HFM

Brexit proofing
Special Report

FEATURING *Apex Fund Services // Carne Group // Laven Partners // Mirabella Group // Société Générale*

Brexit draws close

The *HFM* Brexit Proofing report addresses the range of concerns hedge fund firms based in the UK have around the retention of access to the European Union, and what strategies all manner of participants throughout the sector are adopting in an attempt to 'Brexit-proof' their business.

With the final outcome of Brexit negotiations with the EU still uncertain with only six months until the official divorce date, the 'wait and see' approach is looking less and less viable.

Indeed, the time to take action (if not already taken) is now, and many are looking towards third-party ManCo solutions to ensure that their AIFMs are able to continue managing their AIFs in Europe with the minimum of business interruption.

With the final outcome of Brexit negotiations with the EU still uncertain with only six months until the official divorce date, the 'wait and see' approach is looking less and less viable

Elsewhere in the report, the longer-term effects of Brexit and its various possible outcomes are reflected upon.

This report draws readers' attention to the salient issues of Brexit, and gives them much to think about with regards to their continued operations within Europe.

Ross Law
Report editor

HFM

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Flexibility in the shadow of Brexit

Christophe Lattuada and Dirk Bellens, of Société Générale, discuss how the firm is taking a flexible approach to Brexit for the benefit of their clients

Q How is your prime services platform calibrated towards each possible Brexit outcome to ensure flexibility for all of your clients?

A We made the decision very early on to get ready for the worst possible Brexit outcome – a hard Brexit with no transitional period anticipated. Considering the time to adapt to the different scenarios, we felt strongly we needed to act decisively, and if we didn't it would have meant we would potentially be at risk of not being ready on day one for our clients.

What makes us somewhat different from that others is that we have a significant presence on both sides of the channel. Our headquarters in Paris have all the support there, from finance to risk, IT and more. Then there is the UK side of the business which deals with international clients, and our US offices for the US clients, and finally an Asian office to support our Asian clients.

Christophe Lattuada
Société Générale

Christophe Lattuada, head of Société Générale Prime Services, was appointed in July 2018. Prior to this, Lattuada was as of 2015 co-head of Société Générale Prime Services. He was previously head of strategy & corporate development for corporate & investment banking, private banking, asset management and securities services from 2013 to 2015; and head of strategy & corporate development for Société Générale corporate and investment banking, from 2012 to 2013.

Dirk Bellens
Société Générale

Dirk Bellens, global head of relationship management, was appointed in December 2017. He has held a number of positions in Société Générale since he joined the bank in December 2000: he was the COO within global markets for seven years, and before that was head of equity operations for seven years. He holds an economics degree from the Katholieke Universiteit in Belgium and a European studies diploma from Toulouse university in France.

Q How well-positioned are you to handle whatever Brexit outcome occurs?

A The range of different territories we inhabit allows us to offer our clients the choice of whether they want to face an EU- or a UK-based entity. In some cases, regulation offers no choice and will force some clients to face a EU or UK entity. But in some cases, clients have to determine whether they want to move, some may be more comfortable with the UK law and regulation, and others will be more comfortable with the governing laws of continental Europe.

For our clients, we're building from a solid base that we already have in Europe with multiple offices across the continent, and as a result we're able to provide great optionality and flexibility for ourselves and our customer base as is required.

Q What Brexit-related queries have you been receiving from your clients since the referendum result?

A What we've seen over the last couple of months is that the type of questions have gone from quite generic to quite technical and detailed. People have been asking a lot about memberships of (to) exchanges, CCPs and whether they can continue as before, and what it may mean for their association with us.

We also see a lot of clients who assumed they were not going to be impacted, begin to take a strong interest in the possible Brexit outcomes. They want to know how Brexit could impact the marketplace as a whole, but they also want to know if they have missed a potential 'impact point' which may affect them if they don't look into it now.

Q Do you always have all of the answers?

A Our set-up is in preparing for hard Brexit which means we can offer optionality. Whatever the client decides for themselves – who they should be facing and where they want to be booked and so on – we are able to accommodate this. This gives our clients confidence that we are the right partner to continue servicing them.

