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EuroFinuse supports European Parliament rapporteur on the ban of performance fees for UCITS retail funds managers

EuroFinuse, the European Federation of Financial Services Users, is closely following the debate on the “UCITS V Directive” that is currently focusing on depositories’ liabilities and asset managers’ remuneration.

These are two major issues that have to be tackled by EU institutions, as they were exposed as the weakest part of the UCITS framework during the financial crisis. Performance fees are inadequate as fund managers can influence the level of fees received by selecting a benchmark that can be easily beaten. For example, certain “active” funds which reinvest dividends charge a performance fee when they beat a “price” index (without dividends reinvested). Then they just have to invest in an index portfolio to get a “performance fee” on top of the base fee. According to Lipper research from 2010, 66% of UK funds still charge performance fees even if their benchmark is falling.

Another reason is that performance fees are a one way street: fund managers get extra fees for out-performance but do not get a reduced fee for under-performance.

Lastly, performance fees make it very difficult for retail investors to compare the cost of different funds – despite the introduction of the Key Investor Information Document (KIID) – as performance fees are not required to be fully disclosed because of their variable nature.

Remuneration through performance fees is currently unregulated. However, this possibility was already explored in the past, as performance fees were a banned practice in the UK until the Financial Services Authority lifted the ban in 2004.

Therefore, EuroFinuse supports the Amendment 5 from the Rapporteur on UCITS V which would prohibit performance fees to be charged to UCITS retail funds. If the EU Authorities fail to agree on such a ban, Eurofinuse asks that at least performance fees must work both ways and generate an overall fee reduction when the fund manager underperforms its benchmark.

If you would like additional information about this topic, or to schedule an interview with Guillaume Prache, Managing Director, please call Maria Bause on +32 (0)2 514 37 77, or email at bause@eurofinuse.org

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