

Il presente elaborato è il frutto di valutazioni coordinate tra le seguenti 5 associazioni di consumatori italiane:

| ASSOCIAZIONE          | NOMINATIVO         | TELEFONO          | E-MAIL                     |
|-----------------------|--------------------|-------------------|----------------------------|
| Adusbef               | Mauro Novelli      | +39 06 4818632/33 | mauronovelli@adusbef.it    |
| Adoc                  | Mariella Patriarca | +39 06 45420928   | pamariella@yahoo.it        |
| Assoutenti            | Mario Finzi        | +39 06 6833617    | mariofinzi@hotmail.com     |
| Codacons              | Luciano Fanti      | +39 06 3725809    | info@studiolegalefanti.com |
| Movimento Consumatori | Claudio Belli      | +39 06 4880053    | belli@giusconsumeristi.it  |

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### ANSWERS TO CESR CONSULTATION PAPER 09-522

CESR's technical advice at  
level 2 on the format and  
content of Key Information  
Document disclosures for  
UCITS

#### Content of Key Investor Information

#### Questions for the CESR Consultation paper n. 09-522

*Do you agree with the proposals in Box 4?*

*In particular, do you agree that the information shown is comprehensive and provides enough detail to ensure comparability between KIDs?*

*Are there any other matters that should be addressed at Level 2?*

\* \* \*

#### ANSWERS

Proposing a mutual fund classification system which borrows the same terminology and jargon used by financial professionals is contrary to spirit of the Key Investor Document. In fact, KID should represent, in clearly expressed terms and plain language, key information enabling investors to effectively take investment decisions on an informed basis.

Therefore, any classification system should be based on predefined and standardized criteria, and on a systematization of the financial characteristics associated with investment products.

For example, the financial guarantee bundled in a guaranteed mutual fund may not fully represent its financial characteristics as the same type of guarantee may be bundled with mutual funds having, for example, very different management styles and volatility.

On this point, it is worth to remark that we consider the suggested/minimum investment horizon (see Box 4, letter d) as a fundamental information to be provided to investors. Together with information about costs, both one-off and on-going, which clearly affect also the

recommended/minimum investment horizon, such information can effectively contribute to a fair representation of the proposed investment and should not be confined to the bottom of a list of disclaimer.

With regard to the other matters which should be addressed by Level 2 regulation, our opinion is that there is still an excessive heterogeneity in the way the disclosure on the risk-reward profile of mutual funds is conceived by the various European surveillance Authority. For this reason a good solution could be that one of identifying, by the KID, only the main principles of transparency (to be fully shared by the different participants to working group), while the regulators of each member State should be given the competence to establish in a more detailed way the prospectus contents for all mutual funds offered and marketed in that State. This would ensure that investors of a given country would always face the same structure of the offering documentation, and, as a consequence, that they can compare more quickly and easily the multitude of UCITSs offered to them.

#### **Questions for the CESR Consultation paper n. 09-522**

*Do you agree with the proposals for presentation of risk and reward in Box 5B? In particular, is the proposed methodology in Annex 1 capable of delivering the envisaged benefits of a synthetic indicator?*

*Does the methodology proposed by CESR work for all funds? If not, please provide concrete examples.*

*Respondents are invited to take account of the methodology set out in Annex 1, as supplemented by the addendum to be published by the end of July, when considering their view on the questions above.*

*Are there any other issues that CESR should consider if it decides to recommend this approach to the disclosure of risk and reward?*

#### **Questions for the CESR Consultation paper n. 09-716**

*Do you agree with the criteria considered by CESR to formulate its proposals regarding the volatility intervals? Are you aware of any other factors that should be considered?*

*Which option (A or B) do you see as more appropriate for the KID?*

*Do you agree that introducing some rules for assessing migration is desirable?*

*If so, which option (2 or 3) do you think is more appropriate?*

\* \* \*

#### **ANSWERS**

We agree that risk and reward disclosure should take the form of a synthetic indicator (SRRI). Moreover, the information conveyed by the SRRI should be easy to understand and comparable across mutual funds.

As the assignment of a risk class to a mutual fund should be based on the volatility of its potential returns, we do agree with the methodology for the computation of the SRRI based on volatility intervals. More specifically, between the two options described in the Addendum, Option A should be implemented as it is the only option based on a robust and consistent methodology. Moreover, Option A is coherent with the most appropriate Migration Rule, that is Migration Rule no. 2 described in the Addendum.

We do not agree with complementing the SRRI with a narrative description in order to assign a risk class to those mutual funds which could not be easily assigned a risk class. In fact, the methodology is definitely applicable to all types of mutual funds. For the same reason, we do not agree with including mutual funds exhibiting anomalous trends, or funds which cannot be easily assigned a risk class, in the highest risk class. As the methodology is applicable to all types of funds, the highest risk class should include only the mutual funds with the highest risk. If not, it may happen that conventional but very risky funds, along with unconventional – and therefore more difficult to classify according to the SRRI class – but potentially low risk funds, would be assigned the same risk class.

