



**SEPTEMBER 2022**

**FINDINGS OF STUDIES CONDUCTED ON  
THE READABILITY OF INFORMATION  
DOCUMENTS INTENDED FOR RETAIL  
INVESTORS**

## ASSESSING THE READABILITY OF INFORMATION DOCUMENTS INTENDED FOR RETAIL INVESTORS

In order to benefit fully from the protection provided by the regulations, understand what they are buying and take appropriate decisions, investors should read and understand the information documents intended for them. In accordance with its missions, the AMF monitors the quality of the documents made available to investors (the information must be clear, accurate and not misleading). It also strives, through its educational initiatives, to make investors more independent and better able to understand the information provided by professionals.

### REGULATIONS: REQUIREMENTS OF CLARITY AND SIMPLICITY

The European regulations require that professionals provide retail investors with information that is comprehensible, particularly regarding the characteristics of proposed investment products.<sup>1</sup>

In the case of packaged products (collective investment products, life insurance-based products, etc.), it specifies that the purpose of the Key Information Document is to provide investors with concise information which presents the essential facts necessary for them to make decisions. This information shall be "summarised in a brief, clear and easily understandable manner".

The document (PRIIPs KID) shall be "presented and laid out in a way that is easy to read, using characters of readable size.<sup>2</sup> It shall be clearly expressed and written in language and a style that communicate in a way that facilitates the understanding of the information, in particular, in language that is clear, succinct and comprehensible". It "shall avoid financial jargon and terminology which is not immediately clear to retail investors".

In 2011, the AMF published a "Guide to drafting collective investment marketing materials and distributing collective investments"<sup>3</sup> which gave a reminder that, to be clear, information must enable investors to understand the main characteristics of the collective investment product in which they are investing and that the terminology used in the presentation of the collective investment must be understandable by the target clients for whom it is intended, which means it is not possible to use over-technical terminology or jargon in light of the target clients, nor ambiguous language whose common meaning does not correspond to the economic reality of the collective investment.

Also, in 2021, the AMF made an educational guide<sup>4</sup> available to professionals designing marketing materials for structured debt securities, to assist them in implementing the applicable regulations. This tool supplements the arrangements deployed by the AMF for some years now in order to prevent the risk of poor presentation of these products to retail clients.

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<sup>1</sup> Directive 2014/65/EU of 15 May 2014, "MiFID II". Excerpt from Article 24: "The information ... shall be provided in a comprehensible form in such a manner that clients or potential clients are reasonably able to understand the nature and risks of the investment service and of the specific type of financial instrument that is being offered."

<sup>2</sup> Excerpts from the European Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs), Regulation (EU) 1286/2014 of 26 November 2014 and its Delegated Regulation 2017/653 of 8 March 2017.

<sup>3</sup> AMF Position-Recommendation DOC-2011-24

<sup>4</sup> Guide to drafting marketing materials for structured debt securities, published on 21 April 2021.

**In 2018 the AMF set up a system of qualitative studies** making it possible to collect from a sample group of retail investors their perceptions of the readability and clarity of the documents intended for them.

Several studies have already been carried out and published on the AMF website,<sup>5</sup> including:

- Documents concerning formula-based investments (July 2018);
- Documents concerning responsible investments (July 2019 and June 2021);
- Information on financial investment fees (April 2020).

The aim of these qualitative studies is to acquire an in-depth understanding of retail investors' reading mechanisms and, based on tested documents, identify their level of understanding and assimilation of the information intended for them.

Is the information considered readable? What are the problems raised by the investors? What are good practices with regard to readability?

#### THE READABILITY STUDIES SYSTEM

The service provider selected by the AMF establishes a sample group of retail investors whom it asks to read regulatory and/or marketing information documents carefully, from home, via an online forum over a period of five to seven days and in accordance with a protocol validated beforehand by the AMF. The participants are invited, step-by-step, to give their opinion on the information consulted.

The effort requested of the participants does not replicate the customary situation of a retail investor. It pinpoints the difficulties that would be encountered by investors taking the trouble to read and understand these documents.

In each study, the report underlines the investors' main reactions, and good and bad practices.

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<sup>5</sup> A summary of these studies and links to the published reports are presented in an Annex to this document.

## MAIN FINDINGS CONCERNING THE READABILITY OF REGULATORY DOCUMENTS

On the basis of the studies performed,<sup>6</sup> retail investors wanting to invest in transferable securities via collective investment schemes stress the usefulness of the regulatory information documents intended for them (Key Information Document (KID) and prospectus). They consider them comprehensive and recognise that they are neutral and objective.

Generally, however, the documents presented are considered off-putting and not easily readable. Investors reject their form, which does not facilitate assimilation of the information.

