

Real estate investment management - the impact of regulation

Presentation to the Private Equity Real Estate Forum

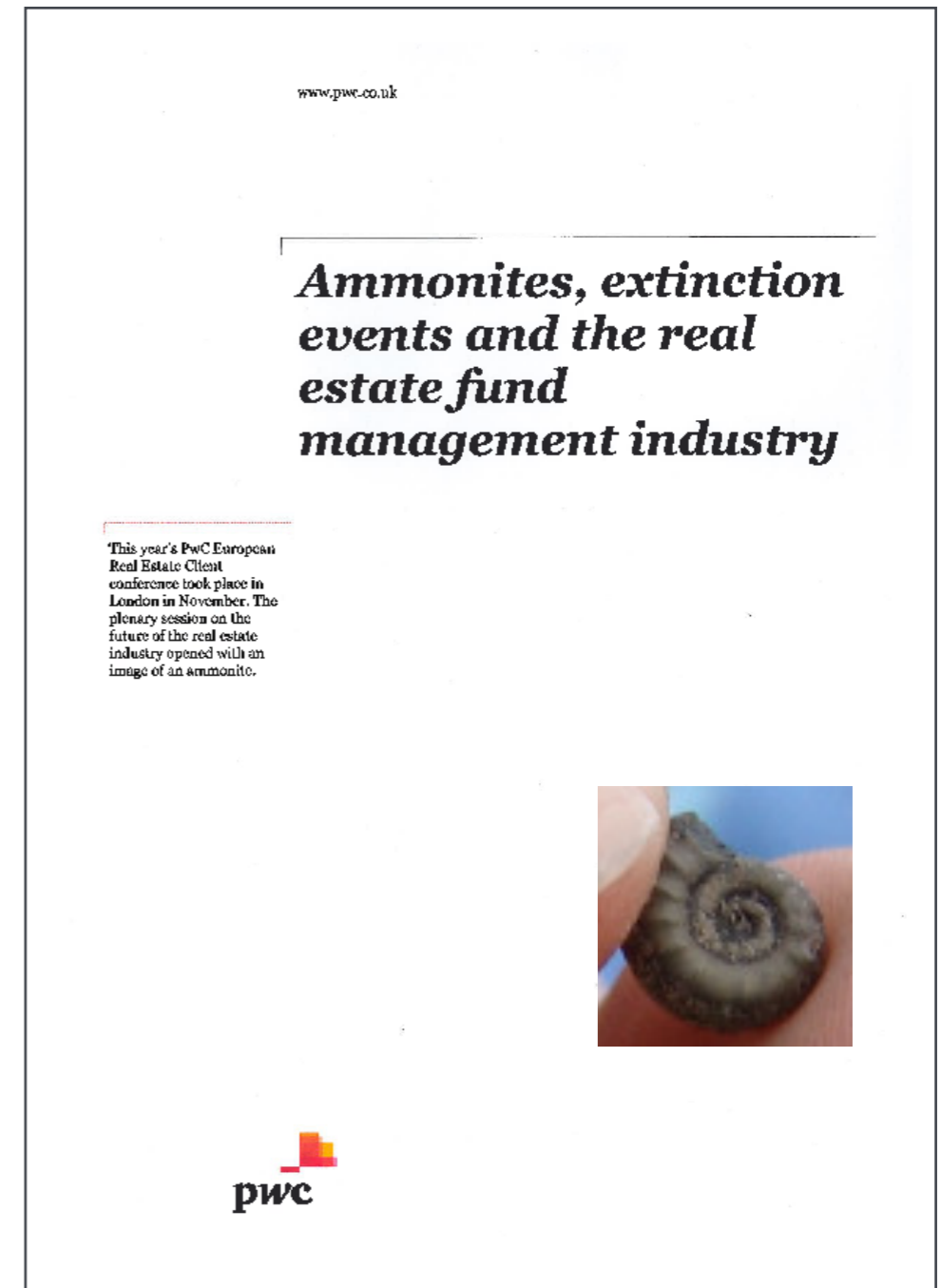
20th February 2014



Ammonites, extinction events and the real estate fund management industry

This was a report looking at the regulatory and other pressures expected to be a driver for consolidation in the real estate investment management industry. The paper was written in the Autumn of 2010 and was updated in the Autumn of 2012.

<http://www.johnforbesconsulting.co.uk/ammonites>



The view in Autumn 2010 when the report was published.



