

CESR Consultation on content and form of Key Investor Information disclosures for UTICS

Chapter 2

1.Are respondents aware of other research that is relevant to the market and regulatory failures associated with SP?

No.

2. Do respondents consider CESR's proposals would address the regulatory failures associated with the SP?

We believe that the main failure and challenge is to balance the information detail that should be provided with an adequate length that allows investors to sensibly find and extract the relevant information.

Theoretically the suggestion to generate a KII is good, but the KII maintains the same risks already identified in the process of generation of the SP, and we believe that retail clients may feel deceived with the pre-contractual information received if they conclude later that the investment was not done with the best knowledge of the product. On the other hand, the KII withdraws a part of the information included in the SP that we believe is relevant to investors. Thus, we believe that the risks are maintained, while we are sceptical regarding the practical results.

Chapter 3

3. Do respondents think that CESR has accurately described the context in which KII is likely to be used, and has correctly identified outstanding issues?

Yes.

Chapter 4

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

Yes. We nonetheless would like to note that the KII runs the risk of having insufficient information for investors' needs if it is further streamlined to cope with maximum length. This would reduce service levels and add a risk of higher claims due to lack of relevant information in the future.

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

Yes.

6.Do you think that CESR's proposals on general presentation are appropriate?

Please refer to our answer 4.

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

We believe it will be difficult to impose a single model and a more principles-based approach seems to be more practical. However, this option will tend to be interpreted by each MS in a different way and positive results for investors will be very doubtful.

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

Following the line of CESR' s questionnaire we would prefer Option B (without one or two pieces of information).

9.How should both options best be tested with consumers?

We believe that the best ways would be testing consumers through consumers' associations or commercial networks used by clients.

10.Has CESR correctly struck the balance between reducing the information provided and ensuring investors receive the key messages they need?

As referred in previous answers, we have doubts that a correct balance has been reached yet, and believe that there is still work to be done.

11.Should the competent authority of the fund and the tax regime of the fund in its Home Member State be included?

The name of the competent authority of the fund should not be included.
The tax regime of the Home Member State should be included.

12.Do you think other items of information are necessary? If so, which ones in particular?

We believe that the information included in the SP is the relevant one and that less than that will not be enough.

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

Yes to both questions.

14.Does the proposed approach to local information (a harmonized section for local information within KII that would be precisely delineated) achieve a correct balance between the need for local information and the smooth functioning of the passport? Is a more radical approach (e.g. signposting local information to a website) feasible and appropriate?

In our opinion, both hypotheses will achieve the purposes.

15.Should a "building block" approach be permitted, whereby providers can produce different parts of the KII separately?

Yes.

16.Do respondents agree with the proposed treatment of funds of funds?

Following the logic of the CESR approach, yes.

17.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?

Following CESR's logic, as we understand it, no, because detachment of sub-funds from the fund of funds is the purpose. However, as a fund of funds is a set of funds, each one will have a specific KII produced by the providers.
The answer to the second question is yes.

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

The treatment of unit/shares classes should be individual, because the presentation of the highest-level class induces the investor to a kind of instrument that may not be the most appropriate for its investment profile.

Chapter 5

19. Do you think that CESR's proposals on the presentation of the strategy and objectives of a fund is appropriate?

Yes .

20. In particular, is it relevant to merge strategy and objectives into one generic item?

We do not believe it is relevant, but it may be clearer to the investor and eliminates redundancies, which occur when distinction between the two items is done.

21. Is the streamlining of the current applicable Recommendation relevant for the purpose of focusing the description on key elements? Do you agree with the addition of new key items to mention within that section: guarantee, period of holding inappropriate if any, design also for retail non-sophisticated investors?

Yes to all questions.

22. More specifically, do you agree that it should be required that in case the capital is not legally guaranteed, the term guarantee should not be used in the KII, and it should be briefly mentioned to investors how the protection is achieved? In case the capital is legally guaranteed, do you agree the guarantor should be mentioned? Do you agree that it is necessary to mention explicitly that a fund is not capital guaranteed ?

