Has the higher entry charge (Variant L)	Variant J	7	6	6	5	6	**13**	3	8	8	7	5
	Variant L	79	82	**86**	**65**	77	**72**	**88**	85	78	**82**	**73**
	Both	4	2	4	3	5	5	3	4	5	3	4
	Don't know	10	10	**5**	**27**	12	10	**5**	**4**	9	**7**	**18**
2. Has the higher ongoing charge (Variant J)	Variant J	71	73	**83**	**63**	**52**	**60**	**82**	**82**	67	73	68
	Variant L	15	14	10	**8**	**29**	**23**	10	11	16	16	11
	Both	4	3	4	2	5	6	4	3	**7**	3	3
	Don't know	11	10	**3**	**27**	14	11	**4**	**4**	10	**7**	**18**
93. Would cost you more over a 5-year period (Variant L)	Variant J	18	19	18	**10**	20	**26**	13	20	**12**	19	20
	Variant L	61	63	64	**49**	57	**51**	**73**	**69**	**68**	61	55
	Both	6	6	7	6	6	**6**	4	4	6	5	5
	Don't know	16	12	11	**35**	17	17	10	11	14	15	19
ALL CORRECT RESPONSES		49	52	57	42	**34**	**35**	**65**	**61**	52	49	48
3+ INCORRECT RESPONSES		15	14	**9**	**29**	17	18	**8**	**9**	15	12	22
Base: Group 1 Variant J		*927*	*135*	*138*	*134*	*126*	*132*	*120*	*142*	*158*	*512*	*236*

4.34 Confidence levels among investors reviewing the text or table comparisons were fairly similar. Over half in each group (Variant I and K 52% ; Variant J and L 56%) felt confident in their ability to distinguish between the variants:

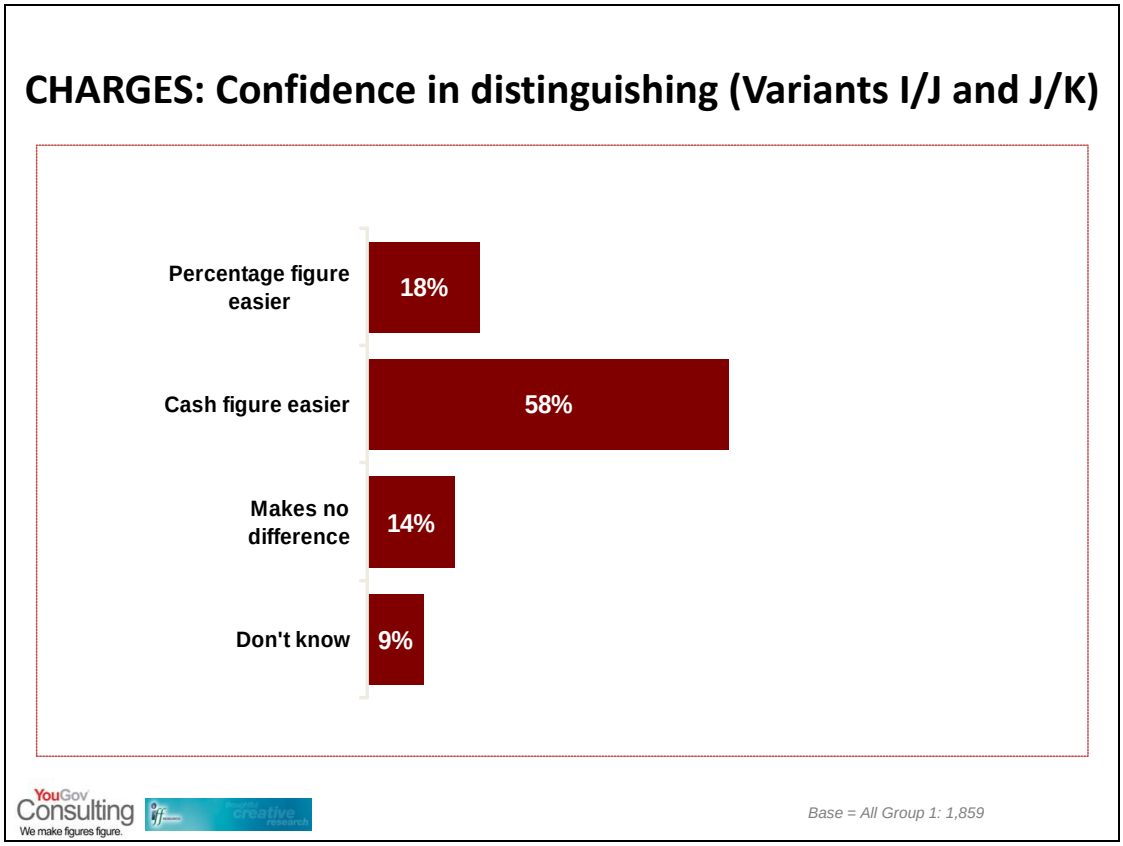
Figure .: Confidence in ability to distinguish between illustration of charges variants



4.35 Confidence levels appear somewhat stronger among those reviewing Variants J and L than Variants I and K. For example, 76% of Irish investors reviewing Variants J and L express confidence in their ability to distinguish between the illustration of charges compared to 66% of Irish investors reviewing Variants I and K. Similar results are seen for German investors (Variants J and L 70% vs. Variants I and K 62%).

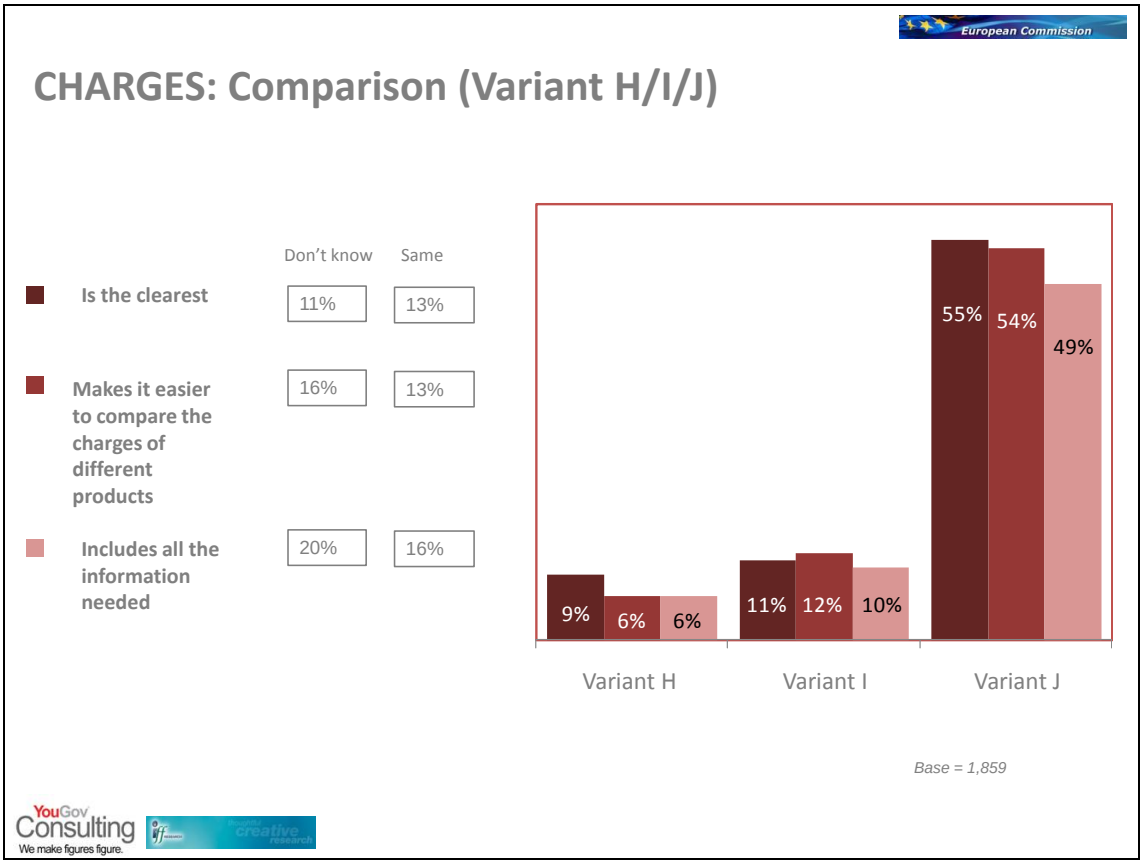
4.36 Investors were asked to view both variants and to state which format was easier to understand: percentage figures (as shown in Variant I) or cash figures (as shown in Variant J). By a wide margin, cash figures were selected as easier to understand than percentage figures. This preference was seen across member states, attitudes to risk and financial sophistication

Figure .: Variants I and J: Figure Preference



4.37 Finally, investors were able to express their preference among the three variants tested in terms of which they felt was clearest, which made it easiest to compare between funds and which includes all the information that they would need to make an investment decision. As figure 4.16 demonstrates there was a strong overall preference for Variant J (table) when compared to Variant I (text) and Variant H (short). It is interesting that this stated preference is so strong given that levels of understanding shown earlier in the chapter do not show anywhere near this level of distinction between variants. However, this is strong evidence that consumers are most likely to feel that they can engage with the table variant and this is obviously an important first step to understanding.

Figure .: Comparison of Variants H, I and J



4.38 The preference for Variant J is evident across member states and level of financial sophistication:

Table .: Preference (Variants H, I and J)

Column percentages

			Member State						Financial Sophistication		
		Total	D	IRL	S	E	I	H	PL	High	Med	Low
		%	%	%	%	%	%	%	%	%	%	%
1. Is the clearest	Variant H	9	10	11	7	9	11	7	9	12	9	7
	Variant I	11	**5**	**7**	9	12	**20**	**17**	9	14	10	10
	Variant J	55	**63**	**66**	50	51	**40**	**49**	**66**	**47**	**59**	52
	Same	13	11	10	10	16	**18**	9	**7**	15	12	13
2. Would make it easier to compare the charges of different products	Variant H	6	7	6	3	5	7	5	6	7	6	4
	Variant I	12	**7**	9	9	**16**	**19**	13	10	**16**	11	10
	Variant J	54	**65**	**39**	**42**	53	**39**	56	59	**47**	**57**	52
	Same	13	**9**	13	13	15	**19**	13	10	**16**	12	12
3. Includes all the information you need	Variant H	6	7	6	4	6	7	4	5	**9**	5	5
	Variant I	10	7	7	7	9	**17**	11	9	11	10	9
	Variant J	49	53	**57**	**32**	51	**39**	46	**63**	**40**	**53**	45
	Same	16	17	13	20	16	20	18	**8**	**22**	**14**	15
Base: All Group 1		*1859*	*270*	*289*	*275*	*240*	*259*	*246*	*280*	*158*	*512*	*236*

Qualitative research findings

4.39 The qualitative research examined two different approaches to showing the impact of charges, variants I (illustration of charges in text) and L (illustration of charges in a table) further. The quantitative survey indicated that there was no great difference in understanding between these two treatments of the illustration of charges and the main aim of the qualitative research was to verify whether this was indeed the case.

UNDERSTANDING OF TERMS

4.40 Before concentrating on the illustration of charges section it was important to check that investors understood the terms used in each variant. The vast majority did understand the terms 'entry charge' and 'ongoing charges', with the majority also realising that the ongoing charges will increase (as an amount in € rather than as a %) as the fund value goes up.

4.41 Most felt it was clear what was meant by the term 'transaction costs' and understood them to be fees for buying or selling shares. However, there was a significant minority who were not sure of exactly what transaction costs would comprise. Around half of the investors also mentioned that they would like to find out more about these transaction costs including how they work and, particularly, how much they are likely to be:

"I'm interested in these fees and I would like to know how they work, what has an effect on them etc." **Hungary**

"It doesn't say how much these would be...maximum or minimum or on average. I can't imagine at all what costs to expect" **Germany**

4.42 There was very little demand to see any other charges although small numbers were interested in seeing the effects of tax on their investment, any further administration costs and exit costs.

PREFERENCE

4.43 In terms of preference, variant L (table) was received much better than variant I (text). The vast majority of investors preferred the illustration of charges table approach because it was felt that giving examples in € made it easier to understand and less ambiguous:

"For people with basic knowledge like me it's more explicit and serves as a guide" **Spain**

"I have a concrete example that I can interpret" **Germany**

4.44 Around three quarters of investors found variant L (table) clear, with a few mentioning the value of being able to see how the charges worked out over time.

4.45 There were a few suggestions for how variant L (table) could be further improved:

- Further examples added with different amounts of money e.g. €20,000
- An indication of how much charges have been in the past
- Inclusion of transaction costs

4.46 Only half of investors found variant I (text) clear with the same proportion finding it unclear. Not everybody understood the difference between the 2.20% ongoing charges figure in the large table and the 2.5% combined charges figure in the illustration of charges section. In terms of suggested improvements, they can be summed up by investors wanting variant I (text) to be more like variant L (table):

"I would like to see it in € as well as as a percentage. Otherwise it repeats what's already been said" **Germany**

"I would like to see examples rather than making my own calculations" **Ireland**

UNDERSTANDING

4.47 In addition to variant L (table) being preferred by investors it was also better understood. Around half of investors gave the correct answer to what they would be charged after five years if they invested €10,000. Those who did give the correct answer had looked it up on the table and so had managed to interpret the table correctly. Those who gave an incorrect answer had generally ignored the table and done their own calculations which included errors.

4.48 Using variant I (text) no one knew what they would be charged after five years if they had invested €10,000. Just one investor knew the correct method but they could not work it out due to not having a calculator to hand. A quarter of investors arrived at the figure of €1250 but did not take into account that the fund value will be a different amount each time the ongoing charge percentage is subtracted from it. A few people cheated and looked up the answer from variant L (table) instead, missing the fact that the entry charge and ongoing charges were different in the two variants. A few investors ended up with a very inaccurate figure with answers ranging from €300 to €3165.

4.49 Interestingly, when making their calculations only around half of investors used the combined 2.5% figure at variant I (text) with the remainder preferring to do a two-stage calculation using the entry charge and ongoing charges separately – this indicates that the combined figure is of limited use even for those who like to make their own calculations.

SUMMARY OF QUALITATIVE FINDINGS

4.50 Variant L (table) was preferred by investors and it also aided their understanding to a greater degree than variant I (text). Although it seems that there will always be some investors who prefer doing their own calculations (as some did calculations even when presented with the table), they can do this from the initial stating of the entry and ongoing charges.

4.51 We would recommend that Variant L (table) is made the standard format for disclosure of charges within the KII document. However, it would be beneficial to give an indication of transaction costs as well as the entry and ongoing charges.

4.52 There were no noticeable differences in attitude or understanding by member state.

5 Risk

5.1 Exploring the optimal approach for the description of risk factors and the presentation of the relationship between risk and reward is one of the key issues for the design of the KII.

5.2 The research tested two high level approaches across two example UCITS funds with a different level risk/reward:

- One approach was based on a purely narrative description of risks (Variants M and O); and
- The alternative approach uses a synthetic indicator to communicate the level of risk that investment in the fund would represent (Variants N and P).

5.3 A summary of the risk variants used in the research is shown below:

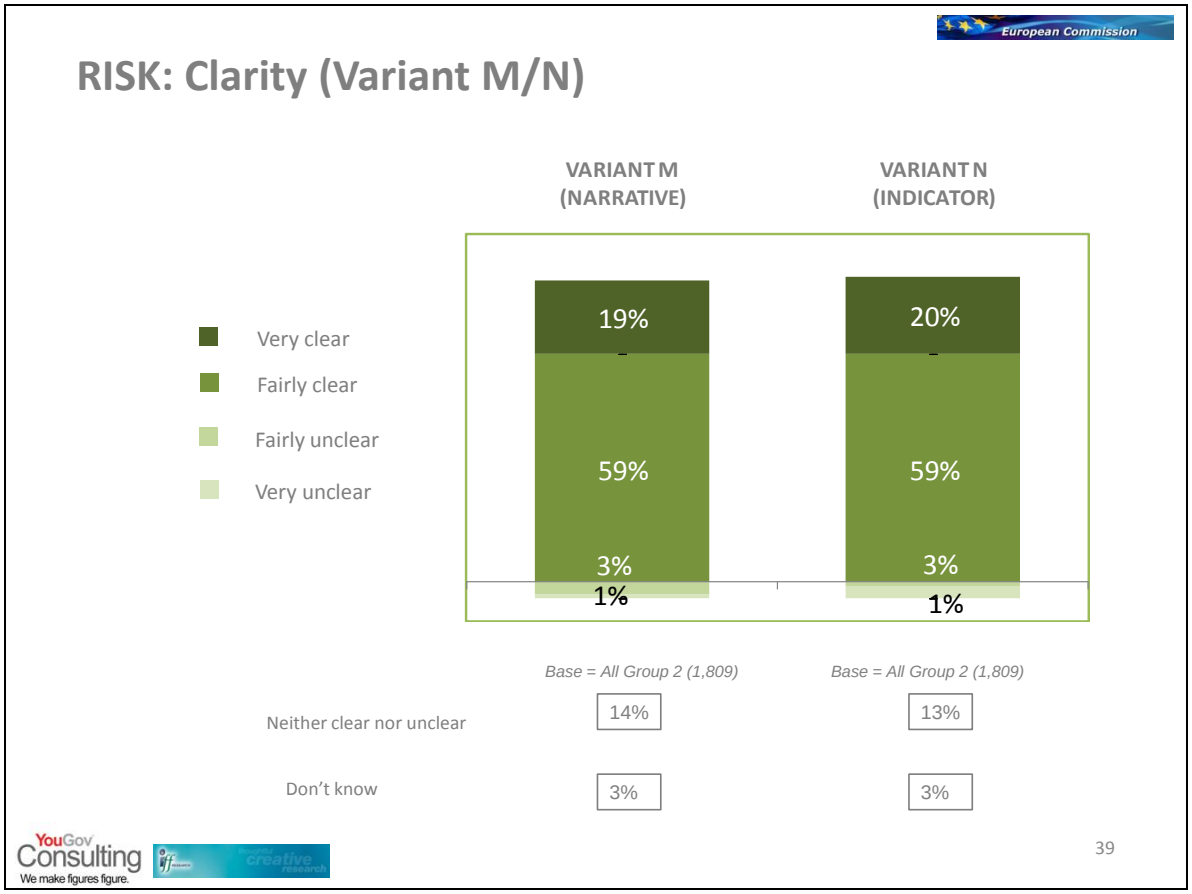
	Fund 1 - Higher risk/higher potential reward	Fund 2 - Lower risk/lower potential reward
Narrative	M	O
Synthetic indicator	N	P

5.4 To help mitigate any learning effect and achieve an unbiased comparison of the variants respondents were divided into two groups, one group being shown variant M first and one being shown variant N first.

Clarity of the description of the potential gains and losses

5.5 There was no difference in the perceived clarity of variants M and N with over three-quarters of respondents saying the description of potential gains and losses was very/fairly clear for variant M (78%) and variant N (79%).

Figure .: Perceived clarity of risk variants



VARIANT M

5.6 Respondents in Ireland (86%) and Poland (84%) were more likely to find variant M very/fairly clear, whilst those in Sweden (66%) were less likely to find variant M very/fairly clear. The rating of the clarity of variant M also varied by respondent's attitude to risk with 67% of secure investors rating it very/fairly clear compared to 88% of adventurous investors. Those whose self-assessed level of financial sophistication was high were also more likely to consider variant M to be very/fairly clear than those whose self-assessed level of financial sophistication was low (82% vs. 72%).

5.7 Around three-quarters (76%) of respondents said that there was nothing they did not understand about variant M. A further 14% said they were unsure if there was anything they didn't understand. Looking at the split by individual member state those in Sweden were least likely to say there was nothing they did not understand (55%) and most likely to say they were unsure if there was anything they didn't understand (32%).

5.8 Of the remaining 10% of all respondents who said there was something they didn't understand the most commonly cited (2%) was the phrase "specific financial techniques" used in the penultimate paragraph of the variant. A further 2% mentioned the "description of risk" in general and 1% said "all of it or most of it".

VARIANT N

5.9 Respondents in Ireland (84%) were more likely to find variant N very/fairly clear whilst those in Sweden (68%) were less likely. As with variant M respondents rating of the clarity of variant N varied by their attitude to risk with 65% of secure investors rating it very/fairly clear compared to 88% of adventurous investors. Those whose self-assessed level of financial sophistication was high/medium were also more likely to consider variant N to be very/fairly clear than those whose self-assessed level of financial sophistication was low (80% vs. 75%).

