

**New City  
Initiative**

# **Supporting Innovation and Entrepreneurialism in Asset Management**

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A Framework for Regulatory Incubation

# About the New City Initiative

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NCI is a think tank that offers an independent, expert voice in the debate over the future of asset management.

Founded in 2010, NCI counts amongst its members some of the leading independent asset management firms in the City and the continent. The NCI gives a voice to independent, owner-managed firms that are entirely focused on and aligned with the interests of their clients and investors.

Over the last decade, a traditional “client-centric” approach has enabled entrepreneurial, owner-managed firms to emerge as an important force in a financial industry dominated by global financial giants. Now, more so than ever, these firms play a key role in preserving the stability and long-term focus of the financial sector, which is of benefit to society at large.

## About the Author

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### Jonathon Read

Jonathon Read acts as Policy Director to the NCI. He is an experienced financial services professional, who has run businesses at major financial institutions in London and New York. He has held elected local office as a councillor in the Royal Borough of Kensington and Chelsea, where he was Lead Member for Finance, Lead Member for Family & Children’s Services, and chaired the Investment Committee that oversees the borough’s pension assets (approximately \$1 Billion AUM). He is founder and chairman of Your Credit Union, a mutually-owned financial services company for West Central London, and founder of Triborough Opportunities, a charity that encourages public financial literacy and promotes sustainable financial inclusion.

Jonathon is a Professor of Finance at Luxembourg School of Business, and teaches on the Masters in Finance program at London Business School. He has taught as a Fellow at Cambridge Judge Business School, leading courses at the MBA, MFin and MPhil levels, and as an Adjunct Professor at Columbia Business School in New York, where he has taught on the MBA and EMBA courses and supervised several research projects. Jonathon holds a Ph.D. from the University of Cambridge. He is a Chartered Financial Analyst® charterholder, holds the Certified Financial Planner™ and Professional Risk Manager certifications, and is a Chartered Financial Planner, Chartered Wealth Manager, Associate of the Chartered Insurance Institute and a Fellow of the Personal Finance Society.

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# Foreword

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New City Initiative (NCI) provides a collective voice for boutique asset managers, from the UK and the Continent, which share a strong common culture focused on alignment of interest with customers. NCI's core values are independence, alignment of interest, transparency and responsibility. To that list I would add a fifth, which is competition. In order for the industry to continue to innovate and develop new products and solutions, and improved ways to deliver them to customers, there must be healthy competition and choice.

Since the financial crisis, the regulatory and capital burdens on asset managers have grown enormously, resulting in a much tougher hurdle for start-ups to overcome. Many of our own members, now successful, established firms, have said they could not start today as they had done ten or twenty years ago. That is a terrible indictment on the industry and should be a worry for the customers it serves.

The FCA's Project Innovate and the joint FCA/PRA New Bank Start-up Unit have addressed similar issues for FinTech and challenger banks respectively, but as yet there is nothing similar in place for asset management. This paper proposes a framework for incubation of asset management, which NCI sees as a natural extension of existing initiatives. In fact, one of the proposals is that there is an approved suite of platform solutions provided by FinTech firms within Project Innovate which can then be used, or tested, by the incubating managers. Our proposal centres around three pillars: 1) supporting innovation, 2) provision of advice and 3) a regulatory sandbox.

Within the third pillar, we argue for a lighter touch regulatory regime until the manager or product reaches scale. In reality, new managers start with the backing of sophisticated institutions which do not require the same regulatory protection as a retail investor and the sandbox environment should apply proportionality. To give an example, it seems unnecessary for a start-up firm managing £50m of listed UK equities to report transactions which can be reported by stock exchanges or counterparties. A manager that is small presents no systemic risk and the trades are immaterial in comparison to the broader market.

The FCA has indicated it is considering this extension of their existing work, and NCI encourages them to proceed and welcomes the opportunity to discuss this proposal.