Finally, though representing the risk level with a number could be useful for financial professionals, it is contrary to the spirit of the KID, whose information content should be immediately grasped by the investor without the need to complement the numerical scale with an illustration of its meaning. Therefore, representing an increasing scale of risk using a sequence of words associated with increasing levels or intensities would be a better choice as it combines both the robustness of a numerical scale and the ease to immediately understand

its meaning.

**Questions for the CESR Consultation paper n. 09-522**

*Do you agree with the proposals in Box 6?*

*In particular, do you agree the table showing charges figures should be in a prescribed format?*

*Do you agree with the methodology for calculating the ongoing charges figure?*

\* \* \*

**ANSWERS**

We consider Proposal in Box 6 a useful information as long as it is based on non-misleading criteria. More specifically, it is important that investors know the cost charged to the fund are actually paid by them, and that those costs may have a significant impact on the growth of the investment. Eventually, the return on the investment at the recommended/minimum investment horizon would also be significantly affected.

Moreover, information on potential performance costs can be effectively conveyed by a table, showing the unbundling of the financial investment, calculated using the same methodology adopted to calculate performance scenarios. Such table could take into account both one-off and on-going costs and represent the expected value of all the costs charged to the investors.

In general terms, a diligent, professional and accurate calculation of the performance scenarios would allow to assess the potential impact of any type of costs, including performance costs. Indeed, information on past costs is valuable for investors, but it cannot be the only data about costs to provide investors with.

**Questions for the CESR Consultation paper n. 09-522**

*Do you agree with the proposals in Box 8?*

\* \* \*

**ANSWERS**

As we described in the previous answer, the valuation of costs and charges based on the same methodology used to calculate performance scenarios – which in turn is related to the recommended/minimum investment horizon – can be applied to any type of funds, including new funds and funds subject to a substantial revision of their financial engineering.

**Questions for the CESR Consultation paper n. 09-522**

*Do you agree with this approach? If not, which alternative approach would you prefer?*

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**ANSWERS**

If the fund belongs to the “market funds” category, it means the management company designed and implemented the fund’s financial engineering having a specific benchmark as a reference point. Therefore, disclosure of a benchmark should be mandatory in case of “market funds”.

Moreover, when the performance of a market fund is not available (e.g. in the case of a new fund) it is important to show the performance of the benchmark: not doing so would leave those investors assessing the financial product with no reference points for their decisions.

**Questions for the CESR Consultation paper n. 09-522**

*Do you agree with the above CESR proposals on performance scenarios? In particular which option (A or B) should be recommended? If not, please suggest alternatives.*

**Questions for the CESR Consultation paper n. 09-716**

*Do you agree with CESR’s proposal concerning the methodology to compute the SRRI of structured funds? If not, please explain and, if possible, suggest alternatives.*

*Do you agree with CESR’s proposal to use VaR as an (intermediate) instrument for the measurement of volatility? Is the proposed VaR-based approach appropriate to convey correct information about the relevant return volatility of structured funds?*

*Do you share the view that the solution proposed by CESR is flexible enough to accommodate the specific features of all (or most) types of structured fund? If not, please explain your comments and suggest alternatives or explain how the approach could be adjusted or improved.*

*Do you agree with CESR’s decision not to promote further the adoption of the delta representation approach for the computation of volatility of structured funds?*

*Do you consider it possible and appropriate to allow the use of Monte Carlo simulations for the computation of the SRRI of structured funds? If yes, please explain whether these methods are more suitable for the computation of VaR or, directly, for that of volatility measures.*

*Do you believe that it would be possible to avoid significant differences in the outcome of such simulations across management companies? What should be the key methodological requirements needed to avoid such divergences?*

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## **ANSWERS**

As far as the performance scenarios are concerned, we are convinced that any analysis and valuation carried out without a diligent, professional and accurate calculation of the probability of financial events can only provide partial and often incomplete information.

The probabilistic table shown under “Option B” is clear and adequately laid out, and it enables investors to assess the potential risk and rewards of the investment, as it discloses the probability that events occur in relation to the performance of the risk free asset.

It is therefore desirable that the probabilistic table shown under “Option B” is adopted for any type of funds, irrespective of the availability of returns time series or in the presence of significant revision of the fund’s financial engineering.

Moreover, the methodology underlying the calculation of the performance scenarios – based on Monte Carlo simulations – can be effectively used to calculate the SRRI of structured funds as an alternative to methodologies based on VaR or on the so called delta-approach, and it would also guarantee the overall consistency of the information on risks and potential returns.

It is worth remarking that the use of Monte Carlo simulations, when assisted by adequate methodological requirements, such as the risk neutrality principle, it ensures objective and comparable results across mutual funds and management companies. Finally, we do not support the use of the expression “risk free asset” as it refers to a theoretical concept: it would be more correct to use “lowest-risk investible asset”.