

# Risk and Reward

## Key Investor Information

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# Agenda

- Background
- The KII
- Communicating risk
- Where are we now?
- Other issues

# Background

- Scheme particulars
- UCITS III – Simplified Prospectus
- Widely seen as having failed to achieve its objectives:
  - not easily understood
  - too lengthy and technical
  - production is costly and time consuming
  - content not consistent in all Member States
  - do not enable comparison between funds

# Background

- UCITS IV – Proposal for Key Investor Information
- Proposed by European Commission – request for assistance to CESR - April 2007
- CESR development work
- CESR recommendations to EC - February 2008 – included draft document
- Consumer testing of proposed KII document (KID)

# The KII

## Article 78 (2) of the Directive

*'Key investor information shall include appropriate product information about the essential characteristics of the UCITS concerned, which is to be provided to investors so that they are reasonably able to understand the nature and the risks of the investment product that is being offered to them and, consequently, to take investment decisions on an informed basis.'*

# The KII

- To be produced by the fund manager
- To enable a consumer to make a purchasing decision at point of sale
- Single sheet – double sided - 4 sections:
  - Fund strategy
  - Past performance
  - Charges
  - Risk and reward

# The KII

- Fund strategy
- Past performance
- Charges
- Risk and reward

# Communicating Risk

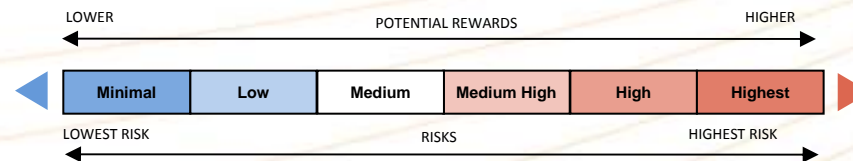
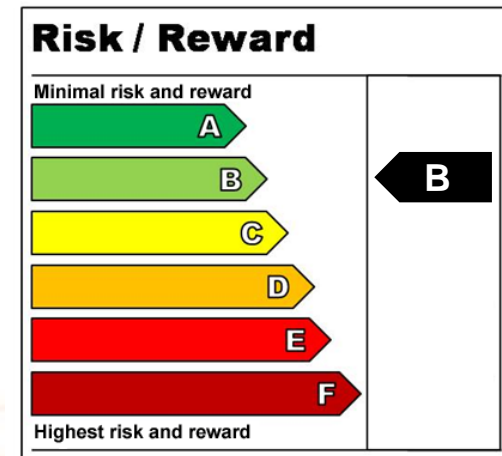
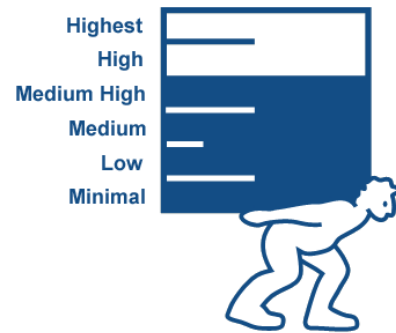
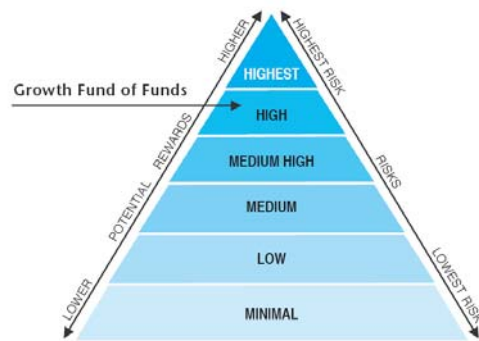
- Call from TSC and consumer groups
- Simple and easily understood risk indicator
- How to link risk with reward – especially in current climate!

# Communicating Risk

- CESR proposal
  - “Thermometer” Scale
  - 1-7 “Risk Buckets”
  - Additional (!) to denote special circumstances

# Communicating Risk

- ABI research looking at different disclosure designs



# Communicating Risk

- Methodology to underpin risk indicator
- Majority of firms do this
- ABI/IMA research to develop a risk rating methodology
- CESR proposed methodology

# Where are we now?

- CESR Consultation Paper – July 2009
- CESR submission to Commission – October 2009
- Commission – further consumer testing
- Intended implementation – July 1 2011

# Where are we now?

- Replacement for Simplified Prospectus
- Will it have a Synthetic Risk Indicator or Narrative risk disclosure?
- Will it be level 2 or level 3?
- Will the FSA “gold plate”?
  - e.g. Reduction in Yield
  - Key Features requirements

# Other Issues

- Review of Prospectus Directive
  - Suggestion for KII style disclosure
- Packaged Retail Investment Products – White Paper
  - Call for KII style disclosure for all investment products

# Other Issues

- Review of Insurance Mediation Directive
- MiFID
- Retail Distribution Implementation Plan
- Platform Business Model (s)

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