# KIID Survey
## More work ahead

Advisory & Consulting
September 2012

# Contents

1 Foreword 5

2 The results of the survey 7

2.1 The Road to KIID 8
2.3 Technology and Outsourcing. 11
2.4 Towards a workable Operating Model 13
2.6 Dissemination 15
2.7 The Costs and the Hidden Costs 17
2.8 The Way Ahead - And is it all worth it? 21

# 1 Foreword

The “drop-dead” date on KIID has come and passed – KIID is now a fact of life, or it should be. And scarcely has the KIID as we know it come into existence, than its “adoptive parents” – the European Regulatory Framework – is already considering, if not throttling it in its infancy, at least markedly changing its’ path to maturity. But that is a reflection for later…

From the first discussions around KIID, Deloitte has assisted its clients through the process; it was present in the conceptual stage, playing a leading role in the ALFI Working Group and bringing its analytical skills to bear on best practice recommendations for the calculation of the SRRI, surveying the market at the outset, to share with the community those early perceptions[1].

Our own experiences and observations were that the route has been a far from smooth one, and we had a lingering doubt that the story is not yet over, so we wanted to test this and again ask the market how it has been getting on, and thereby help you to situate your own experience, plans and intentions going forward versus the broader market and your peers.

We are now pleased to present the results of this study. We prefer to think of it as a consultation than a survey as once again the responses received have been insightful as well as informative. And they lead to several immediate conclusions.

There are basically two types of reader of any work, book or document, from novel to financial statements, those who will read from start to finish, methodically, savouring each element in its chronological sequence, and the “page turners” – those who already want to know “how the story ends”, who will be attracted by one illustration or graph rather than another, who will look first for the conclusions. Surveys are no exception.

So to please everybody a good place to start this survey is with its conclusions.

- Despite all the work that has gone into the KIID, there is still a long way to go before it becomes a smooth and cost-effective process.
- The cost dynamics of the KIID are still only poorly understood. Impressions can be misleading and the true costs are much higher than is thought.
- Significant efficiencies can still be driven out from the process.

[1] KIID Survey – is Luxembourg ready to meet the challenge?

Available on the following link **http://www.deloitte.com/assets/Dcom-Luxembourg/Local%20Assets/Documents/Surveys/2011/lu_kiisurvey_19072011.pdf**

- The end customer is still at this stage ambivalent, and that far increasing investor protection there is a concern that the KIID may have further disadvantaged the fund industry vis-à-vis other competing investments.
- The Draft KID directive –formerly PRIPS is already reshaping the future.

Bold and far reaching statements perhaps, but born out by what the market is telling us, both explicitly and implicitly.

Happy reading.


| | | |
|---|---|---|
| Christopher Stuart-Sinclair | François-Kim Huge | Lou Kiesch |
| *Directeur* | *Directeur* | *Partner* |
| ERS-Regulatory Consulting | ERS-Regulatory Consulting | ERS-Regulatory Consulting |
| Deloitte Tax & Consulting | Deloitte Tax & Consulting | Deloitte Tax & Consulting |

# 2 The results of the survey

The Survey was sent to the majority of Luxembourg based management Companies in early July. It was timed to coincide with KIID entering its mandatory phase, and to seek answers as to how the industry was doing in moving from project mode to “business as usual”.

The topics addressed ranged over a broad spectrum, from soliciting feedback as to what the market had found most challenging, to what the reaction has been to date on the part of distributors and clients alike.

And of course the cost.

In presenting these results we have broken down the responses into four broad areas –

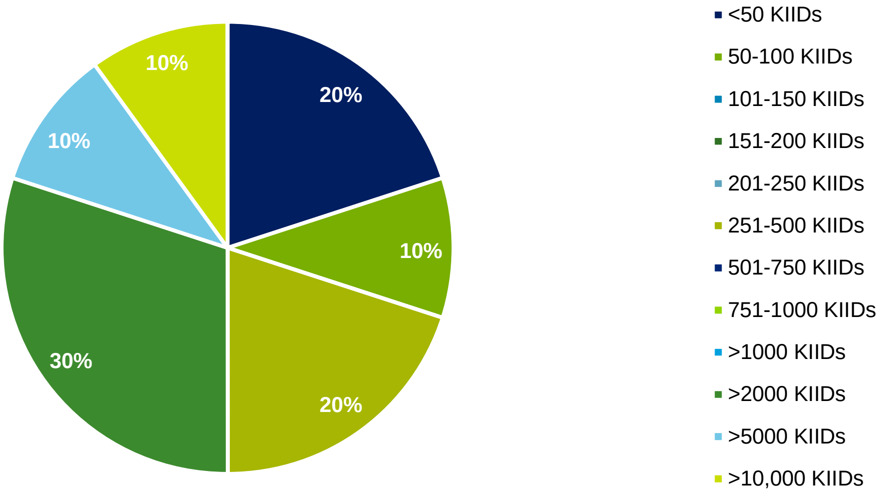
- The road to KIID
- Technology and Outsourcing
- Towards an Operating Model
- Dissemination
- Costs and Hidden Costs
- The Way Ahead

As in the case of the first survey, we have supplemented the responses with comment and insight derived from our clients and other market participants with whom we are in regular contact. This has enabled us to drill down into the “first cut” results to extract greater granularity or broader context in the findings.

Somewhat akin to our first Survey, we were interested to see how representative a sample we had attracted. The best answer to this is to be found in the questions themselves, and specifically where we asked how many KIIDs each respondent had to produce.

Here are the answers

**How many KIIDs do you have to produce? (where one KIID refers to a single document in a given language)**



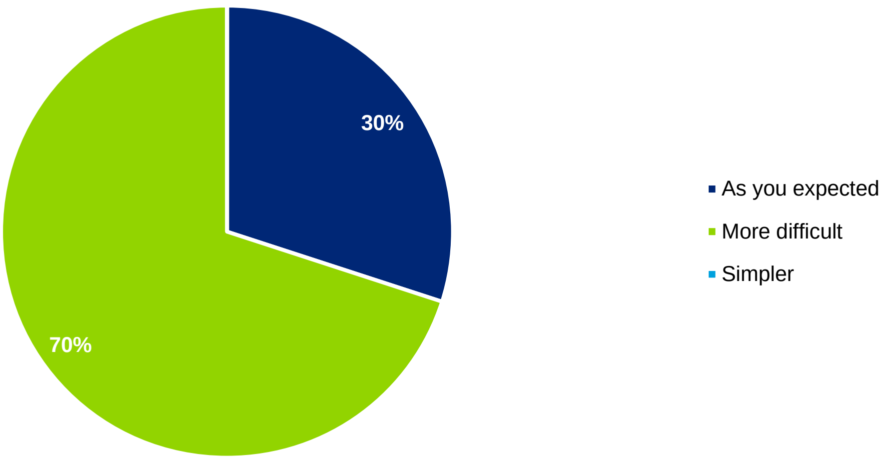

The same "bar-bell" is immediately discernible as has been apparent throughout the work involved to get the market up to speed on KIIDs – there is great diversity in needs and requirements. Some 30% of the market is concerned with producing fewer than 100 KIIDs per entity, and this if anything is waited to the lower end of the segment with perhaps as much as 20% looking for a solution for less than 50 discrete documents.

## 2.1 The Road to KIID

When we first consulted the market just over a year ago, we came to the conclusion that it was going to be a stretch, and potentially a costly stretch, to get the KIID into production on time. Although overall planning had started, the degree of urgency, some of the early assumptions and numerous other elements lead then to the conclusion that the road to KIID delivery would prove a rocky one.

And it did.