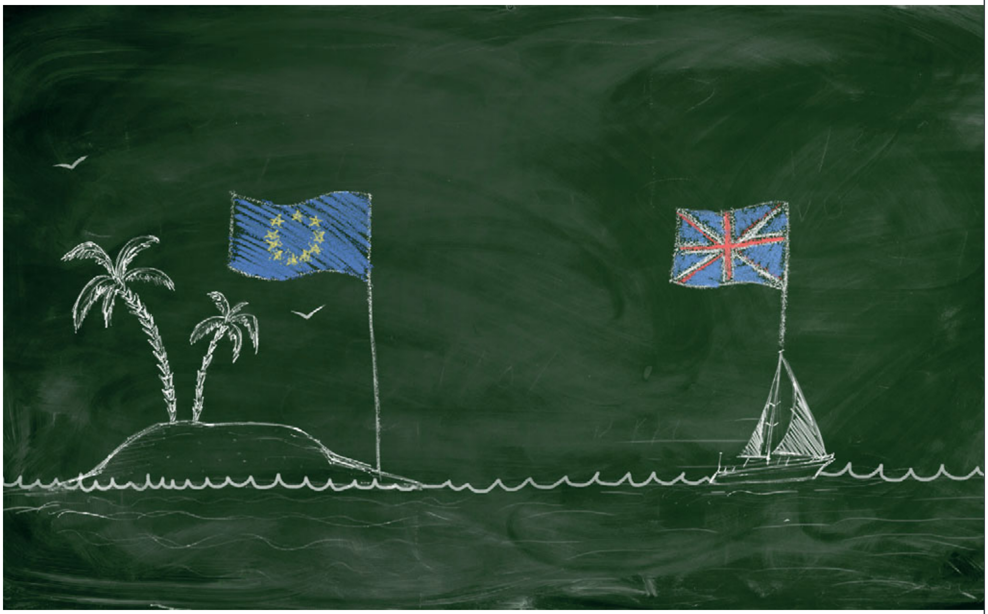
At the same time, there are some questions we have no definitive answer to. We don't know if there will be a transitional period, and there are a range of as yet undecided political questions which we're unable to comment on as yet.

Q How helpful would a transitional period prove to be?

A You would be hard pushed to find someone who wouldn't think it was helpful to receive more time for the industry as a whole to prepare and make sure we have all of the answers to the questions everyone has.

Technical answers typically require some amount of time to implement, even for us as an organisation who are very well-positioned to respond to these possible likely changes.

The issue we have for some markets, in particular the cleared OTC products, in case of non recognition of UK CCPs, is that everyone needs to move in a coordinated fashion. I think it's going to be challenging to organise as everyone needs to make changes at the same time. Many clients are only just beginning to realise that they may have to move, and banks have a huge number of transactions to potentially move from one CCP to another. I think it will be highly challenging to do that over in a limited time frame.



Whatever the client decides for themselves – who they should be facing and where they want to be booked and so on – we are able to accommodate this

Q Are larger and smaller firms going to face different challenges?

A Some of the clients we met just started to realise in September that they were concerned and had to allocate some resources in their budget to handle Brexit. Up until that point, they were looking at the situation as observers, and they are just now realising that they themselves must adapt, and time is running out.

There is certainly a question around resource allocation and whether everyone has the same amount of resources available to what is often quite heavy lifting. Smaller firms may not have enough resources from a legal or operational point of view to do this migration on time.

This comes back to the benefits of a transition period. We are all ultimately aiming for a stable financial marketplace, and the more that we can make sure this is done in an orderly fashion, the better.

With the hardest outcome, we are fully prepared to engage in a worst case scenario form of preparation. As said, if everyone is reasonable, even though there is no transition, at least there will be a few days to get ready and avoid disruption to the market.

Now, we can't entirely rule out that on 29 March 2019, there is some degree of market disruption and not only this, the adaptation to a new regulatory environment will need to be monitored. And you also have to manage what could potentially trigger financial and market disruptions. In parallel to the Brexit preparation, we are also planning to be prepared for a situation of financial and market disruption. HFM

Brexit solutions for asset managers

Des Fullam, of Carne Group, looks at some of the options available to investment managers who want to retain marketing rights into Europe post-Brexit

As the date for the UK's official 'divorce' from the European Union draws closer, hedge fund managers have to consider two significant problems. If they are relying on a passported UK AIFM to manage funds domiciled in Ireland, Luxembourg, or another EU27 jurisdiction they will need an EU27 AIFM in place to manage AIFs domiciled in those locations. If they rely on a UK-regulated entity to undertake marketing for these products they will also need an EU27 solution to continue to carry out this activity.

