

The KIID's coming-of-age

Ideally, funds would be like an iPod: achieving amazing results in an easy-to-use package whilst hiding the complexity within. Hence it is hoped the key investor information document (KIID) will enable retail consumers to gain a quick impression of what a fund is trying to achieve. But, unlike an iPod, funds try to do many things in many different ways. Summarising ideas of risk and reward may prove to be quite tricky. However, the goal of easier-to-understand finance is worth striving for.

UCITS IV aims to make the KIID the central document for reaching the consumer, replacing the little-loved simplified prospectus which is required by UCITS III. The word-count and layout will be uniform, as it seeks to summarise the exhaustive fund prospectus into two sides of an A4 sheet, listing criteria such as objectives, investment policy, charges, past performance and the risk and reward profile. This should make funds more easy to compare so that clients can design the fund portfolios that best suit them. New funds need a KIID by 1st July this year with all funds needing to be compliant by mid-2012.

Danger of over-simplicity?

Most eye-catching is the synthetic risk and reward indicator (SRRI) which uses a mathematical formula

to boil down this information into a figure: 1 for "lower risk/potentially lower reward" up to 7 for "higher risk/potentially higher rewards". It is basically a volatility calculation but it also includes factors such as risk management processes, portfolio management, product development and distribution networks.

A nice idea, but could this be too convenient? There is the worry that clients could become fixated on this number rather than really getting to grips with the nature of a fund by using the more voluminous prospectus as a guide. Could clients argue that a fund was mis-sold if the SRRI does not match their expectations?

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.

European Equity, a compartment of Global Invest

Class A - Accumulation (LU0123456789) • Class A - Distribution (LU0223456789)
 Class B - Accumulation (LU0323456789) • Class B - Distribution (LU0423456789)

This fund is managed by [name of management company] (, part of [name of group]).

Objectives and Investment Policy

Objectives

The European Equity Fund seeks an above average income from its equity investments without sacrificing long term capital growth.

Investment Policy

The Fund invests at least 70% of its total assets in equity securities of companies domiciled in, or exercising the predominant part of their economic activity in, Europe. This Fund distributes income gross of expenses.

Risk and Reward Profile

Lower risk				Higher risk	
Potentially lower reward			Potentially higher rewards		
Class A - Cap. (LU0123456789) • Class A - Dis. (LU0223456789)					
1	2	3	4	5	6
Class B - Cap. (LU0323456789) • Class B - Dis. (LU0423456789)					
1	2	3	4	5	6

What does it mean?

A risk level 5 or 6 Fund has no capital guarantee, with the highest potential level of gain or loss, and with the possibility for the amplification of trends due to the impact of financial techniques such as leverage.

Financial instruments are impacted by various factors, of which, without being exhaustive, the development of the financial market, as well as the economic development of issuers who are themselves affected by the general world economic situation, as well as economic and political conditions prevailing in each country. The currency exposure may impact highly the compartment's performance. No guarantee is provided as to the recovery of the initial investment.

Pressure on the SRRI

With the SRRI and fund charges clearly marked on the KIID, this will be a clear sales argument for a fund. ALFI president Claude Kremer, speaking at the association's annual press conference, said the industry is aware of the challenges and was working together to make sure the information was consistent and reliable. He insisted that the KIID as a whole could be a vital tool for making financial products easier to understand. Yet, as a lawyer, he will know better than most that the KIID does represent a risk, as one cannot predict how a court would react.

"We had the feedback from various people that in their eyes, the SRRI is not a good reflection of the actual risk and that it could be misleading for the investor," said Carole Miltgen, managing director of financial communications company Prisma. She went on: "One of our contacts told us that when he asked his team 'who wants to be in charge of the SRRI section of the KIID?' he saw his whole office lower their heads...Most fund managers just want to get rid of this task." Moreover, the SRRI and thus the KIID must be updated if investment policy changes or the fund experiences a certain degree of volatility.

Prospectuses to back-stop

UCITS IV requires that the KIID be translated into the language of every market to which it is addressed, but now the main prospectus can be in just one version. However, dare funds take this option? "I haven't seen any client stop translating prospectuses," said Martial Mernier, managing director of financial translation firm Talk Finance. Miltgen agreed, pointing out "the translated KIID might have some cross-reference to the full prospectus." Probably from both a marketing and a legal point of view fund managers will wish to feel they are covering themselves by offering clients the maximum information.

What's plain?

There is also the requirement that the KIID be written in "plain language" but the regulators have not

sought to define this subjective criterion. Mernier sees this as a crucial consideration for management companies who will have to sign off on translations. Yet there is still the question as to who will review the translations. "The local office? The local counsel?" asks Miltgen. "If so, can they review extracts from a database or do they require the final PDF file? Can they review the multitude of documents?"

So rather than relying on freelancers, Mernier's firm has a permanent team of 30 people who are trained in the specialist terminology of the six main languages (English, French, German, Dutch, Italian and Spanish). "This is the most sure way of guaranteeing quality," he said. That said, for the rising languages such as Chinese, Russian and Arabic, they are required to call in outside help. Although the KIID only has to be translated into EU languages, fund managers may decide to go the extra mile for countries outside the single market. Incidentally, Mernier notes that since the crisis happened, demand for central and Eastern European languages has dropped significantly.

Multiplier effect

So once the content has been decided on, the logistical task kicks in. Miltgen gives a generic example of the scale of the job: Take the example of a typical client managing around 60 funds and sub-funds, each with ten asset classes being distributed to over 30 countries, translated into 14 languages. This works out at 8,400 separate documents." Each will be legally binding and would need to be approved by the local regulators. What is more, the document would need to be updated once a year. As well as the broad layout being fixed, there is also a 1,200 limit on the number of words in English.

A survey conducted last September by fund distribution and publication service provider KNEIP showed that 60% of respondents are worried about producing the KIIDs within the allotted time-frame. Company owner/CEO Bob Kneip thinks the main burden will fall during the set

up phase, but then the regular updating process needing to be automated thereafter. "Automation is one of the main challenges of the KIID," he notes, adding that it is more than just producing a fact sheet. On top of this comes dissemination. "When are you compliant?" he asks "When you send it, when the distributor acknowledges receipt or when all the investors have acknowledged receipt?" There is also the worry that the client has the latest version.

Expecting higher costs

So how many are doing this in-house and how many are outsourcing? The consensus amongst the people Business Review spoke to pointed to about half not knowing yet, with a quarter outsourcing and the remainder doing it themselves. KIID production can be grouped into representative share classes. Doing so may be risky but not doing so could increase cost. Estimates vary as to how much more the KIID will cost than existing arrangements, but the consensus from most market players appears to be that it will cost more.

Worth aiming for

Despite all these concerns, Claude Kremer sees the KIID as a practical demonstration of the industry's desire to communicate better with its clients. Whilst it will only be applied, for now, to structured products in the banking, insurance and fund industries, he would like to see it extended to all savings products. So although there are costs and risks, the rewards of greater transparency could provide the industry with a further lift.

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