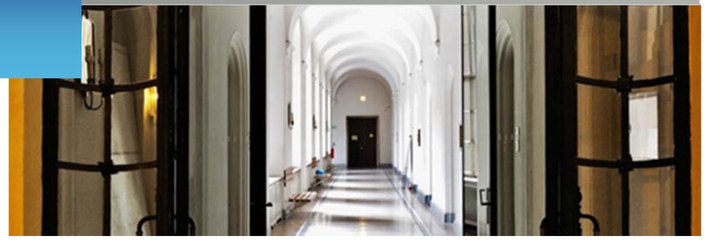
UCITS IV Key Investor Information Document: The Challenge of Providing Clear Product Disclosure



Following the recent financial crisis, there is a strong drive to provide clearer information about investment products more directly to investors. The financial world is characterised by many interconnected parts often using specialist terminology which is unfamiliar to the layman. Policy makers globally are striving to de-mystify these complexities for investors.

Levelling the playing field; delivering clear and concise investor information.

In a February 2011 issue of *ViewPoint*, we highlighted that Packaged Retail Investment Products (PRIPs) will cover a range of investment products that are marketed to retail investors and sold as packaged products, including UCITS.

Inconsistencies in existing disclosure standards for these products can lead to competitive distortions in the retail investment market. The European Commission's objective is to create a consistent framework and level playing field for all packaged retail investment products. It will seek to achieve this by amending conduct of business requirements in the Markets in Financial Instruments Directive (MiFID) and the Insurance Mediation Directive (IMD), as well as proposing a separate initiative to cover investor information. Disclosure of relevant information about PRIPs will be made by way of a Key Investor Information Document (KIID), and is expected to be largely based on the KIID developed for UCITS.

UCITS IV, the next iteration of the Undertakings for Collective Investment in Transferable Securities (UCITS) directive, is required to be transposed into the national law of each EU Member State by 1 July 2011. A February 2011 issue of *ViewPoint* provided a summary of the changes which we have highlighted below:

- Key Investor Information Document (KIID);
- A more effective cross-border regime for UCITS fund mergers;
- "Master/Feeder" UCITS permitted for the first time, including the ability for a domestic UCITS to feed into a cross-border master fund;
- Management of UCITS management companies to be subject to MiFID-style conduct of business rules. This supports the "passporting" of management companies, whereby a UCITS structure in one EU member state can be managed by a management company in another;
- Simplification and shorter timeline for the registration procedure for cross-border UCITS.

This *ViewPoint* provides a more in-depth commentary on the first change listed, Key Investor Information Document. This component of the revised directive is likely to have the most immediate impact on investment managers, distributors and investors. That impact is being felt now as product and service providers prepare to produce KIID documents for all their UCITS funds and their share classes; regulators confirm procedures for receiving and transitioning to the KIID; and distribution partners establish how to provide the appropriate KIID to end investors.

What is a KIID?

A KIID is a two-page (three-page for structured products), "fact-sheet" style document which constitutes the pre-contractual information which must be provided to investors prior to investment. The KIID replaces the Simplified Prospectus, which is largely viewed as having failed to meet the objective of providing clear, simple investment information to investors – an objective which the KIID seeks to address. The KIID sets out the essential characteristics of a fund or share class necessary for an investor to understand the nature and the risks of the fund being offered and make investment decisions on an informed basis.

In order to achieve the goal of educating investors, KIIDs must be written in concise, non-technical language.

The European Commission in consultation with European Securities and Markets Authority (ESMA) has developed a prescribed format and content, designed to promote harmonisation and comparability of investor information, organised under five key information headings:

- **Objectives & Investment Policy**
- **Risk & Reward Profile**
- **Charges**
- **Past Performance**
- **Practical Information**

The opinions expressed are as of April 2011 and may change as subsequent conditions vary.

The Risk & Reward Profile includes a" synthetic risk and reward indicator" (SRRI), which is a risk category calculated based on volatility of returns. The indicator is presented on a numerical scale of 1 to 7, where 1 is low and 7 high.

Implementing legislation sets out the precise wording for a number of statements which must be included in the KIID and the presentation required for the SRRI, the charges and past performance. Calculation of the SRRI and charges must also use a standard methodology to promote harmonisation and simplify comparison.

