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**Consultation paper on technical issues relating to Key Information Document (KID) disclosures for UCITS**

Dear Sirs,
the mentioned paper contains a wide range of issues and interesting proposals concerning the minimum relevant information for a potential investor in UCITS funds.
I am pleased to have the possibility to provide some suggestions on a few questions raised by the Consultation.
I follow the numbers given in the paper.

1. The proposed methodology based on the returns volatility (Option B- synthetic risk and reward indicator) is simple, comprehensive and easy to implement. Its quantitative content is, at least in broad sense, known to the average investor and sufficiently uniform to be compared across products and firms.
Given that volatility is more sensible to data frequency than to data span, it could be considered also (when available), the possibility of a daily data calculations.

2-3. To the extent that various types of risks reflect themselves in the levels of prices (and variations of risks in price changes), volatility will reflect synthetically all different risk factors.
One important point is the existence of active and deep markets in the basic components of the fund.
The main drawback of volatility is the presence of asymmetry in return distributions.
This case, if documented, could be signalled in a note.

4. The possibility of 'bunching' of funds in one or two categories depends on the appropriate definition of volatility intervals for each class.
In any case, it is possible, for example in periods of general bear markets, for a large part of the supply of funds to be concentrated in the low-risk classes.

5.-7. The proposed typology of funds **market / strategy / structured** could be reassessed toward the more fundamental: **relative / absolute risk / absolute return**.
Market funds are essentially relative (i.e. benchmark) funds.
In this case, the reference to a (composite) benchmark should be a good proxy and it should avoid the use of risk 'add-ons' (ad-hoc) devices.
Strategy funds are in most instances absolute risk funds and the proposed methodology seems correct.
Structured funds are often absolute return funds (including guaranteed funds).
In this case, the unbundling approach, useful both for new and old funds, could be used in order to identify the replicating portfolio and the implied volatility of the fund.
In this respect, a significant risk and reward disclosure could be obtained through the simulation approach and the "probability table" in which the structured fund is compared with a risk-free fund, well defined both in theory and practice (see below).
8.-11. In general, the use of risk 'add-ons' and exclamation marks should be avoided because largely arbitrary.

Category 7, anyway, could be used as max risk and unknown risk in order to discourage the supply of extremely exotic products.

12.-13. See 1.

14. Ok

15.-16. The data sets of available funds could be used to calibrate the numeric intervals defining the 7 categories, taking into accounts the time variability of volatility estimates.
It is plausible that a non-linear scale clustering would be obtained.
Each fund should monitor its volatility considering that a protracted (2 month?) evidence of higher/lower vol with respect to the stated category should imply a migration.

17. Ok

18. Ok

19. See 8.

20-22. Ok on the disclaimers.
I would include a note on an asymmetry measure (>0 if right asymmetry; <0 if left asymmetry).

23.-28. When effective past performance is available it must be provide in the KID. I would include bar charts and return numbers.
The proposed framework seems sufficient and appropriate.

32.-33. Good practice 2 seems more appropriate.

34-35. Harmonised guidelines at a European level are preferable to a national level approach.

36.-37. The benchmark should be included only if identified in the fund's objective (relative funds).

38. Yes.

39. -40. The use of benchmark as performance information is deceptive.

41.- 42. Yes.
43. Yes.
44. No.

45.- 53. Back-testing must be avoided in official KID.

54. 57. The only possibility to include scenarios in KID is using the (forward-looking) methodology of risk-neutral probabilities, to be applied to funds without past performance or proxy as well as to incumbent funds.
The probability table could be enriched with the average return in each event.
The table is easily understandable and all the technicalities necessary to its implementation are well known and currently used by the fund risk manager so that, in general, no extra effort is required.

With my best regards,

Riccardo Cesari                                        Bologna, May, 15, 2009