Such asset managers are increasingly concerned that when the UK leaves the EU on 29 March, their existing UK AIFM may no longer be able to act as the management company for funds domiciled in Europe. What's more, asset managers who have not already applied to the Central Bank of Ireland or to the Commission de Surveillance du Secteur Financier to set up their own AIFM in Ireland or Luxembourg, are now unlikely to have a solution in place for 29 March 2019.

Des Fullam
Carne Group

Des Fullam is director of global product at Carne Group and has over 17 years of experience within the funds industry. He has worked with many leading asset managers to guide them in establishing their European fund ranges and has assisted several hedge fund managers in launching Ucits products. He is a member of numerous industry associations including the Irish Funds Brexit Group and the EFAMA working group on management companies.

The result is that few options remain for UK asset managers who have yet to take action, but who want the certainty of knowing they will be able to continue to market their funds into Europe post-Brexit. It is therefore no surprise that we are seeing a steady increase in the number of asset managers requesting help in identifying the best solution for their circumstances. One option proving particularly popular with UK asset managers is to appoint a third-party AIFM to take on the role of AIFM. In this scenario Carne acts as the AIFM, retains the risk management function, and delegates the investment function back to the asset manager. Such a solution allows the asset manager to continue to act as the investment manager of European-domiciled funds without interruption. In addition, a third-party AIFM allows asset managers who are still determining their strategy to adopt a holding position until the impact of Brexit becomes clearer. Once the outcome is clear, they still have the option to establish their own EU AIFM in the future.

Other benefits of outsourcing

While the uncertainty of Brexit is resulting in more asset managers looking to outsource their fund management companies, the merits of doing so are wide-ranging. Establishing a fund management company in an unfamiliar jurisdiction can be complicated, time consuming and costly. Local knowledge and on the ground expertise are a prerequisite, as is the requirement to employ people locally and source directors for the management company's board. There is also the ongoing outlay of setting up and managing an office as well as the initial legal costs in attaining regulatory permission in the first place. Using a third-party AIFM can save time, money and other resources, while allowing the fund manager to keep their name over the door of the fund.

Distribution solution

UK managers who want to continue to distribute products in the EU27 will also need an EU27 entity to undertake this activity. The case for outsourcing here is also compelling. One option emerging is a Mifid hosting solution. Employees from the investment manager could be seconded into that Mifid firm to distribute funds, or an entity could be appointed as a tied agent of the Mifid firm who can market funds using Mifid permissions. The advantage of the tied agent model is that asset managers can market funds using their own brand name. Under the secondment model, funds are distributed under the Mifid entity's brand name.

The need for asset managers to retain their own brand name when doing business in Europe will depend on the scale of their activity and the strength of their existing client relationships. For example, an asset manager with limited activity and a well-established client base, may see the use of their brand name as less important than one who plans to actively market their funds and establish new relationships. The tied agent model is a game changer for such managers, many of whom will view the secondment model as something of a stop-gap.

A 'hard' Brexit would still be preferable in that there would be an agreement and transition period in place during which further clarification could be sought

The 'Armageddon scenario'

The so-called 'Armageddon scenario' is one wherein there is no post-Brexit arrangement in place that allows the delegation of investment management back to the UK to continue. With 29 March 2019 fast approaching, many managers are wondering whether an arrangement will be implemented in time. At the time of writing Esma appear to be taking a positive stance, while also recognising the need to have Memorandums of Understanding in place, in the case of a 'soft', 'hard' or 'no-deal' Brexit in order to reduce the potential for systemic risk. Until those arrangements are actually in place, managers will inevitably have it in the back of their minds that there is a very small possibility that delegation may not come to pass.

A 'hard' Brexit versus a 'no-deal' Brexit

As stated, any form of Brexit which does not allow the delegation of investment management functions would create an extremely challenging scenario for asset managers and regulators and could give rise to systemic risks. However, having a Memorandum of Understanding in place could in practice mean there would be little difference between a 'hard' Brexit and a 'no-deal' Brexit. Of course, a 'hard' Brexit would still be preferable in that there would be an agreement and transition period in place during which further clarification could be sought.

