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**Hedge funds and private equity proposals –
raison d'être and state of play**

Meeting with London-based hedge fund and private equity managers

London, 2 March 2010

I am delighted to be here in London today. I would like to thank Syed Kamall for chairing this session. And for the energy he is devoting to his work on financial regulation in the European Parliament.

It is not by chance I am here – it's a choice, to come and listen to you all. The fact I have travelled here so early in my mandate reflects my conviction that a strong City of London is an asset, but for the whole of Europe.

I am of course aware that the Commission's proposals on hedge funds and private equity have been a source of concern here. It is normal that London-based managers - who manage around 80% of European hedge fund and 50% of private equity assets - should take a close interest.

My main objective today is to listen to you. I want to hear where you stand on the key issues as we enter a critical phase of the legislative process.

However, I would like to start by sharing a few thoughts.

These are challenging times for the financial sector and for regulators. Serious mistakes have been made. **Let's be honest – the world's financial system almost collapsed.**

The crisis has exposed serious shortcomings in transparency and regulation in many parts of the financial system. **These deficiencies need to be rectified. This does not mean regulation for the sake of regulation.** I am committed to **intelligent and efficient rule-making.** I believe that a well-regulated financial sector is the key to stable recovery and sustainable growth. It is also the right basis for our long-term competitiveness. The financial markets must be at the service of the real economy, not endanger it.

Let us recall that the G20 leaders stated clearly that no actor, market or product should escape appropriate regulation and supervision.

Indeed at the London summit last April, it was agreed that hedge funds or their managers :

- should be registered;
- required to disclose appropriate information to supervisors and regulators;
- have adequate risk management;
- and that supervisors should monitor funds' leverage.

Hedge funds and private equity are important parts of the financial system. **Some estimate for example that hedge funds trade more than half of the daily trades of equities. In certain circumstances they can act collectively in a systemic way.**

They play a positive role but their activities impact not only on their investors, but also on the markets and companies in which they invest. It is therefore vital that they are subject to appropriate regulation and supervision.

This is the context of the Commission's proposal for a Directive on Alternative Investment Fund Managers (AIFM), adopted last April.

The proposal seeks to achieve three major objectives.

First, to ensure that supervisors have the information they need to detect and respond to **systemic risks.**

Second, to put in place robust **investor safeguards.**

Our third objective is to build a **real single market in alternative investments**. There are important barriers to efficient cross-border placement of these funds. A harmonised regime will cut through these barriers, creating new opportunities for the industry and investors. I am sure the City does not need to be convinced of the merits of the single market. I want to be Commissioner for more internal market, not less.

I want to make it clear that **I fully support these objectives**. I understand that they are widely shared in the Council and Parliament. There is also growing consensus about the structure of the Directive and many of its core provisions.

However, I do recognise that several aspects of the proposal have been heavily criticised and I can appreciate why. I take this seriously. We will work with the Council and Parliament to **deliver improvements where they are needed**.

There are two areas which require particular attention.

First, it is vital that we take account of the objective differences between business models.

Hedge funds and private equity are not the same. We need flexibility in the way that specific rules are applied. For instance, this applies to risk management, valuation and depositary functions. The Commission proposal recognised this but we can certainly go further.

Second, we need to think carefully about the treatment of funds and managers established outside of the European Union.

This is a global industry. Access to overseas investment opportunities allows European investors to diversify their portfolios.

At the same time, European supervisors have a legitimate interest in the risks posed by third country funds and managers to European markets and investors.

Requiring high standards of supervision and transparency from the European industry but not from third country funds and managers active in Europe would be short-sighted. It would impede the effective monitoring of risk in Europe. It would create an unlevel playing field and opportunities for regulatory arbitrage. And it could fragment the internal market.

These concerns are well-reflected in the global debate. Regulators are working through different international forums to ensure a high level of co-ordination in global approaches. We consider our proposal to be consistent with these international benchmarks.

Some ask whether the 'equivalence' approach in the Commission proposal is workable. We think so.

Of course, we will consider very carefully how these arrangements will work in practice. We don't want to unduly or unnecessarily restrict global investment flows, or act in a discriminatory way.

To conclude, the time has come to **agree a good and sound AIFM directive**. I want an outcome that benefits the European industry, rebuilds investor confidence and enhances economic growth.

The final Directive has to be intelligent and efficient. We are not there yet. I can assure you that the Commission will play a constructive role in the negotiations to ensure that the right balance is struck.

I look forward to listening to your views today.

Thank you for your attention.