



FEDERATION OF EUROPEAN SECURITIES EXCHANGES

Key information documents for investment products

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Objective of Commission proposal

Commission proposes to extend the spirit of the 'UCITS KID' to all investment products that retail investors are considering as outlined below:

- Purpose of the 'UCITS KIID': Developed for retail investors to shorten, streamline and focus information provided to the greatest extent possible and ensure the information is comprehensible for the average retail investor.
- Purpose of the 'KID': Ensure that European retail investors should always receive **short, comparable and standardised** disclosures, termed 'key information documents' or KIDs, whatever the investment product they are considering.
- Commission's focus was on **packaged investment products**, because they are not issued with any disclosure at the moment.

Content & format of the KID

- All KIDs should have a standardized 'look and feel' and contents designed to keep them focused on key information presented in a common way, so as to promote **comparability of information** and its **comprehension by retail investors**.
- The KID must be a **short** document, written in a concise manner, in **non-technical** language that avoids jargon, so as to be understandable by the average or typical retail investor, drawn up in a **common format** so that investors are able to easily compare between different investment products.
- The proposal specifies the essential elements of the investment product which should be described in the KID: the **identity** of the product and its manufacturer, the **nature and the main features** of the product, including **whether the investor might lose capital, its risk and reward profile, costs, and past performance** as appropriate.
- In order to maintain its short form, no other information should be included in the KID.

What does the EP draft report state?

- EP draft report on 20th December 2012:
 - Extends the scope of the KID to all shares and bonds – **not only packaged products any more**
 - Proposes a definition of ‘persons selling investment products’
 - Extends the obligation to draw up the KID and to keep it up-to-date to the ‘person selling investment products’ where relevant
- This was **not** the intention of the Commission text!
- What is the intention of the Rapporteur?
 - To provide better/more information to investors
 - To ensure a level playing field between packaged & non-packaged products

What would happen if the EP Report was implemented as currently drafted?

- **Hinder overall market efficiency – confuse retail investors**
 - Shares and bonds already provide concise and comparable information in the Prospectus Directive. If KID is simply extended to shares and bonds on top of the PD, this will proliferate required information and reduce efficiency - whether this is to be done by the issuer or the brokers, it will be duplicative.
 - Two likely and different scenarios depending on WHO does it:
 - **If brokers have to do the KID**, there will be potentially thousands of KIDs for each share and bond in Europe....
 - This will create confusion and legal liability problems.
 - This inordinate burden on brokers could see them move away from their retail business and potentially result in a huge decline in access to markets for retail clients.
 - **If the issuers have to do the KID on top of the prospectus summary:**
 - Higher costs for issuers
 - Confusion for investors
- **Plus problems about distributors...**
 - Currently distributors are not required to produce a summary when ‘distributing’ shares and bonds
 - These ‘distributors’ do not have the same role as the ‘distributor’ of a packaged product that has been compiled by the broker.
 - This could lead to a confusion on the roll of a distributor

Possible solution

Principles:

- Issuers – investors – exchanges to find a common solution that:
 - Improves **content / availability / comparability** of disclosure to retail
 - Ensures **efficiency and low cost**
 - Avoids **confusion** and minimises **risks**

Proposed solution:

- Issuer to be responsible for producing the KID
- KID to replace the PD summary – not on top of it
- Liability to be clarified and limited
- Appropriate transition measures

Open questions

- Could/should the KID **replace** the Prospectus summary?
- What safeguards do issuers need to solve the problem?
- Who should be responsible for **making the KID available**?
- What **transitional period/structure** is needed?
 - What happens to existing summaries?
 - What happens while we amend the PD?

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