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Reference

By electronic submission and by post

CESR
11-13 avenue de Friedland
75008
PARIS
FRANCE

Dear Sirs

Content and form of Key Investor Information disclosures for UCITS.

We welcome the opportunity to respond to the CESR's consultation paper on the above topic.

M&G is the UK and European fund management business of the international retail financial services group Prudential plc. It has over £156 billion of funds under management of which £115 billion relates to Prudential's long-term business. As at the end of December 2006, the combined assets under management in our retail investment funds business were approximately £20 billion, making M&G the fourth largest retail fund manager in the UK. M&G has been looking after savers since 1931 when it launched Britain's first unit trust. We now look after investments on behalf of more than 750,000 investors.

In 2001, M&G launched its international business and is now a major distributor of UK UCITS within the EU and more recently, in Asia. In the year to 31 December 2006 cumulative sales in Europe (ex-UK) amounted to Euro 3.3 billion and asset under management at the end of 2006 stood at Euro 3.9 billion.

As a major UK fund manager, with a UK UCITS range that is actively marketed cross-border the proposals in this CP are of significant interest to us, particularly in conjunction with the amendments to the UCITS Directive that are due to be published in early 2008. M&G has contributed to the work of the CESR Expert Group on Investment Management, the EFAMA KII Working Group (including work on risk indicators) and the IMA.

Comments on the CP

We have not attempted to answer all the questions posed in the CP but have answered those where we have a significant comment to make.

M&G, in general, welcomes this consultation and the proposals that aim to make the KII a short and clear document, containing only essential information that enables investors to make an informed investment decision. However we do have a number of important reservations that we outline in our response below. In summary:

1. Risk Indicators

It is important that risk disclosure ensures that investors are helped to make better investment decisions. We do not consider that a synthetic risk indicator provides sufficient clarity to investors about the risk/rewards in relation to a given UCITS. The recent credit crunch has demonstrated the limitations of certain methodologies that have been advocated for the synthetic risk indicator approach. We recommend that CESR adopt the narrative approach. We are not aware that there is any requirement for other “substitute” retail investment products to produce such information – so the effect will be either to create or widen an already un-level playing field. If CESR insists on consumer testing a synthetic approach then it should be on the basis that:

- there is an agreed and sound methodology in place before testing, and
- that the funds industry has had an opportunity to comment on the proposed documents that will be tested with consumers.

2. Delivery of KII

We consider that non-retail investors must “opt-in” to receive KII.

3. Status of document

We remain concerned at the liability attached to the fund providers in relation to document. There should be some form of “safe harbour” for providers who comply with the final KII requirements.

Whether this document is used for “marketing” purposes or not, there must be no pre-approval of the document by host state authorities/supervisors. This is particularly important as KII is intrinsically linked to the notification process and if the notification proposals are to succeed, it is essential that there is no host state challenge to the home state authorisation of the product and its associated documentation.

4. Gold-plating

We believe it should be made clear to national supervisors that they cannot require additional information to be added to the KII, nor go against the spirit of the KII by requiring such information to be set out in an additional document.

Where we have comments we have answered specific questions.

Form and Content of KII

Q4. Do respondents agree with the proposed scope and purpose of KII?

We agree. However, regardless of how the document is used, there must be no option for host state authorities to comment on, gold-plate or pre-approve its use (during the notification process or otherwise). This would also be our response to paragraph 4.29.

Q5. Should non-retail investors be permitted to opt out of receiving KII?

We believe a better approach would be not to provide KII to non-retail investors but to make it available on request, i.e. opt in. Professional investors are unlikely to be interested in the KII –

any due diligence on the UCITS is likely to be through the full prospectus, other material and with the fund provider.

Q7. Should CESR propose adopting a more prescriptive approach, for instance using detailed templates, or should it support a less prescriptive, more principles based approach?

Prescription provides for certainty and comparability – however it also needs to allow for special situations. Whilst we do not believe that investors comparing KII is likely to be common in practice, permitting a more principles based approach could provide an opportunity for regulatory interference as well as leading to differing standards of implementation. On balance, we favour a maximum harmonised approach to KII that allows for limited supervisory interpretation of requirements and no host state gold-plating of KII.

Q8. In relation to the proposals on content, should Option A (with fewer items) be favoured compared to Option B?

We favour a modified version of Option A that also removes the need to state the regulator and the tax regime of the home state. These items along with the name of the depositary and auditor (as mentioned in Option B) are not important in terms of deciding the merits of an investment at a pre-contractual stage. This also applies to Q10 and Q11 as well.

Adding in further information would make the document start to look like the Simplified Prospectus.