Areas of focus outside of Brexit

The uncertainty created by Brexit has been dominating the column inches, but asset managers have had plenty of other elements to contend with too in 2018. Aside from the escalating tensions between the US and China and increased market volatility, the industry has come under huge pressure to reduce fees, while trying to meet increasing regulatory demands.

Asset managers are focused on finding new ways to drive down fees and remove inefficiencies and associated costs from their regulatory functions. We are seeing first hand evidence of this at Carne with more and more asset managers looking to outsource non-core activity and Brexit may well prove to be a catalyst for this trend to accelerate. HFM

About Carne

Carne provides a wide range of fund management solutions to some of the world's leading investment managers. We operate regulated AIF and Ucits Management companies in Ireland and Luxembourg, provide substance to many management companies including designated persons, compliance officers, MLRO and company secretarial and help investment managers meet their ongoing regulatory requirements through market leading technology.
To find out more about our fund management solutions email us today at info@carnegroup.com quoting this article.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Retaining EU access

James Burke, of Apex Group Ltd., addresses the concerns asset managers have and the key options they can choose to ensure access into the EU is retained post-Brexit

Q What are your clients most worried about when it comes to Brexit?

A Brexit is likely to change the landscape dramatically for the asset management space in Europe. Since it has started to become a reality and the possibility of a hard Brexit becomes increasingly real, the urgency for asset managers to look at contingency plans to Brexit-proof their business has become a priority. Assuming Britain leaves the EU in a hard Brexit scenario, neither the AIFMD nor Ucits directives would continue to apply and UK firms would be unable to avail themselves of the management or marketing passports under those regimes. The biggest concern is this potential loss of management and marketing access to the EU's single market and managers are now having to consider what options are available to mitigate this possibility and to minimise the business disruption it would invariably bring.

Q Have you seen a lot of people relocating out of the UK entirely?

A For a long time there has been a wait and see approach among managers, but as we're now fast approaching the current Brexit deadline, managers have had to begin putting their contingency plans into place. We've seen clients begin to look at two key options – the build or buy solutions. Managers have looked at establishing a presence in an EU hub, which is the safest course of action to guarantee continued access into the single market. This means setting up their own AIFMs in other EU countries. We have seen Ireland and Luxembourg as the main jurisdictions of choice in this regard. There are certain benefits to taking this route, which ensures there is no leakage of fees within the management structure to third parties, and both Ireland and Luxembourg offer ideal solutions for managers as they each have long-standing reputations as financial centres of choice for the investment funds industry. Each has the relevant infrastructure required and offer a business-friendly environment with the requisite qualified expertise from a human resource perspective. It is for these reasons that they are so are well-placed to attract UK managers looking to establish a new EU hub.

James Burke
Apex Fund Services

James Burke is regional head of Europe for Apex Fund Services. He joined Apex in June 2018 following Apex's acquisition of Deutsche Bank's Alternative Fund Services business where he had spent the previous seven years in a variety of senior roles including acting as head of the alternative fund services business in Ireland.

However there are other factors managers need to consider, including the increased focus from the regulators on firms showing substance when they opt for this type of solution. They must be able to demonstrate sufficient local substance to carry out the duties and obligations of an AIFM, and regulators are especially focused now on ensuring that AIFMs have sufficient structures around governance, management, internal controls and more when assessing applications to establish AIFMs in Ireland or Luxembourg.

Going down the build route also raises regulatory capital implications. While we've seen the bigger managers consider this solution, and there's a lot of evidence to suggest that this is precisely the solution those managers with significant scale are looking to, this may not be a solution which works for everybody.

The other option managers have been considering is the third-party ManCo solution. We see a lot of managers who want to focus on their core competency of portfolio management, while avoiding all the capital implications and cost of setting up their own operation. Again, Ireland and Luxembourg appear to be the core alternative jurisdictions of choice for these managers, and this solution provides some clear advantages such as speed-to-market and not needing to go through a full approval process with the local regulator. Following the acquisitions of Deutsche Bank AFS, Warburg and LRI Group, Apex has significantly expanded both its Irish and Luxembourg footprints. Combined we now have over 450 employees in Luxembourg and over 500 in Ireland and they are therefore major strategic service hubs for us in a post-Brexit Europe.

Q Does the third-party ManCo option seem like a stop-gap, or will the sector sustain in the long-term?