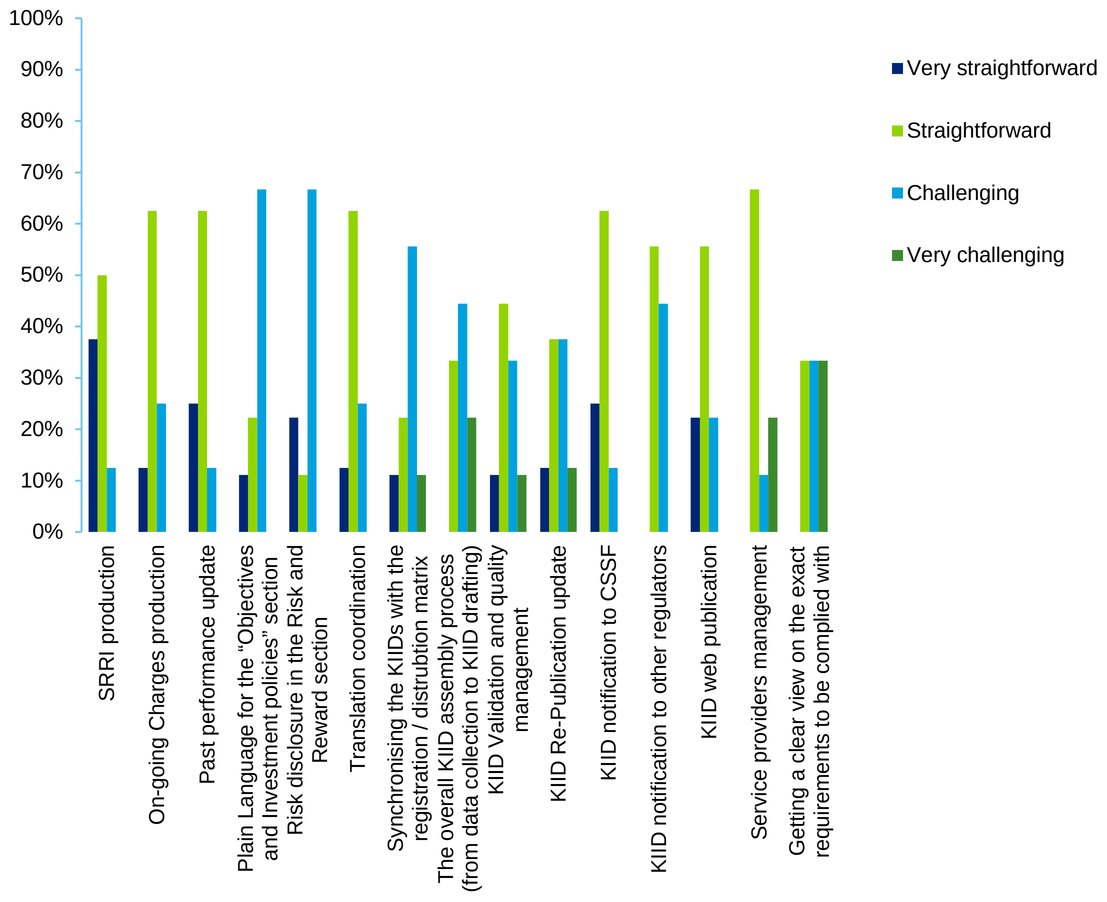
**Regarding the KIID project, when producing the KIIDS, has your experience been:**



For the favoured few, perhaps applying the old adage of planning for the worst and hoping for the best, the experience was in line with expectations, for the majority it proved tougher going than initially anticipated.

When we drill down into the process to see where those difficulties were encountered, we come across a picture of multiple and different difficulties. Perhaps the most surprising conclusion was the relative smoothness with which the market has apparently risen to the SRRI challenge. Unless there are some nasty surprises lurking undetected and still to hit the headlines, over 85% of respondents deemed this to have been “straightforward” or even “very straightforward”; - this contrasts starkly with those two thirds who found plain language or the risk disclosure description “challenging” and in even starker contrast with those who had as a “very challenging” experience variously synchronising KIIDs with the registration matrix (the matrix of countries by fund or share class that are authorised for distribution in each jurisdiction) or merely staying on top with what the requirements overall really are.

## What part of the KIID cycle do you find most challenging?




As a general reflection it is interesting to map these results back against both our previous survey and other commentary that has been prevalent on KIID over the last year. Most of those issues identified now as problematic – with the very interesting exception of the SRRI which at least to date would seem to have posed less of a problem than might have feared – were highlighted from the outset as issues not to be underestimated. It is interesting to speculate that had the commentary been heeded then perhaps some of these issues might have proved less of a hurdle.

It is interesting to note how high the complexity of plain language has scored. This really should have come as no surprise; there was much discussion in the press as to the challenge this represented, and yet the market has still struggled and continued to struggle. It was also interesting to note some unexpected sources of discrepancy. Almost universally in preparing KIIDs for Finland the market used words and phrases "lifted" from official translations of the Directive. It was therefore something of a surprise to learn that the Finnish Regulator in fact preferred a different translation; thankfully a pragmatic approach was taken with the Regulator looking for the appropriate terms to be employed going forward and in the next revision. But language is, and will continue to be an issue.

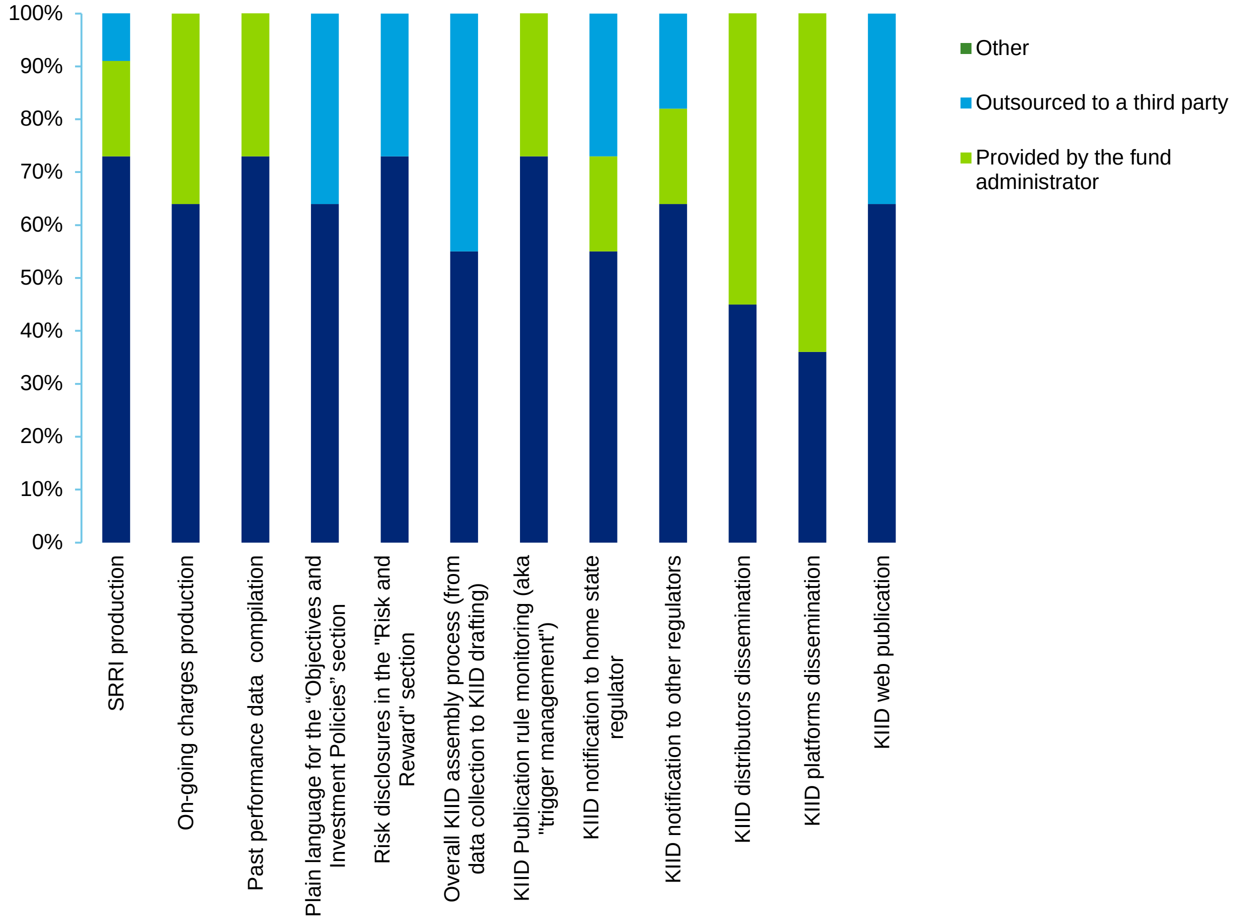
Another area worthy of specific comment is undoubtedly the Risk Disclosures. If one had to select an area which has given rise to most divergence it is probably this one. On the one hand there has been a tendency on the part of some promoters to think of this as a "liability management" issue and to list absolutely every risk that could occur, short of the investor inadvertently injuring himself with the document itself! On the other there has been a conscious and often fraught attempt to define what specific risks are to be associated with a particular fund with all the attendant heart-searching as to what a retail investor might be expected to understand as "normal" risks associated with investment. On this point the guidance of the CSSF in Luxembourg was clear and helpful, - the object should be to capture the specific risks, while at the same time alerting the investor to the general risk environment to which the intended investment is subject.

