**REMUNERATION: “UCITS V”**

**Overview**

The remuneration principles in the Commission’s “UCITS V” proposal are, broadly, copied from those in CRD. However, whilst the Recitals to CRD acknowledge that it may not be appropriate for investment firms (or for small credit institutions) to apply all these principles, there is no such statement in the Recitals to UCITS V.

We are therefore concerned that UCITS management companies might end up with stricter remuneration requirements than investment banks: clearly, this would be inappropriate given that UCITS management companies generally present less systemic risk than credit institutions, and are subject to strong governance and disclosure requirements.

Also, asset management groups could end up with a patchwork of inconsistent remuneration requirements arising under different Directives:

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| Authorising DirectiveActivity |

 | MiFID | AIFMD | UCITS |
| Collective Management | N/A | ESMA AIFMD Remuneration Guidelines | Expected ESMA UCITS V Remuneration Guidelines |
| Portfolio Management | EBA (CEBS) CRD Guidelines**AND**Proposed guidelines from ESMA  | Proposed guidelines from ESMA | Proposed guidelines from ESMA |

It is important that a consistent approach is taken across the board and it will sometimes be proportionate not to apply every principle to which a G-SIFI is subject given the significant differences between the business models and sources of risks at asset managers.

**Current Practices**

Our members currently have in place group-wide policies, which comply with the CEBS guidelines, and which therefore do not have to meet every one of the prescriptive requirements proposed (in relation to quantitative minima for deferral and retention for example). Typical policies amongst members are as follows:

* **Elements of Remuneration**

Although all remuneration policies include a base salary for relevant staff and some form of discretionary bonus, most also include a long-term incentive plan. These are generally determined on both qualitative and quantitative bases.

* **Factors Considered**

Most firms will apply some form of benchmark against which performance is measured. This can be a comparison with peer performance, absolute return or the general growth of AuM. Most firms measure this performance over a number of years, e.g. performance against the chosen benchmark over 1, 3 and 5 years. Other firms use qualitative factors or elements of company performance.

* **How the bonus is paid**

While most firms will pay some of the bonus in cash, most will provide some form of deferred element. This can take the form of deferred cash, company shares or units in funds. Most firms have a 3-year vesting period for deferred elements, although some use other periods, and a few have clawback provisions.

* **Remuneration Committees**

All firms have some form of oversight of remuneration policies; however, in many cases this will be a Committee or sub-committee of the Board and will be set up at Group level. In most cases, it will not comprise non-executive directors because the firm will not be a public company.

**UCITS V: Suggested amendments**

We object to the Commission’s preamble as regards UCITS managers’ remuneration policies (there is absolutely no evidence that they played any part in “exacerbating the impact and scale of the crisis”), but we have no objection in principle to the proposed requirements in the draft articles. However, in the light of the above comments, we suggest the following amendments to the Recitals, which would permit a more flexible, proportionate approach, consistent with CRD.

IMA

October 2012

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| Recital 3 |
| The principles governing remuneration policies should recognise that UCITSmanagement companies are able to apply those policies in different ways according to their size and the size of the UCITS they manage, their internal organisation and the nature, scope and complexity of their activities. | The principles governing remuneration policies should recognise that UCITS management companies are able to apply those policies in different ways according to their size and the size of the UCITS they manage, their internal organisation and the nature, scope and complexity of their activities. ***In particular, it may not be proportionate for UCITS management companies to comply with all the principles.***  |

Justification

CRD and the EBA guidelines allow for the disapplication of certain principles for investment firms. The same proportionate approach should be followed for UCITS management companies given that they acting only on an agency basis and will not be carrying the same balance sheet risk as credit institutions, the UCITS governance framework provides strong investor protection safeguards, and disclosure of management company remuneration is already required by the KIID.

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| New Recital 3A |
|  | ***Where a UCITS management company is part of a group that has implemented a group-wide remuneration policy that complies with Article 22 of Directive 2006/48/EC as amended by Directive 2010/76/EU, it shall be regarded as meeting the remuneration requirements in this Directive.***  |

Justification

To avoid groups being subject to multiple remuneration requirements, where a group has set up a remuneration policy in accordance with the CRD3 amendments, it should be regarded as complying with this Directive.