What is a Key Investor Information Document (KIID)?

Fund groups who market their funds for sale within Europe must produce a document for each fund (at share class level) called a Key Investor Information Document (KIID).

Acting as a simplified prospectus, and around 2 pages long, the KIID has to be laid out in a standardised format which will allow investors to compare funds side by side. The purpose of the document is to provide information to retail investors in a straightforward and easy-to-understand format but which delivers critical information about the fund.

The document must contain the following sections:

- The funds objective and investment policy
- Charges information
- Up to 10 years of past performance history
- Risk reward profile (includes the KIID risk rating)
- Practical information such as the contact details of the fund house and important notes.

Production of this document is a requirement laid down by the European Securities and Markets Authority (ESMA)[1] under a European Directive as part of their intention to enforce tighter rules regarding investor protection. It must be updated whenever there is a material change to the fund, and at least once every year within 35 business days of each calendar year end to reflect the updated performance information.

Only funds with UCITS[2] status are required to produce a KIID, although some non-UCITS fund may choose to produce one.

What is a KIID risk rating?

The 'Risk reward profile' section of the KIID provides information and warnings about the risks of the fund. It also includes a synthetic risk and reward indicator (SRRI) for the fund. This is illustrated by using a rating scale of between 1 and 7 (1 being low risk, 7 being high risk).

The rating is based on the volatility of the fund over the past five years, so the more volatile the fund, the higher the risk rating will be. For funds that do not have a 5 year history ESMA lay down what alternative methodologies can be used to create the risk rating.

Investors can use this rating scale when selecting their investment options as a guide for which funds are in the cautious, medium or higher risk category.

Notes

[1]*ESMA - The European Securities and Markets Authority (ESMA) is a European Union financial regulatory institution and European Supervisory Authority, located in Paris. It operates as an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by enhancing the protection of investors and promoting stable and orderly financial markets. It assesses risks to investors, markets and financial stability, completing a single rulebook for EU financial markets, promoting supervisory convergence and directly supervising credit rating agencies and trade repositories.*

[2]*UCITS - The Undertakings for the Collective Investment of Transferable Securities (**UCITS**) is a regulatory framework of the European Commission that creates a harmonized regime throughout Europe for the management, marketing and sale of mutual funds.*