European Funds: Trends in Distribution and Regulation

Thursday, March 1
3:00
Presenters

LISA SHEA – Moderator
Senior Vice President, Northern Trust Company

CAMILLE THOMMES
Director General, ALFI

LEE GODFREY
Chief Executive Officer, KNEIP

OLIVIER CARRE
Partner, Regulatory & Compliance Practice Leader, PWC
European Regulatory Timeline

Initiatives

- CMU
- Review AIFMD
- Money market funds
- PRIIPs
- MiFID II
- AML V
- EuVECA II and EuSEF II
- EMIR refit
- Securities financing transactions
- Review ESA Regulation
- PEPP
- DAC 5
- Prospectus Regulation
- Securitisation Regulation
- CRD V
- ATAD
- IORP II

Consultation phase
Rule making
Implementation, application
GO LIVE essentials
for Asset Managers and Management Companies

1. Define target market
2. Compute new ‘ongoing charges’ or total expense ratio
3. Assess investor requirements
4. Manage information format

1. Define research approach
2. Document research cost/policy

1. Acknowledge target market & cost
2. Approve research policy
3. Approve distribution contracts changes
4. Approve prospectus changes

1. Agree SLA with counterparties and administrators for
   • Target market
   • Research
   • Cost
2. Define and roll-out of distribution agreement changes

NTAC: 3NS - 20
GO LIVE essentials . Target Market
Target market information management

EPT and CEPT have been designed by the European Working Group to provide with data set to exchange from asset managers and banks to insurers in order to help them to fulfil PRIIPs requirements applicable to them.

EMT have been designed by the European Working Group to provide with the data set to exchange from product manufacturers to distributors to help them to fulfil MiFID II requirements applicable to them.
**GO LIVE essentials . Research**

**Split of roles for research payment accounts**

<table>
<thead>
<tr>
<th>Step</th>
<th>Portfolio Manager</th>
<th>Fund/ManCo</th>
<th>Depositary Bank</th>
<th>Fund Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Drafting of research policy</td>
<td>Acknowledgement of research policy</td>
<td>Payment/cash flow monitoring control</td>
<td>Accrual of research costs for relevant period</td>
</tr>
<tr>
<td></td>
<td>Estimation of research budget</td>
<td>Instruction on RPAs ('accrual accounts') to accounting</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management of RPAs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Selection of research providers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Determination of research allocation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Purchasing of research (one-off or subscription model)</td>
<td>Review of research payment instructions</td>
<td>Payment booking (cash out vs. accruals)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Payment to research firm/broker</td>
<td>Instruction to fund accounting</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Compensation request/payment instruction to Fund/ManCo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Review of research usage, quality and coverage</td>
<td>Acknowledgement of (new/updated) research policy</td>
<td>Adjustment/compensation of non-used accruals</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Update of research policy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Review of research provider list</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Review of research cost allocation</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Focus on costs

#### Ex-ante costs

<table>
<thead>
<tr>
<th>Product cost</th>
<th>One-off costs</th>
<th>Ongoing costs</th>
<th>Transaction costs</th>
<th>Incidental costs</th>
<th>Total costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPT</td>
<td>• Entry and exit fees</td>
<td>• Based on PRIIPs definition</td>
<td>• Calculated based on the PRIIPs methodology</td>
<td>• Performance fees and carried interests</td>
<td>• Including, one-off, ongoing and incidental costs</td>
</tr>
<tr>
<td>EMT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEPT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Ex-post costs

<table>
<thead>
<tr>
<th>Product cost</th>
<th>One-off costs</th>
<th>Ongoing costs</th>
<th>Transaction costs</th>
<th>Incidental costs</th>
<th>Total costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMT</td>
<td>• Entry and exit fees</td>
<td>• Occurred costs over one year</td>
<td>• Calculated based on the PRIIPs methodology</td>
<td>• Performance fees and carried interests</td>
<td>• Occurred costs over one year</td>
</tr>
</tbody>
</table>

### Key Terms:
- **Ex-ante costs**: Costs incurred before the commitment of funds.
- **Ex-post costs**: Costs incurred after the commitment of funds.
- **One-off costs**: Costs that are incurred only at the onset of the investment.
- **Ongoing costs**: Costs that are incurred repeatedly over the life of the investment.
- **Transaction costs**: Costs associated with the buying and selling of investments.
- **Incidental costs**: Costs that are not directly related to the management of the investment but are necessary for its operation.
- **Total costs**: The sum of all the above costs.
Global Distribution Considerations