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SNP welcome "hedge funds compromise vote"

An EFA press release by MEPs Ian Hudghton and Alyn Smith (SNP)

Ian Hudghton and **Alyn Smith**, SNP members of the European Parliament, have welcomed today's vote on the Alternative Investment Funds Managers Directive, the so-called "hedge funds directive", as a "workable compromise".

The agreement, reached after 18 months of negotiation and approved by the European Parliament today was approved by 513 votes to 92 and will provide comprehensive Europe-wide regulation of the managers of alternative investment funds not covered by existing regulations.

The Directive requires all European managers to register with a national competent authority: in return for disclosure requirements on investment strategies, fund rules, and proof of adequate capital, they will receive a "passport" to operate throughout the 27 Member States of the EU. Furthermore, the Directive will set framework conditions for remuneration, leverage limits, marketing conditions, and will provide protection for employees of firms taken over by private equity companies. Most controversially, it sets rules on the participation of non-European managers and funds in the EU market. The Directive forms part of a wider legislative package designed to prevent a repetition of the financial crisis of 2008, and to stabilise the European economy.
Alyn Smith MEP, a corporate finance lawyer by training, said:

"This has certainly been one of the more complex and heated debates I have been involved in, and it was important to strike the right balance between tough regulation while resisting any unproductive populism. Alternative investment vehicles are major, valuable, players in the Scottish and European economy, and employ 18,000 people in Scotland and the UK, so any compromise had to strike a very careful balance between encouraging continued positive economic activity, while at the same time protecting Europe's citizens from excess. Remarkably, this seems to be what we have achieved, with all major stakeholders satisfied that this will provide a workable environment for the future of Europe's economy.
"The concept of an AIFM "passport" is a very useful one, which should help funds and managers operate across the single market without having to deal with 27 different sets of rules. At the same time, it is only right that, in return, the regulators and the public at large should receive more information on the workings of the funds. The economic crisis was largely caused by a lack of transparency, particularly across borders, in financial markets: even the participators themselves were unsure of the risks they were piling up, which led to catastrophe. We need to promote a more open culture, where macro-risks to the stability of the system can be spotted before they become too big to deal with."

Ian Hudghton MEP added:

"I am happy that this legislation recognises reality in leaving most of the day-to-day regulation to the

national competent authorities: AIFM will be registered by them, and leverage limits will be worked out on a firm-by-firm basis. We need a European framework: financial transactions can cross borders at the speed of light. However, we also need local flexibility: arbitrary rules and limits set for the whole continent may turn out to do more harm than good, as they do not recognise different realities.
This is a decent piece of work, and is part of a broader effort to learn the lessons of the crisis and create more stable financial markets which can power Europe's future growth. I look forward to tackling derivatives and credit rating agencies next."

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