Yes to all questions.

23. Do you agree that mentioning whether it would not be appropriate for the investor to invest into a UCITs, if he anticipates the need to redeem within a defined time period to be stated, is the appropriate way to deal with the time horizon issues without leading to misunderstandings?

We consider that this is not an appropriate way to deal with this issue. We believe that investors could be confused or misled by this information, as their redemption expectations and reasons for redemption may be uncertain and unknown. We would prefer if investors were fully informed regarding redemption conditions, in order to make an appropriate and informed investment decision.

Should CESR understand that this particular form of information is critical, which we do not, we would suggest a more positive communication approach to investors, e.g. "More appropriate to invest into a UCITs, if he anticipates the need to redeem after a defined time period to be stated".

24. 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 misspellings, especially in the case of "execution only " subscriptions ?

Yes.

Chapter 6

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

Both the narrative approach and the synthetic risk indicator have advantages as well as limitations. Narrative can cover all the risks, but might be difficult to understand for the average retail investor. A synthetic risk indicator is easier to grasp for the average retail investor, but does not adequately cover all risks related to a fund and would therefore be misleading. We suggest that a different approach should be tested, combining both elements (a synthetic risk indicator complemented by narrative).

26. What specific presentation (icon, wording, numeric scale...) should be favoured and on what basis?

We would prefer a numeric scale, but it should be sufficiently wide to cover distinctions among funds. A scale that is too limited would concentrate too many funds in one risk category and therefore be less useful (1 to 7 at least would be recommended).

27. How prescriptive should regulators be on the choice of a methodology, given that it should take into account commonly shared risk management practices and suit investors' perception of risks?

The methodology should be clearly defined, for all types of funds and also for new funds. Should the chosen methodology not be applicable, an alternative should be prescribed or else it should be clearly stated that no risk indicator should be provided.

The methodology should be defined by industry, and endorsed by CESR. It is essential, however, that the methodology choice be binding for all regulators. Should a Level 3 CESR decision not ensure the necessary certainty of harmonized implementation, different measures should be considered.

28. Are you aware of any specific existing calculation methodology that should be proposed?

As a calculation methodology for a risk indicator, we suggest using the volatility of past returns, on the basis of the fund's NAV. The advantage of using such an ex-post approach is that NAV calculation is already standardized, and there would not be any need to agree on many parameters. Furthermore, this number is completely based on information already made public and can thus be verified externally. For new funds, the calculation could be based on the benchmark of the fund.

29. Is the suggested assessment grid at Annex 4 for methodological and presentation issues appropriate and sufficient for identifying a relevant methodology?

The suggested assessment criteria in Annex 5 (not Annex 4) seem sufficient.

30. How could the potential limitations of the quantitative calculation of a synthetic risk/reward indicator be further mitigated?

Through written communication about the meaning of the scale and degree of risk, detailing what is behind the classification.

31. Do you agree that the possible limitations to a risk/reward indicator might be effectively communicated to consumers through textual warnings? Is the proposed wording appropriate?

As we stated in our reply to Question 25, in our opinion it would be misleading to replace entirely the narrative with one synthetic indicator representing only a part of all fund risks, simply due to investors' aesthetic preference, or because it was deemed that the average investor would not understand anything beyond a color-coding or a simple scale. Such result would not be helpful to investors, might cause disappointments and damage confidence in the asset management industry, and would not represent good consumer protection.

We believe that a great effort should be made in simplifying the Key Investor Information for retail investors, but the integrity and completeness of the information should not be entirely sacrificed. It is very important to educate the prospective investor as to the limitations of the synthetic risk indicator, so as to avoid excessive reliance on it.

Most indicators in use give an indication of the volatility of past returns (standard deviation) or of the likelihood of achieving a positive (or a negative) return (VaR). Important risks such as liquidity risk, credit risk, sector or country risk might -- depending on market phases -- not have been fully reflected in the fund's history.

