

Hedge Fund ALERT

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REGULATORY ROUNDUP

Mifid 2 — EU

An update to the Markets in Financial Instruments Directive, known as Mifid 2, revises “capital-adequacy” requirements on investment managers, including hedge funds. Beginning in June 2021, fund managers registered to do business in E.U. member countries will have to place some of their holdings in liquid instruments to protect against the collapse of vehicles they’re marketing.

Under the current regime, many managers are required to set aside 50,000 euros (\$55,072) to protect against disorderly unwindings. The revised plan calls for managers to instead calculate their fixed costs, including salaries and rental expenses, and set aside one-quarter of that amount in cash or equivalents.

The change is expected to have a minimal impact on small shops. But managers with large staffs and pricey office space could pay significantly more.

“It certainly is something U.S. hedge fund managers that have European subsidiaries should be looking out for,” said **John Verwey**, a partner at law firm **Proskauer**.

The U.K. intends to implement the same rule post-Brexit. ❖



HEDGE FUND ALERT: January 29, 2020

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