

**EIFs from the Regulator's Perspective**  
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**EIFs – total value of assets**

- 2008  
• 786 million
- 2011  
• 2.7 billion

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**EIF Investment Strategies**

- Securities
- Real Estate
- Private Equity
- Mixed
- Fund
- Other

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**Contents**

- Part 1 • International developments
- Part 2 • Initialising a fund
- Part 3 • Establishing a fund
- Part 4 • Operating a fund

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**Consider Regulators Objectives**

- Protecting investors from loss**
  - Arrangements protect investors
  - Disclosures on PPM
  - Independent valuations
- Reputation of jurisdiction**
  - Investments / strategy of fund
  - People involved in fund
  - Mitigants in place

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**Regulator's objectives vs Promoter's objectives**

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**Part 1**

**International Developments**

- AIFMD and other EU Directives, Regulations and Guidance
- IOSCO

**AIFM – professional funds**

- Manager is regulated not the fund.
- Responsible for investment management/risk management
- Remuneration
- Depositary
- Capital requirements
- Passporting
- Valuation
- Transparency requirements
- Leverage

**Other developments in funds regime**

- Changes to UCITS regime
- European Social Entrepreneurship Funds
- European Venture Capital Funds

**IOSCO**

- IOSCO Core Principles
- Principles on Liquidity Risk management for CIS
- Principles for the Valuation of Collective Investment Schemes
- Principles for regulation of ETFs
- Principles on suspension of CIS redemptions

**IOSCO Core Principles**

- Principle 24** • Eligibility, governance, organisation and operational conduct standards of CIS operators
- Principle 25** • legal form and structure of CIS and segregation and protection of client assets

**IOSCO Core Principles ctd**

- Principle 26** • Disclosure to evaluate the suitability of a CIS for particular investor and the value of the investor's interest in the CIS.
- Principle 27** • Proper and disclosed basis for asset valuation and the pricing and the redemption of units/shares in a CIS.

**Principles on suspension of CIS redemptions**

analyses how different jurisdictions address the suspension of redemptions by open ended CIS

proposes principles which provide general standards for how regulatory regimes should approach and oversee suspension of redemptions.

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**Suspension of CIS Redemptions**

- A • Management of liquidity risk
- B • Ex-ante disclosure to investors
- C • Criteria/Reasons for the suspension
- D • Decision to suspend
- E • During the suspension
- F • Examples of alternative measures to deal with illiquidity in certain jurisdictions

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**Principles for the Valuation of Collective Investment Schemes**

Consultation closed

assess the quality of regulation and industry practices

ensuring that investors are treated fairly

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**IOSCO Principles of Valuation**

- 1 • Documented policies for valuation
- 2 • Specific for valuing each type of asset
- 3 • Consistent valuations
- 4 • Reviewed periodically
- 5 • Independent review of each valuation
- 6 • Documenting price overrides
- 7 • Initial and periodic due diligence on third parties
- 8 • Transparent to investors.

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**Principles for Regulation of Exchange Traded Funds (ETFs)**

- consultation
- analyses main regulatory issues
- Proposes 15 principles to assess
  - investor protection,
  - sound functioning of markets and
  - financial stability.

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**Principles on Liquidity Risk management for Collective Investment Schemes**

As a result of global financial crisis

right to redeem units/shares is a defining characteristic of open-ended schemes.

a CIS may experience liquidity issues, e.g. when the market in which it is invested closes unexpectedly.

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**Part 2**

## Initialising a fund

- Name Approval process
- EIF Director Application

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**Initiating a Fund – Name approval process**

- Promoters/Principals
- Proposed launch date
- Name of directors and EIF authorised directors
- Fund Administrator
- Depository/Bankers
- Open-ended or closed-ended
- Investment objective/strategy
- Incorporation number

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**EIF Director licence application**

- Individual Questionnaire
- Fund related experience
- Fitness & Properness Assessment
- Licensing consideration

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**Part 3**

## Establishing a fund

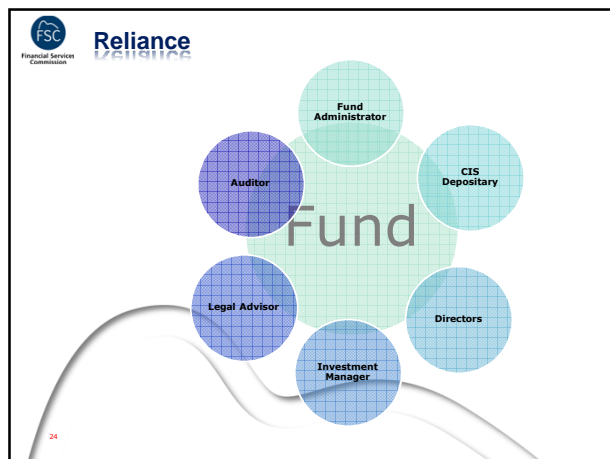
- Reliance on service providers
- Investment Strategies
- Disclosures on PPM
- Risks
- Conflicts of Interest
- NAVs