CESR's current proposal of narrative accompanying the risk indicator in the "Risk and Reward Profile" section is inadequate. It includes information that is not relevant (e.g. the description of risk in Category 1 when the fund presented is in Category 5) while lacking a clear definition of the main fund risks and of the meaning of the risk indicator.

32. Which funds or which risks might not be adequately captured by a quantitative methodology?

The following types of funds might not be captured by a standardized methodology as discussed in the answers to the previous questions, though possibly by individual quantitative measures. This is the case in particular for funds with a non-linear dependence on market prices e.g.:

- "Formula funds" i.e. funds where the payout at a future date follows a fixed formula depending on market prices of the underlyings;
- Funds with strongly non-linear strategies like for example discount strategies;
- Protection funds.

A standardized approach also does not work for funds where the risk is variable like for example:

- Life cycle products;
- In general funds with a large possible variation of their risk level, possibly due to a change in strategy. These might include absolute return products of that characteristic. Absolute return products with a rather constant risk level, however, can also be treated using a standardized risk indicator.

33. Could the display of scenarios or tables illustrating the behaviour of formula funds enhance the information disclosed for those funds? Do you think that such presentations should be limited to formula funds? Do you think that such presentations might have some misleading effects, might be manipulated, or mistaken for a guarantee? How could these be addressed and reduced? Do you think that such disclosure should be made in a harmonised way? What could be possible ways of showing prospective scenarios?

For the types of funds mentioned in the answer to question 32, a standardized approach might be misleading and should not be used. Instead, these products should be labelled as carrying "non-standard" risk in a suitable way and different information should be given.

In the following we list conceivable options for those types of funds. In all those non-standard cases, we think that there should be a prominent, additional reference to further sources of information (prospectus, websites, etc.), since any Key Investor Information document with limited space most likely cannot convey all risk relevant additional features comprehensively, but only describe the key features of a product.

Formula funds: due to the large diversity and the deterministic nature of those products, we think that a brief description of the "formula mechanism" would be needed. Diagrams and description of possible different outcomes might be helpful for specific funds, but we doubt it would be possible to display them in a standardized KII format and within the space available. We would therefore suggest to refer investors to a website or a more detailed information source.

Funds with strongly non-linear strategies: due to the large diversity of those products, we do not see a single quantity that characterizes the risk of all those funds equally well. Therefore we also recommend a brief narrative on the risk profile.

Protection funds: a brief description of the current guarantee and the guarantee mechanism should be added prominently enough. For some protection funds (e.g. those with revolving guarantees or lock-in mechanisms), the standardized risk indicator might still be given in addition.

Life cycle products: these funds do not necessarily have a particular, non-standard risk profile at a specific date, but their risk level typically varies over time and is strongly reduced

towards the end of their individual horizon. Thus for those types of funds the investment horizon should be given, together with a comment stating that the risk level varies over time according to this horizon and potentially further information like e.g. a maximum equity allocation, if applicable.

Funds with a large variation of their risk level: also for these funds, there is not a single measure characterizing their risk in general, so again a brief narrative should be added, mentioning in particular the criteria according to which the overall risk of the fund is set and – if applicable – giving an indication for the maximum possible risk.

34. On the narrative side, do you agree with the suggested high-level principles?

Regarding the principles in Para. 6.9, we agree with principles 1, 2, 4 (mention of use of derivatives and/or leverage), 6 and 7.

We disagree with CESR's suggestion in Principle 3 that the narrative disclosure should convey "...in qualitative terms and based on qualitative assessment, the likelihood of loss or gain and the size of these". We agree that investors should be informed about a possible loss of capital, but it is not feasible to be more specific regarding gains and losses than the general wording example in the mock-up.

Regarding Principle 5, we do not believe that the wording "...should foster comparability between products, for instance including references to the risk profile of other fund types", as the KII should contain product information, not consumer education.

