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PRESS RELEASE

CESR moves forward its project to improve investor disclosures for UCITS

CESR publishes for consultation today its draft advice to the European Commission on the format and content of key investor information disclosures for UCITS (Ref. CESR/09-552). CESR's proposals follow over two years of work which have included extensive consultation with stakeholders. In developing its advice, CESR has also placed great emphasis on the outcome of the consumer testing exercise carried out by the Commission. The proposed disclosure, to be known as the Key Information Document (KID), will replace the current Simplified Prospectus that was introduced in 2002 and aims at increasing investor protection and convergence across Europe.

CESR has been working since April 2007 to develop advice to the Commission on the format and content of key investor information disclosures for UCITS, Undertakings for Collective Investment in Transferable Securities. The KID 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. It will cover the investment policy and objectives of the fund, risk and reward, charges and past performance, as well as practical information. The testing exercise conducted by the Commission from March 2008 to May 2009 has also shown the importance of disclosure documents being short, concise and written in plain language. In its draft advice published today, CESR sets out a number of proposals designed to ensure the KID fulfils such criteria.

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

"The recent experience shows the importance of 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 investor disclosures for UCITS and allowing easier comparison of products.

CESR is keen on receiving the views of all stakeholders on the draft advice published today. Incorporating these views will help CESR to finalise the advice to the Commission which will then come forward with its legal proposal."

The objectives and investment policy to be summarised in a KID

CESR proposes that the KID should describe the objectives and investment policy of each UCITS in plain terms, not necessarily repeating the description in its prospectus. CESR recommends adding a statement that investors may redeem their units on request, since the consumer testing exercise showed that a significant number of investors failed to understand this essential feature of all UCITS.

Advice proposes disclosures for risk and reward, as well as for charges

The consultation paper sets out two options for risk and reward disclosure: a synthetic risk and reward indicator (SRRI) supported by a narrative explanation versus an improved version of the narrative approach. The indicator is CESR's preferred option taking into account a range of factors, in particular in terms of improved comparability of funds. CESR will work further on the methodology supporting the indicator and publish the outcome for consultation later in July.



CESR has considered a range of options for charges disclosures during its work on the KID. The approach proposed in the consultation paper consists of a table setting out clearly the different elements of the charging structure (in percentage terms), accompanied by a simple summary measure of charges presented in narrative terms and including a cash figure. The inclusion of the summary measure of charges is designed to recognise the preference among retail investors for the use of cash figures.

UCITS will need to display past performance

CESR's proposed approach to presentation of past performance is based on use of a bar chart displaying up to ten years' performance, where available. In addition, CESR proposes to allow performance information to be displayed only where there is at least one calendar year's data.

Taking into account the wide range of structures that exist in the UCITS sphere, CESR has identified a number of situations in which a tailored approach to the content of the KID might be necessary. As the display of past performance information is generally not appropriate for structured funds, CESR proposes as an alternative the inclusion of performance scenarios. These scenarios are designed to illustrate the potential performance of the fund under a range of market conditions. Two options are proposed: a prospective scenarios approach using tables or graphs (CESR's preferred option), and probability tables.

Improved investor disclosures

CESR seeks views on its proposals included in the draft advice by 4 September 2009. All contributions should be submitted online via CESR's website under the heading 'Consultations' at www.cesr.eu. In light of responses, CESR will prepare its final advice for submission to the Commission by the end of October.



Notes for editors:

1. In March 2007, the European 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 (KII) 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.
2. 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.
3. 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.
4. 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.
5. The Commission's mandate is split into three parts: this consultation paper sets out CESR's proposals under Part II of the mandate (Request for technical advice on the level 2 measures related to the key investor information). CESR's proposals under Part I of the mandate (Request for technical advice on the level 2 measures related to the management company passport) are set out in a separate consultation paper (Ref. CESR/09-624). CESR is working on its 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) and will publish its proposals later in 2009.
6. CESR will continue to work on the methodology to support the synthetic risk and reward indicator proposed as CESR's preferred option for risk and reward disclosure in the KID. An addendum setting out the results of that further work will be published for consultation by the end of July.
7. 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.

8. 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. The securities authorities of Norway and Iceland are also represented at a senior level.

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