



Fédération des Associations Indépendantes de Défense des Epargnants pour la Retraite
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CESR – Questionnaire on Simplified Prospectus for Retail Investors

FAIDER Responses

May 24, 2007

FAIDER represents about 800 000 individual investors in France.

We refer to FAIDER's responses to the EC orientations to adjust the UCITS Directive. We also refer to the presentation made by FAIDER at the EC Workshop on the Simplified Prospectus of July 12, 2006 (attached).

Question 1: what information should be included?

We strongly advocate for a SHORT, SIMPLE, and SINGLE FORMAT SP.

Therefore, this will require references back to such documents as the full prospectus in some instances (e.g. for more complex UCITS like structured ones).

Therefore we do not support a two parts approach, with a second part listing “less important legal information”.

We are not opposed to consider some technical terms to be explained in an appendix as long as the overall SP remains SHORT and SIMPLE.

Question 2: what substantive UCITS features do consumers need to know about?

We believe the SP should target the “average consumer” whose financial education level is already quite low. If one wants to target the less financially capable investors, it becomes too ambitious a project in our view, as we would switch not to what is primarily an information document but to education. The SP cannot encompass 100 % of cases. This issue is more adequately addressed by the advice duties of distributors as set by MIFID.

Question 3: what information should be provided about risks and rewards?

We support:

- a short narrative showing the pros and cons - including risks – of an investment
- a synthetic risk statement
- a statement of minimum recommended investment holding period (a must)
- the fund's and benchmark past performances

Nothing more (references to the full prospectus allowed if need be)



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It is crucial to include (as required by the SEC for US mutual funds for example) the benchmarks chosen by the asset manager as well, as the sole past performance of the fund is of little relevance.

Example: a European Equity fund performance for 2006 + 10 %.

This could look good to the investor in absolute terms. But its benchmark, the European equity index (MSCI Europe) moved + 20,2 % in 2006.

So, actually, the fund strongly underperformed its benchmark by 100 basis points in one year only.

The benchmarks must be objective, for example an asset-class index, not a peer group measurement.

In addition, the benchmark must not be misleading (e.g. using a “price” index (i.e. without dividends) instead of a return” index (with dividends reinvested) for an equity CIS that capitalizes dividends.

We believe that asset managers can always disclose a set of their benchmarks, even for innovative or complex funds. For example, “absolute return” products have de facto benchmarks, if only when they set a performance fee that triggers for a certain benchmark level.

For new and more complex products, if simulations are needed, a reference to another document MUST be made. But there is no room for this in the SP itself.

We suggest to follow AIMR guidelines when possible.

Question 4: what information should be provided about strategy and objectives?

OK with the approach except that a set of benchmarks MUST be included (see item 3 above).

Question 5: how should past performance information be presented, and for what time period?

- It should be presented in a standardized way
- We would favour a simple table, for example the one already required for US mutual funds (why “reinvent the wheel” all the time, if a method has proven effective for decades).
- It must include the past performance of the benchmark(s)
- The key sentence stating that past performance is no guarantee of future performance must be there in bold.
- We suggest to follow AIMR guidelines when possible.

Question 6: how should information about charges and fees be presented?



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See the EC Workshop Presentation attached

- We believe it is unfortunately not possible to combine all charges into a single figure. Attempts like the “cherries” presented at the April 26, 2007 Open Hearing do not include all charges (especially transaction costs), and they include too many different assumptions, making them difficult to understand, even for qualified investors. Transaction costs are the biggest obstacle to such attempts. In particular, bond funds cannot quantify transaction costs adequately, as they are mostly reflected in bid/offer spreads instead of brokerage fees. Fund accountants have a hard time isolating and translating these bid/offer spreads into quantified transaction costs.
- Costs disclosed should include:
 - the TER (all asset-based yearly fees), therefore the TER is not misleading and much less so than “management fee” , as it reflects not only mgt fees but also distribution charges)
 - the entry/exit fees
 - other fees like performance fees if any
- Not the transaction costs (a reference to those should be made to the full prospectus)
- In % and in a simple cash terms example, as many investors do not fully grab the measurements in %. There again, the SEC requirements for US mutual funds seem a good basis for discussion (see EC Workshop Presentation attached).
This format also has the benefit of combining the TER and the entry and exit fees in one single figure.
- Disclosure of the commission split: the TER should clearly be defined as including both “management” and “distributing” costs. As a compromise with the industry, and in line with MIFID provisions, we would not require a quantified split, but a statement that this split must be communicated by the seller to the investor so as to identify conflicts of interests risks.

Question 7: how could the packaging of funds into different end-products be handled?

