

Charlie McCREEVY

European Commissioner for Internal Market and Services

**Press Conference on Financial
Package**

Press Conference on Financial Package

Brussels, 29 April 2009

Alternative Investment Funds

I am pleased to announce that the Commission has adopted today a proposal on hedge funds, private equity and other alternative investment fund managers. This is the first attempt in any jurisdiction to create a comprehensive framework for the direct regulation and supervision in the alternative fund industry. We shall be discussing with our international partners in the coming months to make sure the very exacting standards we are proposing for the European industry are also applied in other jurisdictions.

Alternative investments represent a market of two trillion € and play an important role in the European economy. They are an alternative source of capital for European companies. This is particularly significant at the present time when banks are restricting lending. We have been attentive to getting the balance of regulation right. We have proposed to exempt smaller fund managers from the obligations of the Directive. The threshold is of 100 million € of assets under management in the case of hedge funds. For private equity funds which do not present the same risks the threshold has been established at €500 million €. These thresholds ensure that we capture the segments most relevant to market stability and do not unduly burden small firms. For venture capital and start-ups requirements would be disproportionate and not justified by any financial stability concerns. Managers below the threshold are subject to national rules but have the possibility to opt into the system if they so wish.

The proposal contains a series of common rules which apply across the industry. These are complemented by specific rules for, respectively, hedge funds and private equity.

As regards the common rules these will make sure that:

- All managers as well as the funds these managers manage will be notified to authorities.
- Strict controls will be placed on asset depositaries and valuation agents.
- Managers will be required to disclose regularly comprehensive information to regulators.
- The Directive will require a high standard of risk and liquidity management from managers.
- It will put in place safeguards to ensure that professional investors are treated fairly and can conduct effective due diligence.

As regards private equity, managers will need to produce disclosures for key stakeholders, including employees. This will help to improve the transparency and accountability of the buy-out activity.

I now come to the specific rules for hedge funds. While hedge funds are not a cause of the current crisis it is generally accepted that they can pose risks to the financial system. We have followed the G20 agreement to the letter. Hedge funds managers will have to register in the EU and be subject to supervision and strict controls, including on their levels of leverage. Supervisors will have all the powers necessary to intervene in case the leverage of hedge funds – either individually or collectively – poses a threat to the stability of the financial system.

Our proposal provides also "carrots" to accompany these "sticks". Provided that they operate subject to these strict controls, the proposal will grant rights to managers to manage and market funds not only in their own jurisdictions, but throughout the European Union. The introduction of a "European passport" will make an important contribution to the further development of the internal market, to the benefit of European investors.

The management of offshore funds is an important feature of the hedge fund and private equity business models. The proposal will provide a safe and secure framework for it to continue. It will provide an "EU passport" for the marketing of those third country funds which comply with stringent requirements on regulation, supervision and cooperation, including on tax matters. However more time will be needed to do the necessary preparation and groundwork to make this a success. Therefore the rules allowing the pan-EU marketing of third country funds will come into force 3 years after the rest of the Directive. In the meantime third country funds will continue to be sold in those Member States which currently allow that. We are sending an important political signal to offshore centres. There will be a strong incentive in the years ahead for the jurisdictions and managers concerned to deliver the necessary improvements in supervision, cooperation with European supervisors and compliance with the OECD Tax code. This approach is consistent with the objectives of the G20 to enhance the transparency and the quality of regulation in offshore financial centres.

I believe that this proposal strikes the right balance. Our aim is not to drive the industry out of Europe and beyond the reach of European supervisors or to create burdens out of proportion to the risks. This would be a dis-service to the European economy. We are putting in place a robust framework to ensure that the sector operates safely and responsibly and subject to regulatory oversight.

You will be aware that this proposal has already been the object of intense political debate. The European Parliament and the industries concerned have made their views known. For some, the proposal goes too far. For others, it does not go far enough. I look forward to the constructive debates to come.

Remuneration

Turning now to executive pay for listed companies; and the incentives schemes in financial services firms

This has dominated the headlines as the credit crunch has kicked in. Too often, incentive systems for executive directors in listed companies have led to excessively short-term management actions and sometimes 'pay for failure. And executive pay rises show few signs of slowing. As the crisis worsened, it became increasingly apparent that there was more than a hint of "take the money and run"¹ by some of those well placed at the helm of our biggest companies. Likewise, in the financial services industry, up to now, there have been far too many perverse incentives in place leading to a bonus culture which rewards short term gain at the expense of long term viability.

Today, we will adopt two Recommendations. Our message is very clear: directors' remuneration must be clearly linked to performance and not a reward for failure; and for the financial services industry, incentives should be aligned with long-term, firm-wide profitability.

¹ Attributed to songwriter Graham Nash.

This is the first step in improving the Commission's policy in this field. We have heeded the call of the ECOFIN Council in December which asked us to update the existing recommendations on directors' pay and non-executive or supervisory directors in order to *promote... more effective control by shareholders, and encourage a stronger link between pay and performance, including on leaving pay ("golden parachutes")*..

We have gone as far as we can within the scope of our powers under the Treaty. However, I believe it is necessary to give some teeth to our policy in order to achieve a remuneration policy which not only promotes but which secures sound risk management. As a second step, I will come forward in June with a modification to the Capital Requirements Directive which will equip supervisors in MS with the powers to impose sanctions on financial institutions whose remuneration policies pose an unacceptable risk from a prudential viewpoint. For the first time supervisors will be able to impose capital charges on financial institutions who do not implement a prudent remuneration policy from a systemic viewpoint.

Less than a month ago, the G20 agreed that tough new principles on compensation schemes should be implemented. Today, the Commission is leading the way.

Packaged Retail Investment Products

Let me now come briefly to the last element of today's package – the packaged retail investment products.

The financial crisis has seen a collapse in retail investor confidence. Assets in packaged retail investment products have collapsed from 10 trillion € in 2007 to around 8 trillion € at the end of 2008. In order to re engage investor confidence it is vital that retail investors can make informed investment decisions in markets that they can trust. Our Communication on packaged retail investment products proposes changes that will contribute to rebuilding such retail confidence.

The market for 'packaged retail investment products' covers investment funds, insurance-based investments and retail structured products. These products are often difficult for retail investors to understand, raising issues in two key areas – product transparency (do investors get the information they need about the products before they buy?) and sales processes (are investors treated fairly when buying?).

EU Regulation in these two areas has developed in a piecemeal fashion, leading to a patchwork of rules, with no coherent overall approach. This has led to the concern, shared by the Commission, that standards for investor protection are not always high enough or coherently designed.

Our conclusion is that these problems need to be addressed at the European level. Our aim is to ensure that standards for investor protection are consistent for all packaged retail investment products, regardless of their legal form, and that these standards are set to a high level.

This new horizontal approach will require new legislation. The Commission will consult on the new rules by the end of 2009.