At the end of this paper, we have provided a sample KIID, reflecting the above format and content. While the final KIID will reflect additional changes, we anticipate this draft to be representative of what investors should expect.

When is the KIID being introduced?

Legally, the effective date of the new UCITS IV directive is 1 July 2011. However, 'Grandfathering' provisions allow the Simplified Prospectus to continue to be accepted through to 30 June 2012. Importantly, home Member States may set an earlier transition date or they may decide not to provide any transitional period at all. Germany, for example, will require KIID to be produced for German domiciled UCITS funds from 1 July 2011.

CESR (now ESMA) guidelines for the transition from Simplified Prospectus to KIID issued in July 2010, offer a pragmatic view that supports 'grandfathering' of the Simplified Prospectus until July 2012. Clarity on this will not be achieved until each of the EU Member States transpose the directive into national law. However, it is important to note that where a Home State regulator supports the 'grandfathering' provisions, no EU Member State where that fund is distributed will be able to restrict the rights of any inwardly notified UCITS fund and the Simplified Prospectus can continue to be used for as long as the Home State allows. Local marketing rules may also still apply which could, for example, mean that additional information have to be provided to investors in a specific jurisdiction such as the details of any local representative.

In Luxembourg, Dublin and the UK, the grandfathering provision to July 2012 will be permitted. This will alleviate the impact of cross-border fund providers all transitioning on the same date. At this stage, relatively few Member States have finalised implementing legislation or produced additional guidance. Product providers who are currently running detailed implementation plans will need to be prepared for additional changes or guidance from their domestic regulators. This may affect both the final content of the KIID and the way in which it is provided to end investors and intermediaries.

A number of cross-border fund providers, BlackRock included, are aiming to be in a position to deliver KIID in the course of 2011 for all their UCITS fund ranges. In practical terms however, given the anticipated volume of KIID that will be produced, a 'big-bang' approach could be extremely challenging for the industry, regulators and clients to deal with, so the actual transition plan from Simplified Prospectus to KIID is still to be worked through.

How frequently must the KIID be produced and updated?

Each KIID must be updated at least annually, within 35 business days of year-end, to include refreshment of performance data to the end of the previous calendar year. Interim updates may be triggered throughout the year based on a number of potential events, with some examples provided below:

Passive Changes:

- SRRI update if there is a change to the indicator value over a four month rolling basis due to market /performance volatility.

Active Changes:

- Update to Fund name, investment objective, benchmark or charges as part of the development process of investment funds.

What are the practical challenges of introducing the KIID?

Each manager and distributor will be impacted differently based on the fund range(s) involved. The number of funds, the number of share classes, and the distribution in multiple languages create scale challenges that require an automated solution.

BlackRock, for example, will produce KIID to support different UCITS fund ranges domiciled in Germany, Ireland, Luxembourg and the UK. This equates to more than fourteen thousand KIIDs, of which over ten thousand, including translations, will be required to support our flagship Luxembourg BlackRock Global Funds range. A multi-disciplined implementation team has been assembled and has been working full-time for a number of months to meet this challenge.

In practical terms, many providers will opt for a separate KIID per share class of a Fund. Provided the document does not lose clarity, there is the possibility to amalgamate share classes into a single KIID through a "representative class" or a multi-class KIID, (where SRRI values, performance tables and charges figures are shown for multiple Share Classes). This could be more complex for Distributors and end investors and difficult to achieve within the 2-page format. This is particularly the case where cross-border fund ranges support a variety of share classes with different pricing structures, dealing or hedged currencies and income distribution cycles. The performance, charges and risk profiles of different classes of the same fund will therefore vary. In order to accommodate the automated solution required for this scale of production and to facilitate appropriate distribution of translated KIIDs into the respective EU markets, a one share class one KIID approach is preferable and is the route a large number of asset management firms, including BlackRock, are reportedly taking.

Distributors will need to adapt their systems and process and train their advisors on how to use and select the most appropriate KIID for their clients from the vast array available.

