

Why are French fund depositaries are best placed in servicing AIFs and AIFMs ?

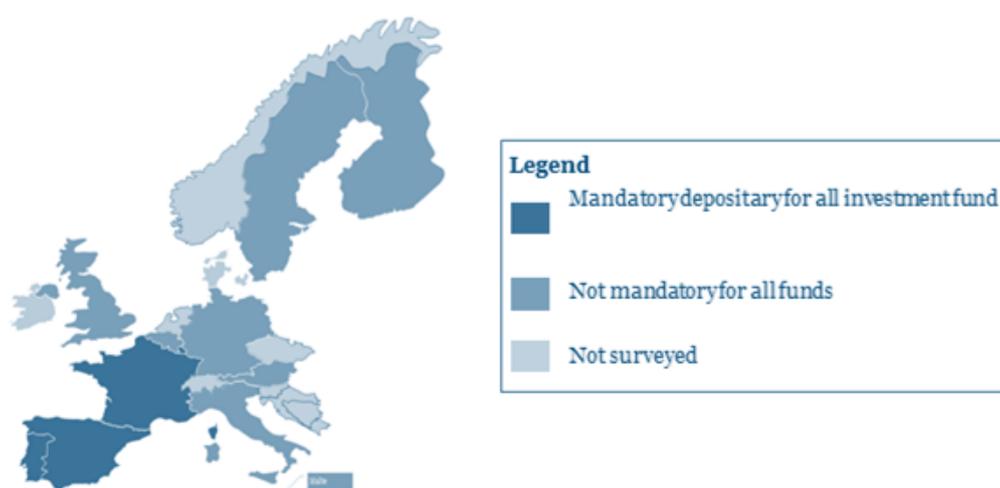
AIFMD will impose a new model across the European Union



The custody “à la française” anticipated the European initiative

The alternative investment fund manager directive (AIFMD) will impose a new model across the European Union. In particular, it imposes a depositary for all (alternative investment funds) AIFs. **This player is new in the asset management value chain in several Member States.**

Fund depositaries in the “pre-AIFMD” environment



Source : PwC analysis – February 2013

AIFMD seeks to **segregate cash and assets** from the Asset Manager’s own assets in order to reduce operational and legal risks, and, in particular, fraud; the depositary acts as a second level of control, independently ensuring compliance with local applicable regulations.

It is worth noting that these requirements have been implemented by the French depositaries for more than twenty years. Indeed, some say the final European regulation of depositaries validated the French approach to depositary regulation at a pan-European level.

AIFMD also brings new cross-border opportunities, including for French depositaries. Indeed, nowadays, French depositaries’ clients include non-French UCITS managers. Tomorrow this clientele base will be extended to foreign alternative asset managers who will make use of one of the AIFMD cross-border opportunities.

In this new context, French depositaries are best placed in servicing AIFs and AIFMs.

We are robust

We are large, **robust banking groups** which enjoy a worldwide presence, enabling them to service the investment management industry on a large scale. We are subsidiaries of banking groups identified by the Financial Stability Board as **systemically important financial institutions** (SIFIs). These groups are subject to specific regulatory and supervisory requirements.

We are global players

We have a proven **sub-custody network** covering virtually all financial markets in the world, thus fulfilling the usual demands of Asset Managers. Additionally, we may build on our international presence and consider **additional markets** if our clients expressed an interest in investing there.

A worldwide custody network (96 countries)



Source : AFTI- May 2013

2. What we offer

We already serve a broad international client base

Today

French alternative asset managers and foreign UCITS managers who use the management company passport

Tomorrow

1. A fund established in a Member State may be managed from any other Member State by virtue of the AIFMD management company passport
2. French depositaries may be appointed for funds not domiciled in France, subject to the opt-in of AIFMD provision of Art 61-5 (so called “Malta Clause”), by which member states may allow AIFM to select and appoint a depositary from a country different from the AIF’s
3. Cross border Master/feeder structures
4. From 2015 forward, non-EU AIFMs will be eligible to use the product passport and may select French depositaries

We are dedicated to meeting our clients’ needs regarding the mandatory duties that must be performed

We have been carrying out our services in an AIFMD-like environment for more than 20 years. We have always been operating in a **safe, legal and regulated environment**. Indeed, French Asset Management and depositary regulation is rated as one of the most, if not the most demanding. The role of French depositaries is recognised by local regulators as a stability factor for the investment industry. This offers a clear advantage to investors who may, for instance, rely on the data and information processed by the French asset servicing industry.

