

UCITS IV - Key Investor Information Document (“KIID”)

The UCITS IV Directive provides for the replacement of the simplified prospectus by the KIID. This change is probably one of the most important challenges for the cross-border UCITS industry over the last decade. While UCITS funds existing in Luxembourg as at 30 June 2011 benefit from a grandfathering period of one year to switch from simplified prospectus to KIID, new UCITS structures created on or after 1 July 2011 need to create their KIID right away.

Quick Reference Guide

Background

The Simplified Prospectus failed to bring into the UCITS world increased comparability and transparency regarding the core characteristics of investment funds. It is seen as a much too technical document, varying in length and content from promoter to promoter. The regulators’ response was therefore to replace the Simplified Prospectus with a simpler and hopefully more engaging document, easier to understand and digest by the common retail investor.

As the European Commission’s intention is to enforce tighter rules regarding investor protection for the whole spectrum of the investment products, the KIID might also be used as a first standard for all future retail investor communication regarding Packaged Retail Investment Products (“PRIIPs”).



Scope of the KIID

The KIID is designed as a concise document delivering critical information about the fund. It must be drafted in plain language and be easily understood by investors.

The Management Company of the fund is responsible for the production of the KIID and for making it readily available “upon request” at the point of sale, while the distributors or the investment advisers will have the obligation to deliver the KIID prior to any sale – it is in essence a pre-contractual document. All parties over the fund distribution value chain will have to identify the most pragmatic way to ensure KIID updates are properly provided to the entities responsible to deliver it. Web technologies and documentation management tools will probably be used and developed to absorb the huge increase of fund documents to be disseminated (130 000 KIIDs just for Luxembourg).

Core requirements

The KIID has to provide information at share-class level. However, some asset managers have decided to combine several share-classes in one KIID or to opt for one share-class KIID that represents fairly the other share-classes. The strategy here depends on the number of share-classes, their characteristics or asset manager’s distribution needs.

The document must be delivered to the investors either in a paper format or via a “durable” medium, easily replicable on paper. Although investors may choose another format than paper (electronic) or specifically consent to receive KIID via a website, they have the right to ask for a paper copy. KIIDs have to be delivered to EU Member States resident investors in their language and translation into local language is binding vis-à-vis the investors. Both the original and translated versions must be in “plain language”.

Regulated two pages format

The format and length of the KIID will be highly standardised. It will not be more than two pages long (except for structured funds, where three pages are acceptable) and the capacity of promoters to bring their personal touch will be limited to the narrative sections and perhaps a small, unobtrusive company logo.

The KIID will therefore be comparable across a wide range of funds.

CESR's template for the Key Investor Information Document (CESR/10-1321 of 20 December 2010):

1. Objectives and investment policy

2. Synthetic Risk and Reward Profile

Key Investor Information

This document provides you with key investor information about this fund. It is not marketing material. The information is required by law to help you understand the nature and the risks of investing in this fund. You are advised to read it so you can make an informed decision about whether to invest.

123 Fund, a sub-fund of ABC Fund SICAV (ISIN: 4321)
The fund is managed by ABC Fund Managers Ltd, part of the XYZ group of companies.

Objectives and Investment Policy

Joint description of the objectives and policy of the UCITS in plain language (it is suggested not to copy-out the prospectus)

Essential features of the product which a typical investor should know:

- main categories of eligible financial instruments that are the object of investment
- a statement that the investor may redeem units on demand, and how frequently units are dealt in
- whether the UCITS has a particular target in relation to any industrial, geographic or other market sectors or specific classes of assets
- whether discretionary choices regarding particular investments are allowed, and whether the fund refers to a benchmark and if so which one
- a statement of whether any income arising from the fund is distributed or reinvested

Other information if relevant, such as:

- what type of debt securities the UCITS invests in
- information regarding any pre-determined pay off and the factors expected to determine performance
- if choice of assets is guided by growth, value or high dividends
- how use of hedging / arbitrage / leverage techniques may determine the fund's performance
- that portfolio transaction costs will have a material impact on performance
- minimum recommended holding term

Risk and Reward Profile

Lower risk Tends to lower rewards Tends to higher rewards Higher risk

1 2 3 4 5 6 7

Narrative explanation of the indicator and its main limitations:

- Historical data may not be a reliable indication for the future
- Risk category shown is not guaranteed and may shift over time
- The lowest category does not mean “risk free”
- Why the fund is in its specific category
- Details of nature, timing and extent of any capital guarantee or protection

Narrative presentation of risks materially relevant to the fund which are not adequately captured by the indicator:

- Credit risk, where a significant level of investment is made in debt securities
- Liquidity risk, where a significant level of investment is made in financial instruments that are likely to have a low level of liquidity in some circumstances
- Counterparty risk, where a fund is backed by a guarantee from, or has material investment exposure through contracts with, a third party
- Operational risks including safekeeping of assets
- Impact of any techniques such as derivative contracts

Charges for this Fund

The charges you pay are used to pay the costs of running the fund, including the costs of marketing and distributing it. These charges reduce the potential growth of your investment.

