

Regulatory News Alert

UCITS – 25 May 2018 ESMA Q&A

15 June 2018

Remuneration disclosure requirements applicable to delegates

Overview

On the 25 May 2018, the European Securities and Markets Authority (ESMA) released a new version of its Q&A on the application of the UCITS V Directive (Directive 2014/91/EU). This update includes one new question on the application of disclosure requirements on remuneration to delegates.

In its Q&A, the ESMA states that respective disclosure requirements applicable to management companies under the UCITS V should also apply to the identified staff of any delegates of the management company to whom investment management functions (including risk management) have been delegated. This guidance is in line with previous guidance provided by ESMA in its AIFMD Q&A dated 5 October 2017, thus aligning ESMA's position for UCITS and AIFs.

Background

Compensation practices at large financial institutions were a key contributing factor to the 2007 global financial crisis. This led to the publication of principles for sound compensation practices by the Financial Stability Board (FSB) in 2009. These principles were developed to align compensation with prudent risk-taking, hence aligning employees' incentives with the long-term profitability of the institution. The principles focused notably on enhanced public disclosure and transparency of compensation.

In this context, the UCITS V Directive is the EU policymakers' response to the principles laid out by the FSB. The UCITS V Directive introduced, among others, specific disclosure requirements on remuneration. Subsequently, the Directive requires management companies to disclose specific (i) qualitative information related to the company's remuneration practices and procedures and (ii) quantitative data related to remuneration paid by the management company to identified staff.

Analysis

In its Q&A, the ESMA considers that remuneration related disclosure requirements for UCITS annual accounts should also apply to the identified staff of any delegates of the management company to whom investment management functions (including risk management) have been delegated.

ESMA details two possible ways for management companies to comply with these requirements:

- Should the delegate be subject to equivalent disclosure requirements, the management company should use the information disclosed by the delegate for the purposes of fulfilling its own obligations
- In all other cases, appropriate contractual arrangements should be put in place with the delegate allowing the management company to receive at least information on the total amount of remuneration paid by the management company to the identified staff of the delegate

The disclosure should be done on a prorated basis for the part of the UCITS' assets that are managed by the identified staff within the delegate.

This guidance is in line with previous guidance provided by ESMA in its AIFMD Q&A on 5 October 2017, therefore aligning ESMA's position for UCITS and AIFs.

Useful links

Access the [updated ESMA Q&A](#).

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