



## Results of Thematic Inspection of UCITS Performance Fees

The Central Bank of Ireland (the “Central Bank”) recently carried out a thematic inspection of the payment of performance fees for UCITS

The Central Bank has published the outcome of its [inspection into UCITS performance fees](#) on the 4 September 2018. The purpose of the review is to establish whether the procedures used to calculate and pay performance fees in UCITS ensure that investors’ interests are protected at all times. The review also examined the methodologies used to calculate performance fees to ensure they are in line with the [Central Bank’s UCITS Performance Fees Guidance](#).

### Good practices

During the course of the Central Bank review, they identified a number of good practices across the majority of the sample of UCITS sub-funds reviewed. Good practices included:

- UCITS had clear and unambiguous prospectus disclosure in respect of the performance fee methodology;

- UCITS clearly disclosed the version of the index to which the performance fee methodology related;
- Transparent, comprehensive and frequent review of performance fee calculations by Fund Service Providers; and
- Fund Service Providers had dedicated performance fee teams.

The Central Bank, however, has also identified, in approximately 10% of the sample of UCITS sub-funds, instances of non-compliance with the Guidance. The Central Bank is concerned that the Guidance is not being applied in a consistent and comprehensive manner.

### Action Required by UCITS Management Companies

Following on from the Central Bank’s thematic review of payment of performance fees by UCITS, the Central Bank has sent a letter this week to all UCITS management companies requiring them to conduct a review of their existing performance fee methodology calculations to ensure that any performance fees charged comply with its UCITS Performance Fee Guidance.

## Key Findings From the Thematic Review performance fee

### Methodology

Performance fee calculation is interpreted differently compared to the methodology in the prospectus.

### Benchmark

Performance fees are based on the outperformance of an index. It was unclear as to which version of the index was being used.

### Verification

The verification process by the Depository is only being performed on a sample of UCITS or when payment is due.

### Disclosures

Performance fees paid due to market movements. Investors may not be fully aware of the circumstances which led to the payment of the performance fee. Better disclosure maybe required in the offering documents to inform investors of all circumstances that can generate performance fees.

### Manual Calculations

Fund Administrators using pre-designed manual calculation tools created by Investment Managers of the UCITS without any independent validation of the methodology.

### Payment Reconciliation

Performance fees paid on invoiced amount issued by the Investment Manager without full reconciliation to the Fund Administrator calculation.

## Who should you talk to?



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### What to do next?

The Central Bank has requested that UCITS management companies provide written confirmation to the Central Bank that such review has taken place by 30 November 2018. Where the Fund Management Company identifies any issues or any other instances of non-compliance with the Guidance, the Central Bank must be notified of the steps being taken by the relevant UCITS to rectify the situation including any impact on UCITS and their investors.

### How we can help?

- We have exceptional skills in understand performance fees of all complexities.
- We have significant experience in back testing, modeling and validating performance fee calculations.
- We utilise our audit tool D.NAV to test performance fee calculations.
- We have assessed the internal control framework for performance fee calculations.

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