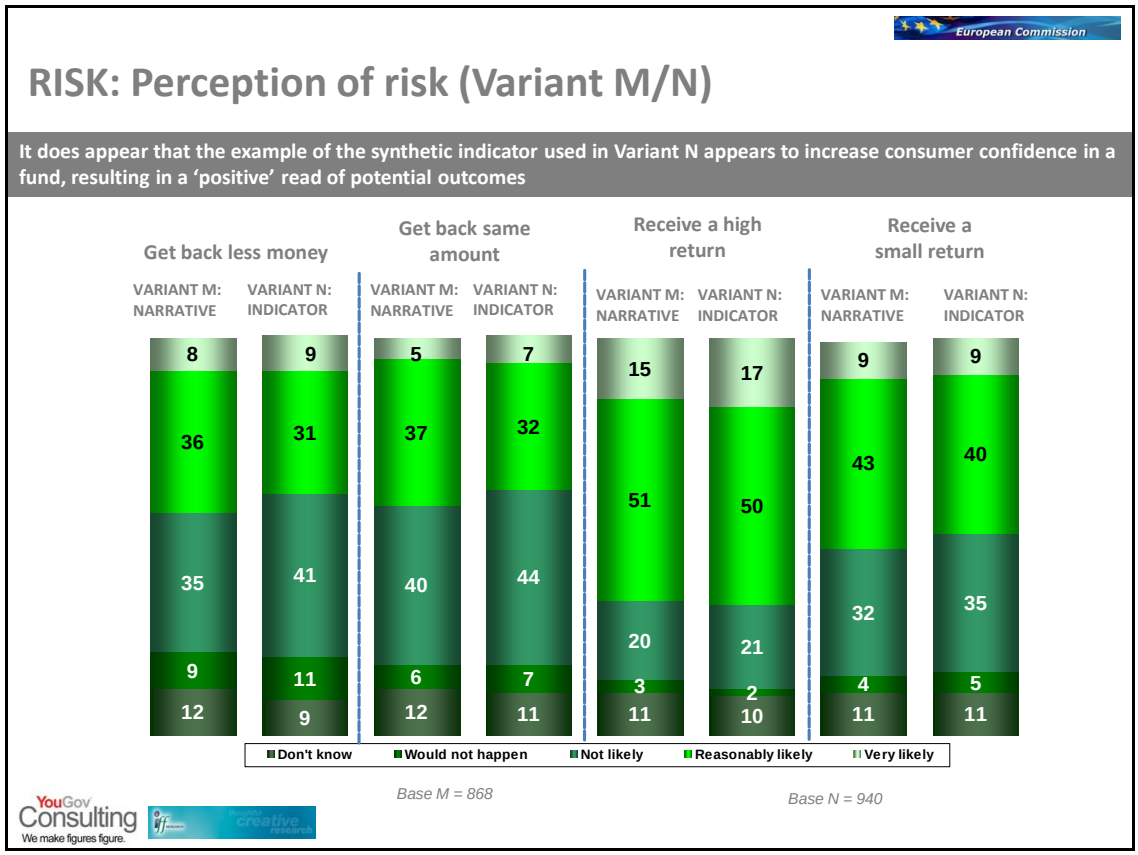
5.10 Around two-thirds (64%) of respondents said there was nothing they did not understand about variant N with a further 12% unsure as to whether there was anything they didn't understand. Once again those in Sweden were least likely to say there was nothing they did not understand (40%) and most likely to say they were unsure if there was anything they didn't understand (24%).

5.11 Of the remaining 24% of all respondents who said that there was something they didn't understand 5% mentioned that the variant was "too complicated", 3% said they didn't understand "all of it or most of it" and 3% said that the "additional chance of gains and losses is unclear". Unfortunately the research methodology used means we are unable to unpick this last comment but it may possibly refer to the paragraph concerning the impact of *"unexpected major events"* and *"unusual market conditions"*.

Perceptions of risk variants M and N

5.12 Perceptions of the fund being described by each variant were tested by asking respondents how likely they thought a range of scenarios would be to happen. There was little difference between perceptions of the variants at the overall level but the synthetic indicator used in variant N appears to increase consumer confidence in the fund, resulting in a more "bullish" read of potential outcomes. This is illustrated by the statistically significant differences on perceptions of whether you would get back less than invested or the same amount as invested where both of these scenarios were considered to be less likely in variant N.

Figure .: Perception of risk



VARIANT M

5.13 There were some variations in perceptions of variant M by member state. Table 5.1 shows the responses by member state and respondents self-assessed level of financial sophistication. Statistically significant differences to the total figures (i.e. all respondents) are shown in bold.

5.14 The member states with the highest and lowest perceptions of the likelihood of each scenario are as follows:

- **Consider that you would get back less money than initially invested**
  - Hungary has the lowest proportion (19%) who consider this likely to happen whilst Italy has the highest proportion (66%)
- **Consider you would get back more or less the same amount**
  - Once again Hungary has the lowest proportion (25%) and Italy the highest (55%)
- **Consider you would receive a high return**
  - Sweden has the lowest proportion (51%) who consider this likely to happen and Poland has the highest (76%)
- **Consider you would receive a small return**
  - Hungary has the lowest proportion (42%) who consider this likely to happen whilst Spain has the highest (66%)

Table .: Perceptions of variant M by member state and level of financial sophistication

Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
You would get back less money than originally invested	Would not happen / not very likely	44	**54**	38	37	40	**25**	**72**	43	**35**	48	45
	Reasonably / very likely	44	**34**	**55**	39	53	**66**	**19**	48	50	44	41
You would get back more or less the same amount that you invested with no return on your investment	Would not happen / not very likely	46	54	47	**33**	40	**33**	**66**	47	45	48	41
	Reasonably / very likely	42	35	43	42	**54**	**55**	**25**	44	42	42	42
You would receive a high return on your investment	Would not happen / not very likely	23	26	19	26	22	19	24	**15**	19	23	26
	Reasonably / very likely	66	64	72	**51**	71	72	72	**76**	67	69	60
You would receive a small return on your investment	Would not happen / not very likely	36	45	31	**23**	29	28	**52**	43	35	37	34
	Reasonably / very likely	52	43	60	55	**66**	57	**42**	49	53	54	50
Base: All viewing variant M		*868*	*126*	*104*	*130*	*120*	*121*	*133*	*134*	*165*	*469*	*212*

5.15 Looking at the perceptions of variant M by the respondent's attitude towards risk we find that those who say they are balanced/adventurous with regard to the risk they are prepared to take with investments are more likely than those who say they are secure/cautious to consider you would receive a high return (73% vs. 63% respectively) and more likely to consider you would not receive back more or less the same amount (54% vs. 41% respectively thought this unlikely to occur). There is no difference between the perceptions of the two groups regarding the likelihood of the other scenarios occurring.

VARIANT N

5.16 Table 5.2 shows the variations in perceptions of variant N by member state and self-assessed financial sophistication. Once again the statistically significant differences from the total figures are shown in bold.

5.17 The member states with the highest and lowest perceptions of the likelihood of each scenario are as follows:

- Consider that you would get back less money than initially invested
  - As with perceptions of variant M Hungary has the lowest proportion (14%) who consider this likely to happen whilst Italy has the highest proportion (58%)
- Consider you would get back more or less the same amount
  - Again as with variant M Hungary has the lowest proportion (18%) and Italy the highest (56%)
- Consider you would receive a high return
  - Sweden has the lowest proportion (49%) who consider this likely to happen and Spain has the highest (75%)
- Consider you would receive a small return
  - Hungary has the lowest proportion (30%) who consider this likely to happen whilst Spain has the highest (62%)

Table .: Perceptions of variant N by member state and level of financial sophistication

Column percentages

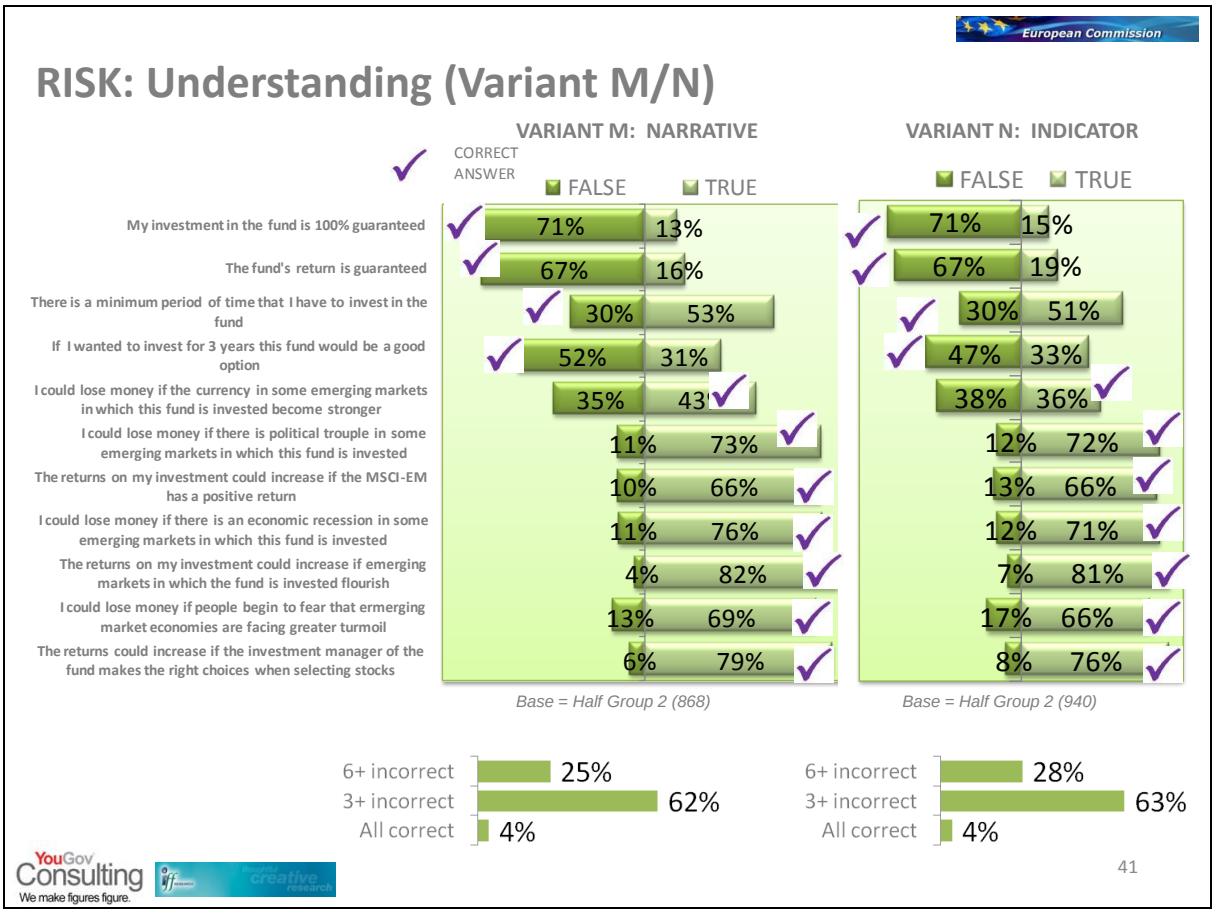
			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
You would get back less money than originally invested	Would not happen / not very likely	52	**65**	47	**35**	49	**31**	**78**	50	51	51	57
	Reasonably / very likely	40	**28**	44	46	48	**58**	**14**	44	42	42	**32**
You would get back more or less the same amount that you invested with no return on your investment	Would not happen / not very likely	51	60	48	44	46	**31**	**74**	49	50	51	53
	Reasonably / very likely	39	32	42	34	**50**	**56**	**18**	41	45	40	34
You would receive a high return on your investment	Would not happen / not very likely	23	19	23	29	21	26	27	19	25	24	24
	Reasonably / very likely	67	72	68	**49**	75	63	65	71	69	67	65
You would receive a small return on your investment	Would not happen / not very likely	40	49	35	**26**	34	33	**64**	34	39	40	47
	Reasonably / very likely	49	40	36	53	**62**	51	**30**	57	54	51	42
Base: All viewing variant N		*940*	*130*	*139*	*126*	*134*	*128*	*162*	*121*	*158*	*531*	*217*

5.18 Perceptions of variant N do not vary significantly by the respondent's attitude towards risk apart from those who say they are balanced/adventurous with regard to the risk they are prepared to take with investments are more likely than those who say they are secure/cautious to consider you would receive a high return (72% vs. 63% respectively).

Understanding of risk variants M and N

5.19 To assess respondent understanding of the variants each was asked to rate eleven statements regarding the fund being described as either true or false. The following chart shows the overall responses to these statements.

Figure .: Understanding of risk variants



5.20 As the chart shows the levels of understanding are very similar between the two variants. This implies that neither variant is significantly better at communicating the correct messages than the other. However there are two statistically significant differences between the proportions of correct answers from the two variants. The first is regarding the statement *"I could lose money if the currency in some emerging markets in which this fund is invested became stronger"* and the second regarding the statement *"I could lose money if there is an economic recession in some markets in which the fund is invested".* In both cases the proportion getting the correct answer was higher for variant M.

5.21 There was little difference between variants in the proportion of respondents achieving correct answers to statements. Only a small proportion got all 11 statements correct or incorrect with around two-thirds of respondents getting 3 or more statements incorrect and a quarter getting 6 or more statements incorrect.

	Variant M	Variant N
All correct	4%	4%
All incorrect	8%	7%
3+ incorrect	62%	63%
6+ incorrect	25%	28%

VARIANT M

5.22 As Table 5.3 shows there were some variations in the understanding of variant M by member state. Statistically significant differences from the total proportions are shown in bold:

Table .: Understanding of variant M by member state and level of financial sophistication

Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
My investment in the fund is 100% guaranteed	True	13	**6**	16	**6**	**20**	9	18	16	**19**	13	10
	False (correct)	71	**79**	70	67	70	77	68	66	66	73	71
The fund's return is guaranteed	True	16	**9**	17	**6**	**32**	13	17	17	18	17	13
	False (correct)	67	71	70	67	**54**	68	73	64	68	67	66
There is a minimum period of time that I have to invest in the fund	True	52	**39**	**62**	**28**	**67**	**61**	**68**	45	**44**	**56**	51
	False (correct)	30	**43**	28	29	**22**	26	**20**	**41**	**39**	29	25
If I wanted to invest for 3 years this fund would be a good option	True	31	**45**	**19**	**16**	**56**	**11**	**50**	**18**	36	32	26
	False (correct)	52	**32**	**70**	**62**	**28**	**74**	**37**	**65**	47	54	53
I could lose money if the currency in some emerging markets in which this fund is invested becomes stronger	True (correct)	43	45	47	38	44	35	**27**	**64**	48	45	**36**
	False	35	34	37	29	38	**45**	**54**	**11**	36	35	37

I could lose money if there is political trouble in some emerging markets in which this fund is invested	True (correct)	73	78	76	66	66	74	75	76	70	**77**	68
	False	11	6	9	**5**	**21**	13	16	10	**16**	10	12
The returns on my investment could increase if the MSCI-EM has a positive return	True (correct)	66	67	66	**45**	73	73	**75**	65	64	**72**	**58**
	False	10	8	13	10	13	12	8	6	**15**	9	8
I could lose money if there is an economic recession in some emerging markets in which this fund is invested	True (correct)	76	80	**84**	70	69	76	72	79	77	**79**	**68**
	False	11	8	7	6	**18**	14	16	8	10	10	13
The returns on my investment could increase if emerging markets in which the fund is invested flourish	True (correct)	82	83	86	**69**	84	83	87	83	80	**85**	**68**
	False	4	2	4	3	8	5	4	4	5	4	13
I could lose money if people begin to fear that emerging market economies are facing greater turmoil	True (correct)	69	72	76	**59**	68	74	**60**	74	71	71	78
	False	13	10	9	8	**21**	11	**22**	11	15	13	4
The returns on my investment could increase if the investment manager of the fund makes the right choices when selecting the stocks that the fund is invested in	True (correct)	78	79	84	**68**	81	72	**88**	78	78	**81**	**74**
	False	6	3	6	2	8	**11**	5	8	6	6	7
Base: All viewing variant M		*868*	*126*	*104*	*130*	*120*	*121*	*133*	*134*	*165*	*469*	*212*

VARIANT N

5.23 As Table 5.4 shows there were some variations in the understanding of variant M by member state. Statistically significant differences from the total proportions are shown in bold:

Table .: Understanding of variant N by member state and level of financial sophistication

Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
My investment in the fund is 100% guaranteed	True	15	10	15	**7**	**24**	12	**23**	10	12	15	18
	False (correct)	71	**79**	72	71	64	71	65	74	72	72	67
The fund's return is guaranteed	True	19	15	16	**13**	**36**	20	20	13	18	20	20
	False (correct)	67	72	**76**	63	**51**	61	72	70	68	68	64
There is a minimum period of time that I have to invest in the fund	True	51	**25**	**59**	**37**	**63**	**59**	**69**	**36**	**42**	52	55
	False (correct)	30	**58**	24	30	**21**	25	**18**	36	**40**	31	**22**
If I wanted to invest for 3 years this fund would be a good option	True	32	**47**	**18**	**17**	**47**	**20**	**54**	**17**	33	33	34
	False (correct)	47	**32**	**68**	**60**	**30**	**59**	**28**	**60**	49	48	44
I could lose money if the currency in some emerging markets in which this fund is invested becomes stronger	True (correct)	36	37	38	37	34	**24**	**22**	**62**	**44**	36	**28**
	False	38	35	37	31	41	**50**	**51**	**17**	34	39	41
I could lose money if there is political trouble in some emerging markets in which this fund is invested	True (correct)	73	76	78	73	**64**	67	77	73	77	73	70
	False	12	12	8	**5**	**20**	14	14	10	8	13	13
The returns on my investment could increase if the MSCI-EM has a positive return	True (correct)	66	**75**	67	61	63	71	66	60	69	67	65
	False	12	8	16	10	16	9	15	12	15	13	10
I could lose money if there is an economic recession in some emerging markets in which this fund is invested	True (correct)	71	78	78	71	68	**63**	68	71	75	72	68
	False	12	8	12	7	14	12	**20**	11	**7**	14	13
The returns on my investment could increase if emerging markets in which the fund is invested flourish	True (correct)	80	**88**	83	**70**	81	**71**	**90**	79	80	81	81
	False	6	**2**	7	5	10	**12**	4	6	5	8	6

I could lose money if people begin to fear that emerging market economies are facing greater turmoil	True (correct)	66	**76**	71	62	**57**	62	61	72	**73**	67	**59**
	False	17	12	16	13	**26**	16	21	14	13	18	20
The returns on my investment could increase if the investment manager of the fund makes the right choices when selecting the stocks that the fund is invested in	True (correct)	76	78	81	73	77	**63**	**86**	70	78	77	74
	False	8	8	8	4	8	**13**	**3**	**14**	6	9	7
Base: All viewing variant N		*940*	*130*	*139*	*126*	*134*	*128*	*162*	*121*	*158*	*531*	*217*

5.24 The table below analyses the relationship between perceived clarity of each of the risk variants and the likelihood to score well on the 'understanding test' outlined above.

Table .: VARIANT M: Perceived clarity of by number of correct responses to understanding statements

Column percentages

		Perceived clarity of strategy			
	Total	**Very clear**	**Fairly clear**	**Neither clear nor unclear / Don't know**	**Very or Fairly Unclear**
	%	%	%	%	%
No correct responses / Don't know	25	7	16	61	75
1 correct response	1	1	1	1	3
2 correct responses	1	2	2	1	-
3 correct responses	3	1	1	8	10
4 correct responses	4	3	3	4	8
5 correct responses	7	3	3	11	3
6 correct responses	9	6	6	12	10
7 correct responses	11	10	10	6	13
8 correct responses	17	16	16	16	13
9 correct responses	20	31	31	10	8
10 correct responses	14	22	22	4	3
11 correct responses	4	4	4	2	3
Base: All	*868*	*159*	*508*	*161*	*40*

Table .: VARIANT N: Perceived clarity of by number of correct responses to understanding statements

Column percentages

		Perceived clarity of strategy			
	Total	**Very clear**	**Fairly clear**	**Neither clear nor unclear / Don't know**	**Very or Fairly Unclear**
	%	%	%	%	%
No correct responses / Don't know	23	9	15	64	40
1 correct response	1	-	1	5	2
2 correct responses	3	2	3	3	-
3 correct responses	5	2	5	7	6
4 correct responses	6	3	7	7	6
5 correct responses	6	6	5	9	10
6 correct responses	7	6	8	5	8
7 correct responses	12	11	13	10	12
8 correct responses	16	16	19	7	10
9 correct responses	19	25	18	19	12
10 correct responses	14	24	14	2	12
11 correct responses	4	5	4	1	2
Base: All	*940*	*174*	*565*	*152*	*49*

5.25 Those who found variants M and N clear were more likely than those who found them unclear to get a high number of correct responses. Similarly, those who found variants M and N unclear were more likely to get no responses correct than those who found them clear. Those who found the variants very clear were even less likely than those who found them fairly clear to give no correct responses (7% cf. 16% for variant M and 9% cf. 15% for variant N).