A We expect to see many asset managers continue to utilise third party solutions. As a result, the space should continue to expand, both in the short-term and likely in the long-term too, pending the eventual outcome of Brexit.

Q Who will a hard Brexit impact the most within your client base? What else can businesses do to minimise the possible effects of Brexit?

A The only solution for firms to fully mitigate the risk of losing

single market access is to establish an operation within an EU jurisdiction. The third-party solution is also something that managers should consider as a viable option. For both solutions there is the possibility of delegating back key elements of portfolio management while retaining sufficient substance within the ManCo, assuming the UK can agree upon a suitable regulatory cooperation agreement with the EU.

The asset management community could be particularly impacted in terms of marketing as UK AIFs would no longer be able to avail themselves of the marketing passport to market throughout the EU. This means they'll have to look at potentially marketing in the EU under national private placement regimes (where available) – the same would apply for EU AIFMs marketing UK AIFs, and also for UK AIFMs marketing other EU AIFs.

Similarly, at present, there is no long term solution for funds being marketed into the UK via marketing passports. The FCA published a Consultation Paper on the Temporary Permissions Regime (TPR) on 10 October which is designed to ensure UK investors retain their access to EU Ucits and AIFs currently marketed in the UK under existing passport regimes. TPR is really only a temporary measure and not a long-term solution as it only lasts for three years from exit day, with HM Treasury having the option to extend for a further 12 months.

We've seen clients begin to look at two key options – the build or buy solutions

Q In terms of business strategy, do you expect the way business is done or the jurisdictions businesses choose to engage with might change?

A The jurisdiction question is the most obvious one. If you take the US asset management community, for example, they will historically have seen the UK as a natural go-to hub to set up AIFMs or subsidiary companies to access the European market. They may also have been monitoring the AIFMD third country passport possibility; however, following the Brexit referendum and given the delays to the extension of third country passporting, these asset managers are now starting to look towards other viable alternatives within EU hubs. Naturally there will be an impact in this regard. Ensuring access to the wider EU market is of paramount importance to managers. When setting up structures, they will now look closely at what the optimum solution is to Brexit-proof themselves, which may mean looking outside of the UK in many scenarios.

With regards to strategy, we have already seen some small shifts such as some managers hedging currency risk as a result of the increased volatility, yet there are more likely to be subtle tweaks to investment strategy rather than huge shifts across the board. Diversification is already a trend in the asset management space so although Brexit inevitably will have a large impact on the asset management space, it is more likely to be with regards to choice of location and structuring of funds and management entities rather than investment strategy. HFM

APEX GROUP HIGHLIGHTS | 2018

APEX

STAFF
2,000+

FUNDS
4,500

CLIENTS
1,500

JURISDICTIONS
26

GLOBAL LOCATIONS
40+

LANGUAGES
20

15 YEARS IN BUSINESS

5TH LARGEST FUND ADMINISTRATOR **GLOBALLY**

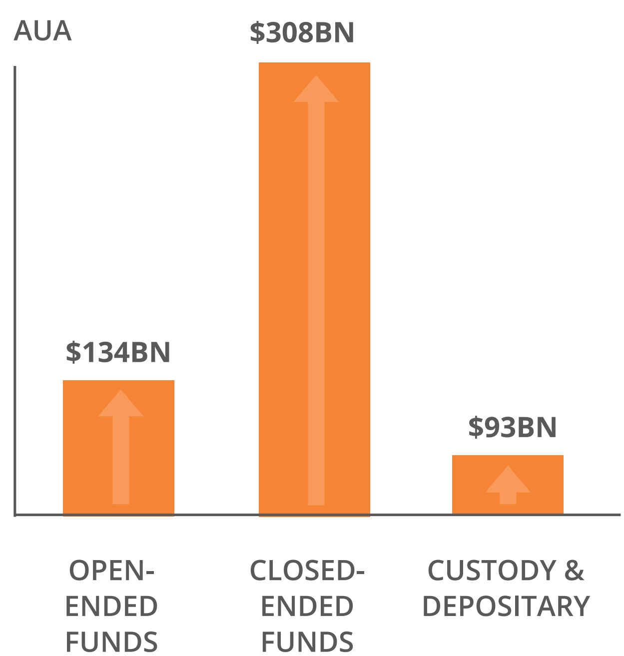
6 AVERAGING **MAJOR INDUSTRY AWARDS** PER YEAR

ASSET CLASSES

- PRIVATE EQUITY
- REAL ESTATE
- HEDGE FUNDS
- HYBRID FUNDS
- MANAGED ACCOUNTS
- FAMILY OFFICE

SERVICE CAPABILITIES

- FUND ADMINISTRATION
- MIDDLE OFFICE
- BANKING & DEPOSITARY
- CORPORATE SERVICES



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Brexit and your marketing and distribution activities

