



**ASSOGESTIONI**

associazione del risparmio gestito

Rome, 15 May 2009

Your ref: CESR/09-047  
Our ref: Prot. N. 287/09

**Response to CESR Consultation Paper on technical issues relating to Key Information Document ("KID") disclosures for UCITS.**

**I. General comments**

Assogestioni is grateful for the opportunity to comment on the proposed approach on the technical issues relating to Key Information Document.

In particular, we wish to congratulate CESR for the effort and extent of research undertaken in preparation of this draft and for providing options and alternative solutions for the complex issues discussed in this consultation while also remaining open to flexible solutions for the industry.

Our industry shares the objective to overcome the well known regulatory problems of the current simplified prospectus and shape KID into harmonised information that is not only understandable but also meaningful and not misleading to the retail investors.

**II. Answers to CESR's questions**

**Risk and Reward Disclosure**

**Q5. What are the merits and limits of using a risk "add-on" when a large part of a fund's return history is derived from a proxy?**

We do not agree on the use of a risk "add-on" as proposed, we are concerned that it could be misinterpreted by investors. When a large part of the return fund's history is derived from a proxy, it might be appropriate to mandate a warning that explains that the risk indicator is largely based on that return series or add an exclamation mark.

**Q7. Does the methodology cover all UCITS types? More specifically, do you agree with the proposed approach of distinguishing between market funds,**



strategy funds, and structured funds (including guarantee funds) and the adaptation of the calculation methodology to each of these fund types?

**Q8.** As regards the use of a “risk add-on” and an exclamation mark (!) in situations as presented in the above section, what are the merits and limits of each solution? Can you suggest another option to tackle the described situations?

**Q9:** Are the proposed solutions (systematic classification into category 7, use of a risk add-on or a modifier) to tackle situations of a potentially changing risk profile appropriate and commensurate? What are the merits and limits of each option?

**Q10.** In particular, do you agree that category 7 should be the highest risk and reward category as well as the special category for certain funds e.g. those with severe event risk?

In general we agree with the proposed methodology and the adaptation of calculation methodology when the fund has not been in existence long enough to generate a time series of returns of the required length.

When data history is too short or is not sufficiently representative, the exact method of filling the gap in the history depends on the individual features of the product. Thus the choice of the methodology will often require some qualitative judgement and cannot be derived from a set of pre-determined rules. In the case of total return fund, when a risk limit or target volatility has not been set, CESR approach requires to assess the risk of the product on the basis of the volatility of the pro-forma asset mix. In this case it might be appropriate to allow flexibility for the length of return series used so that the volatility is consistent with and representative of the fund’s investment policy.

We disagree with CESR’s proposal interpretation of category 7, which is defined in paragraph 77, as a category “designed to cover those products (typically structured) the risk profile of which is not suited to a volatility-based methodology”.

Category 7 should carry exclusively the meaning of the highest volatility without any special meaning and thus without any negative connotation. Thus for this type of funds it might be appropriate to foresee a different classification methodology or a narrative disclaimer that explain the difficulty of an ex-ante classification instead of a systematic classification into category 7.

We also suggest an exclamation mark should be introduced in the case of structured and guaranteed funds accompanied by a suitable disclaimer that describe the existence of the guarantee, its characteristics and the fact the guarantee would apply at maturity, providing a balanced presentation of risk and reward.

**Q14.** Do you agree with the proposed scale and that the number of categories should be 7?

**Q15.** How should the methodology define appropriate volatility “buckets”? Do you agree that a non-linear scale might be needed to tackle issues of stability, granularity and fair distribution of funds along the scale? Would it be sufficient to prescribe numeric parameters to each “bucket”, or would additional definitions be necessary?



We believe that deeply detailed rules regarding volatility limits and, in general, a highly prescriptive methodology regarding the way risk should be assessed, should be avoided. Instead, investment companies should be allowed to make use of the results of their own internal risk management models while disclosing the risk-return characteristics of their funds.

### **Past Performance**

**Q23. Is the proposed framework of general requirements for the presentation of past performance with a bar chart sufficient and appropriate?**

We agree. We also favoured the opportunity to warn investors about tax issues in the KID adding a narrative disclaimer about the possible impact of the taxation of the fund in the home Member State.

**Q45. Do you agree with the approach proposed by CESR as regards back-testing?**

**Q46. Are you aware of any other merits that might support further consideration of this option?**

We recommend CESR not to pursue option A .

In fact, back-testing presents several drawbacks that are not sufficiently offset by advantages.

**Q54. Are the methodological requirements which underpin probability tables sufficient, clear and appropriate?**

**Q44. Would such an approach cover all types of fund for which neither past performance nor a proxy can be used?**

**Q56. Is this approach easy for UCITS providers to implement?**

**Q57. Should any other issues be taken into account as regards the use of probability tables?**

In our opinion this option could help investors to better understand the risk and reward trade-off of structured funds.

To compute the simulations needed to quantify the probabilities of the performance scenarios, it is desirable to establish a set of methodological requirements. In our opinion these requirements should be sufficiently flexible in order to allow for the use of a large array of models that should be identified and calibrated with due regard to the pricing, hedging and risk management processes employed by the management company.

### **Charges**

**Q58. Do you think a summary measure of charges would help investors to understand the overall cost of investment in a UCITS?**

**Q61. Do you agree with the proposed methodology in Annex B for identifying which items should be included in the ongoing charges figure and for harmonising the calculation?**

**Q62. Do you agree with the proposal to:**



- i. Show the ongoing fund charges figure excluding performance fees?
- ii. Explain performance fees through a narrative description?
- iii. Not show an actual figure for the amount previously charged?

**Q63. Do you agree with the proposal to signpost where more detailed information can be found?**

CESR identified two high-level options: the first is an improved version of the existing Simplified Prospectus disclosure while the second is based on the same improved information with the addition of a single “summary” figure.

In our opinion the former represents a good solution to the problem of presenting costs of the UCITS.

In particular, we do not think that a summary measure of charges could help investors to understand the overall cost; in fact this measure could be misinterpreted by investors. Moreover consolidation techniques, that are usually required for the calculation of such a measure are often based on a large set of assumptions that could be, at best misleading, and at worst, simply wrong.

We agree with the proposed methodology for identifying which items should be included in the ongoing charges figure and with the exclusions of performance fees. This exclusion is consistent with an ex-post presentation that uses only figures that have -already been applied in the past and is to be preferred on the grounds of simplicity and brevity. However, if explicit information about actual performance fees in the KID is given it might be appropriate to signpost to more detailed information.

We remain at your disposal for any request of clarification or further comments on the content of our reply.

The Director General