

## PRESS RELEASE

### **ESMA rules aim to curb excessive risk taking by alternative fund managers**

The European Securities and Markets Authority (ESMA) has published final Guidelines on remuneration of alternative investment fund managers (AIFMs). The rules will apply to managers of alternative investment funds (AIFs) including hedge funds, private equity funds and real estate funds. Non-EU AIFMs who market funds (using passport agreements) to EU investors will also be subject in full to the guidelines after a transitional period.

AIFMs will be asked to introduce sound and prudent remuneration policies and organisational structures which avoid conflicts of interest that may lead to excessive risk taking. Stronger governance of how fund managers are paid will ultimately lead to improved investor protection.

Steven Maijoor, ESMA Chair, stated:

“These guidelines will help promote prudent risk-taking by fund managers and help align the interests of both fund managers and investors. Making sure that these provisions on pay are applied in a common and consistent way is key to increasing investor protection and ensuring a level-playing-field in the alternative fund sector across the EU.”

#### **Pay rules aligned with other financial sectors**

The Alternative Investment Fund Managers Directive (AIFMD) establishes a set of rules that AIFMs have to comply with when establishing and applying a remuneration policy for certain categories of their staff. ESMA’s guidelines further clarify the Directive’s provisions. In developing these guidelines, ESMA co-operated with the European Banking Authority in order to ensure alignment of guidance on remuneration policies across financial sectors.

The key elements of the guidelines include:

#### **AIFs’ internal governance**

- The governing body of each AIFM has to ensure sound and prudent remuneration policies/ structures exist and are not circumvented;
- AIFMs should select the type of staff for which a remuneration policy is put in place and be

able to demonstrate according to which criteria this selection occurred;

### **Categories of staff covered**

ESMA's remuneration guidelines apply to identified staff whose professional activities might have a material impact on the AIF's risk profile. This includes:

- senior management, risk takers, control functions; and
- any employee receiving a total remuneration that takes them into the same remuneration bracket as the aforementioned categories of staff.

### **Types of remuneration covered**

- For the purposes of the guidelines, remuneration consists of all forms of payments or benefits paid by the AIFM, of any amount paid by the AIF itself, including carried interest, and of any transfer of units or shares of the AIF, in exchange for professional services rendered by the identified staff;
- All remuneration should be divided into either fixed remuneration (payments or benefits without consideration of any performance criteria) or variable remuneration (additional payments or benefits depending on performance or, in certain cases, other contractual criteria).

Both components of remuneration (fixed and variable) may include monetary payments or benefits (such as cash, shares, options, remuneration by AIFs e.g. through carried interest models) or non-monetary benefits (such as discounts, special car allowances etc).

### **Next steps**

The guidelines will be translated into the official languages of EU. Within two months of the publication of the translations on ESMA's website, competent authorities should confirm to ESMA whether they comply or intend to comply with the guidelines by incorporating them into their supervisory practices. They will apply from 22 July 2013, subject to the transitional provisions of the AIFMD.



## Notes for editors

1. ESMA is an independent EU Authority that was established on 1 January 2011 and works closely with the other European Supervisory Authorities responsible for banking (EBA), and insurance and occupational pensions (EIOPA), and the European Systemic Risk Board (ESRB).
2. ESMA's mission is to enhance the protection of investors and promote stable and well-functioning financial markets in the European Union (EU). As an independent institution, ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

Further information:

### **Reemt Seibel**

Communications Officer

Tel: +33 (0)1 58 36 4272

Mob: +33 6 42 48 55 29

Email: [reemt.seibel@esma.europa.eu](mailto:reemt.seibel@esma.europa.eu)