## **Jamie Carter**

Chairman, New City Initiative

Chief Executive, Oldfield Partners

# Executive Summary

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NCI explores the extension of regulatory incubation, flexibility and support, which has allowed the development of new financial technology and banking products, to the asset management sector. The UK has led the field in this space, developing: the Financial Conduct Authority's (FCA's) Project Innovate to encourage financial innovation; and, the New Bank Start-up Unit to promote challenger banks, jointly developed by the FCA and Prudential Regulation Authority (PRA). These initiatives have been emulated by various jurisdictions globally, wishing to encourage establishment of perceived high-value and rapid-growth businesses to obtain a national competitive advantage. Whilst nascent financial technology, payment services, banking and even insurance start-ups are being so incubated, such initiatives have not been extended to the successful and strategically important boutique asset management sector. NCI calls for an extension of the themes of Project Innovate – an innovation hub; an advice unit; and, a regulatory sandbox – to be extended to the asset management industry, promoting entrepreneurialism, consumer choice and innovation to this successful and important sector of the UK financial services economy.

## Introduction

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New City Initiative (NCI) has over fifty members collectively managing around £500 billion of assets. Predominantly owner-managed, NCI's members align their interests with their clients' in a transparent manner and, more broadly, seek to encourage competition, innovation and consumer choice within the UK asset management industry.

Yet, notwithstanding such success, NCI's members recall their own foundations, in many cases a decade or so ago, and reflect on the increased regulatory and capital burdens that affect start-up asset managers in this nascent stage. In a recent survey of members, the disproportionate effect of the fixed cost of regulatory compliance on smaller firms was highlighted, with specific commentary focussed on MiFID II and AIFMD.<sup>1</sup> The corollary is a requirement for higher initial assets to support fixed costs of compliance, dissuading the establishment of new asset management firms and stifling innovation, competition and consumer choice.

NCI supports regulation that is proportionate, well-directed, avoids unintended consequences and serves the best interests of clients by aligning interests and promoting innovation, choice and entrepreneurialism. A natural extension to this is that regulation take account, above minimum threshold levels, of the stage of development of the firm: a child is not held to the same standards as an adult, but transitions to those standards as he or she becomes able. This reality has been reflected by various national regulators, led by such initiatives as the FCA's Project Innovate and joint FCA/PRA New Bank Start-up Unit.<sup>2</sup> The asset management industry has not directly been included in these initiatives: in this paper, NCI argues that such an extension is necessary, sensible and equitable.

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1 Directive 2014/65/EU of The European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments and amending Directive 2002/92/EC and Directive 2011/61/EU Recast ("MiFID II") OJ L 173; Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 ("AIFMD") OJ L 174.

2 Financial Conduct Authority, Project Innovate: Call for Input, Feedback Statement (FS 14/2) (2014); HM Treasury, A Better Deal: Boosting Competition to Bring Down Bills for Families and Firms (CM 9164) (2015).

# Challenges to Asset Management Start-ups

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Smaller asset managers face considerable pressures in the current regulatory and business environment. Whilst the need for asset management has increased based upon such factors as enhanced longevity, extending the timespan for returns from patient capital, enhanced scale, competition and product development has led to inexorable downward pressure on fees, a trend encouraged by regulators.<sup>3</sup>

At the same time, expenses have increased for asset management firms, especially costs fixed or variable in a discrete and step-wise manner. Regulatory and compliance costs have steadily increased, requiring increased headcount in these areas and an initial compliance officer and supplemental consultant even at the start-up phase. NCI members have highlighted the effect of AIFMD and MiFID II and noted that the 2018 implementation date for MiFID II is close to that for the GDPR, further increasing costs.<sup>4</sup> A supplemental theme identified is the rapidly changing regulatory environment: lack of regulatory stability requires redundancy in staffing or contingent outsourcing with a retainer. For a start-up firm, many of these costs would need to be carried for a considerable period before launch, requiring substantial injection of capital by a founder, and the ongoing costs require an initial fund size of several hundred million pounds: this cannot but dissuade new firm foundation and a commensurate reduction in consumer choice.

These trends have been recognized by regulators when it comes to banks, insurers and financial technology companies that fall within the regulated environment, for example payment services companies and other similar disrupters. The solution adopted has been relaxation of the regulatory environment during the start-up phase upon formal application and approval by the regulator: an incubation during the gestation phase of the business so as to allow it to adapt to the burdens of the full regulatory environment.

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<sup>3</sup> Financial Conduct Authority, Asset Management Market Study: Interim Report (MS 15/2.2) (2016).

<sup>4</sup> Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the Protection of Natural Persons with Regard to the Processing of Personal Data and on the Free Movement of such Data, and repealing Directive 95/46/EC (General Data Protection Regulation. "GDPR") OJ L 119.

