



GROUPE CONSULTATIF ACTUARIEL EUROPEEN
EUROPEAN ACTUARIAL CONSULTATIVE GROUP

SECRETARIAT, NAPIER HOUSE, 4 WORCESTER STREET

OXFORD OX1 2AW, UK

TELEPHONE: (+44) 1865 268 218 FAX: (+44) 1865 268 244

E-MAIL: mlucas@gcactuaries.org

WEB: www.gcactuaries.org

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Dear Sir/Madam

**Reaction on the expert group reports - Investment Fund Market Efficiency,
Hedge Funds, and Private Equity Funds**

The Groupe Consultatif welcomes the opportunity to comment on the three expert group reports as published in July.

As we have stated previously in our response to the UCITS Green Paper in November 2005, we strongly believe that it is important to improve what we would call a "level playing field" amongst investment funds and comparable vehicles in the EU. We therefore fully agree with the goal of the Commission and believe that the report on investment fund market efficiency contains very important and practical recommendations to bring this goal much closer.

The three reports are sensible, well-presented and of high-quality.

Investment Fund Market Efficiency

The recommendations, if implemented, should help to remove some of the existing barriers and we would support an endorsement of them. Probably cultural barriers represent a major challenge for investment product providers and, even if the regulatory and fiscal issues were to be addressed, cross-border business might develop at a slower rate than the providers would like. Nonetheless, we would encourage moves to deal with the regulatory and fiscal issues provided that costs are not raised nor investor protection weakened as a result, neither of which, as far as we can see, would result from implementation of the recommendations included in the three reports.

The objective of efficiency enhancement, too, is good in itself. All three reports assert that greater efficiency leads to a better result. The underlying assumption is that the investors realise the result in full. However, we do not expect this is always the case for all types of investors. Therefore transparency of the profit build-up is important to make clear to investors where all results are generated and where they subsequently go.

Hedge Funds

This is already a highly developed and extensive market. Therefore, the focus should be on the transparency of financing, result, leverage, etc. Coordination of the Regulators within the European context is very important in this respect. We think that once a sufficient level of transparency has been achieved, the basic needs of the retail market are met at the same time.

Proper pricing can only be achieved if the market price can adapt to the actual risk inherent in the product. This requires appropriate risk management. What plays a role in several recommendations is the risk management to be conducted. Therefore it is important that hedge funds are required to be explicit about their risk management approach (transparency).

Recommendation 1 aims to introduce a limitation of exposure to hedge funds of less qualified retail investors. A minimum threshold of € 50,000 is suggested. It is further noted that a substantial minority of the expert group considered that a higher threshold and/or other safeguards should apply. In line with our earlier comments (November 2005) we support a principle-based approach rather than a rule-based approach. From this perspective, we tend to agree with the minority that is of the opinion that alternatives to a monetary amount should be used - such as a process-based system. It is slightly disappointing that such an alternative approach is not worked out in somewhat more detail.

We are of the opinion that transparency together with proper communication and a written confirmation from the retail investor that he/she has a good understanding of the inherent risks of a hedge fund should suffice. A minimum threshold does not ensure a knowledgeable retail investor who knows what risks are involved and how that would fit into his/hers total investment portfolio.

Private Equity Funds

This market is at an earlier stage of development. Recommendations are particularly aimed at better/faster developments within the European framework. Tax harmonisation remains an important point (as it has been for many years).

We strongly agree with the statement in the first recommendation that there is a growing need for a "prudent person" concept. A reference is made in this respect to the IORP Directive. We note the observation that the implementation of the prudent person concept is still inconsistent, and would draw attention to the Groupe Consultatif's guidelines on the implementation of the prudent person principle for IORP's in respect of actuarial practice (September 2006, www.gcactuaries.org/documents/ppp_web_100906.pdf). These guidelines might provide the basis for you to draft guidelines on the implementation of the prudent person principle for institutional investors.

I hope you find the above comments helpful. The Groupe Consultatif will be happy to provide further input if required.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'F. Valkenburg', with a horizontal line underneath.

Falco Valkenburg
Chairman, Investment and Financial Risk Committee