

Press Release

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EDHEC-Risk Institute calls for greater attention to non-financial risks in the European fund management industry

A new study conducted by EDHEC-Risk Institute as part of the “Risk and Regulation in the European Fund Management Industry” research chair in partnership with CACEIS, entitled “**The European Fund Management Industry Needs a Better Grasp of Non-Financial Risks**,” looks at how non-financial risks and failures have impacted the regulatory agenda in Europe and traces the management of liquidity, counterparty, compliance, misinformation, and other non-financial risks in the fund industry.

By identifying the distribution of risks and responsibilities in the industry, the authors, Noël Amenc, Director, EDHEC-Risk Institute, and Samuel Sender, Applied Research Manager, EDHEC-Risk Institute, examine how convergence between country regulations could be achieved. They also assess how fund unit-holders can best be protected with appropriate regulations, improved risk management practices, and greater transparency.

The study includes a series of observations and recommendations:

- * The fund management industry as a whole has paid insufficient attention to non-financial risks and has failed to measure the operational consequences of financial innovation.
- * The UCITS directive itself fails to make adequate allowances for the operational consequences of financial innovation. Although investment funds have diversified internationally, made growing use of derivatives and other sophisticated strategies, and evolved in other ways, and although EU regulations and recommendations have recognised or even favoured these changes, they have failed to do studies on their impact and have failed to modify regulation accordingly.
- * The determination to harmonise the depositary liability regime that has not yet been fully transposed into regulation should not mask the need to manage non-financial risks throughout the fund management industry.
- * Strengthening of capital requirements and improvement of information should be linked to the evaluation of non-financial risks.
- * Improved governance and greater involvement of unit-holders would make it possible for fund management firms to improve the ways they take non-financial risks into account.
- * Better regulation should lead to improved methods of managing such non-financial risks as counterparty risk, liquidity risk, or sub-custody risk.
- * Homogenisation of country regulations and of supervisory cultures is necessary to prevent regulatory arbitrage.
- * UCITS not exposed to non-financial risks should be distinguished from more modern UCITS that have potentially greater exposure to these risks.

A copy of the study can be downloaded via the following link:

[EDHEC-Risk Publication European Fund Management Industry Non-Financial Risks](#)

This study was produced as part of the “Risk and Regulation in the European Fund Management Industry” research chair in partnership with CACEIS.



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About EDHEC-Risk Institute

EDHEC-Risk Institute is part of EDHEC Business School, one of Europe’s leading business schools and a member of the select group of academic institutions worldwide to have earned the triple crown of international accreditations (AACSB, EQUIS, Association of MBAs). Established in 2001, EDHEC-Risk Institute has become the premier European centre for financial research and its applications to the industry. In partnership with large financial institutions, its team of 56 permanent professors, engineers and support staff implements six research programmes and eleven research chairs focusing on asset allocation and risk management in the traditional and alternative investment universes. The results of the research programmes and chairs are disseminated through the three EDHEC-Risk Institute locations in London, Nice and Singapore.

EDHEC-Risk Institute validates the academic quality of its output through publications in leading scholarly journals, implements a multifaceted communications policy to inform investors and asset managers on state-of-the-art concepts and techniques, and forms business partnerships to launch innovative products. Its executive education arm helps professionals to upgrade their skills with advanced risk and investment management seminars and degree courses, including the EDHEC-Risk Institute PhD in Finance.

www.edhec-risk.com

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(Figures at 31 December 2010).

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