Conclusion

BlackRock is making a constructive contribution to advancing a policy agenda that brings clear, concise and comparable information to investors. For this reason, BlackRock is currently heavily engaged in developing KIIDs across our suite of UCITS products. In time, as regulation develops, we would expect to roll out the KIID to comparable packaged retail investment products, ensuring that an appropriate balance is struck between offering a wide choice of investment solutions to clients, without compromising investors' understanding of the product in the process.

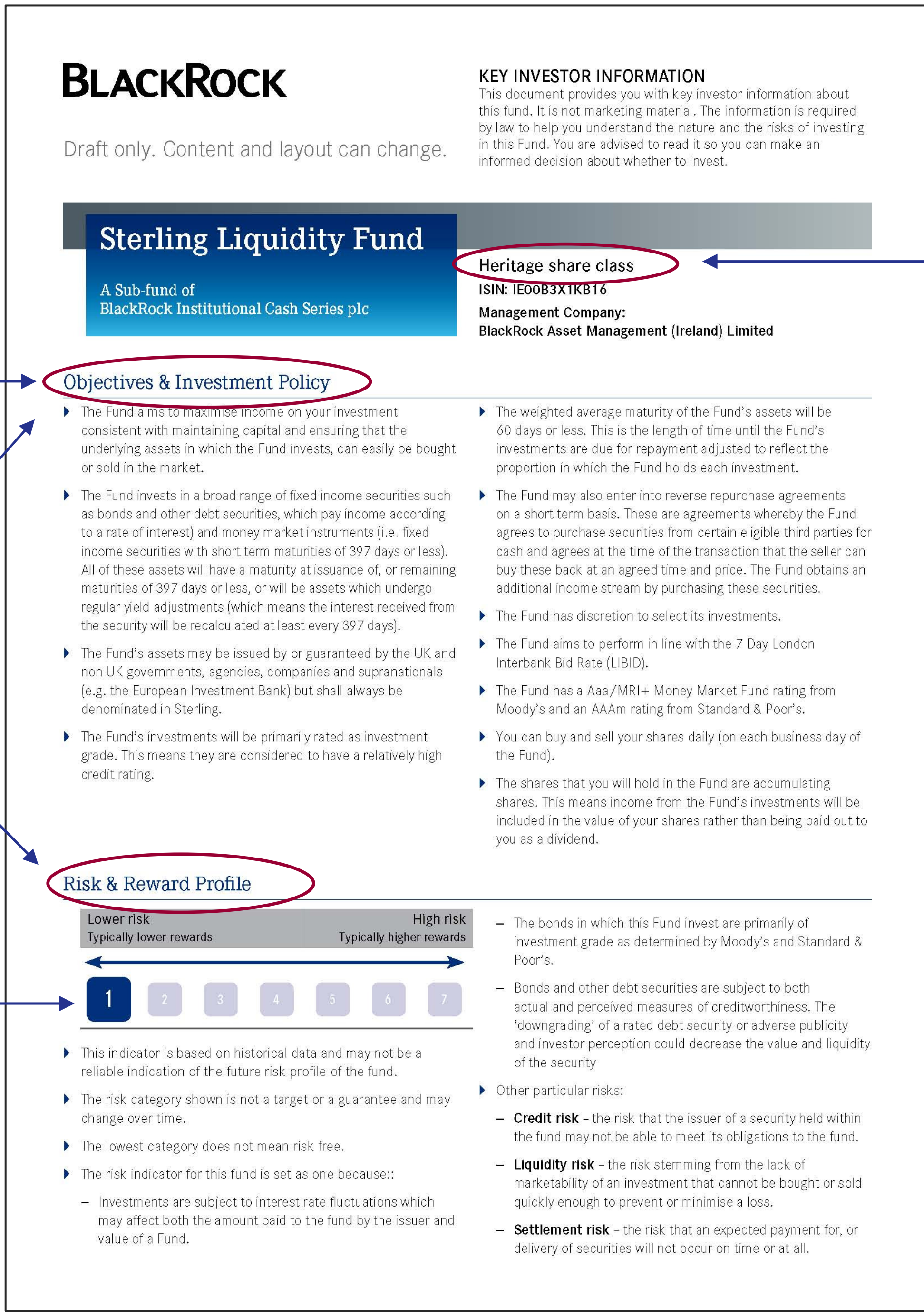
Sample Key Investor Information Document (KIID)

A redrafted version of the Prospectus objective, following clear and simple language guidelines.