Consequently, the AIFMD is not expected to be transformational for us, as it is largely in line with all the range of services already provided:

1. **Safekeeping** (custody and record-keeping);
2. **Oversight functions;**
3. **Cash monitoring**, as some cash monitoring duties were already embedded in depositary duties in France, whereas it is viewed as unprecedented in many other EU jurisdictions.

We provide also proximity with national regulators in many markets. We conduct our operations under best market practices in line with **international standards**.

Furthermore, French depositaries can rely on their Association: **AFTI**. AFTI publishes **Depositary codes of good conduct, guides for external valuers and fund administrator best practices** (see below).

France is one of the largest European domiciles and servicing locations for UCITS and AIFs investment funds. In this respect, AFTI periodically evaluates the opportunity to provide best practices whose aim it is to focus on asset servicers and Asset Managers and on their needs and expectations towards the Asset Management industry and products.

AFTI guides reflect the general consensus of discussions with Asset Management professionals. These tools improve the transparency and demonstrate commitment to high standards of market practices.

AFTI publishes and regularly updates a wide range of standards and contract templates that allow Asset Managers to manage better their relationship with all other counterparties involved in the life of the funds (e.g. depositary, fund administrator, external valuator, transfer agent). Where relevant, this documentation is available in English.

Appointment of a single depositary

1. Code of good conduct of the depositary
2. Template for the mandatory written contract to be concluded between the depositary and the Asset Manager (being updated to incorporate the last developments for AIFs) – drafted jointly with AFG
3. Template for the mandatory contract for the exchange of information between the depositary of the master UCITS and the depositary of the feeder UCITS

Under process in the context of AIFMD implementation:

4. Guide to sound practices for the daily relationship between the depositary and the Asset Manager of real estate funds (drafted jointly with AFG and ASPIM)
5. Guide to sound practices for the daily relationship between the depositary and the Asset Manager of private equity funds (drafted jointly with AFIC)

