

UCITS IV Represents Opportunities – and Challenges – for Fund Managers

With the Luxembourg government’s recent approval of the draft bill for UCITS IV (Undertakings for Collective Investments In Transferable Securities), this much-anticipated Directive recently took another step forward to becoming law.

Since its introduction in 1980s, **the UCITS Directive** has developed into a well-respected and recognized global brand, contributing to a vigorous, renewed sense of cross-border competition.

Such competition will be facilitated further by two of UCITS IV’s most distinguishing characteristics:

- 1. The introduction of a master-feeder structure** This will permit independently managed investment vehicles to pool their assets together into one centrally administered investment vehicle, resulting in greater cost-efficiency and reduced duplication of effort.
- 2. The establishment of a management company passport** This striking innovation will enable UCITS authorized in one European Union (EU) member state to be remotely managed by a management company located in another EU member state.

Because the UCITS IV enhancements will provide the opportunity to manage, administer and market funds from a single European platform, many European money managers stand to benefit from the associated economies of scale.

While the benefits of UCITS IV are potentially great, the challenges could be greater – if ignored.

Taking the UCITS IV challenge

While cost savings is a key driver at the industry level, the increased complexity and the ensuing operational challenges brought about by UCITS IV may actually lead to some additional cost pressures at the organizational level.



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For starters, firms will need the **necessary expertise and systems** to handle multiple languages and tax issues.

Additionally, the management company passport is still subject to tax issues that will have to be closely considered before making restructuring decisions. Fragmented tax regimes could mean that the use of the management company passport and cross-border fund mergers pose **risks such as double taxation to investors**.

To succeed in the new world of UCITS IV, asset managers will need to meet challenges like these:

- Sell across multiple countries
- Administer across multiple legislations
- Cope with tax issues across multiple markets
- Remain compliant in the face of growing regulatory complexity

Outsourcing offers a way forward

While fund managers concentrate on their core competency – managing money – outsourcing operational solutions offers a way to meet challenges on the money manager’s terms.

European asset managers should take the time now to better understand the Directive’s array of operational challenges to determine which can be met by internal versus external resources:

- **Taxation will be one of the greatest challenges** since taxation at all levels under UCITS IV is the key determinant in the structuring of funds.
- **Monitoring developments** is important too as UCITS IV continues on its way to a July 2011 launch date.
- **Understanding the intricacies** and nuances of the Directive will be important as well to ensure the organization’s processes are aligned successfully.

Investment management organizations need to arm themselves with as much information as possible and to prepare for the operational challenges that are certain to accompany the beginning of UCITS IV.

Firms that do so will be able to take advantage of the increased investor interest that is sure to follow.

Finding qualified expertise will aid in avoiding a lot of confusion and uncertainty surrounding the opportunities – and challenges – of UCITS IV.