One-off charges taken before or after you invest

Entry charge [0%]

Exit charge [0%]

This is the maximum that might be taken out of your money (before it is invested/before the proceeds of your investment are paid out)

Charges taken from the fund over a year

Ongoing charges [0%]

Charges taken from the fund under certain specific conditions

Performance [0% a year of any returns the fund achieves above the benchmark for these fees. (insert name of benchmark)]

The entry and exit charges shown are maximum figures. In some cases you might pay less - you can find this out from your financial adviser.

The ongoing charges figure is based on expenses for the year ending []. This figure may vary from year to year. It excludes:

- Performance fees
- Portfolio transaction costs, except in the case of an entry/exit charge paid by the UCITS when buying or selling units in another collective investment undertaking.

For more information about charges, please [see pages x to x / section x] of the fund's prospectus, which is available at www.abcfundprospectus

Past Performance

The chart will be supplemented with prominent statements which:

- warn about its limited value as a guide to future performance
- indicate briefly which charges have been included or excluded
- state the year when the fund started to issue units
- indicate the currency in which past performance has been calculated.

10%	
7.5%	
5%	
2.5%	
0%	
-2.5%	
-5%	
-7.5%	
-10%	

2001 2002 2003 2004 2005 2006 2007 2008 2009 2010

Practical Information

- Name of the depository
- Where and how to obtain further information about the UCITS (prospectus, reports & accounts)
- Where and how to obtain other practical information (e.g. where to find latest unit prices)
- A statement that tax legislation of the fund's Home State may have an impact on the personal tax position of the investor
- A statement that (Name of management company) may be held liable solely on the basis of any statement contained in this document that is misleading, inaccurate or inconsistent with the relevant parts of the prospectus for the fund
- Specific information relating to umbrella funds (e.g. any switching rights between sub-funds)
- Information about other share classes, if applicable (N) may be based on a representative class

This fund is authorised in [name of Member State] and regulated by [identity of competent authority].

[Name of management company] is authorised in [name of Member state] and regulated by [identity of competent authority].

This key investor information is accurate as at [the date of publication].

3. Charges

4. Past performance

5. Practical information

The KIID will be divided into five sections, each of them with specific requirements:

1. Objectives and investment policy

- Space limited description of objectives and the investment policy;
- Main targeted investments, benchmark, dividends distribution, holding period;
- Plain language, no technical jargon;
- Consistency with prospectus.

2. Synthetic Risk and Reward Profile

- Synthetic risk and reward indicator – SRRRI (calculation methodology based on fund classification – principally based on fund historical volatility);
- Disclaimers on SRRRI limitations;
- Other relevant risks not captured by SRRRI.

3. Charges

- Entry/exit fees;
- Ongoing charges (replaces Total Expense Ratio (TER)) - ex-post calculation based on a standardised methodology provided by CESR;
- Performance fee.

4. Past performance

- Calendar year past performance;
- Bar chart showing ten or five years;
- Benchmark comparison.

5. Practical information

- Depositary bank, law applicable to the fund, where to find additional information, etc.;
- No country specific information.

Main operational and business implications

Content accuracy and consistency with prospectus

Avoiding inconsistencies with the prospectus (which might generate civil liability) will be challenging for UCITS funds using complex hedging or arbitrage strategies, which cannot be easily explained in a few non-technical words. New processes should be put in place to facilitate the calculation and monitoring of the SRRRI and the ongoing charges figure.

Revision of the KIID

The KIID must be updated as frequently as needed in order to preserve its accuracy. The KIID must be updated as the SRRRI and the charges change during the year and annual figures have to be updated 35 business days after the end of the calendar year. Therefore, the integration of KIID update process with current investor information maintenance (prospectus, investors' notices, regulator approval) is likely to create an important coordination challenge.

Impact on product range

Since the KIID should facilitate comparison between products, there may be an increased need to monitor competition. This would allow both the product range and costs to be adapted to market levels.

Impact on distribution

Promoters have to look into how the KIID is going to disrupt distribution settings and if this will require an overhaul of fee arrangements and remuneration schemes. Promoters will have to find effective ways to streamline their distribution flow and ensure that distributors have easy access to the documents and that they are knowledgeable about their responsibilities towards investors.



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