

# Brexit could push up hedge fund costs

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***With one week to go until the UK referendum on membership of the EU, Hermann Beythan, partner at law firm Linklaters, is warning that Brexit could push up costs for hedge funds.***

“If the UK were to exit the EU, there will be an impediment for the export of fund services and products whilst the costs to operate and distribute fund shares would increase materially,” says Beythan.

One of the main issues is around ‘fund passporting’ – at the moment through a UCITS passport, UK funds can be sold directly to European investors.

“Under Brexit, a UK fund would have to rely on national private placement rules,” says Beythan. “Private placement rules are not EU harmonised and varies from rather permissive to very restrictive.

“Alternatively, in order to keep the UCITS passport, the UCITS would need to be domiciled in the EU and then need to have an EU management company and local depository. But either option could prove difficult, especially given the costs. Cross-border UCITS mergers would not anymore be possible, requiring decision making prior to the UK’s exit coming into effect.”

As Beythan points out, there are also questions for UCITS funds based in Luxembourg and elsewhere in Europe. Investments in UK funds (who have ceased to be UCITS) would fall within the 30 per cent limitation whilst UK funds could not be the master funds of EU UCITS.

“Although the majority of asset managers and funds are currently weighing up how they might cope with a Brexit, it’s tricky to fully prepare as there could be a multitude of scenarios,” he says.