Joe Vittoria, of Mirabella, highlights the possible distribution issues post-Brexit

Joe Vittoria
Mirabella Group

Joe Vittoria is a partner of the ACA Group and the CEO of Mirabella Group, which is ACA's regulatory hosting division. He originally founded Mirabella in 1998, sold a controlling stake in it to Cordium in 2007, at which time he left to pursue other opportunities, but returned in 2012 as its CEO. Prior to working in the hedge fund industry, Vittoria worked at Salomon Brothers from 1985 to 1998.

Q What is the current outlook on Brexit?

A At this time of writing, the political climate and outcome around Brexit is uncertain, oscillating between a hard (no transition, no equivalence) and a medium (some allowances) and even occasionally to a soft (let's all be friends) landing. However, since we are less than six months away, it is useful to have a solution for a hard landing, just in case. Indeed, as the Financial Conduct Authority (FCA) has itself advised, regulated firms should consider if or how they will be affected and what action they may need to take.

Q In a nutshell what's the problem?

A Put simply, the UK-based people who actually want to market into the EU27 after Brexit need to assess their ability to continue to do so.

Q Okay, so let's examine certain scenarios. I am a UK-based hedge fund manager, currently managing a Cayman fund. I have already registered the fund under the local National Private Placement Regime, for example in the Netherlands and Sweden. Do I have a problem?

A I always hate saying the following words but, first you should consult with your lawyer, since you can't take legal advice from an article like this one. However, several law firms are telling us that there is a problem, which is that while the funds are indeed unaffected, the UK-based staff who fly to those countries and pitch the fund might need some form of registration. UK firms currently perform these activities by using Mifid passports.

Q A US-based manager can market a Cayman fund into the EU, without being Mifid registered. How have they been doing it?

A I agree, it's a strange situation, but there appears to have been less focus by regulators on this activity in the past. However, we worry about this becoming a renewed area of interest, because come next April, there will be a lot more managers coming in from outside the EU (i.e. the UK).

Q How does it impact UK AIFMs which have EU AIFs (such as those registered in Luxembourg or Ireland)?

A Currently, the UK AIFM can market the fund, but after Brexit, all UK AIFMs will become non-EU AIFMs, which means they will lose access to the AIFMD Marketing Passport. Such managers will then be similar to the managers who run Cayman funds, so it's the same as the question above. The choices for UK managers are as follows:

- Do nothing at all, because either:
  - the manager no longer needs or is seeking new EU27

investors. Brexit is essentially a non-event for you, so you don't need to worry much; or
  - You want to wait for third country status to be bestowed on the UK, thereby allowing UK AIFMs to access the passport under the equivalence arrangements (this is somewhat optimistic in the short term, but is highly likely in the longer term).
- If you care about a few EU27 countries, which have reasonably accessible National Private Placement Regimes, you can simply register in those countries, and limit your marketing to them.
- Establish your own AIFM in the EU27 prior to Brexit. If you haven't already done this, it's probably too late, since registration generally takes at least six months, if not more.
- Enter into a hosting arrangement with a third party EU27 AIFM. Many of these firms are capacity constrained and are suggesting that firms need to hurry to ensure they will get on-boarded by February. We see this as mostly good marketing by the ManCo, because they want people to commit now, in case hard Brexit does not materialise. We have plenty of capacity, so this is not the message we are sending.

So if you still need to access the EU27 with in-house, UK-based marketing staff, then you need to think about distribution.

Q Can those who have rented an EU27 AIFM ManCo continue to use their AIFMD marketing passport?

A Yes, and in these cases, the former UK AIFM usually becomes a delegated portfolio manager of the EU27 AIFM ManCo. This allows the same people to continue to manage the fund, and the fund will indeed continue to have the marketing passport, but the staff of the UK-based firm cannot automatically use that passport, unless the ManCo allows them to (which the majority of third party ManCos do not). If a ManCo does allow it (like ours) the problem is that the manager will need to identify with – that is to say, accept the name of – the ManCo rather than the original firm. This may present a branding issue. There are some solutions for that as well but there are always compromises.