For example, the investors taking part in the readability studies (holders and non-holders of investment products) have problems due to the excessive density of information or the lack of highlighting or ranking of important information and of notes for the reader. Numerous expressions and passages are considered too technical. These defects cause the reader to lose interest, or even stop reading.

Generally speaking, retail investors encounter difficulties of understanding due to:

- excessively dense information;
- the lack of highlighting and notes for the reader;
- the construction of long sentences with a concern for providing complete information;
- the lack of graphic illustrations;
- the jargon used.

All these factors are obstacles to the assimilation of a document.

The readability studies made it possible to list the numerous difficulties of understanding encountered by retail investors in the regulatory information.

The quotes and examples of expressions or words shown below illustrate these difficulties.

### **Quotes**

*"The language is intended more for experienced investors than for philistine retail investors. After one line, you give up."*

*"The "investment objective" section has a four-line sentence in it! I think that despite the subject – which is often mastered - the language should nevertheless be simplified and the paragraphs spaced out."*

*"The use of very financial jargon makes reading this document more complex."*

*"You can't understand anything. I also find the writing too small! There should be a required minimum character size!"*

*"The investment objective uses very complex terminology, once again despite the interest taken in the subject (e.g. outperform, discretionary)."*

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<sup>6</sup> The readability studies carried out from 2018 to 2021 mainly concerned the information relating to collective investment products. The Key Information Documents tested were both KIIDs and PRIIPs KIDs. The documents in KIID format will disappear on 1 January 2023, being replaced by PRIIPs KIDs.

**Expressions taken from Key Information Documents and considered hard to understand**

- Active discretionary management based on a disciplined fundamental approach to stock picking.
- The research and investment universe is broader than that of the benchmark indicator strictly speaking.
- The FCP fund is mainly exposed to the issuers of the benchmark indicator and could be exposed to issuers not included in the benchmark indicator.
- This impact is assessed through their exposure (in terms of revenues, R&D spending or capex) via the Fund Manager's proprietary model.
- The index is adopted at the closing prices and expressed in euros, dividends reinvested.

**Examples of words requiring explanations**

- Asset allocation
- Financial, non-financial and quantitative analysis
- Strategic microeconomic analyses
- Best-in-universe approach
- Sub-fund
- Decimalisation
- Decrement
- Non-financial approach
- Discretionary
- Gearing
- Composite index
- Investment grade
- Proprietary methodology
- Carbon scoring model
- Minimum CCC rating
- SP rating less than 3
- SRI policy
- Sector policies on controversial activities
- Transition risks related to regulatory, technological and market risks
- Stockpicking
- Outperform
- Swaps
- Research universe, reduced universe

## PRACTICES NOTED BY RETAIL INVESTORS ALLOWING IMPROVED READABILITY

### **Disclaimer**

*This document is neither a position nor a recommendation of the AMF. The practices identified as either “good” or “poor” highlight identified approaches that may, or may not, result in improved readability of information according to the established sample groups of retail investors.*

The understanding of a product depends on its characteristics, risk level and complexity. However, for the same type of product, some documents are appreciated better than others, even when they are presented in a standardised manner (Key Information Documents or prospectuses).

To make the regulatory documents more readable, the following principles were considered positive by the investors who took part in the studies:

- An attractive layout.
- Highlighting of important information.
- The use of short sentences and the active voice.
- The elimination of superfluous abstract words and unnecessary details.

The neutrality of the regulatory documentation, which is often viewed positively, should not lead to the presentation of all the information on the same level, visually speaking, within each section.

According to the investors taking part in the studies, the documents ought to be spaced out more and use a broad range of formatting: bold/colours/font sizes in order to highlight essential information (where is the money invested? what is the investment horizon? what is the risk? what are the fees?).

The sample group of retail investors also feels that important information should not be presented in footnotes.

At the same time, certain practices are appreciated by the investors. This is the case, for example, of the summary table of pros and cons presented in marketing documentation.

According to the sample group of investors, technical terminology (jargon) should be avoided insofar as possible. So as not to reduce the necessary accuracy of the information provided, especially when the regulations require the use of precise expressions, or when it is not possible to use more common expressions, the use of a glossary could represent an interesting solution, and was frequently requested by the participants in the readability studies.

### **Better articulate the KID and the prospectus**

In the case of collective investments, improved links between the KID<sup>7</sup> and the prospectus seem desirable for the sample group of retail investors.

The latest study on the readability of information concerning responsible investments provided an instructive finding.

