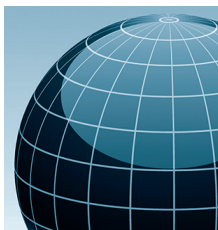


UNDERTAKINGS FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES IV (UCITS IV)

Key Investor Information Documents (KIID)



Regulatory changes present constant challenges and complexities. In response to this evolving environment, a clear understanding of policy changes and their impacts has become more important than ever.

If you are concerned about global financial regulations and how they may impact your business, please contact your relationship manager.

INTRODUCTION

As part of the UCITS IV regulation adopted across the majority of EU member states on 1 July 2011, management companies are now required to produce a two-page Key Investor Information Document (KIID) that provides concise information in plain language to help investors make informed decisions prior to investing into a fund. The KIID replaces the simplified prospectus, which failed to provide increased transparency on the core characteristics of an investment fund.

The following Q&A outlines:

- Key features of the KIID
- Considerations when implementing a production process for the KIID
- Point of sale obligations arising from the KIID and considerations for distribution

What is the timeline for transition to the KIID?

Management companies will need to produce a KIID for all new UCITS funds launched after 1 July 2011. For existing funds, there is a 12-month grandfathering period that extends to 1 July 2012. During this time, any new sub-funds or share classes within an existing UCITS can continue to use the simplified prospectus.

What does the KIID contain?

Eight key pieces of information are contained within the KIID:

- The title “Key Investor Information” prominently stated at the top of the first page followed by an explanatory note
- Identification of the UCITS fund/share class, its management company and ISIN code
- A short description of the objectives and investment policy of the UCITS fund
- A risk and reward profile showing the synthetic risk reward indicator (SRRI) in conjunction with appropriate guidance about the risks associated with investment in the relevant UCITS
- Fund charges (entry, exit, ongoing, etc.) in percentage terms, presented in a table with a brief explanatory narrative
- Annualised past performance history presented as a bar chart with five or ten complete years, along with a brief explanatory narrative
- Practical information including, but not limited to, a liability statement and sources for further information
- Regulatory/authorisation details

How often must the KIID be updated?

The KIID must be updated, at a minimum, on an annual basis as at 31 December and within 35 business days of the calendar year end. If there is a material change to the fund/share class during the year, the KIID will need to be updated and made publically available.



How should the KIID be presented?

The KIID must be presented in “plain language”, that is, in a way that is easy to understand and without jargon. It must be translated into the official language of each country in which the fund/share class is distributed. Unobtrusive branding can be included, but the KIID is not intended as a marketing document. The length must be no more than two sides of A4 (aside from structured funds, for which three sides are permitted) and the font size no smaller than eight points.

How should the KIID be provided?

The KIID is a point of sale document and must be provided free of charge to investors prior to investment. It can be provided in hard copy, PDF or published on a website and the link sent to the investor.

What are the main considerations for the production process of the KIID?

Management companies must consider a number of key elements when establishing and maintaining the KIID production process:

- Ensure consistency between the KIID and the other various documents in issue, including prospectuses, websites and factsheets
- Predict the amount of time and effort involved in designing the KIID template and populating it with data
- Manage the production process to ensure a KIID for each share class is produced within 35 business days of calendar year end
- Deal with volume. The requirement to produce performance and risk information for all fund share classes or representative share classes means that large multi-class umbrella funds will need to produce thousands of KIIDs. Automation, control and data access will be key to success
- Rationalise the number of share classes and potentially reduce the cost and time to produce KIIDs
- Monitor the SRRI and, if consistently different for 17 weeks, reproduce updated KIIDs
- Meet the plain language requirement
- Adhere to the different requirements for distribution into countries outside of the European Union
- Consider where funds are registered and determine which will require translation into other languages
- Manage the translation process
- Conform to the different requirements for distribution into countries outside of the European Union

What is the impact of the KIID on distribution processes?

While much of the industry focus has thus far been on the production process, it is also important to consider the impact of the regulation on the distribution process. Under the UCITS IV regulation, management companies have a responsibility for the production of the KIID and for making it readily available at the point of sale while the distributors have an obligation to ensure the KIID is received by an investor prior to an investor committing to invest in a fund.

To comply with the point of sale requirement and maintain record compliance, management companies can make a number of changes to their distribution processes:

- Publish the KIID on the client’s company website
- Adapt application forms, including those for top ups and switches, to include a declaration that the investor has been provided with the KIID

- Encourage investors to use application forms and discourage phone and white paper dealing. This will minimise rejection of applications received without a declaration
- Consider delegating to distributors the responsibility to provide KIIDs to investors. This would require an amendment to the distribution agreement
- Pre-advise existing investors to review the KIID, inform them where to find the latest KIID and clarify the need to complete the declaration prior to future applications. This can be done via email with a link to the KIID or by a hard copy mailing

What services will Northern Trust provide in relation to the KIID?

Northern Trust offers a number of different services to support the KIID:

- Full production of KIIDs on behalf of our clients, including calculation of SRRI charges and past performance. This may involve monitoring the SRRI and translating the KIIDs into host country languages for distribution
- Support in establishing that investors have been provided with the KIID in good time prior to any unit dealing

NEXT STEPS

If you would like to find out more about how Northern Trust can assist you with KIID production and distribution processes, or meeting regulatory change in general, please contact your Northern Trust relationship manager or visit www.northerntrust.com.

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