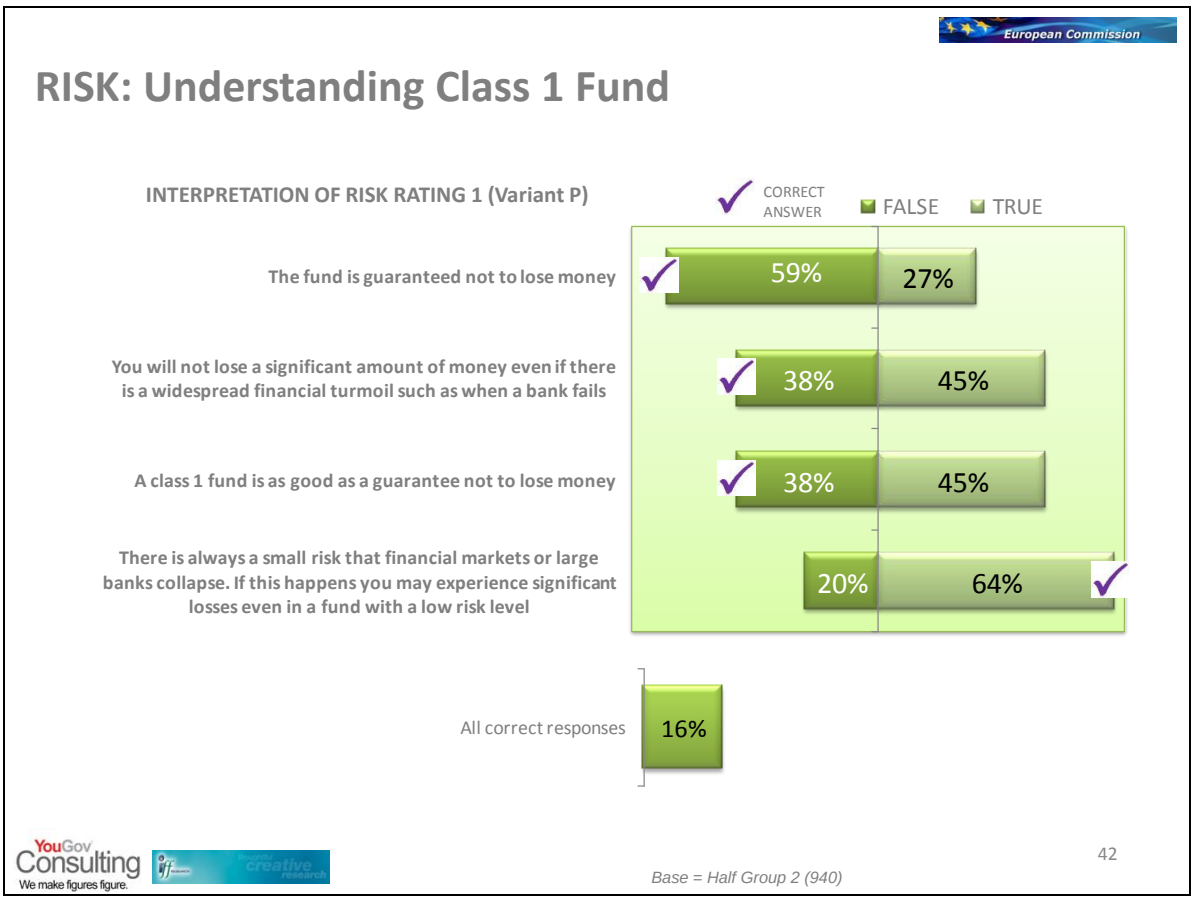
Understanding of a synthetic indicator "class 1" fund

5.26 A particular aspect of the synthetic indicator that the Commission wished tested was how investors would interpret funds that were classed at the lowest end of the scale and whether they would mistakenly infer that a lower potential for gains and losses also implied a guarantee that they would not lose money.

5.27 The fund described by variant N using a synthetic indicator was a "class 5", i.e. it had a high potential for both gains and losses. To test whether consumers could correctly interpret funds with a lower potential for gains and losses another variant using a synthetic indicator (variant P) was shown which described a "class 1" fund.

5.28 Respondents were asked to rate four statements regarding variant P as either true or false. There is a clear indication that there is a danger of funds designated with a class 1 status being interpreted as providing an investment guarantee. For example, around a quarter (27%) incorrectly said it was true that the fund is guaranteed not to lose money and just under half (45%) incorrectly said that a class 1 fund is as good as a guarantee not to lose money.

Figure .: Understanding of a Class 1 Fund



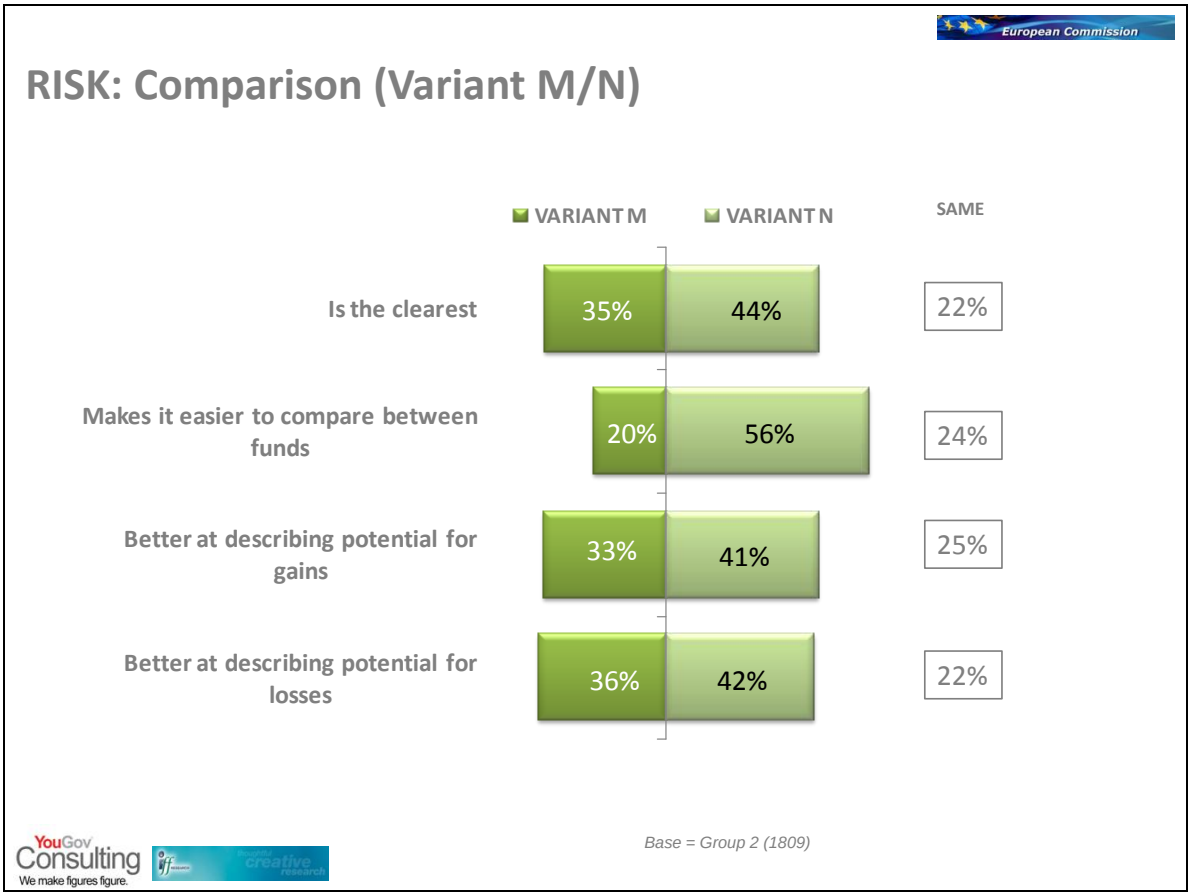
5.29 A significantly higher proportion of those in Hungary (44%) and Spain (34%) incorrectly thought that the fund is guaranteed not to lose money, whilst a significantly higher proportion in Ireland (72%) gave the correct response to this statement. Significantly higher proportions of those in Hungary (60%) and Spain (56%) also incorrectly thought that a class 1 fund is as good as a guarantee not to lose money.

5.30 Only 15% of respondents gave the correct response to all four statements. In contrast 19% gave the incorrect response to all four statements. The proportion of those giving the correct response to all four statements did not vary significantly across the member states.

Preference between risk variants M and N

5.31 Having given specific feedback on each of the two variants regarding clarity, perceptions and understanding, respondents were shown both variant M and N and asked to compare them against each other. The purpose of this comparison was to assess which of the two approaches was preferred. It was made clear that both variants were describing the same fund but using a different approach.

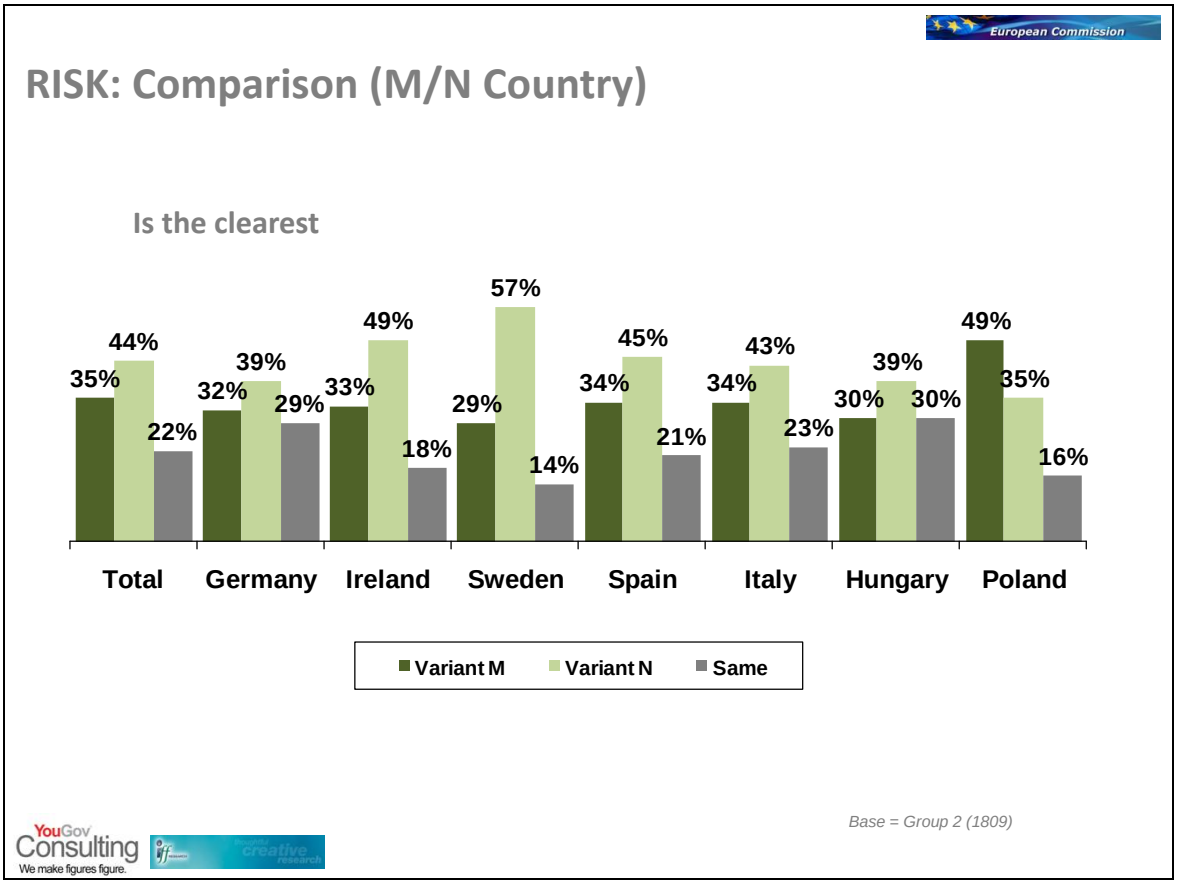
Figure .: Preference between risk variants



5.32 In comparing variants M and N approximately a quarter of respondents felt that both were similar in providing information. Of those noting a difference between the two variant N was consistently preferred on all of the preference tests and in particular in terms of making comparisons between funds.

5.33 This preference for variant N was true across all the member states with a few exceptions, i.e. those in Hungary preferred variant M as better at describing the potential for gains and losses, whilst those in Poland preferred variant M as the clearest and as better at describing the potential for gains and losses. Those who had an adventurous attitude to risk also preferred variant M on all the preference tests except ease of comparison.

Figure .: Preference for risk variants by member state

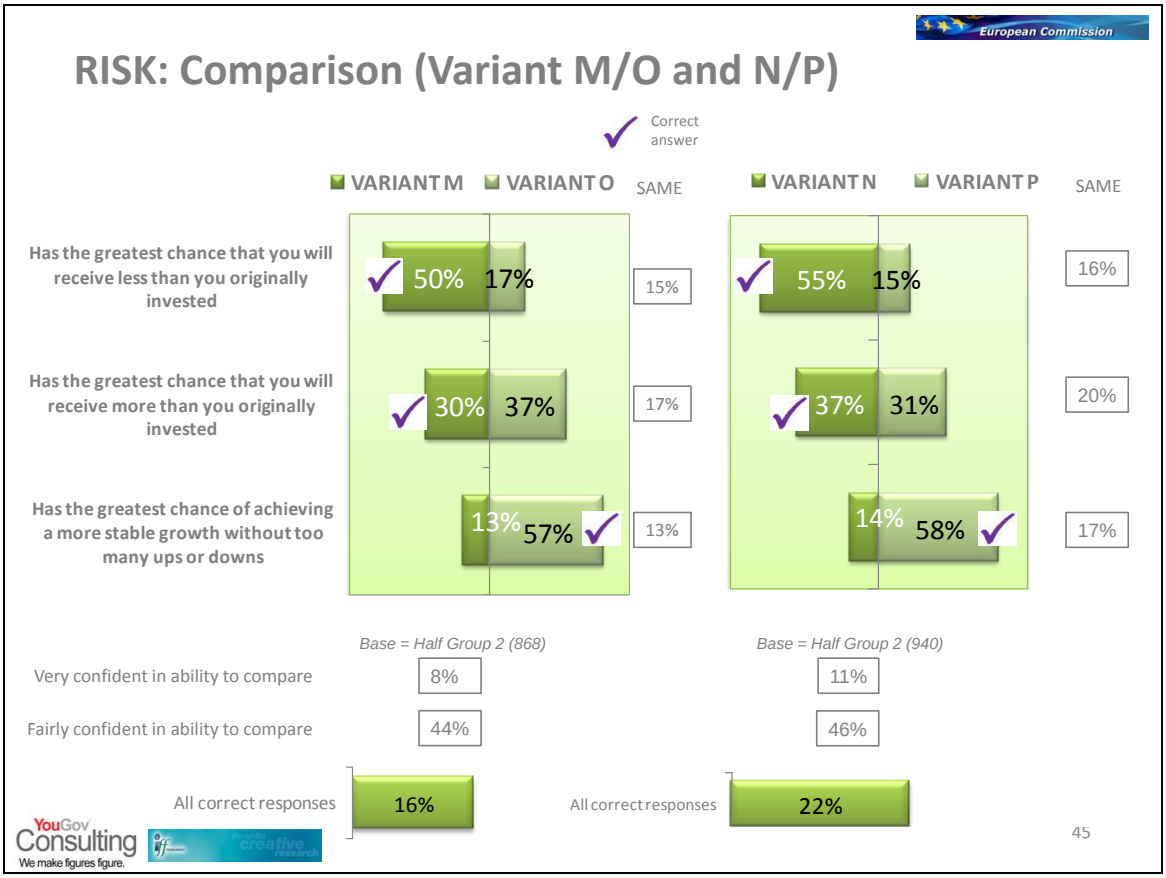


Comparison of risk variants

5.34 To further test understanding and the ability to use the variants to compare between different funds respondents were split into two groups with one group seeing two different funds in a narrative format (variant M and O) whilst the other group were shown two different funds in an indicator format (variants N and P). To assess the whether respondents could correctly identify differences between different funds each group was asked to select which of the two variants was best described by three statements.

5.35 Despite strong sentiment from consumers that a synthetic indicator provides an easier comparison the overall responses to these statements show little difference between the narrative and synthetic indicator.

Figure .: Comparison between risk variants



Comparison of variants M and O

5.36 By member state the figures were generally similar. However, there were a few statistically significant exceptions:

- **Has greatest chance that you will receive less than you originally invested**
  - For the M vs. O comparison those in Hungary more likely to say O (24%), whilst those in Sweden less likely to say O (11%)
- **Has the greatest chance that you will receive more than you originally invested**
  - For the M vs. O comparison those in Ireland more likely to say O (51%), those in Poland more likely to say M (41%) and those in Sweden less likely to say O (28%)
- **Has the greatest chance of achieving a more stable growth without too many sharp ups or downs**
  - For the M vs. O comparison those in Hungary and Ireland were more likely to say O (66% and 67% respectively), whilst those in Sweden less likely to say M (7%).

5.37 Overall 16% of respondents in the M vs. O comparison achieved three correct responses to the statements. Table 5.7 shows the proportion of correct responses made during each of the comparison tests by member state and financial sophistication with significant differences highlighted in bold:

Table .: Comparison of variants M and O by member state and level of financial sophistication

Column percentages

		Member State							Financial Sophistication		
	Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
No correct responses / Don't know	30	30	22	**41**	30	32	**21**	28	33	26	31
1 correct response	20	17	22	**13**	23	19	**29**	18	23	20	19
2 correct responses	34	37	**43**	**24**	35	32	38	32	30	36	35
3 correct responses	16	16	13	22	12	17	12	**22**	14	18	15
Base: All viewing variants M and O	*868*	*126*	*104*	*130*	*120*	*121*	*133*	*134*	*165*	*469*	*212*

Confidence in ability to distinguish between variants M and O

5.38 Over half (52%) of those viewing variants M (the higher risk fund) and O (the lower risk fund) said they were very confident (8%) or fairly confident (44%) in their ability to distinguish between the two funds. Around a quarter (27%) said they were neither confident or unconfident, whilst 11% said they were fairly unconfident and 5% said they were very unconfident.

5.39 There were a few statistically significant differences in confidence levels by member state with those in Ireland (74%) and Spain (62%) showing higher proportions of very/fairly confident and those in Poland (43%) and Sweden (39%) showing lower proportions of very/fairly confident.

5.40 Those with a self-assessed high level of financial sophistication were more likely to feel very/fairly confident in their ability to distinguish between the two variants than those with a self-assessed low level of financial sophistication (59% vs. 41% respectively).

5.41 Analysing respondent's confidence in their ability to distinguish between the two variants by the number of statements correctly identified in the variant M versus variant N comparison test can we see that a higher level of confidence is generally associated with a higher level of correct responses.

Table .: Confidence in ability to distinguish variants M and O by number of correct responses to comparison statements

Column percentages

		Confidence in ability to compare					
	Total	**Very confident**	**Fairly confident**	**Neither confident or unconfident**	**Fairly unconfi dent**	**Very unconfi dent**	**Don't know**
	%	%	%	%	%	%	%
No correct responses / Don't know	16	3	3	17	22	49	98
1 correct response	20	17	21	23	20	26	-
2 correct responses	34	51	41	30	27	19	-
3 correct responses	16	21	21	14	14	2	-
Base: All viewing variants M and O	*868*	*70*	*381*	*236*	*96*	*43*	*42*

Comparison of variants N and P

5.42 By member state the figures were generally similar. However, there were a few statistically significant exceptions:

- Has greatest chance that you will receive less than you originally invested
  - For the N vs. P comparison those in Germany are less likely to say P (8%), whilst those in Spain more likely to say the variants were the same (22%)
- Has the greatest chance that you will receive more than you originally invested
  - For the N vs. P comparison those in Poland were more likely to say N (48%), whilst those in Hungary more likely to say the variants were the same (27%)
- Has the greatest chance of achieving a more stable growth without too many sharp ups or downs
  - There were no significant differences by member state for responses to this statement.