Existing funds reach maturity
Investors search for reassurance

Accounting for leases
Accounting for greenness

Real estate investment management becomes regulated – AIFMD and Dodd Frank

Death throes of defined benefit pensions
Life insurance prepares for Solvency II

Debt maturity / complexity rises to a peak
Run up to introduction of Basel III

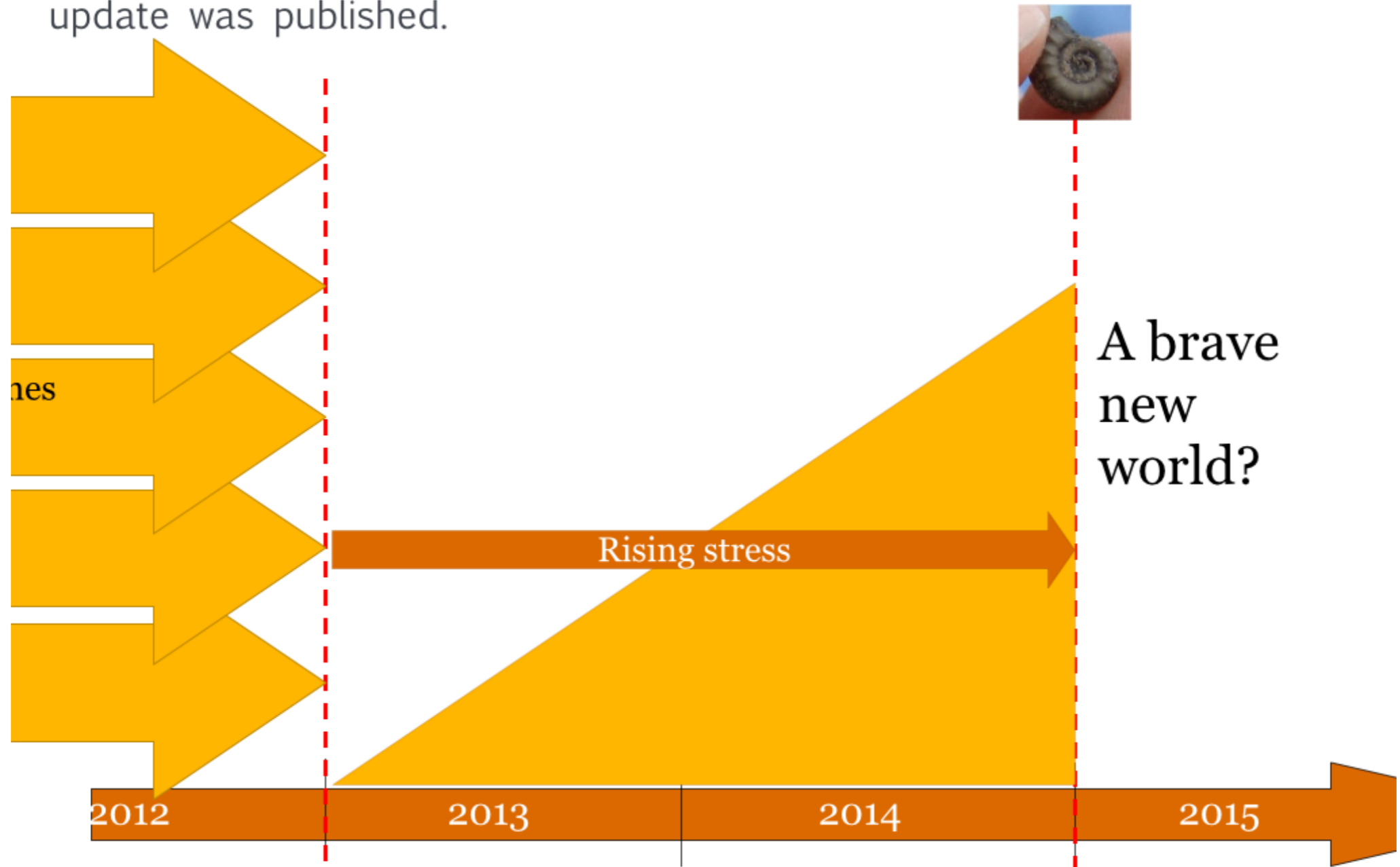
A brave
new
world?



Ammonites, extinction events and the real estate investment management industry, PwC



The view in Autumn 2012 when the update was published.



Ammonites, extinction events and the real estate investment management industry, PwC



The view in Autumn 2010 when the report was published.