Overall, the very diversity of the issues that the market found challenging is indicative in itself; for although the objective is produce something that is simple and accessible, the details are numerous. Each KIID project has been different, something that is at the same time a tribute to the way in which the market has embraced the importance of the exercise, rather than handing it over, lock stock and barrel to service providers or consultants, but this very lack of common approach has meant that each case is different, and that even if some common themes of complexity emerge, there is little consistency. Once one excludes the "high scorers" in these responses, it is interesting to note that what one house may find straightforward another finds challenging, -always with that intriguing exception of the SRRI.

Possibly so much focus was afforded to this particular aspect, that the pitfalls were for the most part alleviated. Certainly in Luxembourg the subject was the focus of detailed and extensive analysis and preparation.

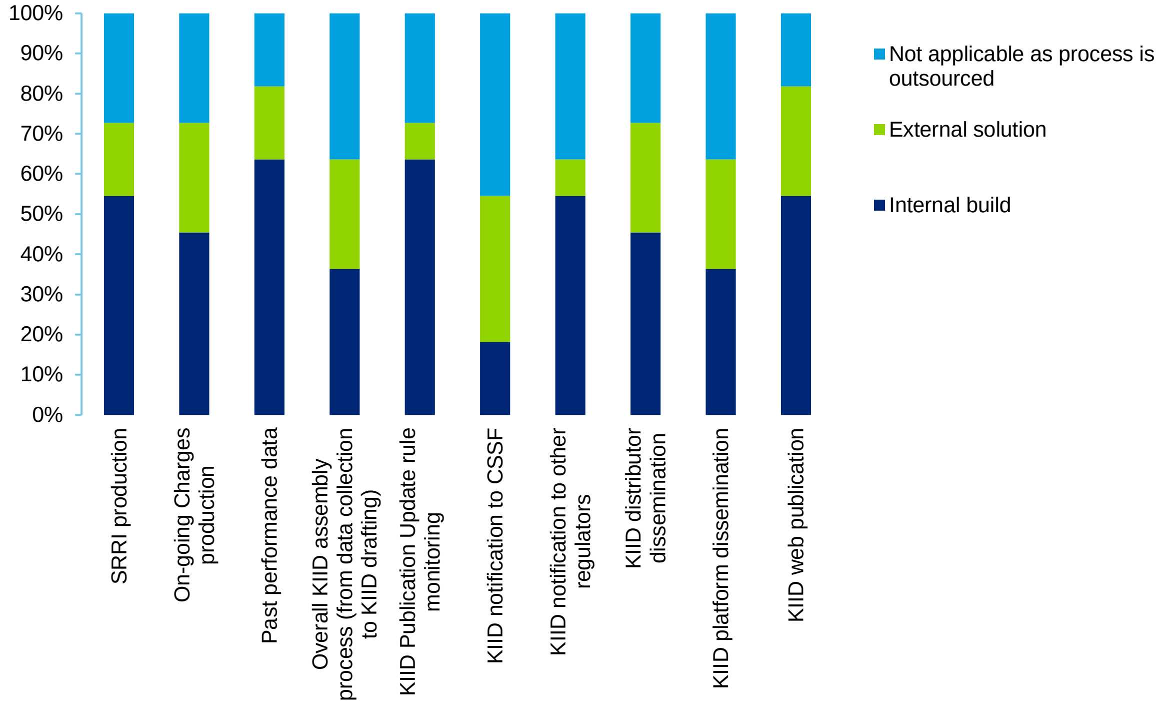
## 2.3 Technology and Outsourcing.

**How do you produce the various KIID components?**




It will be recalled that last year also saw a significant amount of activity as different entities announced "KIID solutions". Whilst some service providers offered "one stop shops" the clear preference, at least the intended preference of those asked last year was for a hybrid model. That hybrid model would seem to have been the one adopted.

## Where KIID components are produced in-house, what technology do you use?




Taking these two questions in conjunction a clear hybrid model emerges. What is perhaps more curious is the technology aspect with almost as much subject to internal build as to outsourced technology. In testing these conclusions looking for follow up corroboration on this point, two distinct explanations emerged. The first was the pragmatic one; a year ago many service providers had plans but in most cases their service offerings and platforms were still under either development or modification. Many end users went to route of building what they could to ensure control over deliverables.

(This may prove an impediment to a move to further outsourcing. Once an investment has been made on an in-house build it is difficult to justify immediately discarding it once an alternative solution is available. In most cases this proves a false "economy"; - the investment has been made, it has served its purpose in meeting the deadline, and it allows the owner the time and opportunity to fully review all outsource solutions and product offerings without being under an impending time constraint. )

The second driver is to be found in the complexity of the process and the difficulty inherent in data gathering. The KIID calls for data sets that cross functions, and which in the majority of cases are not held on a single system. Confronted with this primary data management problem, many market participants developed extracts and even applications for data transformation, to be able to provide consolidated files for either internal or external use.

This in turn leads to two further conclusions: firstly that there are still synergies to be driven out of the process in looking to common data generation sets (it is probable that numerous solutions have been built around different instances of the same system as principal vendors did not have the time, or sufficient incentive to adapt systems, and as each market participant developed bespoke responses to the issue in the initial phase.) Secondly, data ownership is a problem that may still come back to haunt such solutions. By the very nature of the way KIID projects have been put together, and the data required, there is no natural owner for all the data that may be used in assembling the KIID.

There is a hidden cost associated with the maintenance of such hybrid data flows and an operational risk latent in change. For in addition to the nature of the data itself, such applications have been constructed by project teams but the “logical” ownership resides far away from traditional IT or Business data ownership – de facto in the hands of whatever department or entity has been entrusted with overall co-ordination responsibility going forward. Probably the greater risk in this situation is the reactive nature of KIID production within promoter organisations; a trigger event generates the process and it is at that point that any underlying changes to data structure or delivery will, or may not, be identified. This situation contrasts with the outsource option where files are read in and monitored constantly and thereby reduce the time lapse in identifying a data problem, and bring file integrity back into a daily and monitored process with additional IT overhead.