5.43 Overall 22% of respondents in the N vs. P comparison achieved three correct responses to the statements with a significantly higher proportion of those in Poland giving correct responses to all three (30%). The following table shows the proportion of correct responses made during each of the comparison tests by member state and financial sophistication with significant differences in bold:

Table .: Comparison of variants N and P by member state and level of financial sophistication

Column percentages

		Member State							Financial Sophistication		
	Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
No correct responses / Don't know	28	29	25	33	29	34	25	26	24	26	32
1 correct response	16	**8**	18	10	18	15	20	21	15	15	**22**
2 correct responses	34	**42**	34	32	31	34	38	**23**	39	35	**28**
3 correct responses	22	21	23	25	22	17	17	**30**	22	24	18
Base: All viewing variants N and P	*940*	*130*	*139*	*126*	*134*	*128*	*162*	*121*	*158*	*531*	*217*

Confidence in ability to distinguish between variants N and P

5.44 Over half (57%) of those viewing variants N (the higher risk fund) and P (the lower risk fund) said they were very confident (11%) or fairly confident (46%) in their ability to distinguish between the two funds. This is significantly higher than the proportion that was very/fairly confident in distinguishing between variants M and O (52%).

5.45 Around a quarter (28%) of those viewing variants N and P said they were neither confident or unconfident, whilst 7% said they were fairly unconfident and 5% said they were very unconfident.

5.46 There were a few statistically significant differences in confidence levels by member state with those in Ireland (67%) and Germany (66%) showing higher proportions of very/fairly confident and those in Poland (46%) and Hungary (49%) showing lower proportions of very/fairly confident.

5.47 Those with a self-assessed high level of financial sophistication were more likely to feel very/fairly confident in their ability to distinguish between the two variants than those with a self-assessed low level of financial sophistication (67% vs. 46% respectively).

5.48 Analysing respondent's confidence in their ability to distinguish between the two variants by the number of statements correctly identified in the variant N versus variant P comparison test can we see that a higher level of confidence is generally associated with a higher level of correct responses.

Table .: Confidence in ability to distinguish variants N and P by number of correct responses to comparison statements

Column percentages

		Confidence in ability to compare					
	Total	**Very confident**	**Fairly confident**	**Neither confident or unconfident**	**Fairly unconfi dent**	**Very unconfi dent**	**Don't know**
	%	%	%	%	%	%	%
No correct responses / Don't know	11	2	2	14	21	35	82
1 correct response	16	11	14	22	30	12	3
2 correct responses	34	42	43	27	17	16	3
3 correct responses	22	36	28	14	10	12	-
Base: All viewing variants N and P	*940*	*100*	*437*	*259*	*63*	*43*	*38*

Qualitative findings

5.49 This section of the report is qualitative in nature and examines the thoughts of current and potential investors across the member states towards variants M (narrative approach) and N (synthetic indicator). It seeks to test whether there is any difference between comprehension of risk/reward between the narrative approach and synthetic indicator while aiming to identify exactly what investors interpret the variants to mean.

5.50 As discussed earlier, 4 variants were tested during the quantitative stage of the research and 2 variants (M and N) were selected to take forward to the qualitative stage. This decision was based on the fact that both M and N are describing the same fund with the large potential risks/rewards to investors (i.e. fund category 5) and more crucially these variants allow direct comparisons between the synthetic and narrative indicators.

5.51 All current and potential investors within sample group 2 were asked about risk in the qualitative interviews. As a result, the findings within this section of the report are based on 75 respondents (50 current and 25 potential investors).

GENERAL ATTITUDES TOWARDS RISK

5.52 When investors were asked generally about what they interpreted risk to mean they were on the whole unified in their responses. Nearly all spontaneously mentioned that their interpretation of a risky investment was that it could lose money (i.e. you get back less than the original capital invested).

5.53 However there were a minority of investors that did not mention risk to their actual capital, rather they perceived risk to mean the chance that they may not make any return on the capital they invested (i.e. suggesting they would expect to at least get back what they originally invested).

"The only reason you are investing in the first place is to make money" **Ireland**

5.54 As perhaps would be expected, all investors felt that it was very important to know the risks involved before any investing any money. The main reasons mentioned for knowing all risks involved related to choosing which product to invest in and planning the length of the investment.

"Can't choose without it" **Hungary**

"It is the deciding factor whether the investment is short or long term" **Germany**

5.55 There was also some evidence that risk plays a pivotal role in the decision making process, particularly with regards to what the capital/investment is intended to be used for in the future.

"It is vitally important to know the risk associated with a fund, especially if you are going to rely on the income you get from that investment later on in your life." **Ireland**

INITIAL COMPARISONS BETWEEN THE TWO VARIANTS

5.56 All investors were then asked to read through the variant M (narrative approach) and variant N (synthetic indicator) and explain what they interpreted about the fund being described and the potential risks and rewards.

5.57 To avoid any learning effect and achieve unbiased comparisons the investors were divided into two groups, one group being shown variant M first and one being shown variant N first.

5.58 At an overall level, on initial reading of the variants, investors felt variant M to offer greater risks and variant N to offer greater rewards, a finding which backs up the quantitative research.

5.59 When describing why investors felt M to appear more risky, political issues were commonly cited over any other issue. This suggests that their initial perceptions of risk were being driven by the section describing the strategy and objectives of the fund as much as it was by the description of potential risk/reward itself.

"*It's risky because of political situation"* **Sweden**

"It's risky because you are dealing with the political side of emerging countries". **Italy**

5.60 In terms of how clear respondents felt the extracts to be there were no real differences between the two variants with most investors stating they felt the information provided within the variant, was on the whole, relatively clear.

5.61 Only a minority of investors felt that the variants were very unclear. Queries which referred to variant M largely backed up the quantitative research with questions over the terminology and specifically the wording *"specific financial techniques"*. There were generally more queries about extract M from investors in Germany and Italy.

"*What 'specific financial techniques' are used?"* **Germany**

"Some terminology I don't understand" **Italy**

5.62 There was also more general uncertainty about the investment being described.

"It's not clear how much money you can make or lose" **Italy**

5.63 With regards to variant N, queries only related to things that investors did not feel had been mentioned. The majority of investors with queries over variant N were from Italy.

"This is only an indicator of risk and reward – it doesn't say there could be losses" **Hungary**

"It doesn't point out what the actual income could be" **Italy**

IMPROVEMENTS WOULD LIKE TO SEE TO BOTH VARIANTS

5.64 After reading both variants all investors were asked what improvements (if any) they would like to see made.

5.65 Most felt that improvements were needed to both variants, although overall they were more likely to feel that improvements were needed to variant M than were needed to variant N.

5.66 The most commonly mentioned improvement investors would like to see is more detailed examples and graphs. This was more likely to be mentioned in relation to variant M, which in itself demonstrates that a more graphic (i.e. synthetic indicator) is preferred by investors over a narrative description. Indeed, in relation to variant M a few investors specifically stated they would prefer some type of diagram showing the relationship between risk and reward.

"I'd like to see an example of potential rewards and what they amount to" **Ireland**

"If they added a worked out example of an actual investment fund operating in this market" **Ireland**

5.67 The other type of example/graph that investors would like to see on both variants relates to past performance of the investment product, with many requesting more visual comparisons. Although not shown in this testing past performance information would be part of the complete KII document.

IMPROVEMENTS TO VARIANT M

5.68 In terms of other suggested improvements, there were differences between the two variants. For variant M more investors stated they would like more information about the member states and companies involved in the investment.

"I'd want to know what companies are involved in it" **Germany**

"I'd write something more about the political situation and the economy of these countries" **Italy**

"Which areas of emerging markets will they invest in?" **Italy**

5.69 Another improvement suggested for variant M was a better explanation of risks (mentioned by 8 investors, mainly from Hungary and Spain). Again this is evidence that investors may find it harder to interpret the risks from the narrative approach than they can from the synthetic indicator.

"The index is not clear at all. I would expect a clearer explanation" **Hungary**

5.70 There were also some calls for the language used within the narrative to be made simpler and easier to understand.

"*I'd like the specification sheet [variant] to be more user friendly"* **Italy**

"Should be simpler language" **Sweden**

"They could explain the strategy a bit more, especially the part 'the fund uses special financial techniques', what are they?" **Poland**

5.71 One investor suggested that there should be two different texts included one very concise to 'capture interest' and one more detailed description with all the risks and rewards clearly explained.

5.72 A couple of investors also felt that the emphasis of variant was M too negative and there was too much emphasis on potential loses rather than potential reward. As discussed later in this section, the perception of variant M to be more risky than N was a recurring theme among investors.

> *"All I can see is the word 'loss' I would change the wording"* **Germany**

> *"The wording of rewards is too generic, it doesn't tell you enough about them"* **Spain**

IMPROVEMENTS TO VARIANT N

5.73 By contrast improvements investors would like to see made to variant N tended to relate to queries over the scale itself and how the scale should be interpreted. Although only mentioned by a handful of investors this is an interesting point and demonstrates how although a scale may seem simple on first reading it can lead to problems of interpretation, an issue that is discussed in more detail towards the end of this section.

> *"I think it would need more detail if in category 3, you'd need more details about how the scales compare"* **Sweden**

> *"I'd prefer to see two scales, one showing risks involved and one showing potential profit involved"* **Germany**

5.74 In addition some investors did feel that the wording itself could be improved underneath the scale.

> *"You could modify the text a little bit, especially the risk/reward paragraph to make it easier to understand"* **Poland**

5.75 One investor also raised the point that more description could be used in conjunction with the graphical explanation to make things clearer.

> *"You could bring in a sentence with the investment horizon, that on the grounds of the risk clarification described here, the fund could be unsuitable for investors that want their money back within five years - which becomes quite clear by looking at the graph"* **Germany**

PERCEPTIONS OF THE FUND AND WHETHER WOULD CONSIDER INVESTING

5.76 When asked to discuss what investors thought about the investment fund being described responses did not differ greatly by variant type. Most recognised that this was a riskier fund and therefore only suitable for longer term investors and those that could afford it.

> *"It's suitable for someone willing to take a risk and someone with high disposable income"* **Germany**

> *"An investor who wants to take a moderate to high risk"* **Spain**

> *"It's for someone who can afford to take a chance"* **Spain**

5.77 Regardless of the variant shown the majority of investors did not feel an investment fund of this nature was suitable for them, mainly because they felt it was *"just too risky"*

> *"I would be wary of putting my money into high risk funds"* **Ireland**

> "*I'd consider myself a more conservative investor"* **Germany**

5.78 Of the investors that would consider taking the fund, they felt they were ready to take the risk. Investors from Sweden were more likely to consider using the fund but there were no differences by whether they were current investors or potential investors.

"*Because I have my secure investment and now I can risk some money"* **Hungary**

"It's exciting and I like to take a risk" **Sweden**

5.79 However, even among the investors that would consider using such a fund, it should be noted that there were still some queries and concerns raised, suggesting the information available on both extracts would not be sufficient to make a final decision.

"I'd need a clearer view of the risks in the short term" **Italy**

EXPECTATIONS OF WHAT SUCH A FUND WOULD OFFER

5.80 In addition investors were asked to discuss what types of return they expected they would get from the fund after looking at both variants.

5.81 Overall around half of all respondents felt that they expected they would get a high return on such a fund and there were no major differences by the two variants. Investors in Poland and Sweden tended to be the most positive (linking to the fact that Swedish investors were also more likely to consider investing in the fund).

"The returns are potentially are very high" **Ireland**

5.82 Among the remainder of investors there was more uncertainty over the description on variant M when compared with that of variant N. A higher proportion of investors were unsure of the type or return they would get based on variant M compared that of variant N. This does tie in with earlier findings from the quantitative study that there is a perception that variant N may offer higher rewards than that of variant M.

5.83 That said, the uncertainty surrounding variant M seemed to be more about the stock market and state of the financial markets in general rather than anything specifically about the fund itself.

"I can't answer that, it depends on how the stock market goes" **Sweden**

"Impossible to know, there are too many variables" **Ireland**

5.84 Despite most investors being positive that they would get a good to high return on an investment in the fund, the majority of investors did state that there was a risk of getting back less than they invested (which links in with the fact the majority few one of the major risks to an investment as risk to capital).

5.85 However, the extent to which investors felt this was a risk varied quite widely from those who felt it was a very small risk to those who felt it was a high risk. This highlights the fact that different investors can interpret the same scale to mean different levels of risk. This is discussed in more detail towards the end of this section.

5.86 In terms of views on the risks to capital, there were no significant difference by the two variants and again investors in Poland were the most positive about the fund (feeling there was only a small chance of getting back less than was originally invested).

WHICH VARIANT IS THE EASIEST TO UNDERSTAND?

5.87 All investors were asked to directly compare the two variants. Overall variant N was preferred by the majority (59 respondents) whereas only 16 respondents preferred variant M. These findings largely back up the quantitative research findings that showed variant N was consistently preferred to variant M (particularly in terms of helping investors make comparisons).

5.88 Among the investors citing a preference for variant N, the main reason given was the graphical nature of the indicator, mentioned by around half of all investors. This is clearly linked to the earlier findings that investors prefer to see visual representations when making decisions.

> *"It simplifies things without too much unnecessary information…you are not looking at a big sheet of paper full of information"* **Ireland**

> *"Portrays the risk as a graph and you can grasp the meaning more easily"* **Ireland**

5.89 However, very few investors actually went into any detail about what the scale meant to them in terms of risk and reward, rather they focused on the visual representation.

5.90 Among the investors which preferred variant M, the main reason cited was that they felt it actually gives a more information about the fund, particularly in terms of 'spelling out' that there could potentially be losses.

> *"It mentions textually that there could be losses...for the typical investor it's better"* **Spain**

> *"It explains in a very easy way for all investors - clearer regarding risk explanation"* **Italy**

5.91 Furthermore, investors who preferred variant M tended to me more experienced in terms of investments and felt that variant N was too simplistic. These were more likely to be investors from Hungary and Germany.

> *"It provides more substance…don't like the indicator as it only tries to influence people without giving them real information"* **Germany**

> *"M is easier because the risks and rewards are listed – it's for professionals...N is for those who have nothing to do with finance"* **Poland**

5.92 In addition a few investors did mention that they would ideally like to see an indicator that combined elements of both extracts.

VARIANT N – HOW USEFUL IS IT?

5.93 Given the need for the research to fully understand the appropriateness of the synthetic indicator extra questions were asked of investors about variant N specifically, particularly in terms of how useful it is deemed to be.

5.94 Nearly all investors felt that the variant was useful, only 8 investors felt it was not at all useful (mainly the same respondents who preferred variant M). Of the investors who found it useful the majority explained that it was most useful for explaining what the risks are succinctly which in turn makes it easier to compare different funds. Again this is a finding that largely backs up the earlier quantitative findings where variant N was shown to be perceived as being better at helping make investors make direct comparisons between funds.

> *"Can glance at it and can tell immediately what level of risk..."* **Ireland**

> *"It's a great tool to compare with other investment funds"* **Germany**

"One means less risk, five means more financial risk" **Italy**

5.95 There were also some investors who admitted they preferred less information and liked things simple, backing up some of the views of the variant M advocates (who feel N is too simple),.

"It's so simple. For someone like myself who is not so high up on finances. It is very clear cut. It is black and white. The other explains in greater detail why it is high risk while this is just telling me whether it is high or low risk. I don't need all the background information" **Ireland**

5.96 However, as noted earlier, even among those positive about variant N still felt it didn't 'go all the way' and there was information missing

"It's useful, but it's also very vague" **Hungary**

5.97 Among the few investors who did not think that variant N was useful, there specific concerns were also related to the ambiguity of the scale, explaining although it appeared simple in reality it may not be as useful as a more narrative approach.

"A bit subjective in my opinion…what is 2, 3 or 4? It's a grey area" **Germany**

"Doesn't go far enough with the risks involved" **Ireland**

VARIANT N – THE TEXT BELOW THE INDICATOR

5.98 In addition to probing for overall opinions on the variant, investors were also prompted to describe in more detail the specific text within the variant.

5.99 In terms of the text underneath the indicator, i.e. the *'what does it mean'* and *'more about this indicator'* headings, most respondents were positive about the text describing it as clear and easy to understand.

5.100 However, after reading this text some investors did start to question exactly what the indicator itself meant and how it should be interpreted, perhaps looking for more information than the variant provided.

"You don't know how they've come up with that number" **Spain**

5.101 In contrast this, some investors felt the opposite, that too much information was being provided in the text which could detract from the simplicity of the indicator itself. There was a feeling among many of the advocates of variant N that *'less is more'.*

"The more info you give people the more confused they get" **Ireland**

"It's too much information" **Germany**

"It's rather confusing, I had to read it twice, I think it would be better left out" **Germany**

5.102 This contrast between the *"less is more"* and *"need more information"* camps illustrates the inherent difficulties of presenting such a synthetic scale and the fact it is very hard to find a solution which will appeal to all investors.

VARIANT N – INTERPRETATIONS OF A "CLASS 1" FUND

5.103 Finally all investors were asked outright for their interpretations of the scale, particularly in terms of what they perceive a fund rated as "class 1" on the scale to mean. Nearly all (69/75) stated that it represents low risk, but did specify there is still a chance that money (including the original capital) could be lost. This ties in with the fact that the majority of investors were aware all financial investments do carry a certain element of risk.

"It's low risk and reward, your money is pretty safe, but there is always a chance that something could go wrong" **Ireland**

5.104 However, it should not be overlooked that 6 investors did feel that a "class 1" fund represented 'zero risk'.

"*Guarantee you get your money back again but also generate less profit accordingly"* **Italy**

"I imagine that you will get back what you invested. I can't see you getting back anything less than that" **Ireland**

5.105 These findings show a better understanding of the meaning of "class 1" funds than was seen in the quantitative research (where 45% thought a class 1 fund was as good as a guarantee). This is perhaps unsurprising given that half of our qualitative sample was selected on the basis that they had a good understanding of risk at the quantitative stage and the likelihood that respondents spent more time in the qualitative stage to read and interpret the variants.

SUMMARY OF QUALITATIVE FINDINGS

5.106 Overall there are not many differences in investors' understanding of the description of risk/reward between the narrative approach and synthetic indicator approach. That said, there is definitely a leaning among investors for some kind of visual/graphical way of representing the relationship between risks and rewards (i.e. towards the synthetic indicator).

5.107 However, as described above this is very complex issue which divides investors between those who want information to be as simple as possible and those that want more background information included.

5.108 The findings have also shown that investors interpret the synthetic indicator in different ways, and although the majority feel it is a simplified way of showing the risk reward relationship a significant proportion feel it over simplifies the issue.

6 Performance Scenarios

6.1 Structured funds present a particular challenge in the display of information relating to potential risks and rewards. These are funds that offer a pre-determined pay-off at a certain time horizon depending on particular parameters which often introduce discontinuities into the risk/reward profile. This can occur, for example, when guarantee mechanisms are triggered by certain events. As such it can be particularly difficult to convey to consumers how these complex funds are likely to perform and the Commission wished to investigate ways in which additional information about performance of funds under different scenarios could be included in the KII for these particular types of funds.

6.2 The research tested three types of approach to displaying information on performance scenarios as follows:

- A table showing the likelihood of achieving different rates of return (VARIANT Q)
- Graphs to show the possible return of the fund under favourable and less favourable conditions (VARIANT R)
- A graph displaying backtesting data showing how the fund would have performed under historic market conditions (VARIANT S)

6.3 All Group 2 respondents to the quantitative survey were asked to consider all 3 variants but the order in which they were shown them was rotated to avoid any ordering bias (and to mitigate any learning effect). Respondents were asked questions about the clarity of the variants, the level of risk associated with the fund that they felt the variant conveyed, their understanding of the variants, their perception on what the information was designed to tell them and their confidence in interpreting them. In order to keep the questionnaire at a manageable length, not all questions were asked about all 3 variants.

6.4 All other elements of disclosure explored within the Phase 1 quantitative research were presented using features of fictional simple funds and hence up to this point in the questionnaire, respondents had not been asked to consider a complex fund at all. To provide some context to the presentations of performance scenario data, respondents were first asked to read a brief description of complex funds and then the strategy and objectives disclosure for the structured fund displayed in variants Q, R and S. The text that they were given is shown below:

Figure .: Introductory text for section on performance scenarios

Some funds offer to make a payment at a specified date, where the amount of the payment is calculated according to a pre-defined formula. They usually combine some protection of the capital invested with the potential to make some gains, for instance should equity markets perform favourably. We will now describe to you how one of them works, and show you different ways of illustrating the formula.

At the Launch Date, investments in the Fund are split into two groups or 'pools'.