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**Experienced Investor Fund**

- 2 Licensed Directors
- Administrator
- Depository (unless closed end)
- Legal opinion (5 years experience)
- E 100,000
- No investment restrictions

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**Pre vs Post Establishment Notifications**

Pre	Post
Regulator satisfied prior to registration	Regulatory Review after establishment
10 Days for Regulatory input	SLS 10 days – Protection of investors
Preferred by Regulators	Preferred by industry

**Information needed at notification stage**

**Key information needed**

- Information on key players
- Structure of EIF

**How meeting requirements – offering checklist**

- Statutory disclosures on risks of professional funds

**Investment strategies – minimum information**

**Investments**

- list of instruments
- emerging markets/property

**Strategy**

- investment horizon/risk
- e.g. Medium term – 5 years

**Investment manager**

- experience
- qualifications

**Examples of Risks**

- Reliance on directors
- Taxation
- Limited liquidity and redemptions
- Market conditions /Performance
- Calculation of NAVs
- Counterparty and broker credit risk
- Forward looking statements
- Political, economical and environmental risks
- Inflation risk
- Regulatory status

**Specific risks - examples**

**Typical risks in financial instruments**

- Fluctuations, understanding product, leverage, short selling, conflicts etc

**Art**

- Valuations, fraud

**Property**

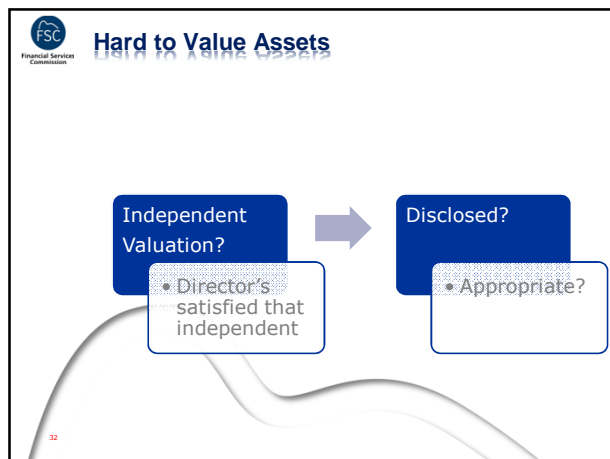
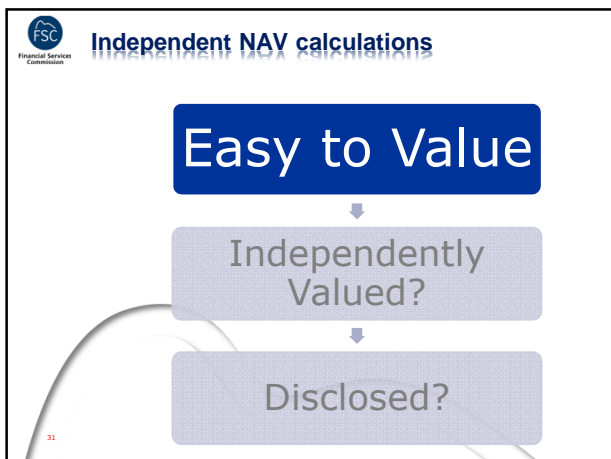
- Valuations, fraud, liquidity

**Conflicts of Interest**

Identify Conflicts

Are conflicts manageable?

Are conflicts adequately disclosed to investors?



- Other information a PPM should include:**
- Responsibilities of key players
    - and how can be replaced
  - Details of any individuals / companies
  - Details of fees
  - Liquidity
    - restrictions on redemptions
  - Gearing
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- Part 4**
- Operating a fund**
- Role of the board / Directors
  - Annual Returns
  - Material changes
  - Closure of a fund
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- Role of the Board**
- Policy Making
  - Decision Taking
  - Oversight
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- Directors need to be:**
- Well informed about fund
  - Adequately compensated
  - Challenge rigorously
  - Integrity and high ethical standards
  - Independent of fund
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**Directors**

All directors should be able to allocate sufficient time to the fund to discharge their responsibilities effectively

Flexible number of board meetings

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**Annual Returns**

- Understand Corporate Governance arrangements
- Compliance with Regulations
- Fund Performance
- Liquidity
- Trends

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**Regulator's expectations**

To be advised of:

- Major Incidents
- Changes

By:

- Directors
- Administrator
- Auditor
- Depository

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**What is a Material Change?**

change to any material aspect with potentially significant impact on subscribers.

- material relationships
- structure of the fund
- Investment objectives/parameters
- new sub fund
- NAVs calculation or valuations
- **Changes which are likely to affect subscribers negatively.**

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**Material Changes – Purpose:**

Monitor changes

- Funds objectives, structure
- Directors, manager, auditor etc
- Rationale for changes
- Have investors been advised?

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**Closure of a fund**

Rationale

Are there any remaining subscribers?

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