

European Commission  
Internal Market and Services DG  
Financial Services Policy and Financial markets

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**Reports of the Alternative Investment Expert Group:**

- **Developing European Private Equity**
  - **Managing, Servicing and Marketing Hedge Funds in Europe**
- Report of the Expert Group on Investment Fund Market Efficiency**

Danish Shareholders Association, DAF, is the Association representing private investors in Denmark.

The Association finds that these reports are valuable contributions to the debate on the development of the internal market for investment products. The reports focus on the investment fund industry and present the views of this industry.

The recommendations from the expert groups are of importance seen from the industry, but the legislators must consider what kind of market the recommendations will foster. Will this market have room for private investors?

Danish Shareholders Association finds it of the outmost importance that the Commission and the other participants in the European legislative process looks at the situation of the private investor before decisions are taken on possible changes of the European legislation in the investment fund sector.

**The needs of the private investor**

The private investor needs:

- Transparent funds so that the fund-structure and the risks are understandable
- Focussed funds so that investors have a choice between different investment profiles
- Non-discriminatory taxation so that the private investor can invest cross-border, and funds can be marketed cross-border
- Qualified advisors caring for the private investors
- A well functioning market for the investments so that investors have the possibility to come out of an investment fast and at a reasonable price
- Active and qualified supervisors taking care of the private investors.

**The markets**

Private investors are of very different character. Some are extremely prudent some are adventurous. Some are operating in the traditional way via a bank or an investment company others operate more independently via the Internet. Some private investors use complicated hedging strategies others invest only directly in listed shares and bonds.

Some private investors understand the products and services they can choose among, others understand only very little about the risks and the possibilities.

But they are all interested in profitable investments.

Over the last couple of decades stock markets have increasingly become markets for the investment funds and other big investors. The equity funds buy up companies, de-list them from the Stock Exchanges and squeeze out the minority shareholders.

Important parts of the bond markets are operating so that they de facto have excluded private investors.

### **Individual advice**

It is almost impossible for a private investor to get individual advice.

The modern financial markets are complicated. Banks and investment firms have concentrated the knowledge about the different investment alternatives, the risks and the possibilities and investment strategies in specialised central departments and not in the departments having direct contact with the private investors (consumers).

The people having the direct contact with the private investors (consumers) have become sales assistants marketing the investment possibilities recommended by the central departments on a weekly or monthly basis.

The standard recommendations to consumers from many banks are that the consumers shall buy UCITS. And banks almost always recommend not the best UCITS for the client but the UCITS related to the bank.

### **Disappointment leads to greed**

Because the so-called investment advice is not an individual advice but a sales recommendation, and because the banks and investment firms are not following the individual customer and his portfolio, but following the general asset management recommendations of the bank, the private investor will only by accident get results from his investments that are as big as the results, he can read about in newspapers and in the specialised consumer-oriented investment magazines.

Many consumers, who have found themselves with only poor results from their investments, feel disappointed.

Many consumers hearing and reading out fabulous results tend to become greedy and start to invest in products like hedge funds that are predicted to give a high return.

But the consumer knows only very little about the higher risks that are normally related to the possibility of higher return. And the sales assistants in the banks are either not aware of the higher risk or does not have the time or ability to inform the consumer probably.

The consumer will only learn about the risks when the market goes in another direction than expected.

### **The investment funds**

Consumers expect the European Funds Industry to produce and market funds at the state of the art and keep them at the state of the art. There is a tendency that new investment funds are interesting the first two or three years and then they become dull.

Consumers invest heavily in UCITS because that is the advice they get in the investment firms, and they are told that UCITS is a safe and recognised brand.

In the quest for new products, faster authorisation, and notification the industry must pay respect to the consumers. Products should only be marketed to the customer segments they are intended for. It is not a solution, if a product developed to a professional market segment fails, to start marketing it to private investors.

### **The supervisors**

The supervisors must be qualified. The supervisory processes must be transparent. And the supervisors shall remember to focus on the needs of the consumers.

It is possible that the authorisation process can be speeded up, and it is possible that the notification process could be speeded up as well. The most important point is that it must be clear to the consumers and to the intermediaries what the value of the authorisation and the notification is.

The supervisors shall look after the villains in the financial sector and not be preoccupied with their own future.

### **The legislator**

UCITS is a brand. In the European Member States and in many other countries UCITS are recognised as outstanding products well suited as investment objects for private investors.

If the character of the UCITS label is changed then it must be declared openly that a new kind of UCITS has been introduced and the differences must be stated clearly.

Danish Shareholders Association recommends the proposed changes giving more flexibility should be introduced not in stead of the existing rules but as an extra possibility, UCITS class A and B.

Yours Sincerely

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