

**CONSULTATION PAPER ON "CESR'S LEVEL 3 GUIDELINES ON THE SELECTION AND PRESENTATION OF PERFORMANCE SCENARIOS IN THE KEY INVESTOR INFORMATION DOCUMENT (KII) FOR STRUCTURED UCITS" – REF: CESR 10-530**

**Box 2**

Choice of the scenarios

1. When selecting, presenting and explaining the scenarios, management companies shall follow the overriding principle that the information is fair, clear and not misleading.
2. Management companies shall choose at least three scenarios of the UCITS' potential performance to illustrate how the payout works under different market conditions.
3. The scenarios shall illustrate:
  - the functioning of the formula in unfavourable, favourable and medium market conditions;
  - specific features of the formula, for instance a capped performance, or a level of leverage;
  - situations where some mechanisms of the formula have a favourable or unfavourable impact on final performance.

Depending upon the formula, more than three scenarios may be required to adequately describe the possible range of outcomes.

4. The examples used in favourable and unfavourable scenarios shall be based on reasonable assumptions about future market conditions and price movements.
5. The unfavourable scenario shall always be explained first.
6. The selected scenarios shall have a narrative explanation of the advantages and drawbacks of the formula where these are not included in the Risk and reward section.
7. The scenarios shall represent information which is complementary to and consistent with the information in other sections of the KII.

Question 1: Do you agree with the proposals in Box 2?

We find difficult to fit all the information, with a readable layout, in 2 or even 3 pages.

In Box 2, point 4 states that "The examples used in favourable and unfavourable scenarios shall be based on reasonable assumptions about the future market conditions and price movements". How will be defined and valued these assumptions?

Question 2: Are there any other scenarios which these guidelines should address?

No comments.

**Box 3**Presentation of the scenarios

1. The scenarios shall be called Illustrative examples. The narrative shall make it clear that they are not forecasts and that they are not equally probable.
2. Each set of scenarios shall be presented as either tables or graphs, whichever is the clearer way to present the characteristics of each structured UCITS. See the Annex for examples.
3. The illustrative returns in the various scenarios shall be displayed as an annualised rate of growth (with an appropriate explanation). However, the [capitalised/gross] rate of growth may also be shown.
4. To ensure the comprehensibility and the comparability of different graphs, the presentation shall avoid:
  - double scales (left and right) whenever possible;
  - artificially magnifying the positive aspects of the fund payout;
  - non-linear scales;
  - different scales depending on the scenario.
5. The narrative shall explain that investors can sell their units before the end date but it must include a prominent warning of the possible resulting loss on the investment.

Question 3: Do you agree with the proposals in Box 3?

In Box 3, point 3 states that "The illustrative returns in the various scenarios shall be displayed as an annualised rate of growth (with an appropriate explanation). However, the capitalised/gross rate of growth may be shown." Does this mean that the net rate should always be displayed?

Question 4: Is there any other guidance which should be given about the presentation of scenarios?

No comments.

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**Compliance Department****September, 10<sup>th</sup> – 2010**

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