Q What about UK managers who have Ucits funds?

A This is the same scenario as a UK manager who has hired an EU27 AIFM ManCo. If the ManCo allows it, you can market under its name, but that is unusual, and you have to use its name and brand, not that of your own firm's.

Q What options are you working on?

A Firms like Mirabella are working on a range of viable options. Such options seek to allow UK-based firms to continue to access the EU27 after a hard Brexit, but without the need to establish an extensive presence in the EU27, and especially without having to hire people there. There is a school of thought that suggests that a positive equivalence determination may be made by the EU or the UK after Brexit. Should this equivalence determination happen, any recently created EU27 will be rendered unnecessary, and winding it up in certain jurisdictions may be quite expensive. We are also going to ensure that the UK firm will be able to use its own branding and email. But we will also offer the solution which allows people to market via our ManCo, which is cheaper but has that branding limitation. I suspect no one will bite until the start of the first quarter, when the form Brexit will actually take is clearer.

Since we are less than six months away, it is useful to have a solution for a hard landing, just in case

Q What about hiring a EU27 Third Party Marketing firm?

A Yes, that works, as long as your funds are suitably registered in each state that the marketing firm will want to access. The problem is that few of these types of firms will sign up for a relatively short period, and if you believe equivalence is coming then you will need to be able to exit this agreement when it does. Also, these firms are not cheap, and you may have in-house marketing expertise you don't want to lose.

Q What should firms do?

A Well, I think the answer right now is to investigate, talk to your legal advisors, figure out if this is an issue for you, then talk to service providers like Mirabella to figure out what options are available, and when you will need to decide. I don't expect anyone to sign up for solutions until January, because of the lack of clarity. It is noteworthy that the FCA has launched its first consultations paper on Brexit. Whilst the FCA is contemplating the creation of transitional provisions for in-bound funds and managers, the same is not currently true of the EU. While those provisions are not yet live, it's my view that you should be actively contemplating how to secure your distribution strategies for the short and longer term. HFM

Brexit: the key concerns

Jerome Lussan, CEO of Laven Group, expounds upon the key concerns Laven's client base currently have about Brexit and the future of conducting business in the EU

Jerome Lussan
Laven

Jerome Lussan is the founder and CEO of Laven. His background includes acting as a COO of a hedge fund and as a financial lawyer at Jones Day. Lussan has a broad degree of expertise in the fund management industries, specialising in operational risk and regulatory matters with a focus on the alternative sector. His most recent experience covered CTAs (FX and futures) and prior to that he also worked in the private equity and real estate sectors.

Q As the Brexit 'divorce' date approaches, what are your clients' key concerns?

A Laven's client base has two key concerns: everybody wants to know whether (1) they can still manage funds from the UK, and whether (2) they can sell financial products from the UK in Europe.

Further, although a secondary concern, many who buy and sell securities wonder how Brexit is going to affect relationships with their brokers.

Q When are these concerns likely to be addressed?

A Most management companies are awaiting details of any potential deal which could vary from the proposed Chequers agreements. It is hoped that some type of document will be made available to the industry soon because pressure is mounting.

Q What concerns have you been hearing in relation to marketing channels post-Brexit?

A We believe marketing is the core problem because we have huge amounts of marketers and distributors sitting in the UK; and they're calling Europeans and travelling to Europe to distribute their products under the current Mifid or AIFM passport. As of March 2019, they would no longer have the passport right to do this, subject to any transition. This is where firms now need to build a contingency plan.

The contingency plan for our clients will be to offer an EU-based hosting solution, and this will be done in two ways: either through a Mifid hosting solution, or an AIFM hosting solution. The former is a potentially lighter way of maintaining our clients' rights to operate in Europe. This option, however, will require some thought in terms of structuring, and may require our clients to establish a local company in the jurisdiction we choose to establish the European platform. If we chose France, for example, clients would likely have to incorporate a new French company, which they would own and be a director of. This entity would then be tied into our platform, allowing them to maintain access to Europe. We are hoping, however, that this can be done directly with the UK entity. Either way we will have to demonstrate substance and controls in the adopted country. If we angle for an AIFM platform, this will require even more local substance and does not necessarily suit all clients, notably those that do not have an AIF as such.

