

**EU Directives for Investment Managers: 60 seconds on each**Overview

Managers operating in the UK need to comply with a complex network of overlapping EU directives in addition to their UK requirements. It is often helpful to have an overview of the whole picture to enable a firm to identify those directives that apply to its particular business model, and by doing so, identify what compliance work needs to be done.

Therefore, we offer you in the following paragraphs, 60 seconds on the key EU directives that impact on investment firms' operations. We are happy to talk through any of these with you and assist in identifying requisite compliance work for your firm.

Alternative Investment Fund Managers Directives ('AIFMD')

In the fund management world, this has received the most press coverage to date. The first step is deciding whether you are an EU or non-EU AIFM, then to identify if you are managing EU or non-EU funds, purely based on domicile.

Alternative investment fund managers wishing to market in any EU Member State will first need to seek authorisation in its 'home' Member State if EU based, or decide which countries to market in if you are non-EU based. Once suitable authorisations have been obtained or marketing notifications have been submitted, this triggers a reporting obligation called 'Annex IV'. This is either to your home state or if a non-EU AIFM, every member state in which you have submitted a marketing notification. It can also be

anything from annual to quarterly, largely based on AUM. It needs to be in xml formatting, therefore you will need to acquire a software provider who can assist with converting excel data prior to submission. In addition to this Form PF-like report, you will need to make an annual report to investors covering the normal accounts, but also including aspects like leverage and remuneration.

Finally, it is recommended that you have controls in place to monitor marketing efforts and ensure you comply with each country's (related but often different) requirements if a non-EU AIFM, and if an EU AIFM, you ensure that you have all requisite internal policies, operational arrangements and regulatory permissions and passports to enable you to maintain business as usual.

Capital Requirements Regulation and Directive ('CRD III and CRD IV')

Investment firms often fall in a gap between the two most recent iterations of CRD.

In late 2013, the FCA contacted most small investment firms to establish if they wished to vary their regulatory permissions in order to remain on CRD III come January 2014. A lot responded in the affirmative as the advantage this gave was to prevent the need for moving to the new financial regulatory reporting that CRD IV requires, for the sake of an often unused regulatory permission.

Those that did not respond, either deliberately or through omission, migrated to CRD IV at the start of 2014. From a practical perspective, this means that they should now be reporting under COREP via the FCA's

GABRIEL system and depending on size and use of IFRS, potentially FINREP as well (the latter should not be a concern for small firms). Unfortunately, CRDIV does not remove the requirement to complete most of the pre-existing financial returns but introduces new 'own funds' reporting, following an EU wide template and taxonomy. Consequently, in the same vein as Annex IV reporting above, CRDIV gives rise to a need for new software as xbrl formatted reports are required.

#### European Market Infrastructure Regulation ('EMIR')

In a similar category as the USA's Dodd-Frank legislation, EMIR's intention is to move derivatives trading onto regulated and transparent exchanges. This is applicable to all investment firms who trade in such instruments, whether you do so minimally or substantially as part of your investment strategy.

The reporting obligation for EMIR falls on European counterparties to derivative transactions, including investment managers. However, the actual reporting is often delegated to investment banks and prime brokers. In order to continue trading with these counterparties, you need to have adhered to the relevant ISDA protocol, which covers your obligations such as portfolio reconciliation and dispute resolution. Your counterparties should then be in touch to make arrangements to send you derivatives trading data they hold for your accounts, which you should then compare to your own records. Finally, you should consider placing

an internal flag on your trading systems, which can highlight when you need to undertake portfolio compression work.

#### Market Abuse Directive

The EU's Market Abuse Directive is long standing, however has recently gone through an update to widen the scope of securities definitions of key terms and interpretation of what constitutes abusive activities. This is applicable to all investment firms who undertake trading, therefore controls need to be in place internally that identify the source of the information and control its circulation within and without the firm.

Wherever there is a potential for market abuse, compliance needs to be fully appraised of the details as it may be necessary to make a suspicious transaction report to the FCA through your firm's nominated CF10/CF11.

#### Undertakings for Collectives Investment in Transferable Securities ('UCITS')

UCITS is the AIFMD of the retail world and is also currently undergoing a revision, which will take effect in the next couple of years. Investment management firms have been drawn to the UCITS space of late but must be aware that there is more regulatory scrutiny involved. UCITS have specific documentation with retail prescribed content. The fundamental underpinning of the UCITS offering is the investment restrictions laid out in the directive, which all investment managers are required

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to follow. Finally, if launching a UCITS fund in-house rather than via a platform, the investment manager will need to meet the requisite additional regulatory permissions, infrastructure, internal procedures, capital and disclosure requirements.

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