Press release

Small investors to be shielded against reckless risk taking by investment funds

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Small investors should be better protected against investment funds that take excessive or unnecessary risks with their money, thanks to a draft law approved by a show of hands on ednesday. The law clarifies who is liable for mismanagement of funds and tailors fund managers' remuneration rules to encourage them to take reasonable risks and a long-run view.

EU-regulated undertakings for collective investments in transferable securities (UCITS), which gather assets from small investors and pool them to buy bonds, shares or other financial products currently control almost €6,800 billion in funds.

"UCITS managers should not bet small investors' money on high-risk financial instruments. The rules voted today will protect these investors by clarifying the roles and responsibilities of professionals who handle their money and creating incentives to focus on long-term investment performance, rather than short-term gains", said lead MEP Sven Giegold (Greens/EFA, DE).

Depositary

To clarify who is responsible for small investors' funds, the law would require UCITS to appoint a single "depositary" (investment firm or credit institution), to oversee investor payments to the fund and act as a custodian of its assets.

Depositaries would be required not to act without authorisation and would have to keep investors' money clearly separate from their own assets. They would be barred from using these funds as collateral in other transactions or investing them on their own account. Depositaries could also be deemed liable for any loss of assets, even if they delegate custody of them to a third party.

Pay

Fund managers would be required not to take investment risks beyond what is accepted by their UCITS investors. here a UCITS loses money, its managers' remuneration would be reduced or even clawed back. Half of the variable part of their remuneration would be paid in the assets of their UCITS, and payment of at least a further 25% of this variable remuneration would be deferred, to encourage managers to take a long-run view.

Penalties

All EU member states would have to provide in their laws for harmonised administrative penalties for funds that fail to comply with national UCITS authorisation and reporting rules.

These penalties would include a public warning, temporarily or permanently banning the perpetrators from fund management and administrative fees of up to ten times of profits made while breaking the rules. Member states could also choose to provide for criminal penalties if they so wish.

Next steps

The plenary vote on this law gives Parliament's negotiators a strong mandate to fine-tune it in three-way talks with EU member states and the European Commission.

Procedure: Co-decision, (Ordinary Legislative Procedure), first reading (amendments only)

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