Redemption and Subscription of UCITS

6. Charter of good professional practices for the treatment of UCITS subscription/redemption orders

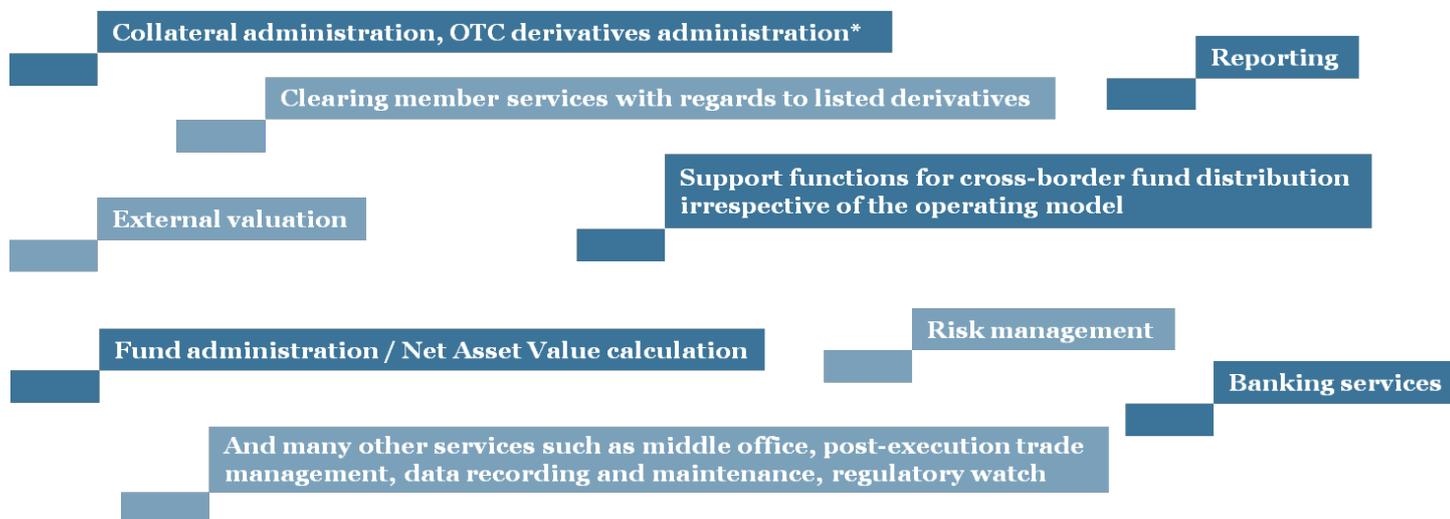
NAV calculation

7. Charter of good professional practices for Fund Administrators

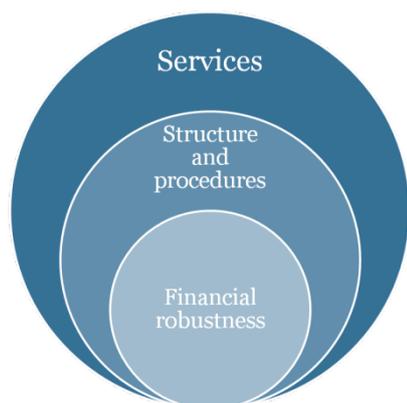
Independent valuation

8. Charter of good professional practices for External Valuers

Beyond our regulated role and duties, we offer additional, high-standard services to our clients



3. We are better than “light” depositaries



It is commonly acknowledged that **credit institution depositaries** can be viewed as a superior model. We are credit institutions; which ensures **financial robustness** and **resilience**.

Credit institutions may provide **one-stop shopping services**, over a **large geographic coverage**.

Credit institutions are well-organized and implement **robust policies, processes** and **tools**, and offer an **invaluable expertise**.

In this context, it is also worth noting that French credit institution depositaries offer **highly competitive pricing** as they have developed a **sound** and **lasting financial model**.

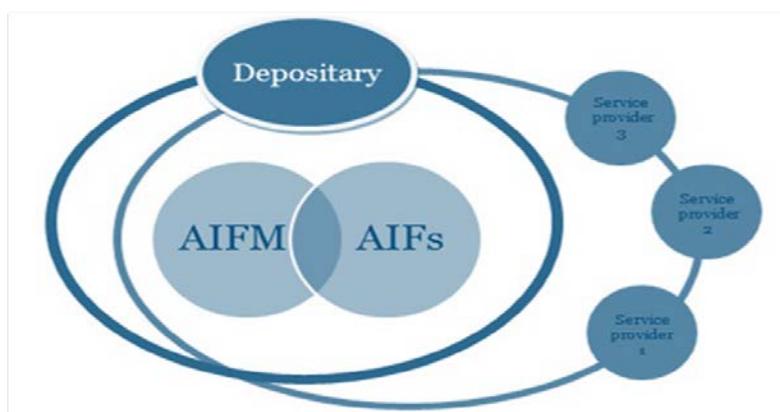
4. We may either replace other service providers or facilitate the functioning of the service providers

The Directive authorises a depositary to offer **additional services** (NAV calculation, independent valuation, prime brokerage, cash financing, etc.) to its core function, subject to the appropriate management of possible conflict of interests. In this context, the asset manager may select between various organizational models:



Scenario 1: bundled (one-stop shopping)

As most French depositaries are credit institutions; they may combine in the “one-stop shopping” model the three main required services: depositary; banking – including prime brokerage services; all other fund asset services. French depositaries have long been regulated in such a way that they are used to properly and satisfactorily manage potential conflicts of interest.



Scenario 2: unbundled (multi-providers)

Where the fund manager selects different fund service providers for the three functions, French depositaries have the required tools and skills to articulate the necessary interactions between the different service providers.

Whatever organisation asset managers opt for, we can facilitate the functioning of the set-up. We may either act as **highly competitive service providers**, or may be **complementary** and even **conduct the interactions** between the asset manager and all other service providers selected and appointed to service the fund assets.