

ZENTRALER KREDITAUSSCHUSS

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VERBAND DEUTSCHER PFANDBRIEFBANKEN E.V. BERLIN

Mr Carlo Comporti
Committee of European
Securities Regulators (CESR)
11 – 13 Avenue de Friedland
75008 Paris
FRANCE

10785 Berlin, 8 September 2009
Schellingstraße 4
Tel.: + 49 (0) 30/20 21 – 1610
Fax: + 49 (0) 30/20 21 – 19 1600
Dr. La / sk

**Addendum to CESR's consultation paper on the format and content of Key
Information Document disclosures for UCITS
(Ref. CESR/09-552)**

CESR/09-716

AZ ZKA: EG-INV-RE

AZ BVR: EG-INV-RE

Dear Mr Comporti,

We are grateful for the opportunity to comment on Addendum to CESR's consultation paper on the format and content of Key Information Document disclosures for UCITS. Please find enclosed our comments to the Addendum to CESR's consultation paper. Please feel free to contact Mr Diedrich Lange in case of any queries.

Yours sincerely,

on behalf of the Zentraler Kreditausschuss
Bundesverband der Deutschen
Volkbanken und Raiffeisenbanken e.V. BVR
National Association of German Cooperative Banks



Gerhard Hofmann

by proxy

Dr. Diedrich Lange



Enclosure

Z E N T R A L E R K R E D I T A U S S C H U S S ¹

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Response to the Addendum to CESR's consultation paper on the format and content of Key Information Document disclosures for UCITS (Ref. CESR/09-552)

CESR/09-716

September 2009

Ref. ZKA: EG-INV-RE

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¹ The ZKA is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks financial group, and the Verband deutscher Pfandbriefbanken (vdp), for the mortgage banks. Collectively, they represent more than 2,200 banks.

1. 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?

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

As already explained in our contribution to the main consultation, we object to the introduction of a SRRI and prefer the narrative approach. Anyway, in case of the introduction of the concept of the SRRI we see Option A as more convincing from the viewpoint of an investor because it presumably contributes to an enhanced stability of the risk classes during the investment and therefore could improve the prognostic quality of the investment advice. Last but not least seen under the provisions of MiFID and the necessary suitability of the investment for the preferences of the investor, this is a crucial aspect for the investment advice given by the distributing and consulting credit institutions.

In addition, we are against a fixed system of risk classification with a fixed number of risk classes. This is a point which we already elaborated in greater detail during the previous consultation. From the point of view of a distributor credit institution, it remains unclear how the risk categorisation interacts with its own obligations under Art. 19 (4) MiFID. Can the risk categorisation be adopted for the purposes of the KID or is the bank obligated to carry out an independent valuation?

In our view, the risk categorisation only makes sense if it is also used as a basis for the suitability test and the appropriateness test under the provisions of MiFID. Otherwise, there is a danger that different statements might confuse the customer. In this case, however, a clear policy on the issue of liability for faulty disclosures would be necessary. Especially intelligibility should become the trademark of the KID; it would not be helpful to limit oneself exclusively to the UCITS Directive. *In lieu* of this, is also worth safeguarding the intelligibility in the context of other Directives, for instance MiFID.

What is more, the practical problems in using the risk categories should not be underestimated. Since the implementation of MiFID, the IT systems of distributor banks have already been using risk categories that have been tested and tried on the ground. These vary between banks and depend on the respective structure of the customer base. Furthermore, they do not only cover UCITS products but value each and any of the financial instruments which are distributed by the bank.

We therefore suggest abandoning any plans for a specific system on risk categorisation. For a distributing bank, particularly the strict imposition of 6 classes will probably not be feasible. At least a clear and unequivocal definition of the relations with regard to the obligations of a bank under Art. 19(4) MiFID will be necessary.

3. Would you like to propose any other alternative for the volatility intervals? If so, please explain your reasoning.
4. Do you agree that introducing some rules for assessing migration is desirable?
5. If so, which option (2 or 3) do you think is more appropriate?
6. Would you like to propose any other rule for assessing migrations? If so please explain your reasoning.
7. 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.
8. 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?
9. 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.
10. Do you agree with CESR's proposal concerning the methodology to compute the VaR-based volatility of structured funds over a holding period of 1 year? If not, please explain your comments and suggest alternatives.
11. Do you agree with CESR's proposal concerning the methodology to compute the VaR-based volatility of structured funds at maturity? If not, please explain your comments and suggest alternatives.

12. 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?
13. Do you share the view that CESR's current proposal represents an improvement with respect to the delta representation approach? If not, please clarify why you believe that the delta representation approach may be more suitable to estimate the volatility of structured funds.
14. 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.
15. 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?