The first is a protected pool: 65% of the initial investments go into this pool, which is invested in European and US government bonds. This initial investment remains in this pool until the Fund's term date, 5 years later.

The second is a dynamic pool: the remaining 35% of the initial investments go into this pool, which is invested in European shares of major companies, with the objective of replicating the evolution of the DJ Eurostoxx index. This index tracks the performance of the bigger listed companies in Europe and is a weighted index of 50 European blue-chip stocks from those countries participating in the EMU.

The fund is designed to offer you, at the Fund's Term Date (i.e. after 5 years), a chance of making some gains if the European stock market has done well.

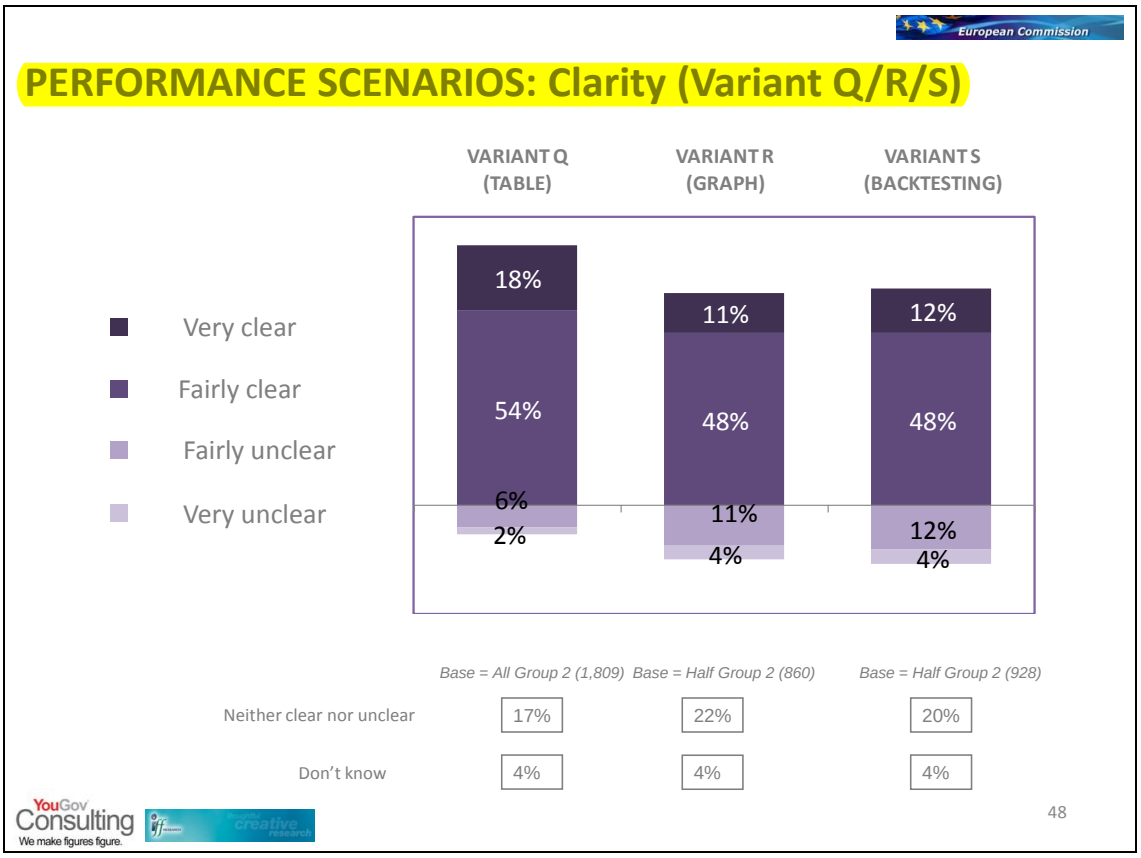
Conversely, if, during the investment period, the European stock market starts performing badly, we will transfer assets from the dynamic pool to the protected one, with the objective of protecting the capital invested after 5 years. However, once the assets have been switched to the protected pool, the fund cannot benefit from any recovery in the European stock markets.

The fund is designed for a 5 years' investment. Early redemption involves the loss of capital protection."

Clarity of variants

6.5 The three performance scenarios were tested for clarity with respondents. Based on a scale of *very clear, fairly clear, fairly unclear, very unclear and neither clear nor unclear*, respondents were asked how clear they found the description of performance possibilities in each variant. The following chart presents the results of these lines of questioning.

Figure .: Perceived clarity of performance scenario variants



6.1 Variant Q (the tabular presentation) obtained significantly higher ratings for clarity than either of the other two graph-based variants with 72% stating that they felt that it was very or fairly clear. Variant R and S obtained equal ratings with 60% of respondents stating that they were very or fairly clear.

6.2 As mentioned earlier this 'test' should not necessarily be interpreted as an absolute measure of clarity to respondents (since their actual understanding often runs counter to the clarity rating that they provide) but it does instead demonstrate a basic level of ability to engage with the material. A high proportion stating that they find the variant fairly or very unclear indicates a high proportion who draw a conclusion that the information is going to be difficult to understand and hence are discouraged from looking at it in detail. In the cases of variants R and S, one in six investors found the variant very or fairly unclear.

6.3 Across all three variants investors in Ireland gave significantly higher than average clarity ratings (76% stated that variant Q was very or fairly clear, 71% for variant R and 70% for variant S). Those in Sweden on the other hand gave significantly lower than average clarity ratings for all 3 performance scenario ratings (59% stated that variant Q was very or fairly clear, 40% for variant R and 36% for variant S). In all member states the pattern is broadly the same with variant Q obtaining considerably higher ratings than the other two variants (and the ratings for variants R and S being broadly the same). The difference between ratings for the tabular variant Q compared with the graph variants R and S is particularly marked in Sweden where overall ratings are lower than average.

6.4 As perhaps would be expected, ratings for perceived clarity are lower for all 3 variants among those who assess their financial sophistication to be 'low'. For variant Q, three-quarters of those with medium or high sophistication considered the variant to be very or fairly clear compared with 65% of those with low sophistication. For both variants R and S, three in five of those with medium or high sophistication considered the variants to be very or fairly clear compared with only half of those with low sophistication. Hence while their perceptions of clarity are lower across the board, consumers with lower financial sophistication still perceive variant Q to be considerably clearer than either variant R or S.

Table .: Perceived clarity of variants by financial sophistication

Column percentages

	VARIANT Q				VARIANT R				VARIANT S			
	Financial sophistication				Financial sophistication				Financial sophistication			
	Total	**High**	**Med**	**Low**	**Total**	**High**	**Med**	**Low**	**Total**	**High**	**Med**	**Low**
	%	%	%	%	%	%	**%**	**%**	%	%	%	%
Very clear	17	26	17	14	11	15	**11**	**9**	11	20	11	8
Fairly clear	54	50	58	51	48	47	**52**	**42**	48	41	53	45
Neither clear nor unclear	17	11	16	21	22	17	**22**	**26**	20	20	18	24
Fairly unclear	6	7	5	7	11	13	10	13	12	10	12	12
Very unclear	2	1	2	2	4	3	3	6	4	5	3	6
Don't know/not stated	4	4	3	5	4	4	2	5	4	5	2	5
CLEAR	72	76	75	65	59	62	62	51	60	60	64	53
UNCLEAR	8	8	7	9	15	16	13	19	16	15	15	18
Base: All Group 2	*1809*	*323*	*1001*	*429*	*1809*	*323*	*1001*	*429*	*1809*	*323*	*1001*	*429*

6.5 In the case of all three variants, those who described their attitude to risk tended to be slightly less likely to find the presentation very or fairly clear while those with at least a degree level qualification were slightly more likely to find the treatment clear than those with lower levels of educational achievement.

Aspects of variants not understood

6.6 As with other elements of disclosure, respondents were asked whether there were any aspects of each of the variants that they did not understand. Three-quarters of investors stated that there was nothing in variant Q that they did not understand. Only 11% stated that there were aspects that they did not understand and a further 16% stated that they were unsure whether there was anything that they did not understand. Respondents in Spain and in Hungary were the most likely to state that there was nothing that they did not understand (85% and 81% respectively). Those in Sweden were least likely to state there was nothing that they did not understand (52%) but the difference to other member states is mostly in the proportion stating that they were unsure whether there was anything that they did not understand (32%) rather than those actively stating that there were aspects they did not understand (16%).

6.7 The aspects that individuals were most likely to mention that they did not understand were the technical terms for which no definition was provided (2% of consumers) and the meaning of 'probability' and how it had been calculated (2%).

6.8 One in six (15%) stated that there were aspects of variant R that they did not understand and 17% stated that they were unsure if there was anything that they did not understand. The proportion identifying aspects that they did not understand was again significantly higher in Sweden (20%) but broadly comparable across all other member states. The proportion of Swedish respondents stating that they were unsure whether there were any aspects that they did not understand was also considerably higher than average (39%).

6.9 The aspects of variant R that individuals were most likely to state that they did not understand were the graphs (4%) and again the technical terms for which there was no definition provided (3%). Furthermore 2% of respondents stated that they did not understand most or all of the variant.

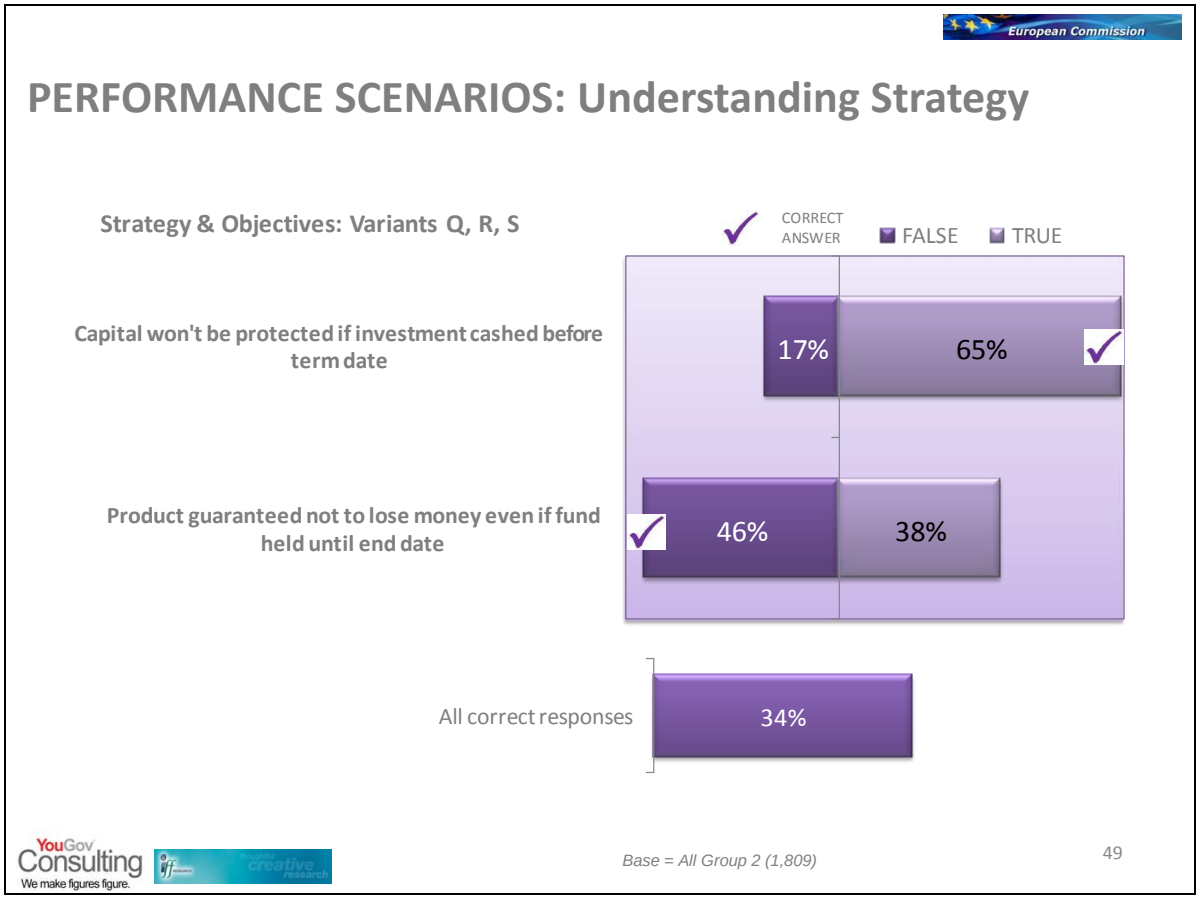
6.10 The proportion stating that there were aspects of variant S that they did not understand (17%) was comparable with that for variant R as was the proportion stating that there were unsure whether there is anything that they did not understand (16%). Again the proportion stating that there was anything that they did not understand was higher in Sweden (23% with a further 37% stating that they were unsure). The proportion of investors identifying that there were aspects that they did not understand was lower for this variant in Germany (11%).

6.11 Again the actual aspects of the variant that respondents stated that they were unable to understand were similar; 5% stated that the graph was unclear, 3% commented on the lack of definitions for financial terms and 2% stated that they were unclear about the calculations of probability. A further 2% stated that all or most of the variant was unclear to them.

Understanding of strategy and objectives of structured fund

6.12 As mentioned earlier, respondents viewing the performance scenario variants were asked to read a description of the strategy and objectives of the fund prior to answering questions about the individual variants. They were asked to respond to a couple of true/false statements which tested their understanding of the overall strategy and objectives of the fund. These were only asked once in conjunction with the performance scenario variant that they were asked to view first. The responses to these two statements are shown in the figure below.

Figure .: Understanding of strategy and objectives of structured fund



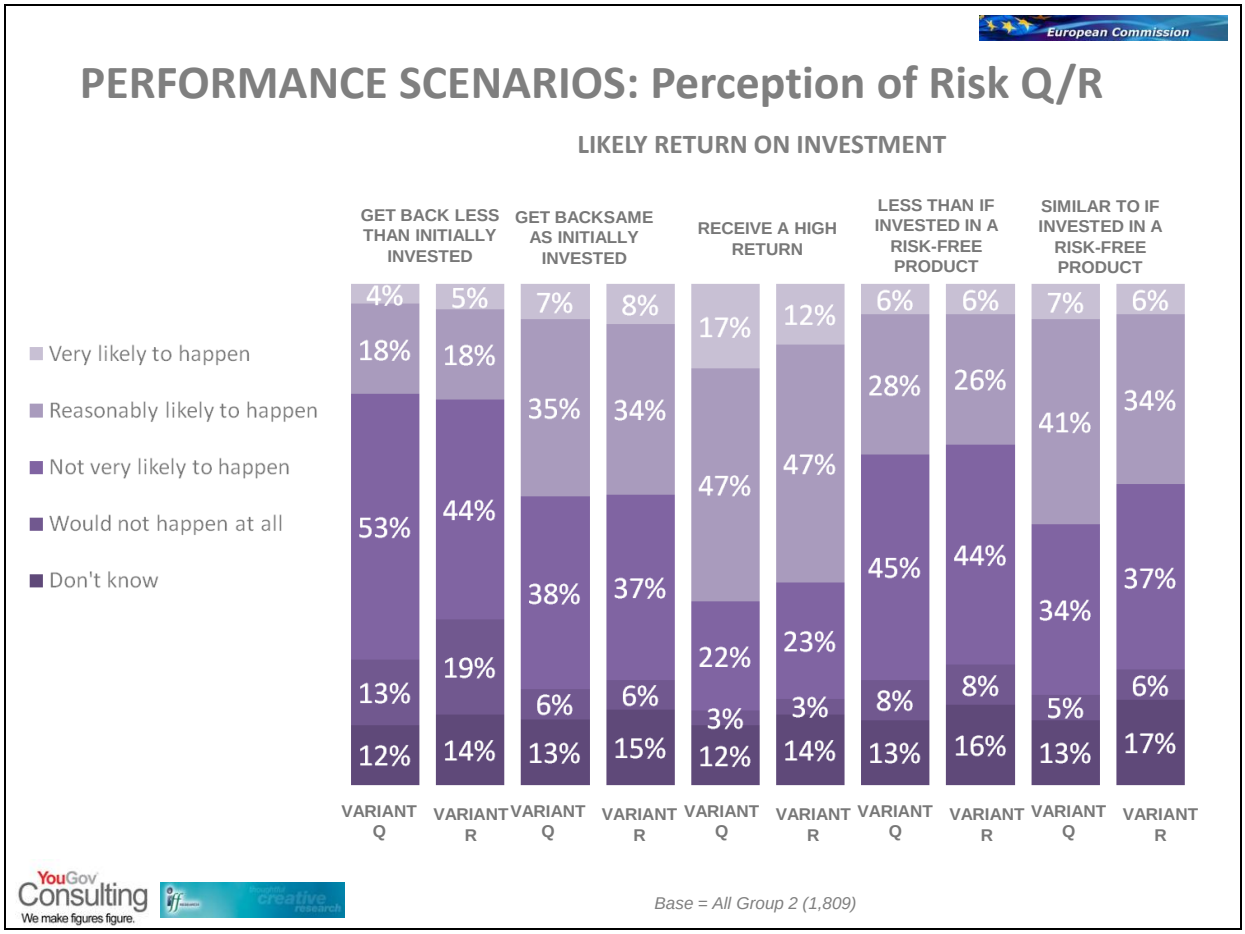
6.13 As the figure demonstrates, there was a general understanding of the fact that there was no capital protection unless the fund was held until the end date (65% answered this question correctly) but in keeping with earlier findings in connection with comprehension of the strategy and objectives of simple funds, there was a relatively widespread misunderstanding about capital guarantees (only 46% of respondents correctly identified the second statement as being false). Overall only a third of respondents answered both statements correctly. It is worth bearing in mind that this level of misunderstanding is the backdrop to interpretation of all the performance scenario variants.

6.14 The proportion answering both statements correctly is significantly higher than average in Germany , Hungary and Ireland (45%, 40% and 47% respectively) but significantly lower than average in Poland, Sweden and Spain (26%, 22% and 19%). For the most part these differences are driven by differing proportions answering the second statement (about capital guarantee) correctly although those in Hungary were also more likely to answer the first statement (about cashing in before the term date) correctly and those in Sweden were less likely to do so.

Perceptions of risk: Variants Q and R

6.15 When viewing variants Q and R (the table and graphical variants), respondents were asked some questions designed to assess how the presentation of the data impacted on their perception of the associated risk. Respondents were asked to state how likely a series of scenarios were to happen. The results of these questions are shown in the figure below.

Figure .: Perception of risk



6.16 As the figure demonstrates, the perceived likelihood of each of these scenarios taking place does not vary significantly between the two variants. The only significant differences are that when respondents view Variant Q they are slightly more likely to feel that they would be 'very likely' to receive a high return on their investment and slightly more likely to feel that they would be 'reasonably likely' to receive a return that was similar to that they would receive from investing in a risk-free product. It would seem that the fact that Variant Q specifically shows the probability of the latter scenario (at 22%) makes respondents more likely to consider this as a possibility. Variant Q does not spell out the probability of a 'high return'. The closest that it comes to this is showing the probability of getting back more than the risk free rate (at 40%); it is interesting that this appears to give investors greater confidence in the product than the graphs that show the performance of the fund under different scenarios with no weight of likelihood attached to them.