Q9. How should both options be tested with consumers?

We believe that only the modified version of Option A should be tested with consumers.

Q13. Do you agree that distribution costs should not be “systematically” unbundled within KII? Should there be flexibility to allow this where appropriate?

KII is a document that is short and concise and aims to provide the investor with information about the investment. It should not be used to try and set out payments made to distributors – the role of MiFID requires distributors to disclose payments received, the role of KII is for providers to set out their product charges.

Q16. Do respondents agree with the proposed treatment of fund of funds?

We agree to the extent set out in paragraph 4.37 (i.e. no look through).

Q17. Should separate KII be produced for each sub-fund of an umbrella? Should providers be permitted to produce a compendium for all the sub-funds of an umbrella if they wish?

We believe that regulations should be drafted to allow combinations of KII to be bundled as one document and sent to investors, e.g. European Funds, or income/growth product offerings. Providers should be permitted to produce a compendium that can be provided to investors that may be looking or considering more than one fund, or who maybe unsure about their options or wishing to see the range of funds on offer from a given management company.

Q18. Do respondents agree with the proposals for treatment of unit / share classes? In particular, should providers be permitted to produce KII featuring a representative share class?

If, as we suggest, KII are supplied solely to retail investors (and that non-retail investors have to opt-in) then it makes sense to just show a representative share class and for that to be the retail share class. It should be a commercial decision for providers to decide whether they wish to produce KII for other share classes within a fund.

Fund's Investment Objective and Strategy

Q24. Do you agree that giving management companies the opportunity to flag funds that have not been designed for non-sophisticated investors, with no legal consequences, would help in preventing missellings, especially in the case of “execution only” subscriptions?

There should not be any requirement to state who these funds are designed for. UCITS by their very nature are designed for the public, otherwise national regulators should not be authorising them. Additionally UCITS are deemed “non-complex” under MiFID. We would therefore be extremely concerned about any further unnecessary attempts to define UCITS. Any investor should be able to invest in a “riskier” UCITS if they have received advice or insists on dealing in an “execution only” manner. It should also be borne in mind that there are extremely limited circumstances in which a UCITS can refuse to deal with investors.

Risk Disclosure

Q25. Do you agree that the presentation of a synthetic risk indicator should be favourably tested with stakeholders and consumers?

We do not agree that the synthetic risk indicator route is the correct format. We would advocate that a narrative approach be adopted. On that basis we do not agree with testing the synthetic approach with consumers. We believe that the synthetic indicator could in itself be misleading for a number of reasons (including but not limited to):

- it is difficult to explain the risk/reward nature of funds in this format,
- it does not help investors compare across all savings/investment products,
- we believe it is very difficult to express all the risks of a fund based on a number, letter or colour,
- it could be mis-interpreted by investors and does not help in looking at an overall balanced portfolio position, and
- it is difficult both to explain what the indicator does not cover and to expect the investor to understand that.

Should the Commission pursue such consumer testing, an important first step will be to ensure an agreed and acceptable methodology is in place. We believe this is a significant issue and it may prove impossible to find the right methodology. The recent credit crunch has exposed the limitations of the VaR approach that many have advocated. In addition, before any consumer testing is undertaken, the industry should be given an opportunity to comment on the proposed documents (for example, to ensure a fair comparison between the methods).

We remain concerned about the liability status of the document. It should be clear to both national supervisors and ombudsmen that it will not be possible to explain every single risk or possible item of non-disclosure in a two page document.

Past performance

On this issue, our view is that:

- there should be no requirement to compare against a benchmark if a fund is not managed against one,
- past performance should be capable of being shown in the appropriate reference currency (e.g. based on the location of the investor or where the fund has various currency class shares).

Charges

Q38. Has CESR identified the best overall options for including information about charges in the KII?

We believe that Option A is the most appropriate way forward given that it discloses the key charges in a readily understandable format and does not overburden the investor with unnecessary information. We do not see any need to include "effect of charges". This also answers Q39.

Q40. Should options for the disclosure of charges in cash terms be explored further?

We do not consider that this is necessary. The information would take up a considerable amount of the limited space available in a two sided document. Providing too much information to investors that may cause confusion and discourage investors from reading the document.

Consumer testing KII

Our views on consumer testing have been set out in our responses above.

Conclusion

Whilst we welcome CESR's consultation on KII, and support a number of the proposals, we have a number of reservations and comments that we have outlined above.

We hope this response helps in shaping the final outcome of the KII. Please let me know if you would like to discuss this further.

Yours faithfully



Peter Grimm
Head of Fund Regulatory Development, M&G Securities Ltd