Q What levels of relocation are you seeing among your client base at this time?

A Relocation has not been dramatic because of the ongoing uncertainty, and that most people are still hoping for a soft Brexit. They're also counting on us, as they should, to find them a solution – which we will. The ideal solution is that relocation is not necessary given the time, cost and admin involved. As mentioned, the second possible solution would be for us to establish an AIFM platform. This option would work well for any new clients wanting to have a fund and are looking to manage and distribute it. However, it is less beneficial for clients only interested in distribution as they don't necessarily have a fund to move to the platform.

In that case, we would have to find a way that allows those without a fund to operate under some form of chaperoning arrangement which is equivalent to the American system of a broker-dealer relationship. This is the system Europeans will likely impose; however, it is likely to be heavy for our client base.

Q Is this comparable to a ManCo style set-up?

A Yes, where a ManCo arrangement has a client who wants to manage a fund. You set up a fund and then have them sit under the ManCo. However, a lot of clients may already have a fund and a ManCo somewhere, or already work as a third-party marketer, or a corporate finance advisor on a deal-by-deal basis, or as the distributor of a private equity fund. All of this means that they really need a solution that does not include a ManCo fund.

Q What players are most likely to relocate/stay in the UK and what factors must be taken into consideration?

A There is likely to be a lot of players staying in the UK at least for a decade following any hard Brexit. Firstly, the FCA has said that anyone operating under a European passport with a branch in the UK is welcome to stay but will need to apply locally with the FCA. We can help our clients with this type

to help reassure the market and guide our clients. I have recently been visiting key EU jurisdictions and speaking with various parties from the political, diplomatic and regulatory side because we want to remain on top of what will end up happening. We also continue to map out our RegTech to support multiple jurisdictions to help compliance officers covering various places. On top of UK FCA and US SEC, we also now include Irish compliance and are working on other main jurisdictions.

Q On your travels, have you seen much salesmanship within the various jurisdictions?

A Of course. The Spaniards and the French famously said they would work in English, with everyone.

The French also have something known as the 2-week promise, which is an in-principle review of a proposed application within two weeks of submission

Obliviously, Ireland and Luxembourg are promoting themselves too, but they are already established jurisdictions so there's no strong 'gimmicks' as with France or Spain. We have also heard that the Dutch regulator, the AFM, are enthusing about what they could offer prospective applicants.

These differentiating factors are another part of the considerations we put together when we think about where we should go next. In our case, we feel that for the hedge fund world, Ireland is obviously a prime place, and Luxembourg is a prime place for private equity. However, for actual ease of access, France is very interesting because when people market their funds, they will likely travel through France, which helps with the substance requirements they need to fulfil to place their business in that jurisdiction. It is unlikely that they will go to Ireland or Luxembourg to raise money and those are elements that contribute to the key factors, which are not easy to judge.

We also consider that perhaps there will be no Brexit although, at present, we only give this a 5% chance. It would certainly make life easier and business more stable. HFM

of application. Alternatively, many will stay to access the rich investor market in the UK. We expect new demands for our hosting solution in the UK so that any French, Italian and other managers can still market in the UK from our hosting platform. We view this as a great business opportunity for the UK and we're here to help with an established service. We believe that in this regard the UK will be very relevant and quite dynamic for at least a while.

Q Whatever the Brexit outcome, is the talk in the media about relocation being overplayed?

A Relocation is unavoidably relevant for all the clients in England who would otherwise need one of the aforementioned solutions. If they don't want a solution from a consultancy such as ourselves, they need to relocate. Having recently been in France and Ireland, we've seen talks about the number of firms who are applying to be authorised and we count close to 100. Relocation is certainly happening, but, as mentioned before, it is partial.

Despite the relevancy of relocation, there will still be a lot of people working from the UK; relocation just means that one part of the business will be moving out of the UK, but we don't see every part of the business being moved

Despite the relevancy of relocation, there will still be a lot of people working from the UK; relocation just means that one part of the business will be moving out of the UK. While this is not great news for the UK, it's set to be compensated by those non-UK businesses that will need to establish a presence within the UK – at least in the short term.

Q What are your further responsibilities as consultative partners?

A We see it as our job to stay on top of what might happen

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