3 March 2011

Re: Themed Inspection – Review of Tracker Bonds’ Key Features Documents

Dear

The Central Bank of Ireland (‘the Bank’) carried out a themed inspection during 2010 to examine tracker bonds’ key features documents used by credit institutions (‘firms’). The purpose of this letter is to provide feedback in relation to the findings from the theme. We request that you consider the issues highlighted below in the context of your firm and incorporate them into your firm’s procedures as appropriate. A number of firm-specific compliance issues were identified during the inspections and these are being addressed individually with the firms concerned.

Under the Consumer Protection Code (‘Code’), there are specific requirements on regulated entities with regard to documentation that must be provided to consumers in relation to tracker bonds. The Code also includes a template of information to be included in a key features document (‘KFD’) for tracker bonds. The inspection focussed on examining the content of the KFDs and ensuring that 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 inspections were positive. Please see below a summary of the main findings for consideration.
1. Provision 9 of Chapter 6 of the Code

“A regulated entity must provide a consumer with a ‘Key features Document’, of a type referred to in the Appendix to this Chapter before the consumer signs an application form for a tracker bond. Where the information required by the Key features Document is already provided to the consumer under a legal requirement to do so, the regulated entity is not obliged to include that information in the Key Features Document.”

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.

2. Provision 10 of Chapter 6 of the Code -

“A regulated entity must provide a consumer who has invested in a tracker bond with a document within 2 business days of the start of the fund, setting out:

a) The name and address of the consumer;

b) The date of investment;

c) The amount of the investment;

d) The date or dates on which the promised minimum payment is payable;

e) Disclosure of the make up of the investment, if the make up differs from that shown in the Key Features Document prepared in accordance with Requirement 9; and

f) The date the investment will mature.”

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.

Of the eight firms inspected, two of the eight firms complied with the 2 day timeframe in all cases reviewed. The other six firms advised that it is not feasible, at all times, to issue the document within 2 business days. The reason for this is generally in situations where the product producer is not the seller of the tracker bond. In these cases, we recognise that there can be issues regarding the provision of this document to consumers within 2 business days.
and under the Review of the Consumer Protection Code – CP47, it is proposed to extend the timeframe from 2 business days to 5 business days.

3. Appendix to Chapter 6 of the Code - The section of the KFD ‘WHERE DOES MY INVESTMENT GO?’

The KFD must include details of where your 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.

It was noted that the tracker bonds of some 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 that the tracker bonds cannot meaningfully follow the structure as set out in the Code. We are in discussions with the firms involved to agree an appropriate solution and this issue will be taken into consideration in the Review of Consumer Protection Code.

4. The importance of using plain English in Key Features Document

As required under provision 9 of Chapter 6 of the Code, consumers must be provided with a KFD, setting out the important details of the product, including how the tracker bond works, where your investment goes, if and how you can get access to your investment before maturity and any tax that applies. As this document contains important key information about the product, and is generally included in the product brochure, it is vital that the consumer is capable of understanding the information. We would ask firms, in particular those who produce their own products, to ensure that the KFDs are written in a manner which is clear and comprehensible for consumers.
Should you have any queries in relation to the contents of this letter, please contact Ms Ann McNally at ann.mcnamally@centralbank.ie.

Yours sincerely

Adrian O’Brien
Deputy Head of Consumer Protection Codes