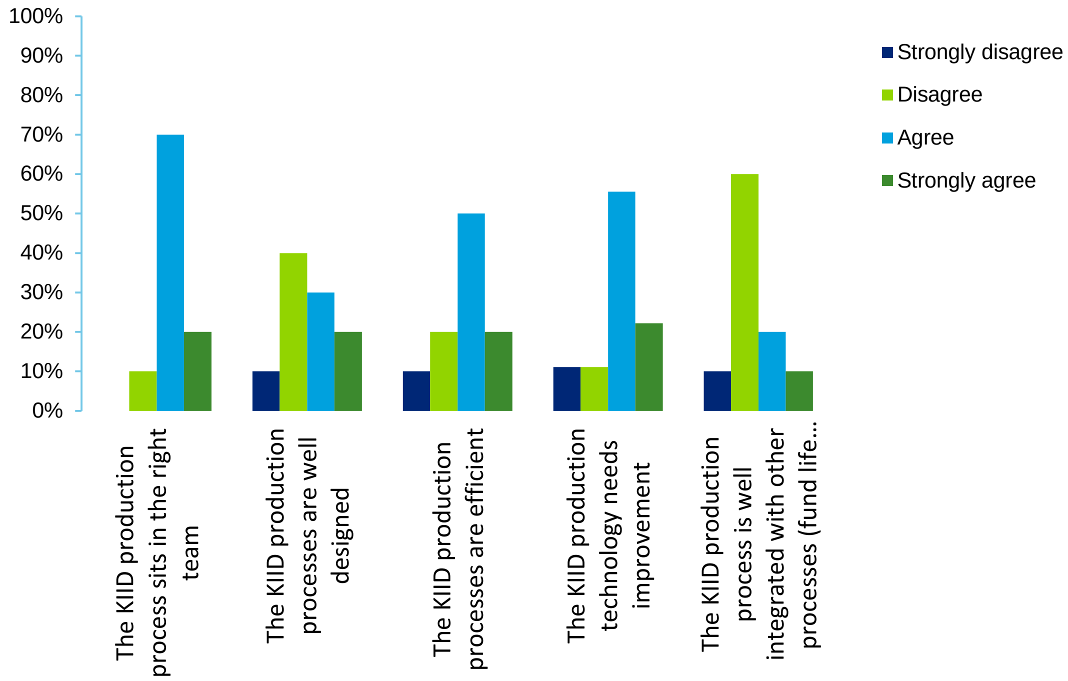
## 2.4 Towards a workable Operating Model

It was noted in the previous survey that there was little consensus evident as to where ownership for the various components and above all for overall co-ordination should lie within a promoter’s organisation.

That certainly does not seem to have moved on over the course of the year with

Whilst a clear majority believe that the process sits in the right team, the consensus begins to crumble quite quickly when the design of the process is considered, and even more the integration of that process into the life cycle of the fund. Indeed, so high is the dissatisfaction on this latter point.70 per cent of respondents did not believe the process is well integrated, calls perhaps into question that first apparent satisfaction with the ownership of the process (still not infrequently in the legal team).

**Regarding the maturity of the KIID production process, how would you assess the following statements?**




When this is taken in conjunction with the elements with which the market has struggled the most, a picture begins to emerge that perhaps the greatest challenge of all is that of co-ordination.

As has been seen earlier, right at the top of the list of issues with which the market had the most difficulty was synchronising the KIID with the Registration and Distribution matrix (it was interesting in going through the exercise to note how many inconsistencies there were between where Promoters believed their funds to be registered and where in fact they were registered; this proved a surprisingly common source of error and frustration) along with overall KIID assembly. This was closely followed by getting a clear view of requirements.

Perhaps the most telling aspect was that opinions, whilst converging on these points, also diverged significantly with some finding vendor management a challenge, others plain language, or the re-publication update. This demonstrates and leads to the conclusion that, as has been suggested from the outset, the process is a complex one. Although taken in isolation, each element can be broken down into relatively straight forward component parts, once taken together, and mapped across all the different relevant parties, both internal and external, the process is indeed complex, with multiple potential points of failure. Probably within that reflection there is another one, and that is that by grafting this process onto existing functions and responsibilities, the potential for failure, especially within that all important function of co-ordination, increases. This would seem to point naturally towards the outsourcing of the co-ordination itself, to a party that is able to focus purely on that role. It is curious to note that of all the hybrid models combining in-house and outsource solutions, this co-ordination element is one that is the most frequently overlooked and the one that can help drive out maximum savings and synergies from the process and de-risk it at the same time.

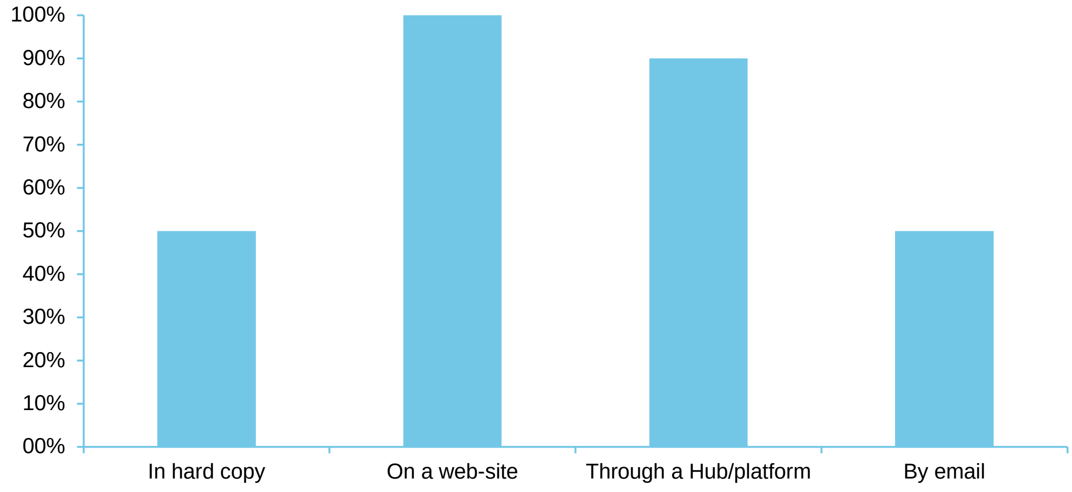
In today's environment the issue clearly is on co-ordination, and process control. An increasing number of promoters are coming to realise just how much time and effort they are spending on this. We know of more than one Conducting Officer who has in depth knowledge of the KIID – he acquired it by being obliged to help produce them himself! Just as some of the issues highlighted last year have indeed proved issues, so in this coming year we shall see increasing numbers of promoters realising just what a drain on resource, time and energy this co-ordination effort is, and look to outsource.

There is still a lot of work to be done on the operating model, there are potential synergies and cost savings to be had by further refining the balance – retained outsourced – and above all that all important co-ordination function must be resolved before any of the other potential benefits of outsourcing or internal organisation can be unlocked.

## 2.6 Dissemination

Once the KIID has been produced, the next challenge is what to do with it.

### Do you intend to make your KIID available:

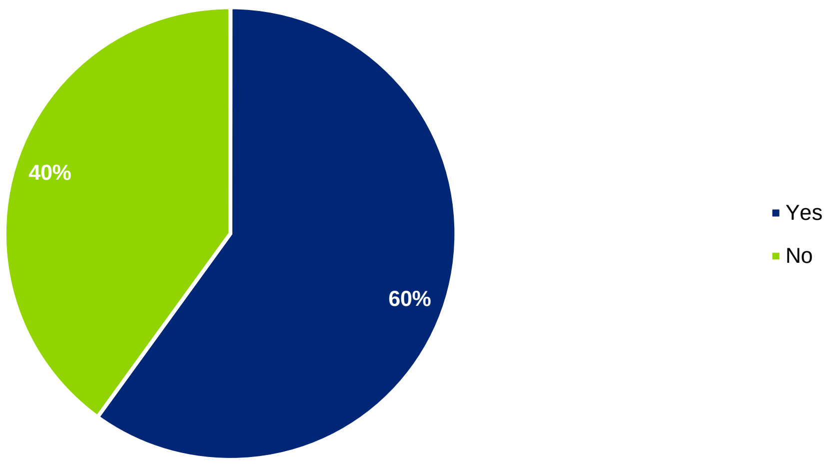



This question elicited one of the first surprises. Throughout the planning and implementation phases there was a lot of focus on how to capture distribution lists and to ensure an efficient flow of information through electronic channels alongside what proved a rapidly forming consensus around the web site of each promoter being a primary dissemination channel. So the relatively high number of respondents who intend to make KIIDs available in hard copy is doubly surprising, and certainly counter-intuitive.