6.17 The tables below show the variations in the perception of risk for both Variant Q and Variant R.

Table .: Perceptions of variant Q by member state and level of financial sophistication

Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
You would get back less money than originally invested	Would not happen / not very likely	65	74	56	57	68	49	**86**	62	60	66	68
	Reasonably / very likely	22	14	33	16	27	35	8	25	26	24	17
You would get back more or less the same amount that you invested with no return on your investment	Would not happen / not very likely	44	46	40	32	46	24	**73**	43	38	45	48
	Reasonably / very likely	42	41	48	41	48	59	22	43	47	44	36
You would receive a high return on your investment	Would not happen / not very likely	24	26	23	33	27	20	20	20	25	24	24
	Reasonably / very likely	64	64	69	40	67	63	**75**	68	62	67	61
You would receive less than if you had invested in a risk-free product	Would not happen / not very likely	52	51	45	46	50	49	**70**	52	46	55	53
	Reasonably / very likely	35	38	45	25	44	34	25	35	40	35	31
You would receive a similar rate of return to if you had invested in a risk-free product	Would not happen / not very likely	39	42	33	32	40	35	56	31	39	39	40
	Reasonably / very likely	48	47	**58**	40	54	49	40	53	46	52	43
Base: All group 2		*1809*	*256*	*243*	*256*	*255*	*249*	*295*	*255*	*323*	*1001*	*429*

Table .: Perceptions of variant R by member state and level of financial sophistication

Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**IRL**	**S**	**E**	**I**	**H**	**PL**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
You would get back less money than originally invested	Would not happen / not very likely	63	71	54	50	66	53	**81**	63	58	65	64
	Reasonably / very likely	23	16	36	21	27	30	10	24	27	24	18
You would get back more or less the same amount that you invested with no return on your investment	Would not happen / not very likely	44	46	36	36	44	30	**67**	42	37	45	47
	Reasonably / very likely	42	37	51	36	48	53	25	44	46	43	36
You would receive a high return on your investment	Would not happen / not very likely	26	31	23	36	27	21	22	23	29	26	25
	Reasonably / very likely	59	55	65	35	66	62	**68**	64	55	63	58
You would receive less than if you had invested in a risk-free product	Would not happen / not very likely	52	55	44	43	51	49	**69**	53	45	55	53
	Reasonably / very likely	32	31	43	27	39	30	23	31	38	32	27
You would receive a similar rate of return to if you had invested in a risk-free product	Would not happen / not very likely	43	46	35	36	49	40	**57**	36	39	45	41
	Reasonably / very likely	40	36	49	32	43	39	36	44	43	40	39
Base: All group 2		*1809*	*256*	*243*	*256*	*255*	*249*	*295*	*255*	*323*	*1001*	*429*

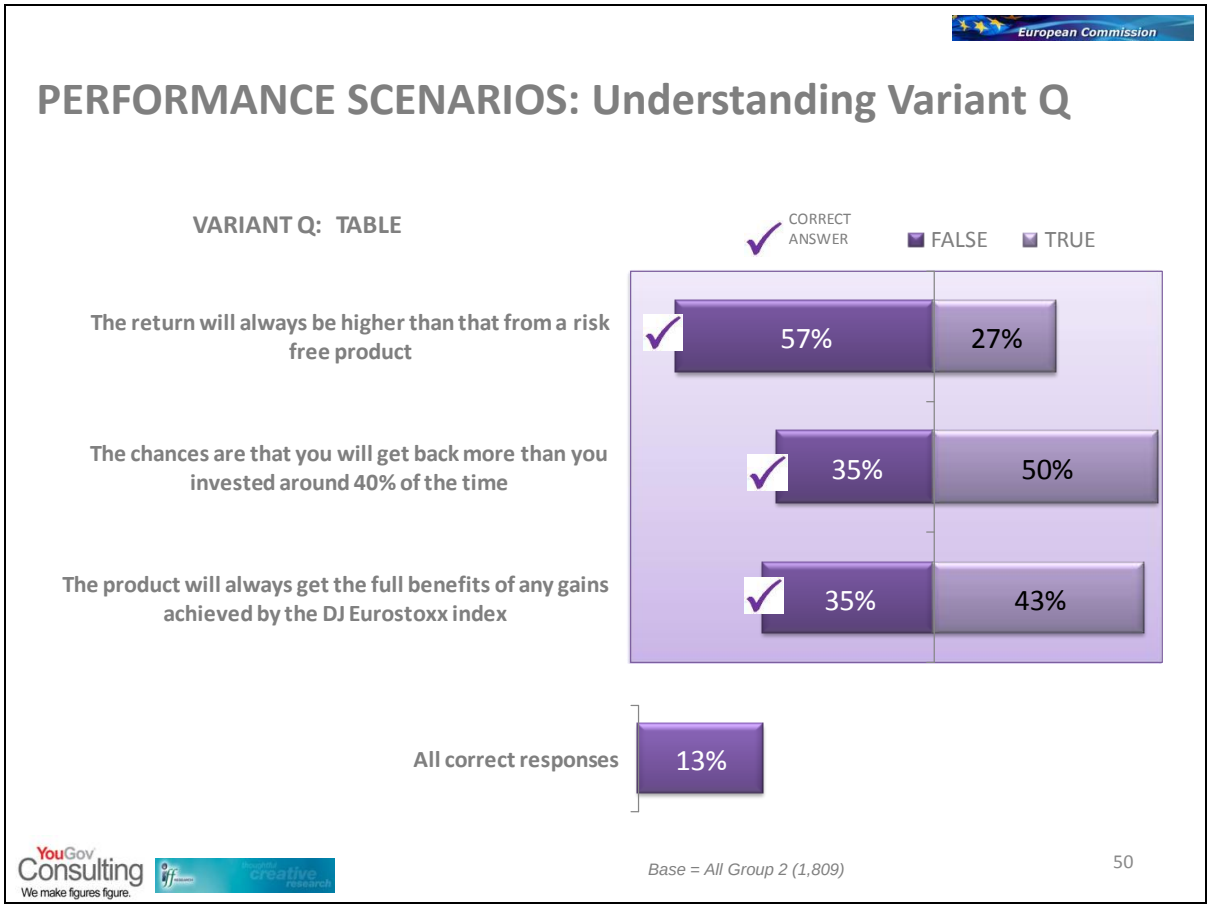
6.18 Investors in Hungary vary most from average for both variants, being more likely than investors in other member states to feel that the fund would give them a low probability of getting back less money than they originally invested, no return on their investment or that they would receive less than if they had invested in a risk-free product. For both variants Hungarian investors were also more likely to feel they had a good or reasonable chance of receiving a high return on their investment.

6.19 There was little differentiation by financial sophistication for either variant Q or R.

Understanding of Variant Q

6.20 To test understanding of Variant Q, respondents were asked whether a series of 3 statements about the fund were true or false. The responses to these are shown in the figure below.

Figure .: Understanding of Variant Q (Table)



6.21 For the first of these statements '*The return will always be higher than from a risk free product'*, investors were more likely to select the correct answer (false) than the incorrect one; just over half of respondents (57%) stated that this statement was false. This indicates that the tabular variant does a reasonable job of conveying that there are scenarios under which individuals could receive a return that would be lower than for a risk free product (although the proportion who felt that this was not the case was substantial at 27%).

6.22 For both of the other two statements, respondents were more likely to select the incorrect answer than the correct one (with greater proportions believing the statements to be true than false).

6.23 It seems likely that those respondents believing it to be true that *'the chances are that you will get back more than you invested around 40% of the time'* are simply reading the figure from the bottom row of the table in Variant Q i.e. the likelihood of getting back more than they would have got from investing in 'risk-free' products rather than adding together the figures from the bottom two rows (i.e. including the probability of getting back more than they invested but about the same as investing in a 'risk-free' product). The correct probability for receiving more than initially invested is 62% hence interpreting this probability as 40% is a considerable misinterpretation of the risk profile of the product.

6.24 With regard to the third statement – *'the product will always get the full benefits of any gains made by the DJ Eurostoxx index'* – the information to answer this statement is implicit in the descriptions of scenarios that could lead to each of the outcomes listed in the table but it is not stated explicitly. The fact that 43% of respondents failed to indentify the correct response to this question indicates a widespread fundamental misunderstanding of the operation of the fund that the tabular variant has not been able to address.

6.25 Only 13% of respondents were able to identify the correct answer to all 3 statements and over a quarter (29%) got all 3 incorrect. It is also worth noting that in the region of one in five respondents were unable to provide a response to each of the statements which demonstrates the difficulty that some investors had in engaging with the material at all.

6.26 As the table below demonstrates, there were some variations in the understanding of Variant Q by both member state and by level of financial sophistication. Differences that are statistically different from the total sample are shown in bold text.

Table .: Understanding of Variant Q by member state and financial sophistication

			Member State							Financial Sophistication		
		Total	**D**	**H**	**IRL**	**I**	**PL**	**E**	**S**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
The return will always be higher than from a risk free product	Correct	57	62	**64**	60	**50**	**45**	57	57	57	58	52
	Incorrect	27	**21**	29	26	30	**34**	**35**	**11**	28	27	27
The chances are that you will get back more than you invested about 40% of the time	Correct	35	28	28	26	27	33	50	**55**	**43**	35	30
	Incorrect	49	**58**	**63**	**61**	53	52	**41**	**15**	**42**	**52**	51
The product will always get the full benefits of any gains achieved by the Eurostoxx index	Correct	35	**22**	**52**	36	**40**	32	**29**	**29**	37	36	32
	Incorrect	43	**54**	**34**	47	38	46	**61**	**20**	41	**46**	**38**
ALL CORRECT RESPONSES		13	**8**	16	12	**7**	10	15	**25**	**19**	12	11
Base: All Group 2		*1809*	*256*	*295*	*243*	*249*	*255*	*255*	*256*	*323*	*1001*	*429*

6.27 Respondents in Sweden demonstrated the highest levels of understanding of Variant Q with a quarter identifying the correct answers to all 3 statements. The proportion of respondents answering correctly in Hungary were also higher than average for two of the statements (and by 17 percentage points in the case of the statement about receiving full benefits of any gains in the index) but overall the proportion getting all 3 statements correct was broadly in line with the average.

6.28 Differences in understanding by financial sophistication are only really evident for the statement about the probability of receiving more than invested which those with a high level of sophistication are significantly more likely to answer correctly (although even in this group respondents are equally as likely to answer incorrectly as correctly). The differences in responses to this question are reflected in the proportion answering all 3 statements correctly (19% of those with high sophistication compared with 12% of those with medium sophistication and 11% of those with lower financial sophistication).

6.29 The table below analyses the relationship between perceived clarity of Variant Q and the likelihood to score well on the 'understanding test'.

Table .: Perceived clarity of Variant Q by number of correct responses to understanding statements

Column percentages

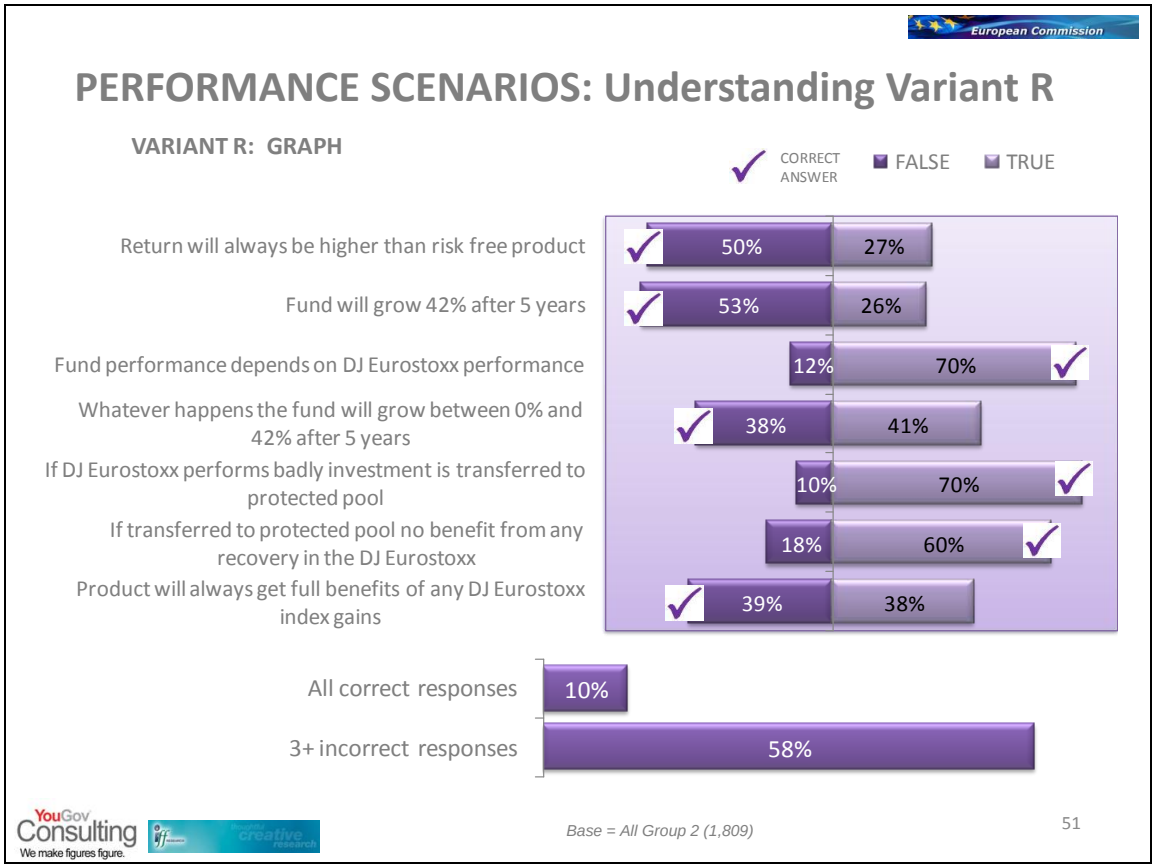
		Perceived clarity of objectives			
	Total	**Very clear**	**Fairly clear**	**Neither clear nor unclear / Don't know**	**Very or Fairly Unclear**
	%	%	%	%	%
No correct responses	29	15	25	46	33
1 correct response	30	30	32	27	29
2 correct responses	28	**35**	29	22	25
3 correct responses	13	21	14	5	13
Base: All group 2	*1809*	*315*	*979*	*372*	*141*

6.30 How clear investors felt variant Q to be was correlated with their understanding of the variant. As well as those who found it unclear being more likely to give no correct response (33% cf. 29% total) and those who found it clear being more likely to give all correct responses (21% cf. 13% total), investors who found variant Q very clear were more likely than those who found it fairly clear to give three correct responses to the understanding statements (21% cf. 14%).

Understanding of Variant R

6.31 As with Variant Q, respondents were asked to respond to a series of true/false statements after viewing Variant R. The responses given are shown in the figure below.

Figure .: Understanding of Variant R (Graph)



6.32 For the majority of statements, the proportion answering the statement correctly was greater than the proportion answering incorrectly. The two exceptions to this were for the statements:

- *"Whatever happens the fund will grow between 0% and 42% after 5 years';*
- *"The product will always get the full benefits of any gains achieved by the DJ Eurostoxx index"*

6.33 Two fifths of respondents believed (incorrectly) that the first statement is correct (while 38% correctly responded that it was incorrect). It seems likely that those that answered incorrectly are interpreting the two graphs as spelling out minimum and maximum returns (since the first shows a scenario where 0% growth is achieved and the second a scenario where 42% growth is achieved). It is obviously a concern that a relatively large proportion of investors interpret this variant as laying out the two extreme possibilities for fund growth. In this particular case this means that two-fifths of respondents interpret the variant as implying that they would not receive less than they originally invested under any circumstance.

6.34 Responses to the statement *'the fund will grow 42% after 5 years'* indicate that around a quarter of investors overlooked the first graph altogether and simply interpreted the second to be forecasting the growth of the fund to be 42%. The growth achieved under the second scenario presented (i.e. 42%) is marked in text on the graph and it is possible that this encourages readers to focus on this figure. Confusion over possible capital returns is also evident from responses to the statement *'return will always be higher than for a risk free product'* (a quarter of respondents – 27% - felt this statement was correct). Responses to this statement are very similar to those given for the same statement in relation to variant Q.

6.35 The fact that understanding that the product will not always get the full benefits of any gains achieved by the index was so mixed is perhaps surprising given that the first graph in the variant demonstrates a scenario where this is the case (because the capital protection has been triggered). The fact that two fifths of respondents (38%) answered this statement incorrectly indicates that a sizeable minority are unable to comprehend the core 'message' of the individual graphs. In fact the responses given to this statement for Variant R are very similar to those for the same statement given for Variant Q indicating that the addition of the graphs does not greatly improve understanding over the tabular format in which this issue is not explicitly covered.

6.36 The responses to the statement about benefitting fully from any gains achieved by the index appear slightly out of kilter with those for the statement *'If transferred to the protected pool you will not benefit from any recovery in the DJ Eurostoxx'* (60% of respondents indentified that this statement was correct and only 18% felt that it was incorrect). This second statement almost appears in the text above the scenario 1 graph and it would appear that there are a group of respondents who are able to pick out this text (and hence give the correct answer to the statement *"If transferred to the protected pool you will not benefit from any recovery in the DJ Eurostoxx'* but not actual understand its **meaning** well enough to be able to answer the other statement correctly.

6.37 Aside from confusion over these issues, the variant appears to successfully convey some elements of the mechanics of the fund i.e.;

- That fund performance depends on DJ Eurostoxx performance (70% of respondents identified that this was correct and only 12% felt it was incorrect);
- That if the DJ Eurostoxx performs badly then investment is transferred into the protected pool (70% identified that this was correct and only 10% felt it was incorrect)

6.38 Overall 10% of respondents answered all 7 statements correctly and 13% answered all statements incorrectly. As with Variant Q, in the case of each statement around one fifth of respondents were unable to provide an answer again demonstrating that this information relating to structured funds was difficult for respondents to engage with.

6.39 As the table below demonstrates, there were some variations in the understanding of Variant R by both member state and by level of financial sophistication. Differences that are statistically different from the total sample are shown in bold text.

Table .: Understanding of Variant R by member state and financial sophistication

Column percentages

			Member State							Financial Sophistication		
		Total	**D**	**H**	**IRL**	**I**	**PL**	**E**	**S**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
The return will always be higher than that from a risk free product	Correct	50	55	**63**	54	46	**44**	**42**	46	51	50	50
	Incorrect	27	23	28	26	27	28	**43**	**16**	29	**29**	**23**
The fund will grow by 42% after 5 years	Correct	53	**60**	**58**	53	54	**46**	**46**	50	57	54	**47**
	Incorrect	25	**16**	27	26	23	**32**	**37**	**14**	25	25	27
The performance of the fund depends on how the DJ Eurostoxx performs	Correct	70	**76**	74	**76**	**63**	69	**77**	**53**	71	73	64
	Incorrect	12	**7**	14	11	15	11	13	10	12	12	11
Whatever happens the fund will grow between 0% and 42% after 5 years	Correct	38	36	34	**47**	33	**50**	35	33	42	39	35
	Incorrect	41	44	**54**	**35**	42	**32**	**48**	**29**	38	**44**	40
If the DJ Eurostoxx performs badly your investment is transferred into the protected pool	Correct	70	71	**83**	72	**61**	75	68	**55**	70	70	70
	Incorrect	10	9	7	10	13	7	**18**	8	12	11	**8**
If transferred to the protected pool you will not benefit from any recovery in the DJ Eurostoxx	Correct	59	58	**70**	65	54	62	57	**47**	60	61	57
	Incorrect	18	15	18	17	21	18	**26**	**10**	19	19	17
The product will always get the full benefits of any gains achieved by the DJ Eurostoxx index	Correct	39	34	**57**	42	42	39	**19**	34	39	39	38
	Incorrect	38	42	**27**	38	32	38	**67**	25	40	40	33
ALL CORRECT RESPONSES		10	13	13	16	9	9	**3**	11	**13**	10	9
4+ CORRECT RESPONSES		57	59	**71**	62	56	61	44	47	56	59	55
Base: All Group 2		*1809*	*256*	*295*	*243*	*249*	*255*	*255*	*256*	*323*	*1001*	*429*

6.40 The proportion able to answer all statements correctly was low in all member states (although it is particularly low in Spain where only 3% were able to achieve this). Respondents in Hungary generally performed better than average (with 71% answering at least 4 statements correctly. Among Hungarian respondents, the proportion answering correctly is significantly above the average for the majority of statements. The exception to this is the statement *'whatever happens the fund will grow between 0% and 42% after 5 years'* that Hungarian respondents were significantly more likely to answer incorrectly (i.e. that this statement was true).

6.41 With most statements there are slight differences by self-assessed level of financial sophistication with those believing their level of sophistication to be high generally being more likely to answer the statements correctly. This difference is most marked for the statement *'the fund will grow 42% after 5 years'* which 57% of those with a high level of sophistication answer correctly compared with 54% considering that they have a medium level of sophistication and 47% of those with low sophistication.

6.42 The table below analyses the relationship between perceived clarity of Variant R and the likelihood to score well on the 'understanding test'

Table .: Perceived clarity of Variant R by number of correct responses to understanding statements

Column percentages

		Perceived clarity of objectives			
	Total	**Very clear**	**Fairly clear**	**Neither clear nor unclear / Don't know**	**Very or Fairly Unclear**
	%	%	%	%	%
No correct responses	13	1	5	26	26
1 correct response	5	2	4	6	6
2 correct responses	9	10	9	10	9
3 correct responses	16	18	16	14	14
4 correct responses	15	13	16	15	13
5 correct responses	17	14	19	16	14
6 correct responses	15	22	17	10	13
7 correct responses	10	20	13	4	6
Base: All group 2	*1809*	*196*	*864*	*466*	*280*

6.43 As well as those investors who found the variant clear being more likely to show understanding by getting correct answers, those who found variant R very clear were more likely to get all responses correct than those who found it fairly clear (20% cf. 13%).