While the KID must explain whether or not non-financial criteria are taken into consideration, this study showed that the sections available in the prospectus (Investment Strategy heading), which are longer but spaced out more, could be considered more readable, more instructive and ultimately more comprehensible than the very summary explanations available in the KID (Investment Objectives and Policy).

While the prospectus is often rejected as soon as it is "taken in hand" (bulky document, unattractive form), the guided reading of a few sections greatly assisted an understanding of the strategy of the funds concerned in a field where clarity of information is required more by investors who are more demanding.

Thus, in the era of sustainable finance, references from the DIC to the various sections of the prospectus could constitute a concrete solution to combine the need for richer information and that of better readability.<sup>8</sup>

More generally, the prospectus, complementing the KID for investors who want to find out more about the product, could play its role fully if it were made more accessible and also more pleasant to consult.

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<sup>7</sup> And the KIID until its forthcoming demise, on 1 January 2023.

<sup>8</sup> These cross-references are authorised by Regulation (EU) 1286/2014 of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs). Article 6.2 states: "The key information document shall be a stand-alone document, clearly separate from marketing materials. It shall not contain cross-references to marketing material. It may contain cross-references to other documents including a prospectus where applicable, and only where the cross-reference is related to the information required to be included in the key information document by this Regulation."

## INVESTOR PROTECTION AND THE NEED FOR IMPROVED READABILITY OF INFORMATION

The provision of comprehensible information is an important component of investor protection. The information provided must be at once clear, accurate and not misleading<sup>9</sup> in a field, investment products, that is regarded as "opaque and complex" by most of the retail investors surveyed during the readability studies.

In line with the general trend towards simplification of messages in society (use of short messages and "journalistic" style), favoured by the rapid growth of online information, it seems advisable to also simplify the information on financial products, which is written and proofread by experts in their professional fields.

Is what is clear and adequate for a professional the same for the end client?

The regulatory document templates are standardised in Europe (format of KIDs and prospectuses). Their structures therefore cannot be altered. However, the regulations leave professionals some leeway in drafting the content of the sections and therefore by no means prevent the use of a language and form conducive to readability.

To check the readability of an information document, the writers should ask themselves the following questions:

- Does the document emphasise the information that is important for investors?
- Will investors understand the information?
- Does the document contain information that is not legally essential and which does not help investors make informed decisions?

By publishing this summary, the AMF aims to raise awareness among designers and marketers of financial products about the difficulties of understanding that may be encountered by savers.

It recalls that the principles of legibility mentioned are perfectly applicable in the current framework of the regulations. Indeed, if the models of regulatory documents are standardized at European level (the format of CIDs, prospectuses), the regulation leaves professionals a certain latitude in the drafting of the content of the sections. They must therefore adopt a language and a form that promotes readability.

The AMF also takes into account the findings of these studies, which feed into the day-to-day supervisory practices of its teams.

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<sup>9</sup> Excerpt from Article 24 of the MiFID II directive: "All information, including marketing communications, addressed by the investment firm to clients or potential clients shall be fair, clear and not misleading."

## ANNEXES

### Study on the clarity and understandability by retail investors of the documentation on formula-based investments (November 2018)

The service provider established two online forums, over a period of five days, consisting of 8 holders and 8 non-holders of formula-based investments respectively.

The retail investors rejected the form of the regulatory documents, regarded as off-putting, and whose presentation does not facilitate assimilation. They emphasised the high density of information and the lack of highlighting of important messages.

The documents are regarded as complex, especially due to the use of numerous technical terms. The length and density of information contribute to the impression of an investment that is extremely complex, and unintelligible. Conversely, the marketing documentation contributes to an understanding, but seems to lack clarity regarding more technical aspects.

The KIDs are not considered "instructive". At first sight, investors were discouraged by their form, which does not facilitate assimilation of the information.

More generally, the perceived policy of neutrality and completeness of the KID is offset by difficulties:

- Insufficient clarity.
- The information is not ranked according to its level of importance for investors.

#### Factors which facilitated an understanding of the product

Regarding the form:

- The spaced-out presentation of the documents.
- Highlighting of important information through formatting (interplay between grey, colour, black and bold).
- The use of diagrams (for profiles sensitive to technical and conceptual formats).

Regarding the substance:

- Illustrations.
- FAQ.
- Performance scenarios.
- Numerous warnings regarding the risk level.
- A concise presentation of the list of pros and cons regarding the product.
- An appropriate hierarchic ranking of information according to the investor's approach:
  - Key information as of the first lines (risk taken; simple explanation of the principle of indexing), then a "logical" structure.
  - On the first and last pages, the essential information presented better (investment horizon, the importance of not exiting before maturity, the risk level and the variable behaviour of the investment).
  - In-depth description, with examples and diagrams in the centre of the document.

