Press release | 11.11.2010

Hedge funds

Greens vote against new EU speculative funds rules, which fall far short of required regulation

The European Parliament today voted to adopt new EU legislation on alternative investment funds (AIFM Directive), which includes hedge funds (1). The Greens voted against the final legislative compromise, as it falls short of providing sufficient regulation. Following the vote French Green MEP **Pascal Canfin**, who was shadow draftsman for the Greens on the proposals, said:

"The EU has regrettably missed an opportunity to tackle some of the serious problems with speculative funds. The compromise deal voted today falls far short of what is required to effectively regulate hedge funds and, for this reason, the Greens have voted against.

"Among the most worrying loopholes, European investors will still be able to invest in funds that do not comply with the rules set out in the legislation. While these funds cannot be 'actively' marketed in the EU, there is nothing to stop an investor from buying the parts of the funds that are managed outside the EU. This will make it impossible to assess the true systemic risk resulting from speculative fund investments in Europe.

"The Greens are also concerned that the provisions on the access of third country funds to the European market are insufficient. The directive grants a passport to funds situated in third countries but it does not grant power to the European authorities to ensure that managers situated in third countries truly comply with the directive.

"The deal will fail to provide for the proper regulation of the use of financial leverage, despite the widely accepted fact that use of leverage by hedge funds is one of the primary causes of systemic risk related to hedge funds. The deal will also fail to protect employees against the worst practices of investment funds by failing to prevent the break-up of businesses by private equity funds.

"The European Parliament managed to secure some improvements to the Council position, notably on rules to ensure that the remuneration of fund managers does not incentivise to the most risky practises. The Parliament also succeed in ensuring that funds marketed in the EU will have to be located in jurisdictions with an effective exchange of information on tax and prudential matters. However, the Greens retain fundamental concerns with the final legislation."

(1) EP plenary vote on the common position of the Council and the European Parliament on the AIFM directive.

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