# Regulatory Incubation: An Overview

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The idea of regulatory incubation was developed by the UK regulators, encouraged and catalysed by the UK government's focus on open markets, engaging consumers, reducing regulation and fostering innovation.<sup>5</sup> The idea has more recently been adopted by various global jurisdictions: Singapore, Hong Kong, Australia and others.

Since 2014, the FCA has developed "Project Innovate" consisting of three key heads:

- An "Innovation Hub" to allow new and established businesses to be able to introduce innovative financial products and services to market;
- An "Advice Unit" that provides regulatory feedback to firms; and
- A "Regulatory Sandbox" that is a 'safe space' where businesses can test innovative products, services, business models and delivery mechanisms.

## UK FCA's Project Innovate

Since 2014, the Financial Conduct Authority has developed its framework for innovation:

*"As long as firms are developing innovative products, services and solutions that offer better outcomes for consumers, we're open for business"*

(Executive Director of Strategy and Competition at the FCA; Speech at Innovate Global Finance: April 2017)

Firms must apply and be accepted by the FCA. Eighteen firms were accepted in cohort 1 of the regulatory sandbox; applications for cohort 2 closed in May 2017; applications for cohort 3 open in June 2017 and will close in July 2017. Acceptance is based upon fulfilling various criteria: the proposed activity must be in scope, intended for the UK market and regulated by the FCA; the proposal must be innovative and offer something different to the marketplace; there must be benefit to consumers, either directly or through enhanced competition; there must be a genuine need for use of the regulatory sandbox, which may include the burden of cost; and, the firm must be ready to test its product within the regulatory sandbox.

The principle is that firms accepted into the program receive support and advice but also benefit from a proportionate initial regulatory regime that allows them to develop without the full burden of regulation but maintains consumer safety. The heavy fixed costs of regulation and compliance, which are an impediment to start-up, are mitigated in this initial phase. As the business grows, demonstrates viability and becomes more able to adopt the burden of the full regulatory regime, it transitions to the full-scope regulatory environment.

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5 HM Treasury

# Regulatory Incubation: Asset Management

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NCI's position is that opening the framework established in Project Innovate is a natural extension that offers advantages to both managers and their clients by promoting innovation. Moreover, such a project extension can assist both regulator and the UK economy since it recognizes various extant themes: a convergence between different financial services; enhanced and sustained entrepreneurialism prompted by technological change; and, increased early dialogue between regulators and initially developing businesses.

Such an environment would allow managers with well-formulated ideas with a definite path to implementation access to the same opportunities as those in financial technology, payments or other disruptive industries. Not only start-ups, but established managers who wished to segregate new subsidiary business or test new ways of organizing their business processes could do so in a manner that increases the chance of success whilst ensuring clear dialogue and regulatory overview.

The advantages to asset managers are multiple:

- Impartial consultations and enhanced dialogue with regulators are augmented by the advice and innovation pillars of the regime: bilateral communications improve the chance of successful launch and provide for a natural transition into the full regulatory environment.
- Initial reduced regulatory burden allows nascent asset managers to start their businesses with lower fixed cost overhead, try out new business lines whilst maintaining cost control and, crucially, build track record at much reduced cost, opening their businesses to new clients and natural scalability.
- Clients can be assured of proportionate regulatory oversight whilst benefiting from the ultimately increased consumer choice and enhanced competition that comes from successful experimentation and business viability.
- The extension of this regulatory incubation framework to the asset management industry naturally enhances the UK's attractiveness to inward investment and as a base of operations after Brexit: it does so whilst simultaneously supporting and encouraging innovation within the UK asset management industry.



# Regulatory Incubation: Success in Other Sectors and Jurisdictions

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## Other Sectors

The benefits of such regulatory incubation have currently accrued to two core areas: financial technology; and, challenger banks. Cohort 1 of the FCA's regulatory sandbox consisted of eighteen firms from twenty-four deemed to meet the eligibility criteria and sixty-nine applicants. The diversity of the cohort is substantial: from banking behemoths such as Lloyds and HSBC to recent graduates from start-up boot camps such as Tradle.<sup>6</sup> Cohort 2 is not yet announced, yet seventy-seven firms applied, indicating the continued appeal of the regulatory incubation framework.

