

UCITS IV

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Purposes



A. Review UCITS IV: Is it a success?

B. Look at UCITS V: drivers

Background

- Experience of UCITS 3
- Need to improve practical operation of the Directive
- Extensive consultation
- Finalisation: Finance Ministers – December 2008
Parliament – January 2009

Coverage

- Notification
- Key Investor Information
- Mergers
- Master-feeder structures
- Management Company Passport

Notification Procedure : why change the rules?

- Funds have been difficult to register in host member states
- New regulator to regulator approach
- Quicker marketing is desirable

Steps to the new notification approach

Activity / Responsibility

1. Notification letter (by UCITS)



2. Home regulator



3. Host regulator



4. Marketing starts

Content / Timing

Fund rules; prospectus; key investor information; annual/half-yearly reports; description of marketing arrangements

- verifies completeness
- provides UCITS certificate
- sends documents electronically
- within 1 month of receipt

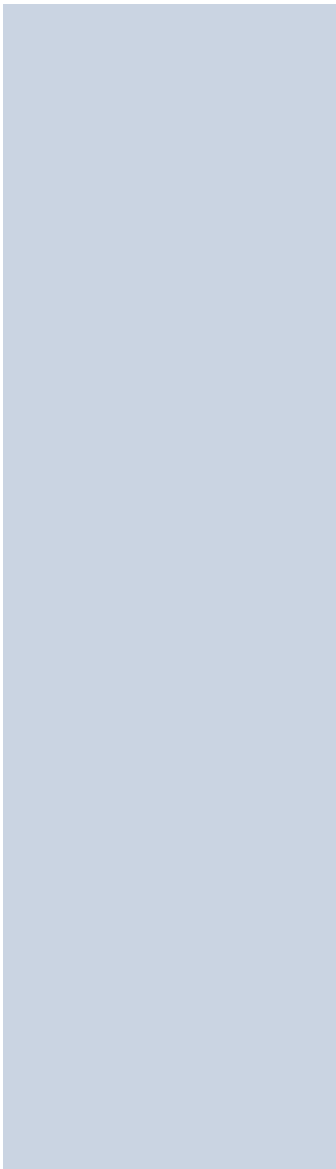
- can't question UCITS validity

In accordance with host state rules

Key Investor Information – main rules

- Simplifying the simplified prospectus
- Pre-contractual
- A short document; essential information to reach an informed decision
- Valid in all member states

Key Investor Information – content summary

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- Appropriate product information
 - Short description of investment objectives and policy
 - Past performance
 - Costs and charges
 - Risk/reward profile

Key Investor Information – other requirements and related work

Requirements

- written in a brief manner
- non-technical language
- drawn-up in a common format
- presented in a way that is likely to be understood by retail investors
- used without alteration (except translation) when marketing abroad

Related work

- CESR advice – February 2008
- no more than 2 sides of A4
- considering charges; risk/reward
- 2008: testing
- Spring 2009: final advice

Fund mergers

- Mergers of funds across borders are difficult
- New regime offers the right to merge with safeguards
- Only regulators of disappearing fund needs to approve merger
- Depositary to review terms of merger
- Valuation criteria to be validated by auditor

Fund mergers

- Pre and post information to investors
- If a vote required the majority to carry resolution to be a maximum of 75% of votes cast
- Investors right to redeem prior to merger
- No costs to fall on investors

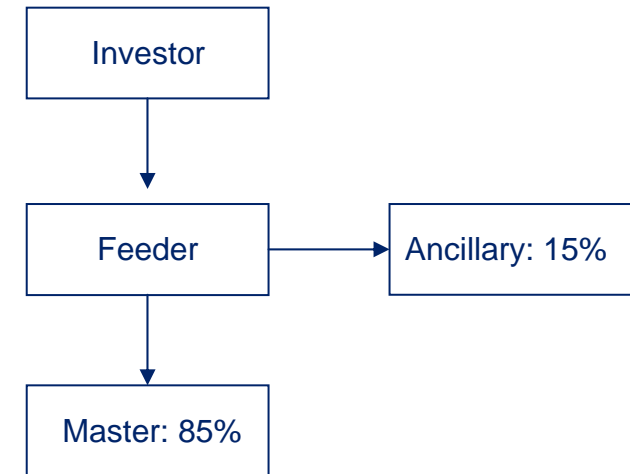
Master / Feeder funds – essential characteristics