It is one of the aspects that when further validation was sought, was indeed confirmed with some houses, including those reputed for their institutional business and sophisticated approach to all matters of communication, struggling with issues around envelope filling and distribution of hard copies.

A second conclusion that emerges concerns precisely that dissemination through a hub or fund distribution platform. After the proprietary website, this is the second most favoured dissemination channel (notwithstanding the other reflections on such platforms discussed elsewhere in this survey). This leads to the putative conclusion that over time that dissemination channel will also see rationalisation with the more efficient platforms garnering greater favour as not only order generators, but meaningful actors and “partners” in a true distribution infrastructure sense.

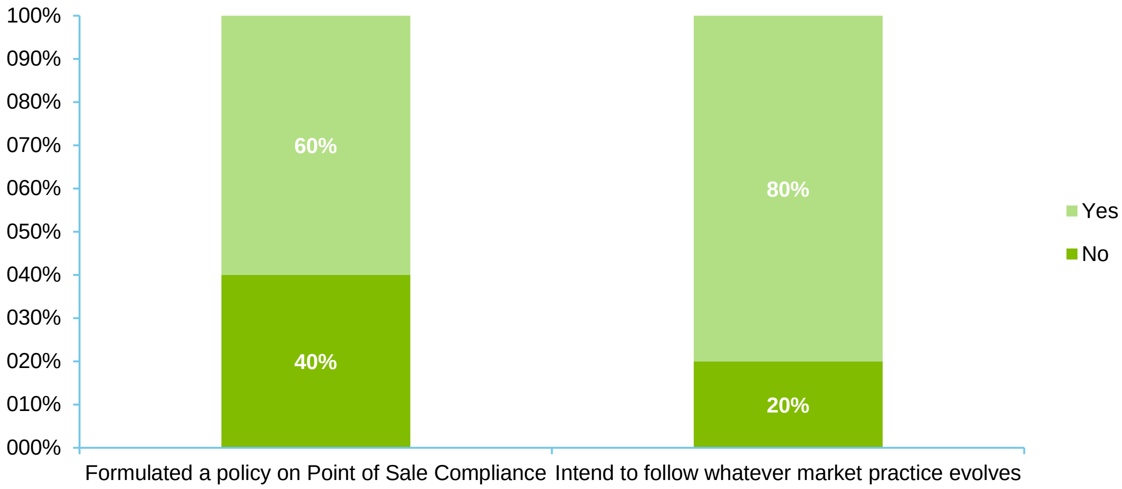
## Have you taken legal advice as to ensure KIIDs are received by investor on time?



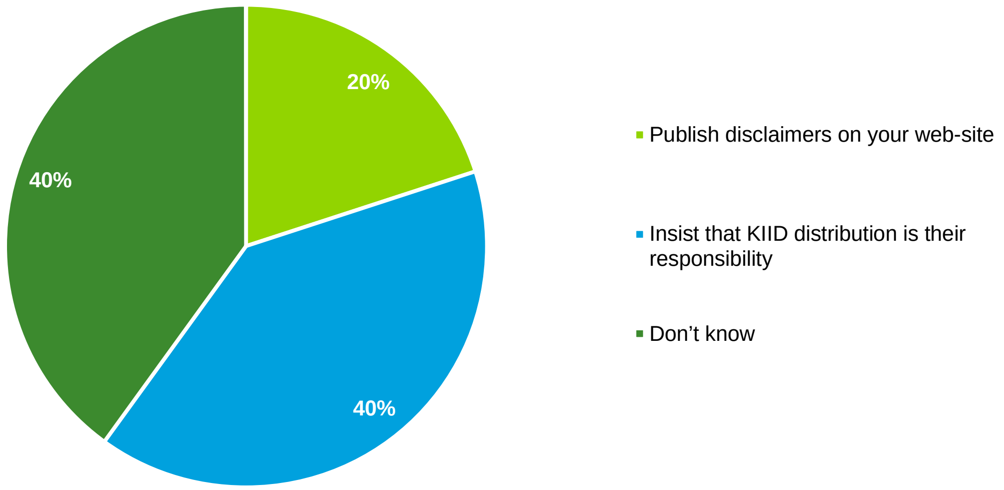

One of the more worrying conclusions from the previous survey was that an overwhelming majority of promoters had not sought legal advice as to their liability under the KIID. This has clearly changed, and although this question was more specific, relating only to "point of sale" compliance it demonstrates that the industry has struggled with how to comply with the notion as to how it should ensure that the client receives the KIID before making a transaction, and has "gone the extra mile" to seek clarity on that point.

However, when this result is read in conjunction with the following, some interesting conclusions may be drawn.

## Have you got a strong opinion on how to provide KIIDs at the point of sale:



**How will you deal with fund distribution platforms?**




Despite taking legal advice, and despite the best efforts of the legal profession to interpret the requirements, there is still a significant grey area as to what point of sale compliance may mean, and uncertainty surrounding the whole issue.

The FSA in the United Kingdom had put in place a waiver until July 2013; promoters were able under this waiver to apply for a dispensation in making the KIID available before a sale takes place. In an interesting development, the FSA has now extended that waiver until 2014. Promoters must still apply for the waiver, - it is not a blanket market exemption but it is understood that the complexity of ensuring compliance in an environment in which fund platform distribution is a significant market segment may well have contributed to this development.

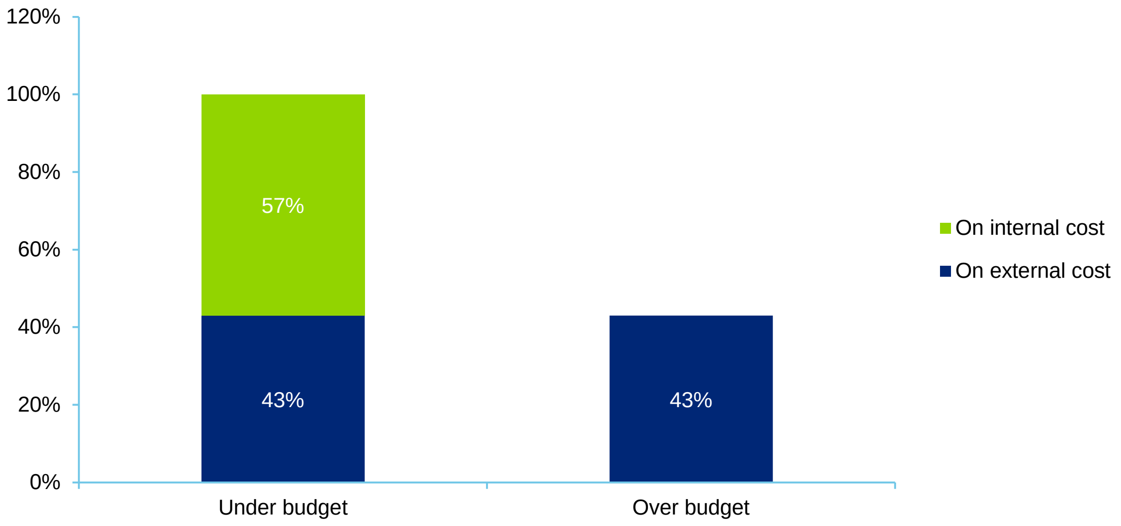
Clearly also, the question as to how to deal with platforms remains a vexed one.-

## 2.7 The Costs and the Hidden Costs

From our first consultation we gained the distinct impression that the market may well have been underestimating the costs it was facing in putting together a KIID project, and in the on-going cost that it was likely to incur.