### UK's New Bank Start-up Unit

In 2016, the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) jointly launched the New Bank Start-up Unit:

*"These new banks are a key part of bringing innovation to the sector...with the launch of the New Bank Start-up Unit, applicants will now benefit from having a single place where they can get the advice and guidance they need to start a new bank and support once they are authorised"*

(Andrew Bailey, CEO, PRA: January 2016)

*"Increasing competition...is important for consumers and the new Unit will offer firms an accessible way to find the information they need to get themselves authorised"*

(Tracey McDermott, Acting CEO, FCA: January 2016)

The diversity of applicants supports the NCI's position that a similar regime should be extended to the asset management sector: established asset managers could, like Lloyds or HSBC, try new ways of doing business isolated from their core operations; start-up managers could nimbly leverage the sandbox environment to grow scale and show viability, similar to the start-up disrupters in the FCA's initial cohort.

An alternative area of regulatory incubation, differently structured, is the New Bank Start-up Unit run jointly by the PRA and FCA to support the foundation of new banks in the UK. Rather than a regulatory sandbox, which would not fit within the regulatory constraints required for a leveraged deposit-taking institution, this initiative concentrates on advice, support and commitment to various timelines for response and decision. This framework is more broadly grounded in a governmental desire to encourage competition, promote open markets, engage with consumers, reduce regulation and foster innovation. If such initiatives can work in the highly-regulated and politically sensitive world of banking, extension of regulatory incubation to the asset management sector should succeed.

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6 'Regulatory Sandbox' (Financial Conduct Authority, 21 April 2017) <<https://www.fca.org.uk/firms/innovate-innovation-hub/regulatory-sandbox>> accessed 20 May 2017

## Other Jurisdictions

Following the UK's lead, other jurisdictions have emulated or expanded upon the framework designed and implemented by the FCA. Singapore offers a clear vision, and competitor to the UK, in this regard with its plans for a Smart Financial Centre where technology drives efficiency, creates opportunities and enhances risk management in financial services. Within this framework and vision, the Monetary Authority of Singapore (MAS) has established a regulatory sandbox: by way of example, it contains an insurance broker and financial advisor within its active cohort, indicating again the diversity of business that can be accommodated within this framework; the opportunities post-Brexit may open up yet more.<sup>7</sup>

Singapore is not the only foreign jurisdiction to have seized upon the FCA's and PRA's framework. Australia offers a more flexible "industry-wide regulatory sandbox exemption" by opt-in rather than application for firms that satisfy certain constraints including having an approved sponsor.<sup>8</sup> Malaysia's proposals are framed in similar terms to the UK and Singapore, save that the sandbox participation may extend for only twelve months rather than the notionally unlimited period in the UK (although FCA guidance indicates that between three and six months is an appropriate expectation for most initiatives).<sup>9</sup> Hong Kong's regime specifies no maximum time limit for participation, although only authorized institutions may participate.<sup>10</sup>

The Asia-Pacific region is not alone: Gulf states such as Dubai and Abu Dhabi, various US States and EU jurisdictions such as Luxembourg have implemented, or indicated an intention to implement, similar regulatory incubation structures. The demand and variation within different schemes shows the persistence and longevity of the concept and the potential for such schemes to drive competitive advantage for the hosting jurisdiction. Given that the UK's framework has been so successfully copied, NCI's position is that the planned extension of the UK's regulatory incubation framework should include an expansion to the asset management industry, ensuring that the UK remains a world-leader not just in financial regulation but in pragmatically supporting all elements of its successful financial services sector.

### Singapore's Smart Financial Centre

In 2016, the Monetary Authority of Singapore (MAS) launched its plans for a Smart Financial Centre:

*"MAS believes that a regulatory sandbox approach... can be used to carve out a safe and conducive space to experiment... where the consequences of failure can be contained... an environment where if an experiment fails, its impact on consumers and on financial stability will be limited."*

(MAS Consultation Paper P005-2016)

7 Monetary Authority of Singapore, 'MAS FinTech Regulatory Sandbox' (2017) <<http://www.mas.gov.sg/Singapore-Financial-Centre/Smart-Financial-Centre/FinTech-Regulatory-Sandbox.aspx>> accessed 20 May 2017.

