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3 QUESTIONS 2

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on the revised AIFMD & UCITS Directive rules

Q #1 *Why were the current AIFMD/UCITS regimes reviewed?*

The AIFMD framework has contributed to the creation of the EUR 7.14 trillion European AIF market and is a significant pillar of the Capital Markets Union (CMU), offering diversified sources of financing to European businesses. The UCITS framework established a financial product which is a brand recognised worldwide by distributors and (mostly retail) investors. The European Commission acknowledged these positive outcomes of both frameworks. As a result, the review aimed at improving a few clearly defined areas in both directives, rather than introducing versions 2.0.

> *"The €7.14 trillion European AIF market is a significant pillar of the Capital Markets Union"*

Q #2 *What are the major changes the review process introduced?*

Delegation was one of the main points discussed during the review process. Despite a clear acknowledgement that this improves management efficiency and allows managers to access the best expertise regardless of location, questions around asset managers becoming letter-box entities and effective risk management were raised by legislators. In the end these doubts were addressed by adding an enhanced level of supervisory reporting, especially in the area of risk and portfolio management delegation. No limits were placed on the scope of delegation allowed.

Supervisory reporting was also discussed in a broader sense, which resulted in the introduction of harmonised reporting for UCITS managers. At the same time, European and national supervisors will increase the exchange of information they already possess in order to limit the burden imposed on reporting financial entities. ESMA also has a mandate to potentially steamline data sharing further.

The use of a wide range of liquidity management tools (LMTs) for both UCITS and AIFs was clarified, which was a longstanding ask of the asset management industry. While manager discretion on their (de)activation was broadly recognised, further discussions will take place at ESMA level, as the review includes mandates for the supervisor to develop technical rules and guidelines in this regard.

Despite AIFMD being a directive governing asset managers and not funds themselves, a framework for the activity of loan origination and loan originating funds (LOFs) was also incorporated. These new provisions cover among others: risk diversification rules and limits, risk retention obligation, leverage and conditions when a LOF must be closed-ended and when it can remain open-ended. Existing national rules for LOFs will need to harmonise their frameworks with the new European one.

Q #3 *In light of these changes, will these frameworks remain successful?*

The review tweaked both frameworks, while at the same time staying faithful to what led to the success that we can observe today. I believe that these new rules will allow both AIFs and UCITS to continue their journey on this path. Asset managers have been given new, harmonised tools that will allow them to manage liquidity even better, which should also benefit end investors. Going forward, ESMA will be revisiting industry practices around delegation and costs born by investors, therefore the discussion on these topics will continue.

> *"Asset managers have been given new, harmonised tools that will allow them to address liquidity even better"*

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