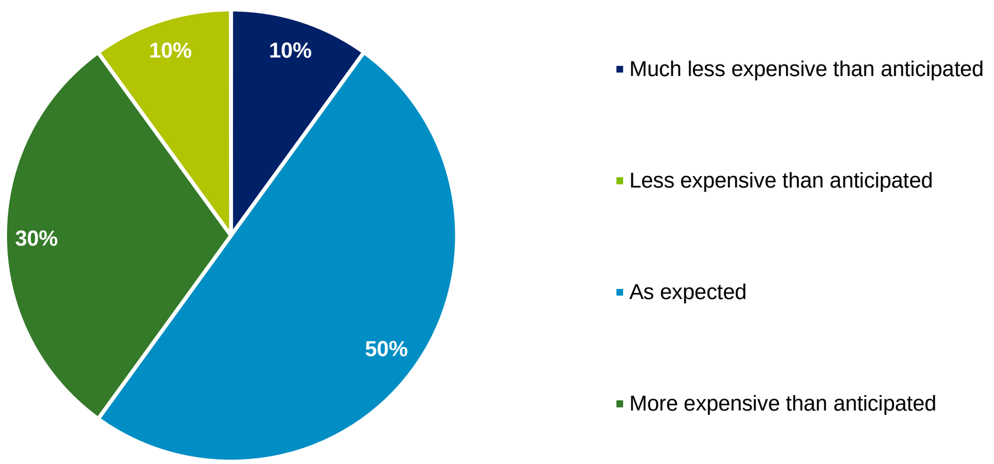
At first sight, this apprehension appears to have only partially been born out.

### Your KIID project is/was:




At first sight this would appear a very creditable performance, especially on internal costs.

### How in line with expectations are the on-going costs for producing KIIDs:

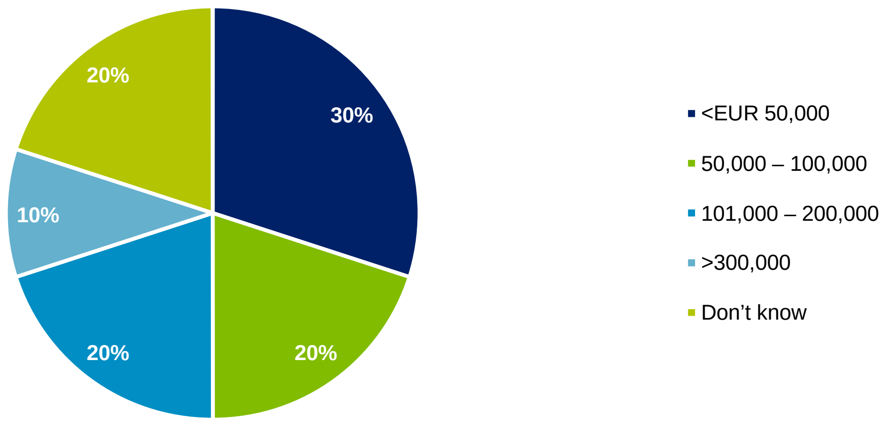



Half the market is encountering on-going costs in line with expectations, as much as 30% will be incurring higher than anticipated costs and a smaller segment reports remarkably lower costs. Perhaps the most worrying segment is that which still has to estimate its on-going cost.

Taken together though, answers to the two questions seem to suggest that the surprises portrayed in responses concerning the complexity encountered have caused some cost over-run on the project piece but is more aligned on the on-going side.

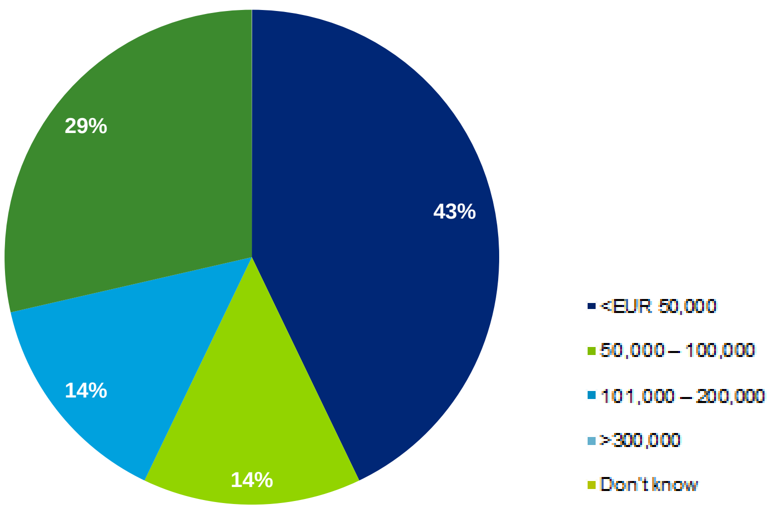
In absolute terms, the on-going costs are almost in line with expectations

**Once in "Business as usual mode", what is your estimate of the full yearly recurrent KIID costs (internal, external, direct and indirect) to be:**




Not surprisingly, for an endeavour where the market has encountered, as we have seen, a degree of difficulty that was above its first expectations (as it has been seen around 70% of those consulted felt that the exercise had proved more difficult than they had anticipated), as much as 30% of the market may have encountered a budget over run on external costs. In itself that number is remarkable, suggesting that although the exercise was more complex and more challenging, enough buffer had been built into the planning stage to accommodate it in most cases.

If these numbers are compared with the expectations given in our previous survey ….



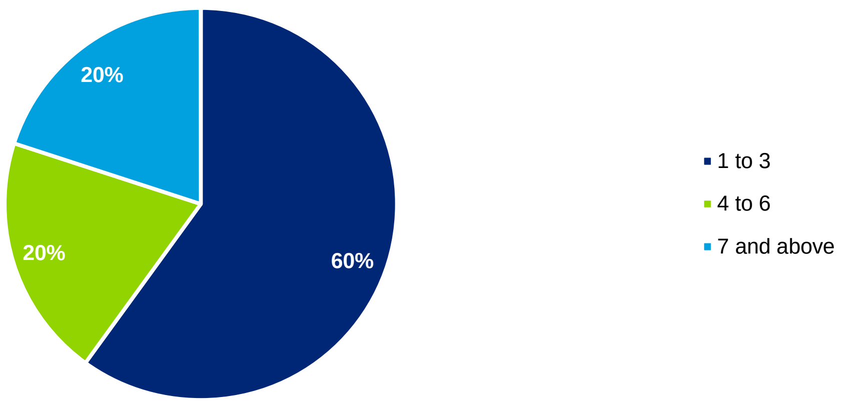

……a broad alignment can be seen, albeit with a slight revision upwards and fewer participants in that below 50k per annum bracket.

So overall, with again a little nagging apprehension about those respondents who still were uncertain as to the costs they are facing, a very creditable performance on the budgeting front, especially when the complexity is factored in.

Or perhaps not. Attentive reading of the survey results suggests that the market is still underestimating its internal costs.

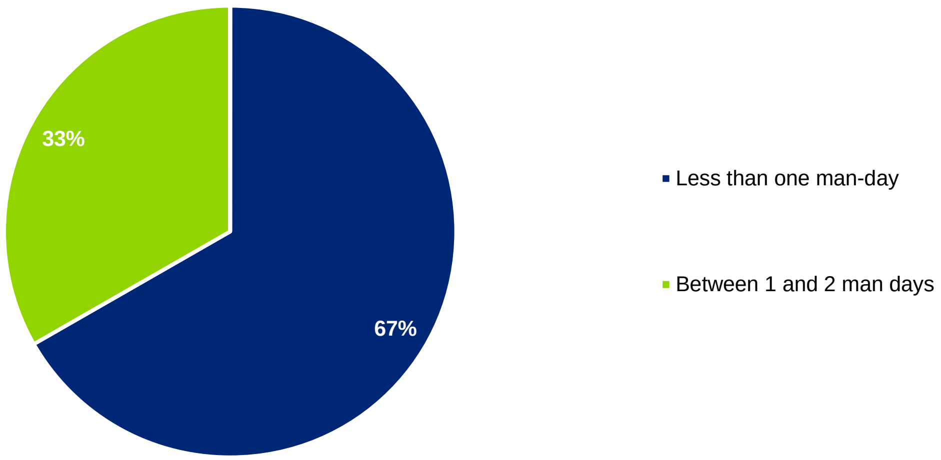
Let us consider for a moment, the responses to two questions.

