DISTRIBUTING INTO SWITZERLAND

LUIS PEDRO, OF OLIGO SWISS FUND SERVICES, DISCUSSES BEST PRACTICE FOR DISTRIBUTING FUNDS WITHIN SWITZERLAND, FINMA'S RECENT COOPERATION WITH HONG KONG'S SFC AND PREPARING FOR MIFID II

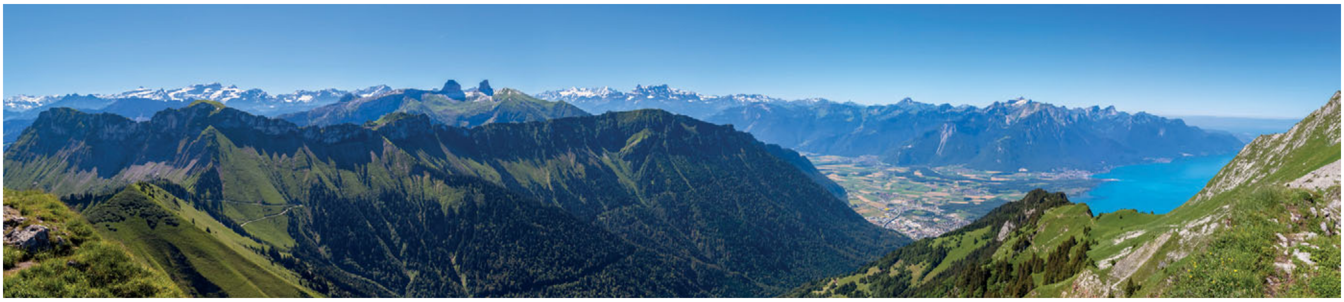
Luis Pedro has a solid experience in the analysis, selection process and due diligence of investment funds since 2007. He was the chief investment officer of a fund of hedge funds. He is the chief executive officer of Oligo Swiss Fund Services.

HFMWeek (HFM): What are currently the key best practice considerations for distributing Ucits funds in Switzerland?

Luis Pedro (LP): One of the key points when a fund manager distributes Ucits is to understand what type of investors they should be targeting. Since Switzerland is not a member of the European Union, more attention needs to be paid to exactly which investor types you will target. Are you just going to target the professional investors, or retail investors too? In Switzerland, different processes need to be carried out depending on who is being targeted.

If you target the professional investors, you need to appoint a Swiss representative and a Swiss paying agent (a Swiss bank), and then it's basically business as usual for a fund manager or a placement agent, provided they are only contacting this investor group. If you want to target a broader number of investors, the retail investors too, for instance, most of the time the private banks require the funds to be registered. It is necessary to go a bit further than that, too, and decide upon appointing a Swiss representative, a Swiss paying agent and to go through the registration process with the Swiss authorities (Finma) for registering the fund for public distribution. This means filing with Finma and requesting that the fund be authorised for public distribution in one of the Swiss official languages. Often this is especially important for managers managing Ucits funds from the US, Asia and the UK.

As I mentioned before, in requesting the retail licence for a fund, there is the further matter of needing to translate the documents into one of the Swiss official languages. This is usually not a problem for a French manager that already has all the fund documents in French, or for a German or Italian manager with the documents in their native language, but it may be time consuming and expensive for those with documents written in other languages, as there are many financial documents to consider at an early stage. At Oligo, we are keen on helping the fund managers to find the best professional translation service provider. We built our company and services around the managers' needs and it is our ultimate goal to



help them through all the processes in Switzerland with the best quality partners.

After these initial matters and the gathering of all the documentation have been dealt with, Finma have a fast track approval for authorising Ucits funds for public distribution in Switzerland. This implementation process usually takes about three weeks.

HFM: Has the scope of best practice broadened since the AIFMD?

LP: I think that, for us, the Ucits directive is more important than the AIFMD. I would say that what helped to give access to the broader public market is the fact that the Swiss authorities decided that a Ucits fund is equivalent to a system and sales fund for retail distribution.

Besides the three-week process, it is more or less a default that the Ucits fund will be accepted – and managers are reliant on the fact that the Ucits directive is very well defined and protects investors well.

HFM: Have any new best practice considerations arisen in light of the recent cooperation agreements between Finma and Hong Kong's SFC?

LP: The cooperation agreement brings up many different considerations. For the first time in history, after Finma accepted the Ucits, they did this agreement with the Hong Kong authorities, putting Hong Kong retail funds at more or less the same level as Ucits. This opens the door to Switzerland for Hong Kong managers managing retail funds, and, as we know, being in Asia you are closer to the Asian market. For the first time in Switzerland, you are going to be able to buy a retail fund and Ucits fund, but one managed by a Hong Kong manager and domiciled in Hong Kong.

The overall best practice considerations are effectively the same as with Ucits, but there are, for instance, limitations in the leverage that a Hong Kong manager can use on their funds. Below are some of the key limitations and requirements of Hong Kong funds:

A) Hong Kong funds must not:

- Invest in real estate, precious metals, precious metal certificates, commodity or commodity certificates;
- Short-sell securities, derivative financial instruments, units in collective investment and money market instruments; and
- Exceed a maximum borrowing limit of 10% of their total net asset value.

B) Other requirements include:

- In the case of funds of funds (FoF), the target fund in which the FoF invests must restrict investments in other funds to a maximum of 10%;
- The obligation to appoint a custodian qualified under Hong Kong's Banking Ordinance;
- The fund designation (i.e., its name) must not provide grounds for confusion and deception.

"AS WITH EVERYWHERE ELSE AROUND THE WORLD, MIFID II IS THE OBVIOUS BIG CHALLENGE AHEAD"

HFM: How are Oligo positioned to help active and passive service provides adhere to best practice?

LP: Let's take the example of a Ucits manager based in London. They have a Ucits fund which they want to open to the Swiss market. First, we would help them to understand what type of investors to target – qualified professional or retail – and we help them in either case to put in place all of the documentation, most importantly all the legal wording and disclaimers, along with all other mandatory requirements.

If the fund manager already has some conflicts with investors that require them to be authorised for public distribution, we also put in place all documentation to send to Finma, and organise the translation of the documents if necessary.

It is important that we help clients to provide all necessary documentation to be sent to Finma; we know that if they don't receive the 'full package', they will not even consider the fund in the first place; they are very strict.

Besides our guidance, we provide investors with an operations manual which lets them know what deadlines occur throughout the year, who needs to be contacted and what documents they need to provide at what time in the year.

At Oligo, we also organise cap-intro events every three months in Geneva and Zurich. This helps us to bring managers to present their funds in Switzerland, also allowing them to further develop their investor base, providing them the opportunity to reach out to a broader number of investors. We have been organising these very successful events over the last three years.

HFM: Moving forward, what are the biggest challenges facing funds services firms within Switzerland?

LP: As with everywhere else around the world, Mifid II is the obvious big challenge ahead. Switzerland is implementing a system which will more or less be equivalent to Mifid II. But is the EU going to accept it? Also the revision of the AIFMD will begin later this year – perhaps imposing more restrictions or at least more control around how distributions can be made. ■