

REPLY BY THE CNMV ADVISORY COMMITTEE REGARDING KEY INVESTOR DISCLOSURES FOR UCITS

INTRODUCTION

The UCITS Directives requires the use of a simplified prospectus to inform investors before they make a decision. The content and current format of the prospectus fail to attain the initial goal of serving as an effective source of information, for two essential reasons:

- The documents are generally very long and too technical for the average investor.
- There is a lack of standardisation and consistency in the information contained in the various prospectuses, which makes it difficult to compare funds.

To advance towards the design of a new simplified prospectus that effectively fulfils its mission, the European Commission has asked CESR for assistance in determine what type of information should be considered to be key and how it should be disclosed in the prospectus.

COMMENTS

The CNMV Advisory Board agrees with most of the contents of the proposals by the European Commission and the CESR, and would like to contribute the following comments:

1. Target audience

The simplified prospectus should be addressed to retail investors, and this should be reflected in both its format and its content.

2. Prospectus format

- A common format should be established for the simplified prospectus to facilitate comparisons between UCITS.

- It would be advisable to establish a maximum length. This limit could be 2 pages.
- It is necessary to use simple language that is appropriate to the target readership.

3. Content

Considering the limitation as to length, it is advisable not to include information that may not be very relevant. In this connection, some information currently included in simplified prospectuses could be eliminated:

- Commercial information
- Expected period of existence
- Portfolio turnover rate
- Profile of typical investor

3.1. Disclosure of risk information

The inclusion in the simplified prospectus of a text description of all the risks that investors face in their investment (as established in Commission Recommendation 2004/384/EC) does not seem to be a good solution:

- A simple description of the various types of risks is generally not of use to investors.
- Not all investors are capable of understanding such a detailed breakdown of the risks.

It might be better to establish a synthetic indicator of risk, if it were possible to standardise the calculation across all EU Member States. There are two options for constructing such an indicator:

- Use volatility as a measure of risk
- Use a VAR-based model, which appears to be the more appropriate way to synthesise the risk associated with an investment in UCITS.

In any event, it is advisable to consider this synthetic indicator along with the other information in the simplified prospectus (investment policy, yields, recommended time horizon) when assessing the risk of the investment.

3.2. Breakdown of cost information

The Total Expense Ratio (TER) or a similar metric should be maintained as a reference of the costs associated with the investment, although its calculation method should be harmonised.

- Front-end and back-end fees should not be included in the TER but should be presented separately.
- Trading costs cannot be reasonably calculated and, therefore, should not be included in the TER.
- Costs should be presented in percentage terms, and it would be advisable to present an example of the impact of those percentages in absolute terms.

Regarding distribution commissions, it appears reasonable that if the costs vary with the form of distributing the product, then the distributor should be the party responsible for informing the investor of that variation.

Potential conflicts of interest in the distribution of commissions should also be disclosed, but the simplified prospectus is not necessarily the best place for this.

3.3. Presentation of past yields

It would appear to be advisable to maintain the information about past yields since it may be very useful for checking the consistency of the other data contained in the simplified prospectus (fund goal, investment policy, risk).

This is also one of the items of information to which investors pay most attention. It might be useful to include some metric of yield/risk (e.g. based on the Sharpe ratio) that provides a broader yardstick for assessing fund performance than mere past yields.

It is necessary to develop a standard form of presenting fund's past performance that can be readily grasped by retail investors, taking account of the requirements of MiFID and any other considered necessary to ensure information consistency.

More specifically, with regard to the format of presentation:

- There seems to be a general preference for bar charts for presenting past yields
- Figures should be calculated on the same baseline, preferably in annual terms

It is also necessary to find a solution to the lack of past information in the case of new funds.