- The short, simple and single format document must be provided to the individual investor, whatever the package is. We do not see why in that case the contents and/or format should be altered. Actually it would defeat the very purpose of the SP. For example, about half of mutual funds held by individual investors in France are held through unit-linked insurance contracts. We do not see why these investors should be treated differently in terms of information disclosure.
- But there is a legal issue for these wrappers: legally, investor information is ruled by member states’ insurance regulations, not by UCITS regulations. In fact, an investor subscribing to an insurance wrapper is not legally the owner of the underlying assets, even if he bears all the risks and rewards attached to these assets, e.g. UCITS (the insurer is). Moreover, the “units” represent UCITS shares but they are not UCITS by themselves. Therefore, from the legal point of view these investors do not invest in UCITS.



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- There is also a practical problem for unit-linked insurance contracts with a lot of “units” (funds), sometimes tens or more than a hundred. Then – the above-mentioned legal issue notwithstanding - the SP should be provided only:
 - a) for the units subscribed at the time of the contract subscription, and
 - b) after the contract subscription date, when a new unit is proposed by the distributor to the investor.
 - c) For all other cases, the investor must be informed of how to get the KII or SP when he subscribes to the insurance wrapper.
- Additional charges to the investor may occur in that case. Normally MIFID provides that the distributor discloses all the package’s costs and the aggregated costs to the investors. But it is a big drawback of MIFID that it stops short of regulating the sale of life insurance products, even if they merely wrap other financial products that are targeted by MIFID. And these contracts are direct competitors to UCITS.
- We do not see why the obligations of the distributors of financial products as stated in the MIFID, would not apply when these distributors sell competing products, not listed by MIFID.

Question 8: how far should the information be harmonized between firms and between EU Members?

As mentioned many times above, it is crucial that the info is always presented in a SINGLE FORMAT everywhere. As mentioned this was also supported by industry representatives at the Open Hearings.

Again , we would all be wasting our time if the Key Investor Informations (“KII”) were not to be delivered to the investors in a single format: it is the only way he can compare different UCITS offerings.

Question 9: would it be useful to specify how the form and mode of delivery of the information to the investors should be presented?

The simpler and clearer the better: use of colour, standard and clear warnings, pictograms could help as well. This will have to be tested with consumer panels.

Question 10: in what form should the information be delivered?

Web-based should be allowed as an alternative form, provided the investor gets it prior to subscribing.

Question 11: how should we ensure consumers get information in sufficient time for it to be useful for their investment decision?

The earlier the better, but definitively prior to the sale. For example, 3 days minimum before signing. Ideally, the SP should be included in the commercial info package.

COST DISCLOSURE IN THE SIMPLIFIED PROSPECTUS

The investor's view

Guillaume Prache
Vice Chairman, FAIDER



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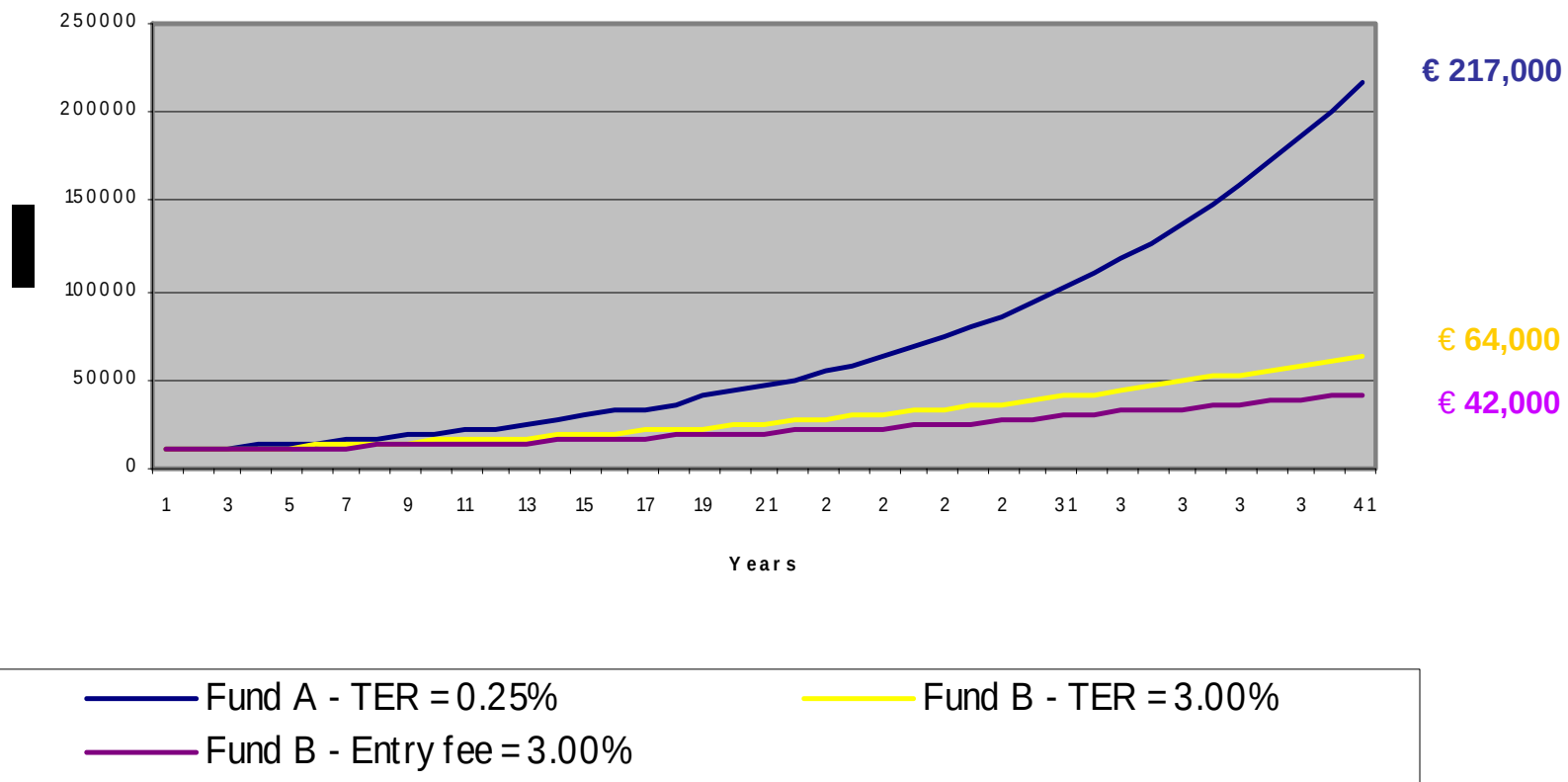
FAIDER - July 2006