Sections 1 and 2 of the 5 compulsory segments (Sections 3-5 displayed on the following page).

BlackRock KIID will be produced at the share class level and identified uniquely through its ISIN number.

The SRRI indicator scores the fund on a risk and reward profile, 1 to 7 based on the volatility characteristics of the fund.



BlackRock

Draft only. Content and layout can change.

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.

Sterling Liquidity Fund

A Sub-fund of BlackRock Institutional Cash Series plc

Heritage share class

ISIN: IE00B3X1KB16

Management Company: BlackRock Asset Management (Ireland) Limited

Objectives & Investment Policy

- The Fund aims to maximise income on your investment consistent with maintaining capital and ensuring that the underlying assets in which the Fund invests, can easily be bought or sold in the market.
- The Fund invests in a broad range of fixed income securities such as bonds and other debt securities, which pay income according to a rate of interest) and money market instruments (i.e. fixed income securities with short term maturities of 397 days or less). All of these assets will have a maturity at issuance of, or remaining maturities of 397 days or less, or will be assets which undergo regular yield adjustments (which means the interest received from the security will be recalculated at least every 397 days).
- The Fund's assets may be issued by or guaranteed by the UK and non UK governments, agencies, companies and supranationals (e.g. the European Investment Bank) but shall always be denominated in Sterling.
- The Fund's investments will be primarily rated as investment grade. This means they are considered to have a relatively high credit rating.
- The weighted average maturity of the Fund's assets will be 60 days or less. This is the length of time until the Fund's investments are due for repayment adjusted to reflect the proportion in which the Fund holds each investment.
- The Fund may also enter into reverse repurchase agreements on a short term basis. These are agreements whereby the Fund agrees to purchase securities from certain eligible third parties for cash and agrees at the time of the transaction that the seller can buy these back at an agreed time and price. The Fund obtains an additional income stream by purchasing these securities.
- The Fund has discretion to select its investments.
- The Fund aims to perform in line with the 7 Day London Interbank Bid Rate (LIBID).
- The Fund has a Aaa/MRI+ Money Market Fund rating from Moody's and an AAAm rating from Standard & Poor's.
- You can buy and sell your shares daily (on each business day of the Fund).
- The shares that you will hold in the Fund are accumulating shares. This means income from the Fund's investments will be included in the value of your shares rather than being paid out to you as a dividend.

Risk & Reward Profile

Lower risk Typically lower rewards						High risk Typically higher rewards
1	2	3	4	5	6	7

- This indicator is based on historical data and may not be a reliable indication of the future risk profile of the fund.
- The risk category shown is not a target or a guarantee and may change over time.
- The lowest category does not mean risk free.
- The risk indicator for this fund is set as one because::
  - Investments are subject to interest rate fluctuations which may affect both the amount paid to the fund by the issuer and value of a Fund.
  - The bonds in which this Fund invest are primarily of investment grade as determined by Moody's and Standard & Poor's.
  - Bonds and other debt securities are subject to both actual and perceived measures of creditworthiness. The 'downgrading' of a rated debt security or adverse publicity and investor perception could decrease the value and liquidity of the security
- Other particular risks:
  - **Credit risk** – the risk that the issuer of a security held within the fund may not be able to meet its obligations to the fund.
  - **Liquidity risk** – the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss.
  - **Settlement risk** – the risk that an expected payment for, or delivery of securities will not occur on time or at all.

Only maximum charges as set out in the Prospectus are displayed. These are shown at a generic level, not specific to Distributor / Intermediary negotiated terms.

Ten calendar years required to be shown, where available. Where a fund is less than 1-year old, no performance history must be shown.

Where to find further information on the fund or umbrella and which languages are supported.

KIID introduces new "ongoing charges", which are calculated in a different way to the current methodologies

– **Valuation risk** – the risk that a holding in the fund may be valued incorrectly.

– **Operational risk** – the risk of material losses to the fund resulting from human error, system failures, inadequate procedures or internal management controls.

