

# The EC achieves the unthinkable: full-scale support for hedge funds



Hats off to the European Commission. At a stroke, its barmy draft directive appears to have achieved what most people in the hedge fund industry had long given up hope of seeing: vociferous and widespread support for their industry from virtually all significant opinion-forming quarters in the UK.

Years of struggling to make people understand even the simplest things about hedge funds, and to overcome the innumerable myths and prejudices that have grown up about the industry over time, seem to have gone in a flash.

All of a sudden this is a great British industry – employing many tens of thousands of people, generating billions of pounds in taxes, doing its best to protect the savings of ordinary people, being properly and well regulated (unlike the banks, for instance) and forming a vital part of a UK financial services industry that is perceived to be under attack from the likes of France and Germany.

Much of the credit for this sea-change in sentiment must go to AIMA, which is playing a blinder on behalf of the industry and has built a powerful and increasingly broad lobby against the directive in its current, absurd form.

But the real credit should go to the bureaucrats in Brussels themselves. If there is anything capable of uniting British opinion, it is opposition to anything emanating from the EU. Hedge fund managers may not be paragons of virtue to the man in the street, but they are knights in shining armour compared to EU lawmakers.

One can scarcely believe the change in tone. Out of the blue there are mainstream newspaper editorials trumpeting the value of hedge funds to London and the UK – and articles emphasising over and over the minimal role that hedge funds played in the crash.

The Mayor of London, the House of Lords, the Association of British Insurers, you name it: all have waded in, decrying a deliberate and half-cocked attack on the UK's vital financial services industry – and taking the opportunity to aim blows at a government

that is widely perceived to have been asleep at the switch and to have let down the City at a crucial time.

The government is certainly wide awake now. Treasury ministers and other government representatives, alarmed by this sense of anger and betrayal, have been stung into action – vowing to effect what Paul Myners describes as “major surgery” on the directive.

Welcome as all this is, the game is far from won. As AIMA has pointed out, there has been very little opinion voiced so far in non-UK European centres – or from investors, whose role is critical in deciding what kind of regulation is either necessary or beneficial.

It is good news that the EU presidency is now in the hands of Sweden – which has a thriving hedge fund and private equity

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industry, has experienced and successfully navigated its way through a major banking crisis before, and has a more rounded and informed view on these issues than other member governments.

So the signs are good that this directive will not become law without a major fight – although it remains to be seen what support the UK can muster for its views, given the serious weakening of its bargaining power in Brussels in recent years.

Of course, the key point is not that this directive would be bad for London – or the UK – alone. It is that it would be bad for Europe – for its investors and savers, first and foremost – and could lead to what Stanley Fink has described as “an international regulatory war”.

There is a long way to go in winning the battle of hearts and minds here – and those in support of the directive are taking an increasingly entrenched position too. This could yet go either way.

But one principal – and largely unexpected – effect of this ill-judged and ill-motivated act of political opportunism has been to awaken the opinion-formers and the public in the UK to the reality and value of what hedge funds are and what they do. And for that, if for nothing else, the EC deserves some thanks.

**Nick Evans, editor**

## EuroHedge

[www.eurohedge.com](http://www.eurohedge.com)

Email [info@hedgefundintelligence.com](mailto:info@hedgefundintelligence.com)

Telephone +44 (0) 20 7779 7330

Fax +44 (0) 20 7779 7331

Published by HedgeFund Intelligence, Nestor House, Playhouse Yard, London EC4V 5EX

For reprints, please contact Jamie Austin [jaustin@hedgefundintelligence.com](mailto:jaustin@hedgefundintelligence.com) +44 (0) 207 779 8041

**Editor** Nick Evans  
[nevans@hedgefundintelligence.com](mailto:nevans@hedgefundintelligence.com)

**Deputy editor** Amanda Cantrell  
[acantrell@hedgefundintelligence.com](mailto:acantrell@hedgefundintelligence.com)

**Editorial director** Neil Wilson  
[nwilson@hedgefundintelligence.com](mailto:nwilson@hedgefundintelligence.com)

**Contributors** Claire Makin, Robert Maharajh, Niki Natarajan, Damian Alexander, Gwyneth Roberts

**Data & research manager**  
Damian Alexander

**Data and research associate**  
Samantha Munday

**Production** Michael Hunt/Simon Clarke

**Circulation and accounts** Jan Brown

**Group publisher** John Willis  
[jwillis@hedgefundintelligence.com](mailto:jwillis@hedgefundintelligence.com)

**Managing director** John Orchard  
[jorchard@hedgefundintelligence.com](mailto:jorchard@hedgefundintelligence.com)

**Customer service**  
**UK/US** +44 (0) 20 7779 8610  
[customerservices@euromoneyplc.com](mailto:customerservices@euromoneyplc.com)

**Database and directory sales**  
**UK** Ian Sanderson  
[isanderson@hedgefundintelligence.com](mailto:isanderson@hedgefundintelligence.com)  
+44 (0) 20 7779 7339

**US** Gee Spiller  
[gspiller@hedgefundintelligence.com](mailto:gspiller@hedgefundintelligence.com)  
+1 212 224 3574

**Subscription sales**  
**UK** Jamie Austin  
[jaustin@hedgefundintelligence.com](mailto:jaustin@hedgefundintelligence.com)  
+44 (0) 20 7779 8041

**Asia** Robert Ball  
[rball@hedgefundintelligence.com](mailto:rball@hedgefundintelligence.com)  
+852 2842 6996

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