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PRESS RELEASE

CESR proposes requirements for management company passport and improved investor disclosures for UCITS

CESR delivers today to the Commission its advice in two key areas relating to Undertakings for Collective Investment in Transferable Securities (UCITS): the regulatory framework that should underpin the management company passport (Ref. CESR/09-963) and the format and the content of key investor information disclosures (Ref. CESR/09-949). CESR's advice follows a Commission mandate received in February 2009.

This work serves two key CESR objectives: delivering greater convergence by harmonising the requirements firms must apply when managing UCITS, and improving investor protection by ensuring greater transparency and clarity of information for retail investors seeking to buy UCITS products. The work on disclosures will help integrate the single market for financial services further by enabling retail investors to compare products more effectively and will ensure certainty and clarity for cross-border firms.

Lamberto Cardia, Chair of the Italian Commissione Nazionale per la Società e la Borsa (CONSOB) and Chair of CESR's Investment Management Expert Group that prepared the advice, stated:

"The delivery of CESR's advice on the management company passport and the KID within the tight deadline set by the Commission is a significant achievement. Both pieces of advice are key elements in the development of the new UCITS framework."

"Our proposal on the management company passport will help ensure a smooth implementation of this new cross-border mechanism. I was pleased to see the level of support among external stakeholders for the proposals CESR made, particularly the decision to base many of the requirements on the existing provisions in MiFID."

"The delivery of CESR's advice on the KID is another important step in improving investor disclosures by fostering investor understanding and confidence in financial products. I am confident that the introduction of the KID will help achieve those aims by bringing about a significant step change in the quality of information for UCITS investors and will equip them to assess, understand and compare products more easily."

Advice clarifies requirements for cross-border management of UCITS

CESR's advice on the management company passport covers both the organisational requirements that companies managing UCITS need to fulfil, and the conflicts of interest such companies must avoid. The advice also includes details on the companies' rules of conduct, depositaries and risk management, as well as on supervisory co-operation.

CESR's advice follows the objective set out in the Commission's mandate, which was to seek maximum alignment with the relevant rules in the Markets in Financial Instruments Directive (MiFID), while taking into account the specificities of the UCITS sphere. The advice covers such matters as general organisational procedures and arrangements, responsibility of senior management, voting rights and inducements.

CESR's advice in the area of depositaries focuses on the written agreement to be drawn up between the management company and the depositary, both in domestic and cross-border situations. The advice on risk management is based on the principle that a management company shall employ a



risk management process which enables it to monitor and measure, at any time, the risk of different positions and their contribution to the overall risk profile of the portfolio of the UCITS. This includes the establishment of a well-documented organisational structure that clearly assigns responsibilities, incorporates proper internal control mechanisms, and ensures good flows of information between all parties involved.

CESR's recommendations on supervisory co-operation take into account the existing legal framework in relation to international co-operation, as well as best practice developed within CESR and IOSCO, the International Organization of Securities Commissions.

KID aims at increased investor protection and convergence

CESR's advice on the Key Information Document (KID) follows over two years of work which has included extensive consultation with stakeholders. In developing its advice, CESR placed great emphasis on the outcome of the consumer testing exercise carried out by the Commission from March 2008 to May 2009. The proposed disclosure aims at increasing investor protection and convergence across Europe. It will replace the current Simplified Prospectus as its length and content is not consistent throughout Member States.

The KID, on the contrary, will be a short, pre-contractual disclosure document containing only the key elements of information investors need before making a decision on whether to invest in a fund. The testing exercise also showed the importance of disclosure documents being short, concise and written in plain language. In its advice published today, CESR therefore sets out a number of recommendations designed to ensure the KID fulfils such criteria.

KID to include disclosures for risk and reward, as well as for charges

CESR's advice recommends the adoption of a synthetic risk and reward indicator accompanied by a narrative text. This text should cover the material risks not fully captured by the indicator. On charges, CESR's advice foresees the inclusion of a table setting out clearly the different elements of the charging structure (in percentage terms).

