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Findings of a Review of the Key Features Documents for Tracker Bonds Sold by Credit Institutions

The Central Bank of Ireland today (4 March 2011) published the findings of a themed inspection on key features documents for tracker bonds sold by credit institutions. Tracker bonds are a common investment product available to consumers and the Central Bank believes that consumers, at times, may find them difficult to understand. The Central Bank's Consumer Protection Code requires firms to provide consumers with key information on tracker bonds prior to investment, which must be included in a Key Features Document (KFD). The Code also requires firms to provide consumers with a document that sets out consumer-specific information on their investment within two days of the start date of the tracker bond.

The inspection focussed on reviewing the content of the KFDs and ensuring the documentation required under the Code is correct and issued in accordance with the provisions in the Code. Eight firms were inspected and approximately 300 consumer records were reviewed. Overall, the findings of the inspection were positive and the Central Bank has notified the firms inspected of the findings from the theme.

The main findings from the theme are:

- In all eight firms inspected, it was evident that the KFD is provided to the consumer before an application form is signed as required under provision 9 of Chapter 6 of the Code.

- In all eight firms inspected, it was evident from the consumer files examined that the consumers were issued with a document as required under provision 10 of Chapter 6 of the Code.
- While the required document was issued to consumers following the start date of the product, it was not always issued within the 2 business days required by the Code. Firms advised that it is not always feasible to issue the document within 2 business days. This issue has been followed up with those individual firms. The reason for the delay is generally where the product producer is not the seller of the tracker bond. It was recognised that in this situation there can be issues regarding the timing of the provision of this document to consumers and the Review of Consumer Protection Code proposes to extend the timeframe from 2 business days to 5 business days.
- The Code requires that the KFD must include details of where the consumer's investment goes. It should include a breakdown of the tracker bond investment into the following three components:
 - The amount used to secure the promised payment;
 - The amount used to secure a potential cash bonus; and
 - The amount to be taken in charges.

The tracker bonds of two of the firms inspected were unable to meet this requirement in full. The firms' tracker bonds involve the use of an interest rate swap, which means the tracker bond cannot meaningfully follow the structure as set out in the Code. The Central Bank is in discussions with the firms involved to agree an appropriate solution.

Compliance issues identified during the inspections have been the subject of separate engagement with the individual firms concerned. The findings are being considered as part of the Review of Consumer Protection Code, which is currently underway. A copy of the consultation paper outlining the proposed changes and the submissions received is available to view [here](#)

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