6.44 Respondents viewing Variant R were asked what information they felt that the variant displayed. The table below shows the responses to this question at overall level, by member state and by financial sophistication. The question was pre-coded i.e. a set of possible answers were shown to respondents.

Table .: Information perceived to be shown on Variant R

Column percentages

		Member State							Financial Sophistication		
	Total	**D**	**H**	**IRL**	**I**	**PL**	**E**	**S**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
The impact of different investment conditions upon the performance of the fund	42	48	**51**	48	35	42	33	38	43	43	42
How the fund may perform in the future	39	**49**	37	41	31	36	38	39	37	41	36
The past performance of the fund over a number of years	20	22	22	**28**	14	11	18	22	21	19	20
How the fund will perform in the future	16	14	14	16	17	13	**22**	14	16	17	13
How other similar funds have performed in the past	12	11	9	**20**	12	7	16	10	14	12	10
Something else (WRITE IN)	1	*	2	2	1	*	-	-	2	1	*
Don't Know	13	13	7	7	14	12	9	27	13	9	17
Not stated	*	*	-	-	*	*	*	-	*	*	*
Any correct response	65	70	**72**	70	57	67	63	**55**	62	68	64
Correct responses only	48	49	54	43	49	**59**	42	**37**	46	50	46
Base: All Group 2	*1809*	*256*	*295*	*243*	*249*	*255*	*255*	*256*	*323*	*1001*	*429*

6.45 Either of the top two answers shown in the table above is correct i.e. that the variant shows *'the impact of different investment conditions upon the performance of the fund'* and therefore *'how the fund may perform in future'.* Each of these responses was selected by around two fifths of respondents. The other responses were selected by a much smaller proportion of respondents but they indicate considerable misunderstanding among this group. A fifth believed that the variant was showing them past performance of the fund, one in six believed that the variant was showing them how the fund **will** perform in the future (i.e. forecasting performance) and one in eight believed that it was showing them how other similar funds had performed in the past.

6.46 In total, two thirds of respondents selected at least one of the correct answers indicating that the majority understood the purpose of the variant. However some of those who selected a correct answer also selected an incorrect one as well. Overall half of respondents selected ***only*** a correct answer to the question.

6.47 The proportion selecting only a correct response was significantly higher in Poland (59%) and significantly lower in average in Spain. The proportion correctly identifying the purpose of the variant did not vary substantially by level of financial sophistication.

Understanding of Variant S

6.48 As with the other variants, respondents were asked to respond to a series of true/false statements after viewing Variant S. The responses given are shown in the figure below.

6.49 For the first of these statements *'The return will always be higher than that from a risk free product'*, the proportion answering correctly (that this statement is false) is slightly lower than for Variant Q (the tabular variant) but broadly in line with that for Variant R. A sizeable minority (31%) believed that the fund was guaranteed to deliver a return above the risk free rate.

6.50 The second statement *'The highest return you can get from this investment is around 8%'* was generally answered well with the proportion selecting the correct answer (53%) considerably higher than those selecting the incorrect response (19%). Those respondents believing this statement to be correct are probably reading the simulated figure for the last data point shown on the graph (January 08). It is encouraging that the majority of respondents did not make this mistake however we can not tell from responses to this statement whether some respondents drew a similar conclusion about the highest and lowest levels of performance showing representing the full range of possible performance scenarios (as it appears that a reasonable proportion did from the graphs shown in Variant R).

6.51 Again with the third statement *'You are more likely to do better than the risk free rate than worse than the risk free rate'* the proportion of correct responses (61%) was considerably higher than the proportion of incorrect ones (16%). It is worth noting that readers do not necessarily have to interpret the graph to answer this statement correctly since the figures for the proportion of occasions when backtesting demonstrates that the fund would have achieved certain levels of return is summarised in a table at the bottom of the variant (in a similar format as is used for Variant Q).

6.52 As the table below demonstrates, there were some variations in the understanding of the backtesting variant by both member state and by level of financial sophistication. Differences that are statistically different from the total sample are shown in bold text.

Table .: Understanding of Variant S by member state and financial sophistication

			Member State							Financial Sophistication		
		Total	**D**	**H**	**IRL**	**I**	**PL**	**E**	**S**	**High**	**Med**	**Low**
		%	%	%	%	%	%	%	%	%	%	%
The return will always be higher than that from a risk free product (true)	Correct	49	52	**58**	53	46	**40**	45	46	52	50	45
	Incorrect	31	29	31	28	34	36	**41**	**18**	31	32	30
The highest return you can get from this investment is around 8% (true)	Correct	53	53	**68**	52	53	52	48	**41**	53	55	51
	Incorrect	19	17	**11**	22	21	20	**32**	**10**	24	19	15
You are more likely to do better than the risk free rate than worse than the risk free rate (true)	Correct	61	59	**77**	56	61	58	64	**48**	60	61	63
	Incorrect	16	16	**10**	18	20	20	19	**11**	19	17	13
ALL CORRECT RESPONSES		23	24	**37**	23	21	**17**	**17**	23	27	24	21
Base: All Group 2		*1809*	*256*	*295*	*243*	*249*	*255*	*255*	*256*	*323*	*1001*	*429*

6.53 As with the other performance scenario variants, respondents in Hungary generally demonstrated a better understanding of the backtesting variant (37% answered all 3 statements correctly). Again reflecting patterns seen earlier, levels of comprehension were lower than average in Spain. For this particular variant, levels of comprehension were also lower than average in Poland.

6.54 There were no clear cut patterns by level of financial sophistication for this variant.

6.55 The table below analyses the relationship between perceived clarity of Variant S and the likelihood to score well on the 'understanding test' .

Table .: Perceived clarity of Variant S by number of correct responses to understanding statements

Column percentages

		Perceived clarity of objectives			
	Total	**Very clear**	**Fairly clear**	**Neither clear nor unclear / Don't know**	**Very or Fairly Unclear**
	%	%	%	%	%
No correct responses	18	8	9	34	27
1 correct response	25	30	27	20	26
2 correct responses	34	28	39	28	30
3 correct responses	23	34	26	18	17
Base: All group 2	*1809*	*208*	*870*	*440*	*289*

6.56 As seen elsewhere, those who found the variant unclear were most likely to have least understanding as shown by giving no correct responses to the statements (27% unclear cf. 18% total). Those who found variant S very clear were more likely than those who found it fairly clear to give all three correct responses (34% cf. 26%).

6.57 For variant S, respondents were asked a direct question about what information they felt that the variant displayed. The table below shows the responses to this question at overall level, by member state and by financial sophistication. The question was pre-coded i.e. a set of possible answers were shown to respondents.

Table .: Information perceived to be shown on Variant S

Column percentages

		Member State							Financial Sophistication		
	Total	**D**	**H**	**IRL**	**I**	**PL**	**E**	**S**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
How the fund would have performed if it had been launched at different dates in the past based on the performance of the indices that it is linked to	47	59	**60**	43	37	37	48	39	46	47	48
The past performance of the fund over a number of years	40	39	39	**51**	34	46	36	35	44	41	35
How similar funds have performed in the past	16	11	13	23	19	13	**24**	8	15	16	17
Something else (WRITE IN)	1	-	-	2	3	1	*	*	1	1	1
Don't know	14	12	9	10	16	11	9	33	13	12	19
Not stated	*	*	-	*	-	-	*	-	-	*	*
Correct response only	33	39	**43**	24	31	32	36	27	31	35	33
Base: All Group 2	*1809*	*256*	*295*	*243*	*249*	*255*	*255*	*256*	*323*	*1001*	*429*

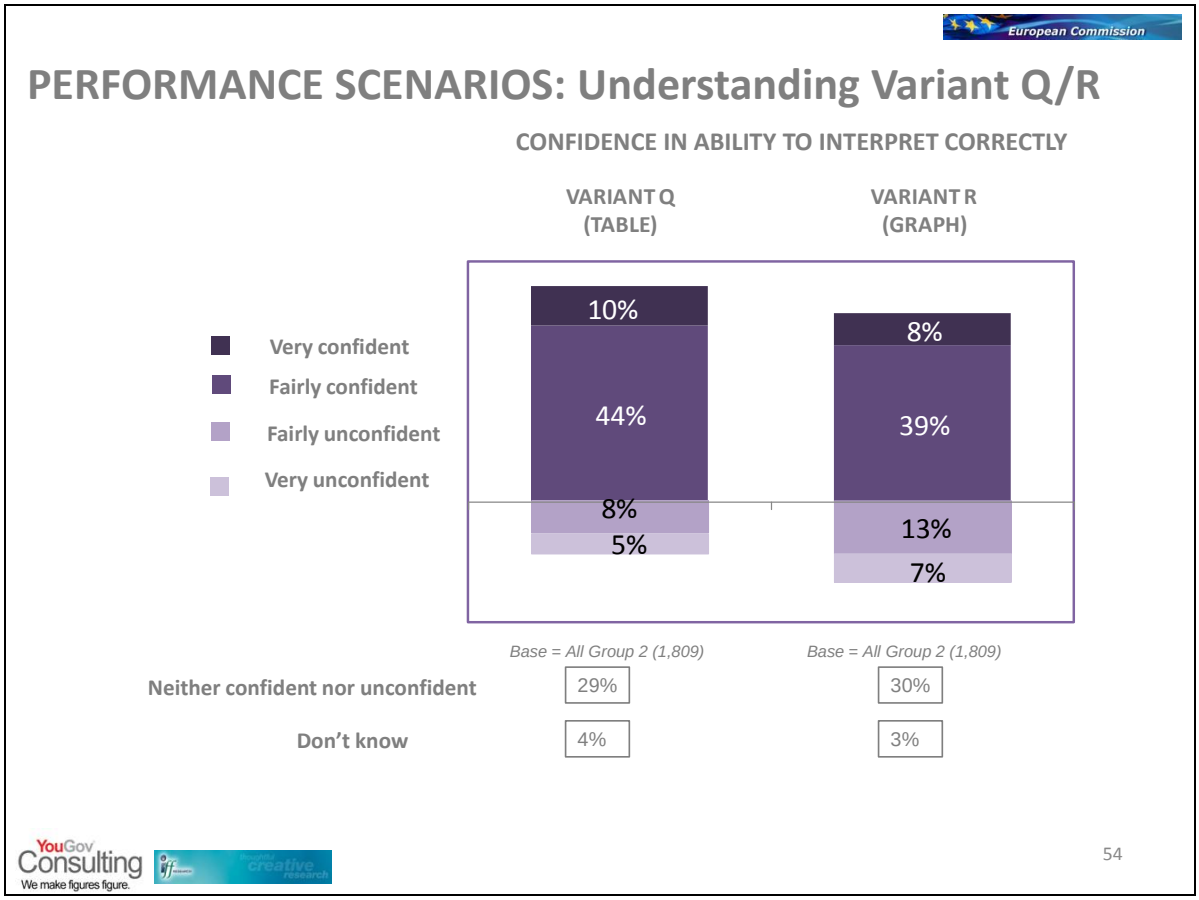
6.58 The first answer option shown in the table above is the correct response (i.e. that the variant shows simulated performance on how the fund would have performed if it had been launched in the past). It is encouraging that this response was the one most commonly given (selected by 47%). However, the other responses demonstrate considerable misunderstanding of the purpose of the variant. The considerable scope for misinterpretation of this variant is demonstrated by the fact that 40% of respondents felt that the variant showed actual past performance of the fund (twice as many as interpreted Variant R to show information about past performance). It seems likely that this material misunderstanding of the information shown could have a considerable impact on the conclusions that investors draw from the information.

6.59 It is worth noting that some of those respondents who selected the correct response to this question also selected an incorrect one as well. It is only a third of respondents who ***only*** selected the correct response. This rises to 43% of respondents in Hungary but falls to only a quarter in Ireland. In no member state did the majority of respondents answer this question correctly.

Confidence in ability to interpret variants

6.60 For variants Q and R, respondents were asked how confident they felt in their ability to interpret the variants correctly. They were asked to state whether they felt *very confident, fairly confident, neither confident nor unconfident, fairly unconfident or very unconfident.* The stated levels of confidence are shown in the figure below:

Figure .: Confidence in interpreting variants Q and R



6.61 As the figure shows, respondents were slightly more confident in their ability to interpret the probabilities table in Variant Q then they were in their ability to interpret the graphs in Variant R correctly. Just over half of respondents were very or fairly confident in their ability to interpret Variant Q correctly (55%) while only 47% were able to interpret Variant R correctly. Conversely a fifth of respondents felt that they were not confident in interpreting the graphs in Variant R compared with 13% for Variant Q. As seen with the clarity ratings, quite large proportions of respondents answered neither confident or unconfident for both variants indicating a lack of engagement with the material.

6.62 The tables below show the variation in levels of confidence by member state and level of financial sophistication.

Table .: Confidence in ability to interpret Variant Q

Column percentages

		Member State							Financial Sophistication		
	Total	**D**	**H**	**IRL**	**I**	**PL**	**E**	**S**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
Very confident	10	10	15	15	6	6	11	9	21	9	7
Fairly confident	44	49	43	54	44	30	54	37	41	49	37
Neither confident or unconfident	29	21	33	19	33	44	25	23	23	30	31
Fairly unconfident	8	13	6	7	8	8	5	11	7	7	13
Very unconfident	5	4	2	2	4	9	2	9	4	3	8
Don't know	4	2	1	2	5	3	2	11	4	2	5
CONFIDENT	55	59	58	**69**	50	36	65	46	**62**	58	44
UNCONFIDENT	13	17	8	9	12	17	7	**20**	11	10	21
Base: All Group 2	*1809*	*256*	*295*	*243*	*249*	*255*	*255*	*256*	*323*	*1001*	*429*

Table .: Confidence in ability to interpret Variant R

Column percentages

		Member State							Financial Sophistication		
	Total	**D**	**H**	**IRL**	**I**	**PL**	**E**	**S**	**High**	**Med**	**Low**
	%	%	%	%	%	%	%	%	%	%	%
Very confident	8	8	12	11	6	5	11	3	17	7	4
Fairly confident	38	43	40	52	43	20	44	29	46	42	29
Neither confident or unconfident	30	22	33	26	29	47	28	24	21	31	35
Fairly unconfident	13	17	8	6	11	15	11	23	8	13	17
Very unconfident	7	7	6	3	8	9	4	13	5	5	11
Don't know	3	3	1	2	3	4	2	7	3	2	4
CONFIDENT	47	51	51	**63**	49	24	55	32	**63**	49	33
UNCONFIDENT	20	23	15	9	18	24	15	**37**	13	18	28
Base: All Group 2	*1809*	*256*	*295*	*243*	*249*	*255*	*255*	*256*	*323*	*1001*	*429*

6.63 In the case of both variants, investors in Ireland demonstrated the highest confidence levels (69% were very or fairly confident in their ability to interpret Variant Q and 63% were very or fairly confident in their ability to interpret Variant R). By member state, confidence levels were lowest among Swedish respondents (20% were not confident in their ability to interpret Variant Q and 37% were not confident in their ability to interpret Variant R).

6.64 For both Variants, levels of confidence varied considerably by levels of financial sophistication. The difference was less marked for Variant Q with 62% of those with high sophistication stating that they were confident and 44% of those with low financial sophistication and no significant difference in levels of confidence between those with high and medium financial sophistication. In the case of variant R, there was a difference of 30 percentage points between the proportion of those with high financial sophistication who felt confident and the corresponding proportion of those with low financial sophistication. For this variant there is a significant difference between the level of confidence expressed by those with high sophistication and those with mid-level sophistication (63% confident compared with 49%). Hence those considering themselves to have a high-level of sophistication are equally likely to feel confident in interpreting either variant but all other investors are considerably more likely to be confident in their ability to interpret the tabular Variant Q.

6.65 Stated levels of confidence in interpreting variants should not necessarily be interpreted in isolation as a way of determining which perform 'better'. It is possible that high levels of confidence in interpreting a variant could be viewed negatively if they are accompanied with low levels of understanding (i.e. if the variant instilled a false confidence in consumers that might lead to them making bad decisions by placing too much weight on information that had misunderstood). Hence it is useful to look at the relationship between confidence in a variant and responses to the understanding questions looked at earlier in this chapter. The table below looks at the number of true/false statements about Variant Q answered correctly by stated confidence in interpreting the variant.

Table .: Confidence in ability to interpret Variant Q by number of correct responses to understanding statements

Column percentages

	Confidence in ability to compare					
	Total	**Very confident**	**Fairly confident**	**Neither confident or unconfident**	**Fairly unconfident**	**Very unconfident**
	%	%	%	%	%	
No correct responses	29	16	22	30	35	48
1 correct response	30	27	31	33	32	22
2 correct responses	28	31	32	27	23	18
3 correct responses	12	26	15	9	10	12
Base: All Group 2	*1809*	*187*	*801*	*518*	*149*	*82*

6.66 As the table demonstrates there is a strong (although not perfect) correlation between confidence in the ability to interpret variant Q and levels of understanding of the variant. Almost half of those who stated that they were very unconfident gave no correct responses to the understanding questions compared with only one in six of those who stated that they were very confident. This reflects the fact that a large proportion of this group (around half) answered 'don't know' for each statement. For all 3 statements, the higher the level of confidence the greater the proportion giving a correct answer although the level of variation differs between the 3 statements:

- In the case of the statement *'The return will always be higher than from a risk free product'* the proportion answering correctly (i.e. that the statement is incorrect) varies from 75% of those who were very confident in interpreting the variant to 37% of those who were very unconfident;

- For *'The chances are that you will get back more than you invested about 40% of the time'*, the proportion giving the correct answer (i.e. false) varies from 45% of those who were very confident to 33% of those who were very unconfident;
- For *'the product will always get the full benefits of any gains achieved by the Eurostoxx Index'*, the proportion giving the correct answer (i.e. false) varies from 46% of those who were very confident to 26% of those who were very unconfident;

6.67 The table below displays the corresponding analysis for Variant R.

Table .: Confidence in ability to interpret Variant R by number of correct responses to understanding statements

Column percentages

	Confidence in ability to compare					
	Total	**Very confident**	**Fairly confident**	**Neither confident or unconfident**	**Fairly unconfident**	**Very unconfident**
	%	%	%	%	%	
No correct responses	13	2	4	10	17	46
1 correct response	5	1	4	6	5	4
2 correct responses	9	11	9	10	11	10
3 correct responses	16	18	17	15	16	13
4 correct responses	15	11	13	20	15	14
5 correct responses	17	10	20	18	16	10
6 correct responses	15	27	17	15	13	3
7 correct responses	10	19	16	6	6	1
Base: All Group 2	*1809*	*403*	*1702*	*1020*	*449*	*147*

6.68 Again there is a clear relationship between confidence in interpreting Variant R and levels of understanding of the variant. Just under half (46%) of those who were very confident answered 6 or 7 statements correctly compared with only 19% of those who were fairly unconfident and 4% of those who were very unconfident.

6.69 The relationship between confidence in interpretation and understanding is evident for each of the 7 statements. As for Variant Q, a large proportion of those who were very unconfident answered don't know at each question (between half and two-thirds). Some of the largest differences in the proportions answering correctly by levels of understanding were for the statements *'If the DJ Eurostoxx performs badly your investment is transferred into the protected pool' and 'If transferred to the protected pool you will not benefit from any recovery in the DJ Eurostoxx index.*

6.70 When asked directly about what information Variant R portrayed, 59% of those who were very confident selected **only** one of the correct responses (*'The impact of different investment conditions upon the performance of the fund' or 'how the fund may perform in the future')* compared with 53% of those who were fairly confident, 47% of those who were fairly unconfident and 24% of those who were very unconfident.

Qualitative findings

6.71 The qualitative research examined two of the three variants tested in the quantitative stage. Variants Q (table) and R (graphs) were selected to investigate the extent to which investors understand these two different ways of presenting information. The hypothesis from the quantitative survey that Q (table) was easier to understand than R (graphs) was also investigated during the qualitative work.

6.72 The third variant used in the quantitative stage, Variant S (backtesting) was not included in the qualitative testing as the quantitative findings showed that around a third of respondents found this variant confusing – the highest of the three variants. There were also some key misunderstandings of what it was showing, e.g. 40% thought it was the past performance of the fund. Whilst not being conclusive evidence to reject this option completely it would appear that there are better ways of showing this type of information (at least from the consumer view) and that time and resource was better spent on refining the other variants.

UNDERSTANDING OF VARIANT Q (TABLE)

6.73 Around two thirds of investors / potential investors felt that the fund described in variant Q was low risk:

> *"For the conservative, security orientated investor"* **Germany**
>
> *"Made for those who don't have a big financial ability"* **Italy**

6.74 A few of these explicitly stated that they felt it was low risk because there was a safety mechanism which would be triggered if the DJ EuroStoxx performed badly and this would limit losses.

