

UK Structured Products Association questions FSA focus on structured investments

www.ukstructuredproductsassociation.co.uk

The UK Structured Products Association today comments on the FSA's interventionist plans, or product 'health warnings'.

James Harrington, chairman, UK Structured Products Association, says:

"The UK Structured Products Association agrees with the FSA that 'clear, fair and not misleading' information for investors should be the priority for providers of all financial products. The collapse of Lehman Brothers and its impact on some retail structured products is a constant reminder that providers must continue to strive to deliver the best consumer outcomes and improvements to product literature and promotions, driven by the industry, investors, advisers, the media and the FSA, must continue.

"The Financial Ombudsmen Service complaints data also proves that the structured products industry is changing. In the first quarter of 2011 the FOS received only 34 complaints regarding structured capital at risk products out of a total of 81,301 complaints it handled - less than 0.042% of all complaints.

"In light of this evidence, we are concerned that the FSA may be overstating the risks associated with structured products and understating the risks associated with other investment types.

"We agree that enhanced product transparency is essential as this facilitates comparison and enables investors to make informed decisions. We would welcome the opportunity for continued dialogue with the FSA and contribute to the debate on the interventionist approach the FSA and later, the FCA, are to embark on.

"Investors need absolute clarity as to what they can expect from their investment both in a normal market environment and at times of stress or failure. We believe that information is available to advisers and investors alike for all UK structured investments, before and after sale, in a format that encourages informed decisions about the suitability or otherwise of a particular investment.

"However, there is a misconception among the investment community that the complexity of a product determines the risk of the product. Whilst it is important that investors can access investments that are in line with their risk profile, it should not be assumed that complexity equates to higher risk. Indeed in a lot of cases it is the results of steps taken to simplify or moderate the risk profile of a product which raises the complexity. It does not follow that a product with a relatively complex structure will also have a complex risk versus reward profile, or vice versa. As a result, it should not be assumed that complexity of a product equates to higher risk or to narrower suitability/appropriateness.

"The suitability and appropriateness assessments conducted by distributors are important to ensure that a consumer does not suffer detriment by purchasing an unsuitable product. Although some products may be complex, they will be suitable for some investors.

“It is also important to differentiate between issues surrounding product design and issues concerning the marketing and selling of structured investments and other investment types. If a product is miss-sold to an investor - as an inappropriate investment in relation to the investor’s risk profile - it does not mean that the product is bad.

“Earlier this year the FSA embarked on a thematic project on structured products design and development, we, as an industry are very interested in the outcomes from this work and encourage the FSA to allow industry participants to digest these outcomes before embarking on a future programme of reform.

“Guidance from the FSA about these issues would help providers, distributors and investors.”

The UK Structured Products Association is an organisation established by companies that create and distribute structured products to the UK financial services market in order to provide a useful and responsive source of information, education and comment on structured products by promoting their contribution to effective financial planning. The UK SPA is a sponsor of the Joint Associations Committee (JAC) and its principles and fully supports the JAC’s assessment that consumers should be properly informed and treated fairly by product providers.

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Notes to Editors

About the UK Structured Products Association

The UK Structured Products Association (UK SPA) is an organisation established by companies that create and distribute structured products to the UK financial services market in order to provide a useful and responsive source of information, education and comment on structured products by promoting their contribution to effective financial planning.



The Association's formation is a direct response to the members' belief that structured products are sometimes misunderstood and misrepresented and that this lack of understanding can prevent structured products forming an integral part of financial planning for investors.

The UK SPA is committed to publishing research, information and educational material about structured products and so create greater acceptance about their potential.

The UK SPA is not a commercial organisation and education and research are its core activities.

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