European Securities and Markets Authority (ESMA)
Mr Steven Maijoor, Chair
CS 60747
103 rue de Grenelle
FR - 75007 Paris
France

Brussels, 7 July 2016

Subject: ESMA Discussion Paper on UCITS share classes

Dear Mr Maijoor,

The Financial Services User Group (FSUG) took note of ESMA's Discussion Paper on UCITS share classes, published on 6 April 2016.

FSUG supports ESMA's efforts to harmonize national practices around the use of share classes by UCITS management companies. The use of share classes can be a valuable tool to customize for investor needs and to generate cost reductions which come to the benefit of end investors.

FSUG does therefore not object to the use of share classes, provided that certain conditions aimed at protecting investors are adhered to. FSUG in general supports the high-level principles that ESMA proposes to this end. However, we nevertheless feel the need to make the following comments:

(i) In our view, a 'common investment objective' entails an identical risk profile. Therefore, share classes that are identified by a derivative hedge do not comply with the principle of having the same investment objective.

One can argue in the case of currency risk, that a hedge actually entails a streamlining of risk felt by different investors that are invested in the same UCITS fund. We believe an exception is therefore warranted in the case of currency risk (in contrast to other investment risks), also from the point of view of a single EU market. However, all gains/losses arising from such currency hedging transactions should be borne by the hedged share class(es).

(ii) Operational segregation should ensure that there is no contagion between the different share classes. Each share class should have its own balance sheet (assets and liabilities) and profit and loss account to be published in the fund's financial report.

FSUG is of the opinion that any counterparty risk or operational risk arising from share class specific assets (currency hedging derivatives) should be carried by the respective share class. The losses that may arise if these risks materialise should thus not be allowed to exceed the value of the hedged share class.

Also, the costs for arrangements other than currency hedging transactions (e.g. dividend payment performance) should be fully borne by the share class that benefits from such arrangements. In other words, any cross-subsidization should be strictly forbidden.

(iii) We fully agree with the principle of pre-determination.

(iv) Differences between share classes should be disclosed to investors when they have a choice between two or more classes. Apart from providing such information in the fund prospectus, FSUG believes there should be a separate KIID per share class.

Pricing structures, and therefore performances (which must be disclosed net of fees), hedging strategies or income distribution cycles may differ significantly per share class. At the moment, managers are allowed to identify a representative share class or to produce a multi-class KIID. While the latter provides separate information on each share class, putting all relevant information in one single KIID goes in our opinion at the expense of clarity and readability.

(v) Lastly, two minor comments: a) fund managers should be required to calculate a separate net asset value (NAV) for each share class. If the method of calculation is different, this should be disclosed in the fund's prospectus; b) if only certain categories of investors are eligible to invest in a particular share class, such differentiation should be based on objective criteria that are disclosed in the fund's prospectus.

If you need any further details regarding our view, please feel free to contact us.

Yours sincerely,

Mick McAteer

FSUG Chair

Guillaume Prache

FSUG Vice Chairman

Copie: FSUG members, Malgorzata Feluch (DG FISMA), Francesco Pontiroli Gobbi (DG JUST)