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Citi's Regulatory Mind Map for Asset Managers

Navigation Guide

Please find enclosed the latest edition of **Citi's Regulatory Mind Map designed for Asset Managers**. This is an updated version following its launch in November 2011. The map looks at regulatory reform through the lens of asset managers and covers on one single placemat key global, US and European initiatives including Basel III, FATCA, Dodd-Frank Act, Volcker Rule, EU legislation on Solvency II, EMIR, MiFID/R II, AIFMD, UCITS IV/V, Short Selling, MAD/R II and the Financial Transaction Tax.

The **graph at the centre describes the regulatory ecosystem** for the asset management industry. At the centre is the asset manager itself surrounded by **three key stakeholders**: 1) its investor clients to the left, 2) its service providers to the right and 3) the regulators above. The arrows summarise the individual relationships which are all influenced by regulatory reform.

The regulatory mind map unfolds as follows:

The **top left** shows the major US reforms: FATCA, the Dodd-Frank Act, Form PF, Volcker and CFTC Rules. The bottom left corner illustrates the global Basel III framework including a graph of the new capital thresholds and structure. It comprises also a reference to the EU CRD IV (banking) and Solvency II (insurance) as both have similar aims in terms of capitalization rules for different industry sectors. This box "connects" the US Dodd-Frank Act with the European EMIR rules, which in Europe implements the central clearing of OTC/ETD derivatives. This **bottom left** part of the map addresses aspects mostly relevant for **capital, clearing and collateral** – which are overall important for risk considerations vis-à-vis exposure to counterparties.

At the **bottom centre**, next to EMIR is MiFID/R II as on-exchange traded derivatives in Europe will be captured by the MiFID/R II reform and – if traded either over the counter or on-exchange – also by EMIR.

The European regulations continue to the **bottom and top right** of the map covering AIFMD, UCITS IV/V, Short Selling, Market Abuse (MAD/R II) and the Financial Transaction Tax (FTT). Some of the most relevant themes in this context are **disclosure, distribution and depositary** rules. For example new marketing rules will apply to all non-UCITS funds under AIFMD and structured UCITS funds will be captured as complex products under MiFID II impacting the sales process. The bottom right box on Short Selling, MAD/R II, FTT and its ancillary box on MiFID address aspects most relevant in the context of trading activities on the markets. In other words, this part of the map aims to reflect a spectrum of 1) types of investment funds (UCITS/non-UCITS on the right), 2) market behaviours and venues (three bottom right boxes, eg on or off-exchange, HFT) and 3) highlight new rules for specific types of instruments (eg commodity derivatives, sovereign CDS or cash equities). These are critical risk considerations for asset managers vis-à-vis their investors and markets. Within the ecosystem this impacts the relationship on the left side of the chart as the asset manager needs to ensure appropriate protection, information and transparency regarding how and what type of investment products it distributes to different investor segments.

The two reforms AIFMD and UCITS IV/V on **the top right of the map** highlight the introduction of stricter depositary liability for non-UCITS funds such as hedge funds, private equity, real estate and infrastructure funds. These liability rules will likely be adopted within the UCITS framework – hence the new AIFMD depositary requirements are summarized within the UCITS box to reflect the new approach going forward.

The map and a short video can be downloaded and printed as placemats designed for A3 format or A1 poster http://www.citigroup.com/icg/about_us/citi_regulatory_mind_map/index.jsp

Citi's regulatory mind map provides no more than a snapshot of some key aspects. It does not purport to be comprehensive or to provide legal or other advice, but is aimed at generating discussion with clients on regulatory change and we would be delighted to exchange views on these aspects with you.

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