



**COUNCIL OF
THE EUROPEAN UNION**



Council Conclusions on Hedge Funds

*2798th ECONOMIC and FINANCIAL AFFAIRS Council meeting
Brussels, 8 May 2007*

The Council adopted the following conclusions:

"The Council:

- EMPHASISES the importance it attaches to an integrated, dynamic and competitive financial marketplace in supporting growth and job creation through proper allocation of capital, including via hedge funds, and financial stability;
- ACKNOWLEDGES that hedge funds have contributed significantly to fostering the efficiency of the financial system, but also STRESSES the potential systemic and operational risks associated with their activities,
- NOTES that the so-called 'indirect supervision' approach, through close supervisory monitoring of credit institutions' exposures to hedge funds and progress in upgrading their internal risk management systems, has so far enhanced resilience to systemic shocks; and RECALLS the need for creditors, investors and authorities to remain vigilant and to adequately assess the potential risks that hedge funds present. In this context creditors and investors should also examine whether the current level of transparency of hedge funds' activities is appropriate. In the exercise of their 'indirect supervision', relevant supervisory authorities should monitor developments and cooperate among themselves;

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- STRESSES the need for a better understanding of hedge funds characteristics for proper monitoring of the financial stability impact of hedge funds' activities, and therefore ENCOURAGES all relevant institutions to develop and apply an analytical and evidence-based approach in this area;
 - NOTES that concerns have been expressed regarding increased retail distribution of hedge fund products in some Member States and RECOGNISES the need to ensure adequate investor protection;
 - INVITES therefore the Commission to take all relevant regulatory and market developments into account, in assessing the case for and against providing a Single Market framework for the retail-oriented non-harmonised fund industry, which might include some funds of hedge funds; and LOOKS FORWARD to the Commission's report thereon."
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