CESR advises that presentation of past performance be based on use of a bar chart displaying up to ten years' performance, where available. In addition, the proposal allows performance information to be displayed only where there is at least one calendar year's data. For structured UCITS, CESR proposes an alternative in the form of prospective scenarios. These scenarios are designed to illustrate the potential performance of the fund under a range of market conditions.

CESR was requested to deliver its technical advice on possible implementing measures concerning the new UCITS Directive by 30 October 2009. The Commission's mandate is split into three parts: the advice published today represents CESR's advice on Parts I and Part II of the mandate. CESR published for consultation its draft advice on Part III of the mandate (request for technical advice on the level 2 measures related to fund mergers, master-feeder structures and notification procedure) on 17 September 2009 (Ref. CESR/09-785) and, in light of stakeholder feedback, will finalise its advice for submission to the Commission by the end of 2009.

The Commission intends to adopt implementing measures on the basis of CESR's advice by July 2010, in view of the deadline for implementation of the UCITS Directive of July 2011.

Notes for editors:

1. The Commission adopted a proposal for the revised UCITS Directive in July 2008. The European Parliament (at its plenary session of 13 January 2009) and the Council (COREPER meeting of 17 December 2008) approved, in identical terms, a compromise text of a proposal for a Directive containing amendments to the UCITS Directive (85/611/EEC). The Directive was adopted by the Council on 22 June 2009.
2. On the same day as the adoption by the Commission of its Directive proposal (16 July 2008), the Commission requested CESR's technical advice on the conditions that are needed to ensure that a management company passport is consistent with the principle that investors in funds that are managed on a cross-border basis should not be exposed to additional legal and operational risks, or lower standards of supervision than investors in domestically managed UCITS. Following a call for evidence, an open hearing and a short public consultation, CESR delivered its advice to the Commission on 30 October 2008 (Ref. CESR/08-867).
3. In March 2007, the Commission set out its proposals for a series of targeted enhancements to the UCITS Directive. One of these proposals was to replace the Simplified Prospectus (SP) for UCITS with Key Investor Information disclosures. The KII is intended to be a concise and focused presentation of the information that it is important for a prospective investor in a UCITS fund to have, covering largely the same general areas as the SP.
4. The SP, the concept of which was introduced by the UCITS Management Directive (2001/107/EC) in 2002, is widely seen as having failed to achieve its objectives. In particular, there is considered to be a continuing lack of transparency about UCITS, especially their costs and risks; the information given in the SP is not easily understood and used by the average retail investor; the SP is too lengthy and technical; its production is costly and time-consuming; SPs often exceed the Directive requirements; their content is not consistent in all Member States; and they do not assist comparisons between funds, particularly when cross-border sales are involved.
5. The Level 1 provisions will be supplemented by implementing measures at level 2 covering the detailed and exhaustive content of the KII to be provided to investors and the specific details of the form and presentation of that information. The Commission first sought CESR's technical advice on the aforementioned implementing measures via a request for assistance in April 2007; this was followed by a further request for assistance received on 13 February 2009 (Provisional Request to CESR for Technical Advice on Possible Implementing Measures concerning the future UCITS Directive):
http://ec.europa.eu/internal_market/investment/docs/legal_texts/ta_mandate_en.pdf.
6. CESR is an independent Committee of European Securities Regulators. The role of the Committee is to:
 - Improve co-ordination among securities regulators;
 - Act as an advisory group to assist the European Commission, in particular in its preparation of draft implementing measures in the field of securities;
 - Work to ensure more consistent and timely day to day implementation of community legislation in the Member States.
 - The Committee was established under the terms of the European Commission's decision of 6 June 2001 (2001/1501/EC). It is one of the two committees envisaged in the Final Report of the Group of Wise Men on the regulation of European securities markets. Baron Alexandre Lamfalussy chaired this group. The report itself was endorsed by the European Council and the European Parliament. The relevant documents are available on the CESR website.



7. Each Member State of the European Union has one member in the Committee. The Members are nominated by the Member States and are the heads of the national public authorities competent in the field of securities. The European Commission has nominated as its representative the Director General of the DG MARKT. Furthermore, the securities authorities of Norway and Iceland are also represented at a senior level.

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