

ICI VIEWPOINTS

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A New Benchmark for Distribution Oversight

On June 1, the fund industry achieved a milestone for global cooperation. In an [industry-led agreement](#), fund distributors and fund managers of Undertakings for the Collective Investment in Transferable Securities (UCITS) and alternative investment funds (AIFs) joined together to issue a common protocol for distribution oversight.

The Challenge

In recent years, regulators have enhanced their oversight of third-party services, including fund distribution channels, through MiFID II product governance and target market provisions. National regulators have increased their supervision practices, as seen in recent circulars from the Central Bank of Ireland and the Luxembourg financial regulator (CSSF).

To carry out their oversight obligations, fund managers used varying approaches when onboarding new distributors and reviewing their activities on an ongoing basis. As a result, distributors received multiple, often conflicting, due diligence questionnaires (DDQs) and requests for information to satisfy regulatory requirements. Faced with an unmanageable volume of requests for answers to different sets of questions, distributors frequently supplied standard responses, which often fell well short of meeting the needs of funds.

The Solution: A Balanced Industry Approach

In recognition of this issue, ICI Global formed an industry working group in March 2019 tasked with developing a single due diligence questionnaire. This working group succeeded—where others had fallen short—because of its unique structure. Formed to ensure true participation from all sides of the industry, the group included representatives from financial intermediaries (distributors and platforms), many fund companies, and representatives from prominent fund trade bodies in the European Union.* Moreover, the working group adopted a cochair structure to reflect a balanced representation between fund distributors and fund managers, with Allfunds representing the distribution side and Wellington Management the fund side.

After much deliberation on varying distribution practices, the working group successfully issued [a uniform due diligence questionnaire](#). This questionnaire is now publicly available to any fund manager or distributor and serves as standard for UCITS and AIFs in performing both onboarding and ongoing oversight of distribution channels.

Benefits for All

The DDQ offers many benefits to funds, distributors, and investors. For distributors, it is a

valuable and efficient tool, as the uniform questionnaire can be completed annually and made available to all fund clients, contributing significant cost and time savings. For fund companies, the uniform questionnaire satisfies their oversight regulatory requirement and ensures a uniform flow of due diligence information across all their distribution partners. Ultimately, fund shareholders reap the greatest benefits of more efficient and effective fund distribution oversight.

DDQ: The Work Continues

Wide market adoption is key to the success of this project. To help foster this, the industry working group will convene regularly to monitor the implementation of the DDQ and will conduct annual reviews as needed to account for any changes in the market or the regulatory framework.

The due diligence questionnaire is also available on [EFAMA's website](#).

*These groups included the European Fund and Asset Management Association (EFAMA), the Association of the Luxembourg Fund Industry (ALFI), the Irish Funds Association, the Investment Association (IA), the French Asset Management Association (AFG), and the Italian investment management association (ASSOGESTIONI).

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