6.75 However around one third (particularly likely to be Irish and least likely to be Swedish) felt that the fund was medium to high risk:

> *"Someone who is willing to take a big chance with his money"* **Ireland**

6.76 To some extent the perception of the risk associated with the fund depends on each respondent's attitude to and tolerance of investment risk, but given the capital protection mechanism the fund in question is certainly not very high risk and this fact does not seem to have been understood by all investors.

6.77 Investors were asked how likely they thought the fund was to perform well or badly

6.78 Individuals defined performing well in a variety of ways: the largest group of just under a third felt that the fund would have performed well if it made more than if they had invested in risk-free products (40% probability). There was only the odd mention of defining good performance either as making the same or more than risk-free products (40% + 22% = 62% probability) or as not losing money (40% + 22% + 37.2% = 99.2% probability).

6.79 In terms of performing badly, the largest group (around a quarter of investors) felt that this would be mean getting back less than they originally invested (0.8% probability) whilst fewer felt it would mean getting back less than if they had invested in risk-free products (37.2% + 0.8% = 38% probability) or getting back only about the same as if they had invested in risk-free products (0.8% + 37.2% + 22% = 60%).

6.80 In estimating the likelihood of both good and bad performance only around one third gave an answer which they had clearly pulled off the table or worked out from it (i.e. by adding two figures together) whilst two thirds gave other answers. Investors from Poland, Spain and particularly Italy were most likely to have given figures which were not directly taken from the table.

6.81 Some of this latter group may have rounded up figures before adding them, have added up the wrong cells or simply not be very good at adding figures together; there are also certainly a few who did not use the table at all but instead made their own estimates based on the text and/or personal experience. The majority not being able (or willing) to use the table in the way it was intended probably indicates a need for it to be modified.

UNDERSTANDING OF VARIANT R (GRAPHS)

6.82 Variant R contains two graphs which illustrate the effect of different scenarios upon potential fund performance. Investors were asked questions of both graphs in variant R in order to check whether they were able to interpret them correctly.

6.83 The first graph shows an example where capital protection is triggered. Around three quarters of investors were able to correctly identify what each line on this graph meant and investors in Spain, Germany and Sweden were particularly likely to be able to do this. However it is important to note that some simply read the key of the graph to identify individual lines without this enabling them to unlock the overall meaning of the graph.

6.84 Around one quarter of investors were not able to identify all the lines on the graph and investors in Italy were particularly likely to fall into this category. Most of the misunderstanding centred around the line indicating the dynamic pool, with investors not being able to understand why it stopped at January 2009:

"I don't know why the yellow line stops or why the overall fund value goes down" **Sweden**

6.85 As the aim of the graph is to show how the capital protection and the transfer of funds from the dynamic to protected pool works, that this is the greatest cause of misunderstanding is a concern.

6.86 To further test understanding of the first graph, investors were asked if they invested €100 what the value of the fund would be by January 2013. Over two thirds got this correct, with investors in Sweden and Germany doing particularly well. It should be noted however that not all investors got this information through looking at the graph – several mentioned that they would get back '€100 minus fees' which is explicitly stated in the text above the graph.

6.87 Of those who were not able to arrive at the correct figure almost half were looking at the wrong line and thinking that the DJ Eurostoxx or the value of protected pool was in fact the fund value, the remainder were largely unable to give any answer. Investors in Italy, Spain and Ireland were particularly likely to give an incorrect answer.

6.88 The same question ('If you invested €100 what would the value of the fund be by January 2013?) was asked of investors when they were looking at the second graph – an example with capital gain. The proportions of correct and incorrect answers were very similar to those for the first graph with over two thirds giving a correct answer and investors in Italy, Spain and Ireland most likely to be incorrect. Of those answering incorrectly almost half were looking at the correct line but not being able to interpret it very accurately and not looking at the text on the graph saying 'final performance of the fund is 42%', the remainder were largely unable to give an answer.

CLARITY

6.89 Despite the less than total understanding of variant Q (table), three quarters of investors did feel it was clear, with those in Italy finding it clearest and the Irish finding it least clear.

6.90 The third column entitled 'examples of when this would apply' was the source of confusion for several of those who found the variant unclear as it was seen to be too complicated and include too much information:

"The third column would take a bit of reading and it's not simple" **Ireland**

6.91 The balance of how much information to give is a delicate one as many wanted more explanation of some kind: there was the odd mention of wanting to know how the probability was calculated and how much you might stand to lose or gain, however the things individuals wanted to know were largely disparate and no conclusions can be drawn from them. One suggestion for improvement that did stand out was the idea of presenting the information from the table in the form of a pie chart – although only specifically mentioned by a few the idea of a visual was widely welcomed and may make it easier for investors to realise the effect of adding up various cells / segments / outcomes.

6.92 Turning to variant R (graphs), around three quarters of investors claimed to find this clear. Swedish and Spanish investors were most likely to find it clear whilst Irish investors were least likely to.

6.93 Despite the similar proportion of investors claiming to find variants Q and R clear, comments made about the clarity of the graphs were sometimes less than emphatic:

"It's clear when you make the effort" **Sweden**

6.94 In addition to this, criticisms of variant R were more consistent and not the collection of disparate individual concerns which variant Q provoked. Variant R was felt to be too confusing and to require too much time and effort from the reader:

"It's a hotch potch of shading and dotted lines – doesn't mean anything to me" **Germany**

"You have to invest some time in trying to figure it out" **Ireland**

"It's just too much like hard work" **Ireland**

"Made me switch off straight away…too complex for me…if you'd sent me that in the post I'd chuck it straight in the bin" **Germany**

6.95 Few improvements were suggested but some wanted to see the effect of charges reflected in the graphs and some felt they needed more explanation (including more about when the capital protection mechanism is triggered):

"I would like to have more of what you find in the graphs explained in the text" **Sweden**

PREFERENCE

6.96 There was no consensus from investors as to whether variant Q (table) or variant R (graphs) was most useful – equal proportions chose each with a small number wanting a combination of the two.

6.97 When individuals were explaining why they had chosen one variant or another it was clear that for many their choice had been based on whether they personally found it easier to interpret graphs or numbers and text:

6.98 Therefore, those who preferred variant Q (table) commented:

"It's clearer… when it comes to graphs, lines and figures I don't understand it" **Ireland**

"It puts in words what you have to interpret from the other one" **Germany**

6.99 Whilst those who preferred variant R (graphs) felt:

"It's always easier to relate to a graph than a table" **Ireland**

"People don't read, they look at the graphics" **Italy**

6.100 How different investors like to receive information was the key factor for many in their preference rather than how clear or comprehensible each variant was in its own right i.e. for those who like graphs a slightly confusing graph is better than a clear table whilst for those who are unwilling to engage with graphs any kind of table will be more effective.

6.101 This indicates that those who suggest the need for combining the two approaches may have a point as this would ensure that the information could be understood by all, no matter how their brain works.

6.102 It was also felt by those who suggested a combined approach that the two variants showed different things, with only variant Q mentioning probabilities:

"Q is the likelihood and R explains more how it works" **Sweden**

6.103 For Phase 2 of this research it may be worth testing a variant of Q shown as a pie chart as this would show probabilities in the form of percentage and have accompanying text yet also provide a visual for those who find this more engaging.

7 Likely engagement with disclosure material

7.1 As well as specific views on the variants concerning charges, risk and performance scenarios, the qualitative research sought to investigate at a general level whether individuals felt they would be likely to engage with the information if purchasing an investment.

7.2 Over a third of those who had investments (as opposed to planning one only) had been disappointed with investment products they had taken out in the past and this was more likely to be the case in Hungary, Germany and Ireland. There were a variety of reasons for this disappointment including those who felt they did not have enough information available at the time of purchase:

"Later on some interesting details were coming up and they changed my mind completely" **Hungary**

7.3 There were mentions of insufficient information on charges and what companies would be invested in and for some a lack of complete information led them to make an investment at the wrong time or be penalized for withdrawing early. Investors were split between those who felt that they had been misled when taking out the investment and those who felt it was their own fault for not looking into the investment thoroughly enough. Those who have had a previous bad experience due to a lack of complete information are likely to be more motivated to engage with information they are given about investments in the future.

7.4 Over half of the investors had received information of a similar type to the variants tested in this research when looking at investments in the past and this was particularly the case in Germany and Sweden whilst those in Poland were least likely to have received such information. Not everybody valued written information:

"I would have discussed this sort of thing rather than reading it over" **Ireland**

7.5 However, of those who had received such information in the past, the vast majority did find it useful.

7.6 In terms of the key features that individuals want to know about when thinking of investing, risk (including both the chance of making a profit and the chance of making a loss) was mentioned by a large majority with several pointing out that this is crucial as the whole aim of the investment is to make money. Around half of the investors and potential investors felt charges were of key importance to communicate (all charges, including transaction costs) and this was especially the case in Germany, Poland and Ireland. Around one in five particularly wanted to know the time horizon for the investment, i.e. whether it was a short, medium or long-term investment, and a handful were interested in whether a product would be investing in ethical markets and companies. Although few specifically mentioned the past performance of funds as being of key importance, it was mentioned when investors were considering variants in more detail. It is likely that past performance was not mentioned upfront because it is important only in helping investors to assess risk rather than in and of itself.

7.7 To sum up, indications are that individuals do find information such as that tested in this research to be useful and they are likely to engage with it. The vast majority felt the optimum time to be given such information was at the beginning of the decision making process where the information would have the most impact and value. Although a few investors would only need this level of detail when comparing shortlisted products, most felt that they would need the information as soon as they began considering an investment in order to draw up a shortlist and make the right choice:

"Right at the beginning so you're able to compare the right thing" **Germany**

8 Conclusions and Recommendations for Phase 2 Testing

8.1 Our principle objective for phase one was to set out clear recommendations for phase two of the project, providing guidance for the CESR working group on how to optimise communication of the key messages to consumers. Our interpretation of the evidence is based on the relative effectiveness of the individual disclosure variants that we tested. This means it is difficult at this stage to draw conclusions as to how an improved version of these variants would work as a single document where the different elements of a UCITS fund can be presented together and messages can be reinforced across different sections of the document to improve clarity and enhance understanding. We have taken each variant and drawn conclusions and made recommendations accordingly.

Strategy and Objectives

8.2 A single variant for strategy and objectives was tested and hence we cannot make a judgement about relative effectiveness. However, it is clear from the evidence that the mocked-up variant demonstrated an acceptable level of clarity. In relation, to the fund's strategy there appears to be a relationship between clarity and understanding: those who felt the document was clear demonstrated a better understanding of the main messages. While some respondents requested more information to help make an informed decision, such as more details about the Index, we feel this would detract from the key messages and that there are other ways outside of the main document for communicating this information. The following are the key recommendations that we believe would help improve the strategy and objectives section:

- This is a key section which sets the overall context for the document. Using detailed technical terms at the outset does not facilitate engagement and works against overall comprehension. We would recommend making this section as simple as possible, and avoid complex financial terms. We recommend reviewing the language used in the variant to make it as simple as possible. In particular, an improved variant should seek to deliver higher levels of understanding regarding investing in bonds and changes in the value of the fund relative to the markets in which it is invested.
- While increasing the length of this section of the document would be counter-productive, there is evidence of misunderstanding of the basic operation of investment products in relation to capital protection and it would be worth considering the inclusion of some form of simple health warning somewhere in the KII document.

Past Performance

8.3 The key issues to consider for the past performance section are the pros and cons of displaying 5-year versus 10-year time periods and comparisons of investors understanding of fund performance relative to a selected Index. Respondents generally stated that the variants tested were clear; however, their responses to questions that tested their understanding contradict this perceived clarity. Respondents were generally able to determine overall performance of the fund in comparison to the index that was used (MSCI EM), but stumbled in determining specific levels of fund growth. Additionally, respondents had difficulty comparing past performance, in side-by-side comparisons, when the 'yearly growth rate' scales had differing calibrations. The following are the key recommendations that we believe would help improve the past performance section:

- Display past performance over a 10-year period: there is a clear preference among respondents to display past performance over a period longer than five years. The longer timeframe potentially provides the investor with more information. However, it should be made clear that past performance should be used as a guide and not a guarantee of future performance, as many respondents seem to believe

- Clarify the purpose of the MSCI EM: a bare majority understood that the MSCI EM is used a comparison to the fund one may purchase, a number saw it as a gauge of outperformance compared to the fund or an indicator of the fund's performance. It is possible that some form of shading effect giving the MSCI-EM data less prominence that the fund itself may help to reduce this latter issue.
- Clarify any differences between scales used for 'yearly growth rate': while it is difficult to harmonise the scales across all funds due to differing levels of growth, some explanation is required to avoid misinterpretation in comparing funds. This could perhaps be achieved by the addition of 'data labels' to the bars in the comment.

Charges

8.4 The key issues to consider for the charges section are whether there is added value of an illustration of charges section and the pros and cons of providing information on charges/fees using percentage or monetary amounts. While respondents there was no discernable difference in respondents ability to 'calculate' charges/fees using each of the three methods tested (simple narrative, percentage figures in text and currency figures in a table), there was a clear preference for the illustration of charges that provided guidance using currency figures:

The following are the key recommendations that we believe would help improve the charges section:

- Display charges/fees using an illustration of charges in monetary amounts: respondents clearly preferred this version citing clarity, easier comparison and depth of information compared to the other versions tested
- Clarify the method of calculation: while respondents feel that charges/fees expressed in currency were easier to understand, there was difficulty in actually interpreting the table in terms of charges/fees as a percentage of the investment. Additionally, it may be necessary to include any other pertinent charges/fees such as transaction costs
- Investigate what further could be done to emphasise that the table only shows an illustration that would apply under certain growth conditions. It may be worth explicitly saying that the charges would differ if levels of growth were different.
- Display charges/fees in native currency: respondents show a clear preference for seeing charges/fee in their native currency (although it is a minority who state that they would not be able to use the information at all unless it was in their own currency).

Risk

8.5 The key consideration in relation to the risk section relate to the effectiveness of a pure narrative description of risk versus an approach that incorporates a synthetic indicator alongside a narrative description. Each variant was tested against a high risk/reward fund and a low risk/reward fund. The following are the key recommendations that we believe would help improve the risk section:

- The quantitative evidence suggests that a narrative indicator leads to marginal gains in consumer understanding of risk and reward, but this needs to be weighed against a stronger consumer preference for a presentation in the form of a synthetic indicator. The qualitative evidence lends further support for improvements to be made to a narrative indicator which includes some form of graphical communication.
- On balance, our recommendations lean towards an improved version of a synthetic information as an effective communication tool for consumers. The benefits of an improved synthetic indicator are a better balanced communication of the balance of risk and reward. A pure narrative indicator appears to be more heavily focused on risks alone.

- We recommend that an improved synthetic indicator should not over-simplify key messages in relation to risk and reward and that the right balance needs to be struck between providing the amount of information required for an investor to make an informed decision. The text needs to make clear that class 1 funds are not guarantees and it is particularly important to communicate this to less experienced investors. We would also advocate reviewing the scales for the synthetic indicator and giving some consideration towards more explanation of the scale.
- That said, it does appear that the preference is based on a 'first impression' type basis and there is some evidence that consumers become less convinced of the value of an indicator when they start to think about how ratings are arrived at. It is possible that another visual display of risk could achieve a similar level of engagement with the material while achieving the same level of understanding.
- It is also worth noting that much of consumers stated preference for the indicator is based on the perceived ease of comparing funds using this scale. If reality meant that the vast majority of funds achieved a rating somewhere in the middle of the scale then some of this value would be lost.

Performance Scenarios

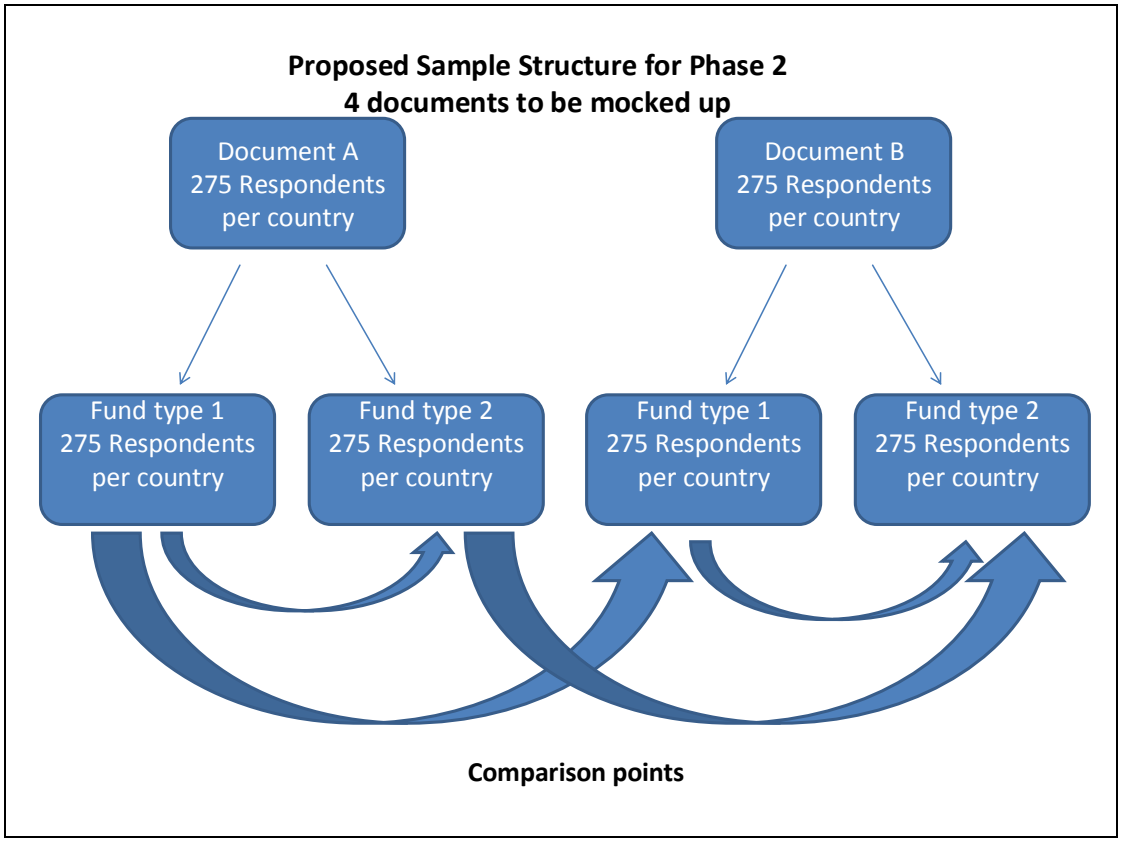
8.6 Performance scenarios relate to a particular form of communicating risk and reward for structured funds. The key considerations for performance scenarios concern the relative effectiveness of communicating risk through i) a table showing the likelihood of achieving different rates of return; ii) graphs to show the possible return of the fund under favourable and less favourable conditions; and iii) a graph displaying backtesting data showing how the fund would have performed under historic market conditions. The following are the key recommendations that we believe would help improve the performance scenarios section:

- On the test of clarity the evidence strongly supports the use of a table. Investors suggest this form of communication could be improved by defining technical terms and explaining probability in more detail. In relation to comprehension, improvements need to be made to the wording of messages about product guarantees which are set out in the initial strategy section. These are poorly understood by investors.
- In terms of understanding, a graph displaying back testing data was broadly misunderstood and we do not feel this approach facilitates consumer comprehension. The key issue concern the table showing different rates of return versus graphs to show possible returns under different conditions. On the basis of the qualitative research, our recommendations lean towards an improved tabular version for communicating risk and reward information for structured funds. However, given that there are mixed consumer preferences for both tabular and graphical formats, we suggest developing a variant taking the existing table but with the information presented as a pie chart. This improvement would show probabilities in the form of a percentage and have accompanying text yet also provide a visual for those who find this more engaging.

Stage two methodology

8.7 The final set of recommendations relate to the design of the quantitative research for phase two, where we recommend the following plan.

Figure .: Proposed approach for Phase 2



8.8 We recommend testing mocked up documents for two contrasting fund types. The fund types will need to be agreed but at this stage, we do not see a forum to test structured funds. We also recommend that documents should be mocked up for each fund type for two contrasting presentations. One document would be a "traditional" document which reflects the recommendations based in this report. The second document would be more innovative and would be based around further enhancement undertaking by the CESR working group. The details for each document will require further discussion before final agreement can be reached, but the broad principle should be that each document is broadly contrasting and reflects the evidence gathered at stage one.