8 Australian Securities & Investments Commission, Innovation Hub: Regulatory Sandbox Proposal (16-129 MR) (2016).

9 Bank Negara Malaysia, Regulatory Sandbox Discussion Paper (BNM/RH/DP 030-1) (2016).

10 Hong Kong Monetary Authority, Fintech Supervisory Sandbox (2016).

# Regulatory Incubation: Asset Management Manifesto

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NCI has polled its members and their advisors on the core themes that should be included in any extension of the UK's financial incubation regime to boutique asset managers. The responses fall naturally into the framework established by Project Innovate: support of innovation and solutions; provision of effective and targeted advice and improved processes; and, regulatory pragmatism for start-up firms or new projects within a regulatory sandbox environment. NCI has collated these specific points, and their rationales, within its Framework Proposal for Regulatory Incubation of Boutique Asset Management that is annexed to this paper.

## Regulatory Incubation: Asset Management Challenges

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Extension of a financial incubation environment to the asset management sector would require evolution: no subsector of financial services is exactly alike and mimicking the framework used for financial technology or banking is unlikely to be optimal. Yet, the framework can be readily adapted and the jurisdictional diversity now present shows that this can be done successfully to respond to market needs.

In order to appeal to asset managers, and work in promoting competition, the regulatory sandbox element of any regulatory incubation for asset management must be extended in time. Ideally, this would correspond to the period over which track record is built, say three years, with early exit upon growth in assets under management beyond a pre-announced threshold or being of systemic importance. The transition from the regulatory incubation to the standard regime must also be carefully thought out so as to avoid a step-change in burden that, contrary to genuine intent, increases the risk of failure at this important stage. Finally, the themes of convergence and disruption must be considered in any framework so that the longer-term evolution of asset management, and financial services, can be incorporated into a dynamic framework that promotes the industry, acts in the best interests of clients and sustains the economy of the host jurisdiction.

The FCA has already announced an extension of Project Innovate.<sup>11</sup> The advice element is to be extended to mortgage, general insurance and debt sectors as well as those who provide guidance rather than regulated advice: extension to asset managers seems a natural corollary step. Internationalisation and co-operation between different regulators on financial incubation, planned or already underway, naturally synergizes with the global reach and multiple offices of many boutique asset managers. What NCI proposes is evolution, not revolution: extension of existing regulatory incubation frameworks to asset management so as to ensure that the totality of the UK's financial services sector benefit from these successful and exciting initiatives.

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11 'Regulatory Sandbox'

# Conclusion

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The asset management industry has much in common with other pillars of the UK's financial services sector: banking, insurance and the nascent financial technology industry and other disruptive industries. Yet, unlike them, it has not benefited from a focused regulatory incubation environment. The FCA's recent statement, in April 2017, that it plans to continue the evolution of Project Innovate offers the ideal time for nascent asset managers to be encompassed within these initiatives, promoting innovation, consumer choice and a strengthening of the UK's financial services industry. NCI invites the FCA and other regulators to engage with it and make this opportunity a reality.

# Appendix

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## Framework Proposal for Regulatory Incubation of Asset Management

To supplement its policy paper entitled Supporting Innovation and Entrepreneurialism in Asset Management: A Framework for Regulatory Incubation NCI has synthesized and collated responses from its members and their advisors to facilitate specific discussion and implementation of the themes within the policy paper. This framework proposal, which is not intended to be exhaustive, will be developed and evolve based upon continued dialogue and discussion with the various stakeholders.

### Pillar 1: Support of Innovation and Solutions

A consistent and joined-up approach that recognizes the diverse and convergent nature of financial services as applied to boutique asset management

- **Foundational Consistency:** Disruptive firms that already fit within the regulatory incubation environment should be approved as a foundation for start-up managers in implementing middle-office and back-office functions. For example:
  - An approved suite of platform solutions could be pre-admitted for activities such as transaction reporting, allowing the start-up asset manager to leverage off the FCA's prior work in the regulatory incubation space; or
  - Incubation firms or other collective solutions could be admitted into the regulatory incubation framework, allowing the cost-effective participation of start-up boutique asset managers.
- **Rebuttable Precedent:** Prior business models that have been admitted into any regulatory incubation environment and are successfully being implemented or have exited the incubation framework should have a precedent status that creates a presumption in favour of acceptance of a materially similar model. Such a presumption may be rebutted by the regulator but would allow cost-effective planning by start-up managers with a reasonable assurance of acceptance into a regulatory incubation programme.

### Pillar 2: Provision of Advice and Improved Process

A commitment to improved efficiency and process with dedicated advice and a nominated case manager for all applications to allow a single point of contact and ownership of responsibility

- **Pre-application Advice:** Specialist advice, tailored to start-up boutique asset managers and aware of their unique requirements, should be available from the regulators. This would allow cost-effective engagement by start-up managers in a manner that likely promotes effective and efficient compliance with application requirements.