**Going forward and assuming that your KIID project is completed, how many people will have recurrent KIID responsibilities (i.e. that will spend a non-negligible amount of time on the KIID production process):**




And

**If SRRI is computed internally, how much time do you estimate your team to allocate to SRRI calculation on a weekly basis?**



There was already one interesting facet on this question, the number of respondents who skipped it!

A little under half did not answer this specific question (whereas for the other questions in the survey, almost all elicited responses from the whole sample).

Quite simply, there is little visibility as to how time consuming this activity is.

If we work with the sample that has responded, and cross that with the area responsible for producing the SRRI as per Question 7 – an overwhelming majority of market participants are calculating the SRRI in their Risk department. This in itself seems very reasonable and intuitive. (The outliers are intriguing, placing this activity in an operational environment. Clearly there are likely to be gains in operational integration, and in cost; it will be intriguing to see how this latter operating model works out.)

So, at least a third of the market anticipates that it will spend between one and two man days a week – in its risk department, running the SRRI process. This is at a time when Risk professionals are likely to be in increasing demand, and their workload is highly likely to increase with the requirements of the SIF law revision (Risk management Policy and Procedures becoming mandatory for most SIF's and on current indication likely to be very closely aligned with UCITS requirements) with further pressure on the sector to be expected as AIFMD comes into force.

When we consider the scope of departments and specialisations that go into producing a KIID, and look at the numbers of people different respondents indicate have on-going KIID responsibilities, we start seeing a picture where despite what our respondents think about the on-going costs the reality, in direct costs alone is probably significantly higher. The term "direct" costs is used deliberately; when we are talking of Risk, Legal or other "technical" or "professional" departments, in which although Luxembourg is lucky to have a broad and talented population, resources are never the less finite, there is also an indirect cost, an opportunity cost. Part of this cost is no doubt being carried in direct professional fees and expenses, and the remainder absorbed by unconsciously cutting back on the speed with which such departments can respond inter alia to the tide of regulatory change.

## 2.8 The Way Ahead - And is it all worth it?

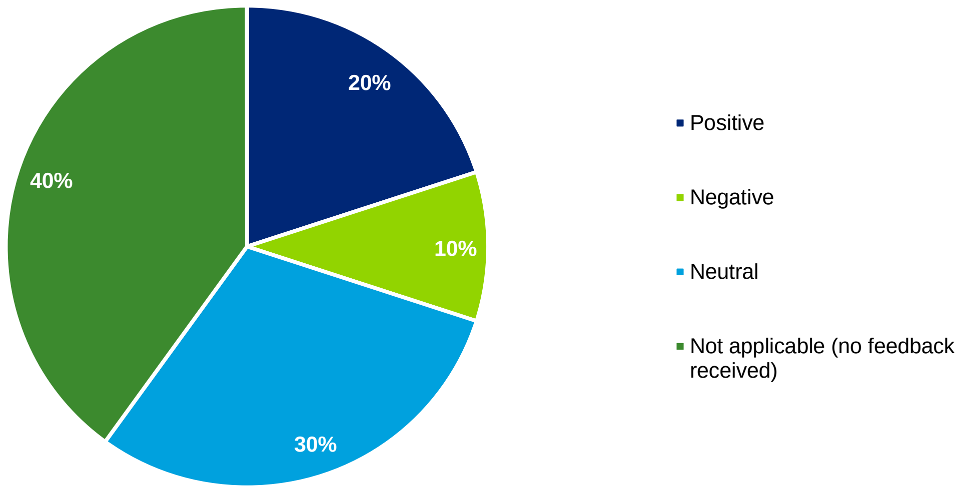
The focus has been very much on meeting deadlines and resolving practical issues. Somewhere in the back of everybody's mind was the thought that although painful, the exercise was somehow worth it. At least that was the prevailing feeling at the outset. And this probably on two separate levels.

The first, very reasonably, was at the investor level. The industry had struggled with the Short Form Prospectus; it basically has not worked as intended, too much scope for interpretation, and at the end of the day another mandatory document to produce with little tangible benefit. The hope was that at last the much more rigorous codification of the KIID would break this vicious circle. There were of course reservations as to the SRRI; some fears that inevitably funds in the same asset class would show very similar SRRI results. There were fears that the SRRI would not prevent surprises; it has been suggested that those Money Market and similar funds investing in mortgaged backs that caused a lot of the furore in 2008 would have shown a very low SRRI if calculated just before the whole sector changed. Indeed, the current issues around constant value NAV Money market Funds in Euros – and how to cater for potentially negative returns – would not have been apparent to the investor simply from reading the KIIDs such funds produced, nor would that document have forewarned investors as to the potential closure of such funds to new investment or whatever solution such funds may ultimately adopt to book negative returns (liquidation of units etc.)

But by and large, with some reservations on points such as these, the market anticipated that the investor would welcome the KIID, and that the KIID could be an important element in regaining customer confidence that has been so eroded by recent events.

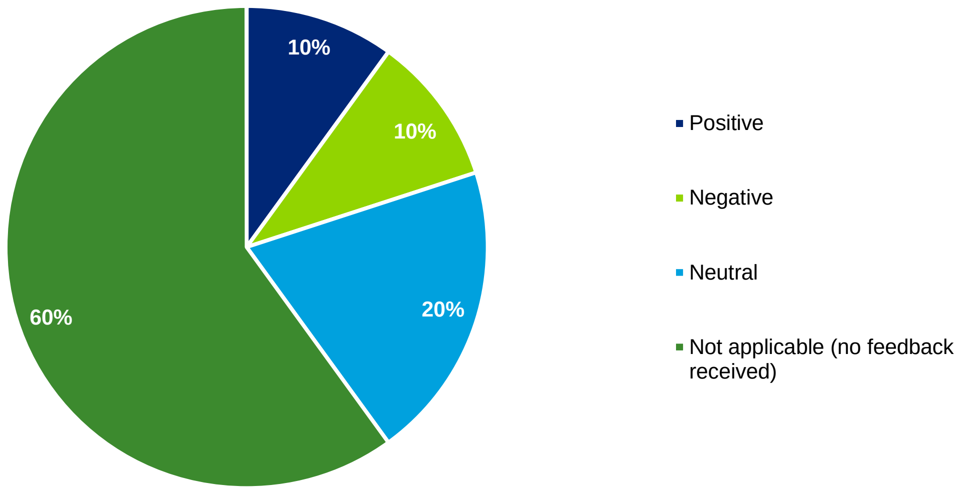
Have these expectations and aspirations been met? And what are distributors and investors alike saying about the experience to date.

**What has been the feedback on KIIDs received from distributors?**




… and

**What has been the end investors feedback on KIIDs (if any)?**




This is not exactly an encouraging picture and certainly something less than the market has been hoping for. Taken in conjunction with Distributor demand for KIIDs the conclusion at least for Distributors seems clear, the interest is more one of compliance; there is little or no evidence to suggest that the KIID is perceived by Distributors as increasing or creating value in the process.

If anything, those markets with a heavy reliance on IFA's are reporting that clients are already frustrated by the additional formality.