- Where the fund has been running for less than 5 Years (see Past Performance section) the displayed Risk indicator will have been calculated using simulated historic data.

For more information on risks, please see the prospectus, which is available at **blackrock.com**

Charges

The charges you pay are used to pay the costs of running the UCITS, including the costs of marketing and distributing it. These charges reduce the potential growth of your investment.

The entry and exit charges shown are maximum figures. In some cases you might pay less. Please refer to your financial advisor or the distributor for the actual entry and exit charges.

The ongoing charges figure is based on expenses for the financial year ending July 2010. This figure may vary from year to year. It excludes:

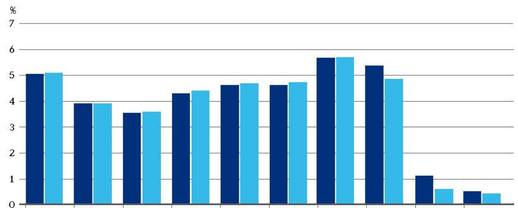
- Performance fees (where applicable).
- Portfolio transaction costs, except in the case of an entry/ exit charge paid by the UCITS when buying or selling shares in another collective investment undertaking.

For more information on charges, please see the UCITS prospectus, which is available at **blackrock.com**

One-off charges taken before or after you invest	
Entry Charge	Not Applicable
Exit Charge	Not Applicable
Charges taken from the UCITS over each year	
Ongoing Charges	0.13%
Charges taken from the UCITS under certain conditions	
Performance Fee	Not Applicable

Past Performance

Sterling Liquidity Fund. Historic performance to 31 December 2010.



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Sterling Liquidity Fund	5.01	3.87	3.51	4.30	4.62	4.61	5.68	5.36	1.13	0.51
Benchmark: GBP LIBID	5.04	3.86	3.59	4.40	4.68	4.72	5.70	4.85	0.60	0.42

Past performance is not a guide to future performance. The value of your investment and income from it may go down as well as up and you may not get back the amount you invested.

The chart shows the Fund's annual performance in GBP for each full calendar year since launch in December 1998. It is expressed as a percentage change of the Fund's net asset value at each year-end. The base currency of the Fund is GBP.

Performance is shown after deduction of ongoing charges. Any entry/exit fees are excluded from the calculation.

Practical information

- The custodian of the Fund is JP Morgan Bank (Ireland) plc.
- Further information about the Fund can be obtained from the ICS prospectus and latest annual reports [and half-yearly reports]. These documents are available free of charge in the following languages: English, French and German. These can be found, along with other information, such as share prices, on the BlackRock website at **blackrockcash.com** by selecting your country and navigating to the "Literature" page, Key Investor Information Document (KIID)section. Alternatively these can be obtained by calling your local Investor Servicing team on +44 (0)20 7743 3000.
- Investors should note that the tax legislation that applies to the Fund may have an impact on the personal tax position of your investment in the Fund.
- BlackRock Asset Management (Ireland) Limited may be held liable solely on the basis of any statement contained in this document that is misleading, inaccurate or inconsistent with the relevant parts of the ICS prospectus.
- Other share classes are available in the Fund and further information about these can be found in the ICS prospectus.
- ICS is an umbrella structure comprising a number of different sub-funds, one of which is the Fund.
- This Key Investor Information Document (KIID) is specific to the Fund and share class stated at the beginning of this document. However, the prospectus, annual and half-yearly reports are prepared for the entire umbrella. Other KIID documents are available for all other UCITS funds, along with their prospectus and annual reports.
- The assets and liabilities are segregated by law between the sub-funds of ICS. This means that the Fund's assets are held separately from the assets of other sub-funds. Your investment in the Fund will not be affected by any claims made against any other sub-fund in ICS.
- Investors may switch their shares in the Fund for shares in another sub-fund within ICS. For further information, please refer to the prospectus which can be found on the BlackRock website at **blackrockcash.com** or contact your local Investor Servicing team on [+44 (0)20 7743 3000].

This fund was authorised in Ireland buy the Irish Financial Services Regulatory Authority and this share class was launched on 16 December 1998.
The key investor information document is accurate as at 31 December 2010.

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