- **Specified Point of Contact:** A specified regulatory case officer for each applicant boutique asset manager should be appointed, offering a single point of contact from pre-application through to acceptance into a regulatory incubation environment. As the business develops, and ultimately exits the incubation environment, there should be a planned and announced transition between case officers such that the firm is always appropriately monitored and supported with a single point of contact.
- **Predictable Process:** A streamlined registration and approval process should be implemented with publicly stated time targets for response to each stage of application. Such commitments by the PRA and FCA in the banking sector have led to a step-change in the launch of new challenger banks as applicants can plan and budget accordingly, providing measured guidance to their funders and staff through explicit stages: pre-application; assessment; authorisation with restriction; mobilisation; and, authorisation. Extension of this concept to the asset management sector would likely lead to similar development of the asset management ecosystem.

### **Pillar 3: Regulatory Pragmatism within a Sandbox Environment**

A proportionate and risk-based incubation environment for start-up asset managers that recognizes their unique needs and business structures whilst building on the foundational elements in place for other components of the financial services industry

- **Targeted Solutions:** An extension of the regulatory incubation environment to the asset management industry should be grounded in a deep and broad understanding of the unique business models and needs of this sector, developed and maintained by two-way dialogue. This should include recognition that an asset manager must build audited track record in a cost-proportionate manner to allow engagement with investors and service providers: any incubation environment should be built around this core observation.
- **Risk-based Approach:** Whilst within the incubation environment, a risk-based approach to various regulatory elements can lead to benefits for both start-up managers and regulators by ensuring proportionate and pragmatic application of regulation:
  - **Capital Requirements:** Firms that do not hold client money must, on NCI's submission, be of lower risk and should be subject to reduced, albeit well-monitored, minimum capital requirements. This would reduce the regulatory capital burden that disproportionately affects firms with lesser assets under management, a class in which nascent firms will be acutely represented.
  - **Recognition of Structural Mitigants:** Business model elections that mitigate risk should be explicitly recognized and rewarded. For example, the use of an Authorized Corporate Director (ACD) should reduce various operational risks.

- **Recognition of Client Nature:** Professional and institutional investors have a higher capacity to research, understand and manage start-up risk. Nascent asset managers who target such investors – given the lack of brand recognition at start-up these are overwhelmingly likely to be the seed allocators – should have this client-side risk mitigation recognized within the incubation environment.
- **Proportionate Application of Regulatory Burdens:** Nascent firms have unique needs and constraints connected with their limited capital, unbuilt track-record and need to recruit and retain staff and reward founders. A proportionate application of regulation is required, such as:
  - **Remuneration Policy:** Attraction, retention and risk-appropriate motivation of firm participants requires a different policy on start-up than that applicable for a mature firm. Such requirements are exacerbated by investors from certain jurisdictions who wish to see a strong alignment between manager performance and reward: allocators from the US and Canada are especially focussed on such alignment. Thus, remuneration policies within the incubation environment should be more adaptable, with some flexibility as to deferral and requirement to pay in fund units.
  - **Ability to Pre-Market:** The delay between foundation and approval is an especially onerous burden for nascent asset managers since start-up and ongoing costs are not offset by any assets within this phase, which may last several months. The ability to pre-market within an incubation environment, especially if the prospects are professional or institutional investors with the sophistication to understand risk, should be one cornerstone of any new regime.
  - **Transaction Reporting:** Such requirements are particularly costly for a start-up firm since they require upfront investment in a trade booking and reporting system that may be otherwise disproportionately complex for the stage of firm development. Counterparties and exchanges already report trades and hence some flexibility within an incubation environment could, in NCI's submission, be achieved whilst maintaining the core rationale for such regulation.
  - **Research Costs:** The proposed MiFID II research rules, and similar regulation, have a disproportionate effect on smaller managers and, yet more acutely, on start-up firms. A pragmatic flexibility in application, developed in concert with trade bodies and evolving to full compliance at the point of exit, should be a component of any financial regulation incubation environment.
- **Multi-Jurisdictional Acceptance:** Given the multi-national nature of many asset management businesses, regulators should ensure that, to the fullest extent possible, the financial incubatory regime and its participants are reciprocally recognized by various third-party jurisdictions.

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# New City Initiative Members

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