COST DISCLOSURE



Real case: 2 CAC 40 (French large cap) Index Funds
Performance before fees = 8% per year

UCITS COST IMPACT on a €10,000 investment



COST DISCLOSURE

Why is it important: Cost matters

- “Minimizing cost is vital for long-term investment success” (Vanguard’s Investment Philosophy)
- It is the only sure thing the investor is going to get out of a UCITS
- It has a big impact on the net performance of financial investments. Studies (S&P, etc.) clearly demonstrate a long term reverse correlation between costs and performance.

Therefore, investors need a cost disclosure in the SP that is:

- 1. As comprehensive as possible
- 2. Understandable and comparable
- 3. Relevant

COST DISCLOSURE



1. As comprehensive as possible

- This is a challenge, given the diversity of costs borne directly or indirectly by the investor:

Charges based on subscriptions

Charges based on redemptions

Operational charges based on assets ("TER")

Performance-based fees

Indirect costs (expenses charged to underlying investments:

funds investing in other funds, fund wrappers like unit-linked insurance contracts)

Taxes

Dividends sometimes

Transaction costs (broker fees, some custody fees, bid / offer spreads, market impact)

Soft commissions

COST DISCLOSURE



Practical solutions:

- **Asset- and subs-based charges:**

The TER should consolidate / add both direct and indirect asset-based charges (see US, French requirements), taxes: “synthetic” TER
A requirement for unit-linked insurance contracts in France

Combine asset-based and subscriptions/redemptions based fees
(absolute amounts instead of %): see item 2. below

- **Transaction costs:**

Turnover rate: too little or too much ?
Change EU turnover definition

COST DISCLOSURE

2. Understandable and Comparable



“KISS”

Practical solutions

- **Costs in absolute numbers in addition to %** (USA, The Netherlands)

Advantages:

- simple & understandable by most
- comprehensive (includes TER + entry and exit fees)
- directly and quickly comparable between funds and possibly other investment products

- **Warnings from the regulator**

Some investments are charged way above 3% per annum, not counting purchase fees.

Some regulators issue a warning to individual investors (AMF)

COST DISCLOSURE



Example of US cost disclosure in \$ (Vanguard European Stock Index Fund prospectus)

The following examples are intended to help you compare the cost of investing in the Fund's Investor Shares or Admiral Shares with the cost of investing in other mutual funds.

They illustrate the hypothetical expenses that you would incur over various periods if you invest \$10,000 in the Fund's shares. These examples assume that the Fund provides a return of 5% a year and that operating expenses remain the same. The results apply whether or not you redeem your investment at the end of the given period.

	1 Year	3 Years	5 Years	10 Years
Investor Shares	\$28	\$87	\$152	\$343
Admiral Shares	18	58	101	230

These examples should not be considered to represent actual expenses or performance from the past or for the future. Actual future expenses may be higher or lower than those shown.

COST DISCLOSURE



3. Relevant: distribution cost disclosure ?

How to address potential conflicts of interest of distributors:

Selling funds with nice trailer fees or funds that best serve the investors ?

Real Case:

2 CAC 40 Index funds: same investment objective

Fund A: TER of about 300 bps with trailer fees

Fund B: TER of 25 bps without trailer fees

Which one the distributor is going to recommend ?

Practical solutions

- Product-based: USA, Switzerland (distributions costs disclosed in the product prospectus as one of the TER items)
- Distributor-based : UK (each distributor must disclosed his fees to the investor: "menu document")