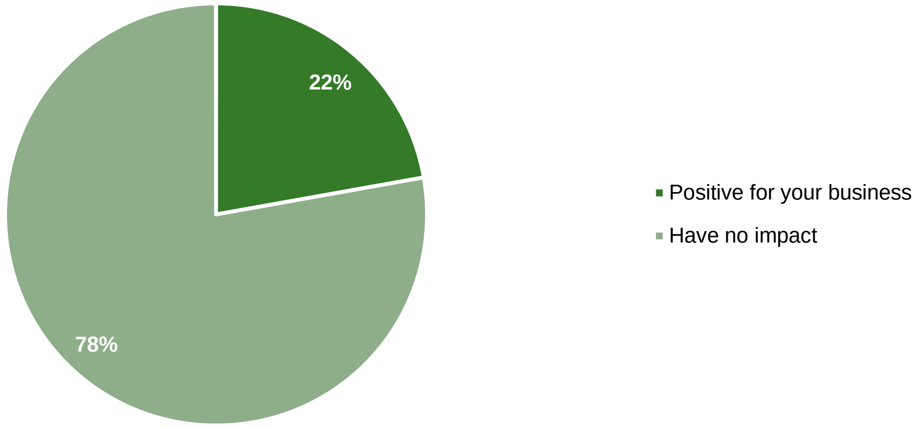
And when we analyse the direct customer reaction to KIID the picture does not really look more positive. Of the little feed-back received as much was negative as was positive,  with a majority yet to respond. Not exactly the revolution in “Client Consciousness” that was hoped for.  It can be hoped that at least part of this apparent apathy may be down to the newness of the exercise; for a good many fund complexes the KIID has only recently been introduced.

Anecdotal evidence unfortunately may not point in this direction, however. It has been observed that there is a tendency on the part of even a well-informed investor to diligently read the first KIID that comes into his or her possession. Thereafter the very familiarity of the document, and its “sameness” if anything works against it. Subsequent KIIDs will be at best perused, perhaps some focus on charges, and a cursory glance at the SRRI. The tendency of all SRRI’s to fall into the same broad categories for the same or similar asset classes could well prove an additional dis-incentive. And in this context it is possibly worth noting that some key information that could readily have been included, most notably the “category” of fund, was omitted in the drafting process. Once again, national preferences have taken different routes. In France it is a requirement to show on the KIID the category into which the fund has been deemed to fall – Structured Fund, Absolute Return Fund, Market Fund etc. Strictly speaking this is not compliant with the detailed guidelines set out in Level II and other recommendations, and yet it is a very useful inclusion, and one that if a fundamental revision of the whole document was not already on the horizon via PRIPS, would have been an interesting “revision” for future inclusion.

On another level, the fund industry was also positive that the KIID would prove a stepping stone towards a more equitable comparison between investment products. The industry is probably in broad agreement that more can still be done to make funds cheaper, more transparent, easier to understand, especially as to the effective cost that they represent as an investment. At the same time there is great frustration that funds seem to be singled out for “special treatment” from a much broader range of investment options. Other competing products are not obliged to anything remotely resembling the same level of disclosure on costs. This was in fact the implicit carrot behind the stick of the KIID. The UCITS industry was lead to believe, both by European instances and by ESMA that it would be the first to introduce the KIID but others, structured deposits, non-UCITS funds, some insurance wrappers would then have to follow. This aim of being able to show the investment fund product finally in meaningful comparison with other products that in general have charging structures not merely higher but in many cases with multiples of the charges that funds deduct, was the consolation the industry drew from the cost and effort of implementing KIID.

Have either of these aspirations been born out?

**Do you believe the recently circulated Draft Directive on PRIPS – envisaging a KIID for other investment products – some Insurance Products, Structured Deposits etc. will be:**




While the exercise of getting the KIID into production progressed, work was moving ahead on the broader PRIPS (Packaged Retail Investment Products Directive) helped on its way by continued prompting from EFAMA and other interested parties.

Undoubtedly expectations for the creation of a level playing field between UCITS and other competing investment products were influenced as this initiative moved forwards.

In the event, as the responses to this question indicate, there was a certain feeling of disappointment when the draft proposals were issued.

On a positive note, the proposals certainly confirm the intention to provide a KIID style document across a much broader scope of investment choices, and to move forward more rapidly in that direction, the KIID part of the proposals have been carved out from the broader consultation. This part of the initiative has been re-christened the "KID Directive" (NB one "I" not two!) and will form the basis for a directive in its own right.

In addition the draft contains some interesting text in the preamble that recognises investor responsibility in making investment choices choice, and in the need for products with different risk profiles. This clearly underscores the need for a comparable document to allow informed choices to be made. A little disappointingly perhaps, the Draft Directive also discusses the likelihood that the format imposed on UCITS may not be that for all products; in fact it almost certainly means that it will not be. The next generation of KIIDs (or KIDs) are more likely to be longer, and whilst it is still hoped that the texts, formats and sections will be as prescriptive and clearly defined, there are some fears as to just how comparable these documents may prove.

Certainly there is a Herculean task ahead to align not only interest groups and participants across a number of sectors but also their respective regulators at national and European level.

Clearly with this significant change to the two page document with which the market has become familiar already foreseen, the KIID as implemented by UCITS IV will require vision. Indeed the new directive specifically sees the repeal of the “KIID” clauses of UCITS IV (it is one of the few concrete proposals in the draft in which, inevitably, much of the remaining detail is left to Level II measures and delegated acts to flesh out.

The directive does recognise implicitly the huge effort that has been made by the UCITS industry in pioneering the implementation of just such a document, and allows a grandfathering period after the implementation of the new KID of up to 5 years before UCITS KIIDs will have to realign on the new format.

On the one hand this dispensation allows the industry some breathing room, and the possibility to prepare in a structured fashion to that change. On the other, for those looking for a more rapid move to a level playing field through the availability of a directly comparable document, this may be viewed as something of a set-back. Certainly the “promised” comparability is still some way away, and no doubt there will be much lobbying and potentially some delay before the final shape and form of the new KID is thrashed out.

So it is perhaps not surprising that respondents were not looking to the new Directive to radically transform their business in the short term.

In this context, the move by the FSA to extend its waiver possibly reflects one of the axes for reflection within the new Directive. In many cases, dependent on delivery and distribution channels, it is extremely complex to ensure that every investor, including those with no direct relationship to the Promoter or any of its appointed distributors, such as investors availing themselves of on-line trading facilities linked to fund distribution platforms, is in possession of the KIID before placing an order. The UK market with the important role that this form of distribution plays, has raised the point on many occasions. This waiver extension is likely to further fuel the debate, and certainly many will be watching closely the UK experience in the months and even years to come to see how this situation evolves, and the impact it may have on the effectiveness of the KIID as a meaningful customer information and protection document in the long term.

We have come a far way from initial aspirations. The hopes of a level playing field have been set back by at least 5 years. The investor is not rallying to the document, at least initially, as the useful comparative and information tool it was designed to be, and the practical difficulties around point of sale compliance are leading to divergence across jurisdictions.

There are no signs yet that the KIID will be one of the triggers to bring investors back to the fund market, and that at a time when focus on the provision of retirement savings has also slipped once again below the collective European horizon in the face of apparently more pressing pre-occupations around preserving the EURO.

At its best the KIID had a role to play in investor confidence, investor choice, and in delivering efficient investment solutions in response to that retirement and pension challenge, probably the greatest macro-economic issue facing Europe today. As it is evolving, the KIID still has some way to go to fulfil that role, and the way ahead is also littered with challenges as various lobby groups seek to influence the form and detail of the “KID” in the broader investment context with the new Directive.

But the costs will remain, and the effort, and the obligations. Perhaps the greatest challenge is yet to come. How to salvage the positive from this situation, and how to regain that enthusiasm that caused so much thought and effort to be devoted to the KIID from the outset.

One thing is certain; tomorrow’s KIIDs are very unlikely to be the same as those of today. We can already look forward to the next generation.

But it is encouraging that the objective is still there, and that a KID with a broader scope is still very much on the European agenda.

As Steven Maijoor of ESMA observed, the regulator " …*clearly defined that approach in the consultation it launched last year where it proposed to apply consistent standards across the market by setting the Key Investor Information Document (KIID) as a benchmark for all PRIPs as far as the disclosure requirements are concerned*…

*For the disclosure part, the KIID for UCITS has been identified by the European Commission as the appropriate benchmark. This is clearly something we welcome as we feel it recognises the quality of the work we have been doing to develop the KIID."*?

Clearly work must now begin again to bring these aspirations to a market reality.