### [The readability of information on responsible investments \(July 2019\)](#)

The service provider recruited 15 retail investors, 7 holders of SRI funds and 8 non-holders. The online forum was held over 7 days.

Placed in a position to consult all the documentation available for an SRI fund (marketing leaflet, Key Information Document (KIID), prospectus, financial report, Transparency Code, non-financial report), investors said it was hard to find their way through it.

Technical concepts were considered not very explicit for many retail investors.

This study was a reminder that the structuring concepts of SRI are not crystal clear for retail investors. In particular, "governance" and the concept of "non-financial analysis" are concepts that are difficult to comprehend and not always clarified.

The non-financial report was considered complementary to the KIID.

The most interested investors noted a lack of transparency regarding the socially responsible aspect in the KIIDs. They would like to find more explanations there regarding the fund's selection criteria and the facts concerning the companies and the associated projects.

They considered that the prospectus associated with the KIID provided no real value added, since the information missing in the KID does not necessarily appear there.

On the other hand, this information was found in the non-financial report (Article 173 of the French Act on energy transition for green growth - LTECV). For one of the two reports shown, investors appreciated the transparency and fairness regarding the responsible investment aspect, and notably:

- tangible information on the reality of the projects carried out, associated with the proposed investments;
- information on the names of the companies associated with the funds;
- tangible examples concerning selection of the funds and the associated projects.

### [The readability of information on responsible investments \(September 2021\)](#)

15 retail investors took part in this online readability study over 7 days. They all held investment funds, not necessarily SRI funds.

To ensure their understanding of the information on the products, the participants had to read the marketing and regulatory documents for selected products (leaflet, brochure, KIID and prospectus, Art. 173 report and management report). The investors' perceptions varied greatly from one document to another.

Responsible investments, and the associated terminology, seemed to them vague.

- The link between "responsibility" and returns is not obvious; the real intentions are called into question (fear of greenwashing);
- Mistrust is fuelled by the vagueness concerning the functioning of these responsible investments;
- The impression that these investments are recent and that they therefore represent a greater risk.

The language level (terminology, syntax) of the Key Investor Information Documents (KIIDs) and prospectuses put investors off, at least initially.

These documents discouraged most of them from taking an interest and, in their view, allow a partial understanding of the investment's objectives and functioning. It seemed to them that they were mainly focused on the product's financial behaviour, rather than on its sustainable aspect.

#### The KIID considered not very encouraging.

Despite the short 2-page format, the wording of the KIIDs often put investors off.

- Density of information which means that investors cannot find information enabling them to understand the functioning and characteristics of the fund.

- A language level perceived as not very accessible in most KIDs.
- Financial and technical terminology that is hardly explained, and acronyms that are not defined.
- Often complex expressions not highlighting the main information.

Certain sections of the prospectus were considered more instructive.

Even if they might not have been read outside of the exercise, the passages selected in prospectuses for this readability test (the "Investment Strategy") were considered more instructive than the corresponding section in the KID ("Investment Objectives and Policy").

These more-spaced-out passages allow a clearer presentation of the investment intentions and policy. The writing seemed better expressed and more instructive, with sometimes practical examples and information helping investors get an idea of the potential level of risk.

However, the Prospectus is still a document considered rather inaccessible for most investors. Understanding of the document remains very partial, and the language appears too technical and too financial.

### Clarity of information on fees (May 2020)

16 retail investors were recruited for an online forum lasting five days.

The participants showed some knowledge of the fees related to investment funds and equities, notably from reading the price leaflets and key information documents of collective investment products.

However, they showed no precise perception of the impact of these fees on the returns from their investments.

The various documents available to investors could apparently be clearer.

The prospectuses of collective investment products (funds and SICAVs) were judged severely: they were considered as being not really intended for retail investors.

Banks' KIDs and brochures could be clearer and more instructive.

The expectations point to:

- the exclusion of non-essential technical jargon;
- constantly more explanations;
- an effort for conciseness and simplicity;
- the highlighting of directly exploitable information.

In the end, the main information wanted remains the impact on returns. Investors therefore want calculations that are easy to do, or better still, ideally, a simulator which would enable them to view the impact on their investment directly.

The key information documents (PRIIPs KIDs), which provide a simulation of the impact of fees, allowed investors to make projections and understand the long-term impact. The KIDs were considered simpler, but less instructive.

However, the PRIIPs KID was considered perfectible.

- The performance assumption underlying the simulation of the impact of fees was considered not very transparent.
- It was considered that the terminology and explanatory texts could be simplified further.

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This study was performed by the Retail Investor Relations and Protection Directorate.

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