CGIL

SEGRETERIA NAZIONALE

CGIL is the oldest Italian trade union and it is also the most representative of Italian workers, with about 6 millions of members, including workers, pensioners and young people. CGIL is a member of European Confederation of trade unions (Ces) and of the International Confederation of trade unions (Ituc-Csi).

This document aims at expressing CGIL remarks about the "*Consultation paper on technical issues relating to Key Information Document (KID) disclosures for UCITS*", issued by the CESR on March 2009.

First of all, CGIL wants to express its appreciation for the EU law-maker choice in the direction of an easier information to be provided to investors, relying on a few but quite meaningful key points which describe the financial features of the products to be offered. In fact, such approach is fundamental to allow potential UCITSs' subscribers to take informed investment decisions, given the wide range of financial investment alternatives available on the market.

In this regard, the most important point in the consultation document is certainly the initiative to realize the disclosure on the risk-return profile of UCITSs by means of synthetic risk indicators, based on robust and objective quantitative metrics. Current regulation mainly relies on the narrative description of each risk driver affecting the investment in an open-end mutual fund, and such option is still present in the new draft of the consultation paper. However, it appears more and more unsuitable to effectively disclose the risks of the financial investment, as markets are increasingly characterized by a strong integration which often makes it difficult to focus on the specific contribution of each single risk source, and, instead, seems to favour the measurement and monitoring of the overall riskiness of a UCITS.

A second remark concerns the quantitative approach summarized in the consultation paper, as each of the various regulatory options submitted to the attention of the reader misses to translate a methodological view able to emphasise and to adequately consider the close relationship existing among the synthetic risk indicators related, respectively, to the risk profile, to the potential return, to the costs and to the recommended investment time horizon.

In particular, this last point can be better understood by properly answering some questions contained in the consultation document:

7. 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?

The classification of funds given in the consultation paper is not in line with the reality of the market. Indeed, Italian retail investors are used to distinguish investment products according to three main macro-structures: *risk target products* (meant as those funds which are committed to a specific target in terms of minimum and maximum risk exposure); *benchmark products* (meant as those funds which take a market benchmark as reference point of their investment policy, and can have either a passive or an active asset management style); *return target products* (meant as those funds which pursue a minimum given return over a preset time horizon).

9. 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?

10. **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?**
17. **Do you agree that the categories should not carry any descriptions other than a number (and the '!' modifier if appropriate)?**

CGIL disagrees with the choice of violating the classification based on volatility, by inserting some further solutions (such as the use of an exclamation mark), in order to solve the problem of the representation of the risk-reward profile for funds featuring a complex financial engineering. In fact, this choice makes harder the comprehension of the synthetic risk indicator and it could generate doubts in the interpretation of the KID information by investors.

In this regard, it is also worth noticing that CGIL does not share the choice of representing the risk indicator through a numerical scale instead than through a qualitative one, which is certainly more understandable to the average investor.

20. **Do you agree with the proposed list of disclaimers to be used in relation to the synthetic risk and reward indicator?**

CGIL agrees with the proposed suggestion to supplement the synthetic risk indicator through the indication of a minimum investment holding period (so-called recommended investment time horizon). However, the consultation document does not provide any guide-line to ease the comprehension of the relationship among risk, potential rewards and recommended investment time horizon, neither it contains any indication concerning the technical determination of the latter, allowing for approximate calculations of this quantity.

47. **Do you agree that Option B is capable of meeting the Directive requirement for performance scenarios?**

The opinion of CGIL is that option B concerning the prospective scenarios (so-called "what-if" approach) does not constitute an objective solution to the representation of potential fund's returns, as required by the Directive. This is because the "what-if" approach requires the illustration of few, quite specific examples associated with arbitrary market trends, without an explicit indication of the different probabilities of each prospective scenario, and, as a consequence, the resulting information would be misleading to the investor, who would likely assign the same probability of occurrence to each scenario.

54. **Are the methodological requirements which underpin probability tables sufficient, clear and appropriate?**
55. **Would such an approach cover all types of fund for which neither past performance nor a proxy can be used?**

The solution given by the performance scenarios, to be included as a specific probability table in the KID seems the most adequate to convey the significant information on the potential returns of a mutual fund.
Moreover, the principles defined in the consultation document allow to apply this methodology not only to the funds whose historical time series is not long enough or which can not be explained by using a proxy, but also to all the other funds' types (including the so-called market funds). Such representation should not be limited just to structured funds, and, instead, it will be better to consider the opportunity of extending the probability table to any type of fund. In this way, also problem of representing the risk profile of funds featuring quite complex financial engineering could find an immediate solution.

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