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Basel III

Solvency II

AIFMD



CRD IV implements Basel III in the European Union

Entered into law 17 July 2013

Rules apply from 1st January 2014

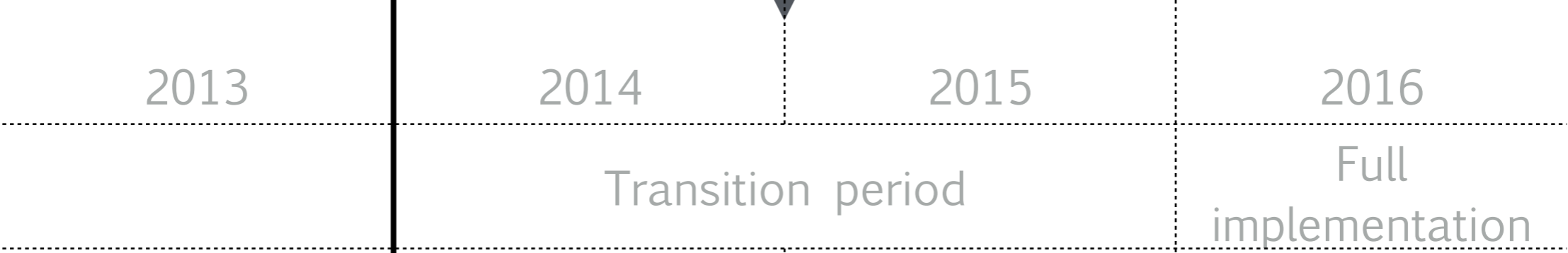
Phased implementation





2013	2014	2015	2016
Transition period			Full implementation
<p>EU trilogue negotiations completed in November 2013, agreed compromise level 1 text.</p>	<p>EU Vote (11/3)</p> <p>Publication of full level 2 regulation</p> <p>Other clarification</p> <p>Transitional</p>	<p>Approval of internal models</p> <p>Detailed implementation steps</p>	





EU tripartite negotiations completed November 2013, agreed compromise level 1 text.

EU Vote (11 / 3)

<http://www.johnforbesconsulting.co.uk/solvency-ii-update-feb-2014>

Other clarification
Transitional

Detailed implementation steps





	2013	2014	2015	2016	2017	2018	2019
EU AIFM, EU AIF	Full compliance						
Non EU AIFM,	Private placement	Uncertain				Uncertain	
Non EU AIFM,	Private placement					Uncertain	



Solvency II and IORP

Solvency II

A fundamental reform of the capital adequacy regime for the European insurance industry.

It aims to establish a revised set of EU-wide capital requirements and risk management standards to reduce systemic risk in the insurance industry

IORP

Institutions for Occupational Retirement Provisions Directive - the equivalent provisions to Solvency II for pension funds.



The three pillars

Pillar I: Quantitative aspects;

Pillar II: Governance and risk management;

Pillar III: Reporting and disclosure.



West Wycombe House



The three pillars

Pillar I: Quantitative aspects;

Pillar II: Governance and risk management;

Pillar III: Reporting and disclosure.



Capital charges (Solvency Capital Requirement)



West Wycombe House



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Reporting requirements



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The three pillars

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Pillar II: Governance and risk management;

Pillar III: Reporting and disclosure.

Capital charges (Solvency Capital Requirement)

Reporting requirements

Own Risk Solvency Assessment (ORSA)



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Solvency II

SCR treatment of investments under standard model

	Real estate	Real estate funds	Equities	Real estate debt
Original treatment	25% SCR shock on gross value of assets		SCR shock on net value of equity Listed: 39% Unlisted: 49% +/- 10% dampener	Originally used SCR RE shock for collateral but then switched to bond rating.
Current position		Default to transparent real estate treatment. Not clear when opaque equities treatment is possible	For equities held prior to Solvency II, 7 year transition from 22% SCR shock to full equities SCR shock	Will there be another consultation exercise?



Solvency II

SCR treatment of investments under standard model

	Real estate	Real estate funds	Equities	Real estate debt
Original treatment	25% SCR shock on gross value		SCR shock on net value of equity Listed: 30%	Originally used SCR RE shock for RE then bond
Current position		Not clear when opaque equities treatment is possible	year transition from 22% SCR shock to full equities SCR shock	will there be another consultation exercise?

Long term investment asset proposals



More information on regulatory changes

<http://www.johnforbesconsulting.co.uk/the-rock-of-sisyphus>

<http://www.johnforbesconsulting.co.uk/bpf-reg-committee>

The rock of Sisyphus Facing the burden of regulation



Presentation to the Real Estate Investors' Forum
18th September 2013

John Forbes
CONSULTING LLP



Real estate fund structuring

Presentation to the British Property Federation
Regulatory Committee

21st January 2014

John Forbes
CONSULTING LLP



For more information

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