Feeders

- Minimum of 85% investment in master
- 15% for ancillary liquid assets
- No investment in another master

Master

- Must : be a UCITS
 - have at least one feeder
 - not be a feeder
 - not invest in a feeder



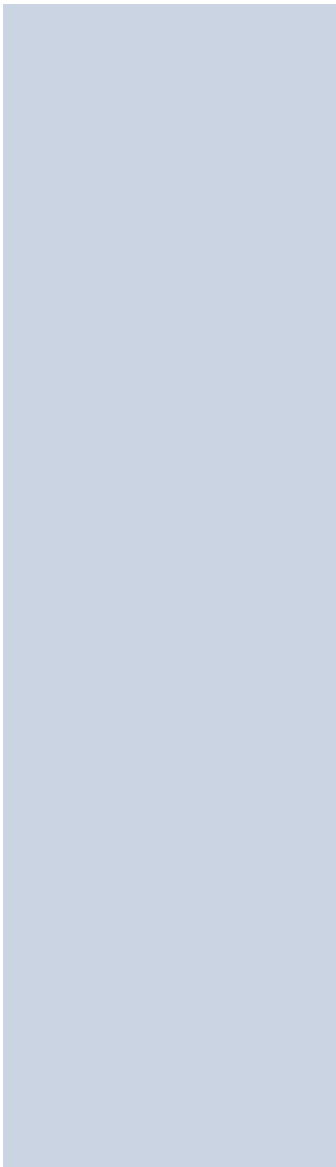
Master / Feeder funds – other key provisions

- Feeder/Master to enter into an agreement covering:
 - characteristics of investment objective and policy of master
 - rules governing a change of investment objective and policy
 - rights and duties of feeder, master and their management companies
- Provisions for liquidation and merger of master
- Depositary and auditor information sharing agreements

Management Company Passport

- Potential efficiency and flexibility benefits - but problematic
- Identification of management functions and rules to apply to management company and fund
- Clear allocation of responsibilities between supervisors
- Need to reduce compliance costs

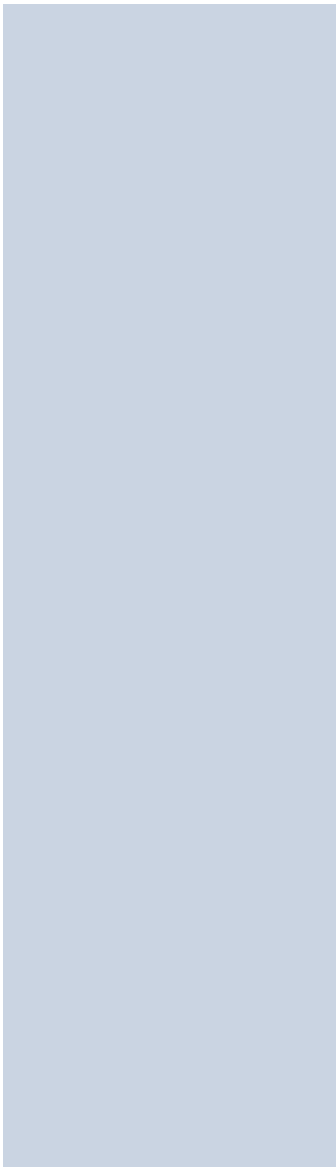
Management Company Passport – further work

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1. Is a local presence required?
 2. Further clarification of depositary role may help
 3. Clarification of rules that apply in home and 'host' state

Management Company Passport – prevailing rules

	Home	Host (i.e. fund domicile)
Prudential	✓	x
Product rules	x	✓
Internal organisation	?	?
Risk management	?	?
Conflicts of interest	?	?
Delegation	?	?

Drivers for UCITS V

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1. UCITS IV – all the difficult “implementing measures”
 2. Items not covered in UCITS IV e.g. hedge funds, property
 3. Credit crunch issues: e.g. eligible assets; volatility; liquidity
 4. Madoff

Conclusions

- Fundamentally sound UCITS IV proposals to secure:
 - efficiency gains
 - smooth functioning of internal market for funds
- More prescription than is necessary
- Much work to do on implementing measures
- There will be some form of UCITS V