We are very well aware of the fact that no extensive explanation of many risks is possible in the limited space of the Key Investor Information, nor should the narrative reach the extreme levels sometimes found currently in some simplified prospectuses. In the future Key Investor Information a mention of the main risks with a brief description should suffice, with a reference to the full prospectus (or a website) for a full discussion of all risks. Should the language in the KII be too difficult for the average investor, at least he/she would be alerted to certain risks, and could ask an advisor for clarification.

Chapter 7

35. Is CESR correct to recommend that information about past performance be included in the KII?

Yes.

36. Has CESR identified the right areas and ways in which this information should be standardised?

Yes.

37. Which charges should performance fees take into account? For instance should figures include allowance for subscription and redemption fees?

All charges should be supported by the fund. The fund should also support subscription and redemption fees if this income is accountable in the fund; if not, it should be mentioned, but should not be included in the calculation.

Chapter 8

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

Yes.

39. Should a "consolidated" charges disclosure be included and how should it be described?

In our opinion, option B is correct and illustrates the way the disclosure could be written.

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

Yes.

41. Do you have any comments on how charges should be organised (e.g. between charges relating to subscribing and redeeming units, ongoing fund charges, and contingent charges), labelled (e.g. initial charges, exit charges, ongoing charges) and the accompanying narrative messages regarding what they include or exclude? How much detail is necessary in a document like the KII?

We have no comments on this. The only point to be considered is that information to clients should be clear and complete.

42. In relation to the handling of ex-post and ex-ante figures, is it appropriate to include only a single figure for ongoing fund charges in the KII, and if so, on what basis? Do stakeholders have any particular views as to the handling of such information?

We have no opinion, as we do have no consumer testing on this matter. In technical terms, it would be indifferent.

43. How should situations where there is a material change in charging levels be addressed?

It should be addressed in the simplest way to the client.

44. Should portfolio transaction charges be included or excluded from the disclosure of ongoing fund charges? If they should be included, how should assets for which transaction charges are not readily available be handled?

We believe that this information is relevant because the amount of charges may be directly crossed with the profitability of the fund, resulting in a positive or negative evaluation. However relevant, we believe that this information should only be disclosed or accessed at request of the client since it is not direct and easy to read.

Thus, assuming that the information about portfolio transaction costs is considered relevant for clients, we believe that the existence of this information should be noted to clients, who could be directed to detailed figures through a regular means of communication (Internet, prospectus or other).

45. Has CESR identified the best option for handling performance fees in the KII?

No, we believe it has not. We are adamant in this point, as we believe that this information is relevant to clients and should be fully disclosed regardless of the space it occupies. Thus, we find that it is doubtful to opt for the length of the document instead of enlightening investors.

46. Do you agree CESR should recommend that charges are disclosed on a maximum basis?

The disclosure of information using the maximum basis may distort reality if big discrepancies exist in each type of charges (e.g. distribution fees by channel, portfolio transaction charges by type of fund, etc).

We believe that channel-specific KII disclosures should apply.

47. Are there any options for providing more accurate information, in a way that consumers might understand, about charges under different distribution arrangements?

We do not believe that there are any other relevant options besides the ones proposed by CESR.

48. Do you agree that CESR should recommend that charges for a feeder fund and its master be combined into a single disclosure in the KII?

No, we believe that they should be separated.

49. Do respondents have any comments on the proposals for consumer testing?

No.

50. Do respondents have any initial views on the one-off costs of replacing the SP with KII?

We have not yet made any specific estimate regarding this matter. In Portugal, the SP has one leaf (two pages). Therefore, the costs to summarise this should be insignificant.

The previous work necessary to extract the information to be included in the SP always has to be done (for the CP), so the impact on costs should not be substantial.

51. Do respondents have any initial views on the on-going costs of KII, compared with those currently included in producing the SP?

No; but we believe that they will be similar.

52. What, if any, transitional arrangements should there be if the SP is replaced with KII?

Small impact is expected, as only the drawing of the template should be changed.

53. Is the gradual introduction of KII feasible?

Yes, but we highlight that it would not be our recommendation.