

A new challenge

Risk Management in the context of AIFMD



AIFMD Risk Management

The final text of the Alternative Investment Fund Manager Directive (AIFMD) has been adopted on 11 November 2010 and member states will be required to transpose the directive in their national laws before 22 July 2013.

Taking into account the Directive and L2 implementation measures, it is apparent that risk management is going to be one of the key challenges for future AIFMs. As one of the two core functions of the AIFM, significant focus will be placed on this function by the authorities.

Who will be impacted by this new directive?

AIFMD will apply to all AIFMs established in the EU managing AIFs, irrespective of the AIFs domicile, and to the non-EU AIFMs managing EU AIF or non-EU AIF marketed to EU investors. The target audience is therefore particularly wide.

What impacts for Luxembourg?

In Luxembourg, the AIFMD will significantly impact the non-UCITS sector (part II of the UCITS law, all SICARs, SIFs and certain currently non regulated vehicles and platforms). Therefore, the Luxembourg AIFM (e.g. the management company) will have to assess the impact of this new directive on its current structure and operations, identify gaps and remediate them.

Risk Management impacts

Among the impacts of AIFMD the requirement to implement a strong Risk Management process is one of the main challenges.

Areas of impact

Governance

- An independent Risk Management function must be created
- Remuneration policy should be consistent with effective Risk Management
- A clear Risk Management process needs to be implemented

Risk measurement

- Each AIF's risk profile must be defined
- All risks associated with AIF strategies need to be measured and monitored (Market risk, Counterparty risk, Operational risk, etc.)
- The importance of having a strong liquidity risk management process is particularly stressed
- Leverage levels as well as methods used need to be clearly identified and monitored
- When applicable, delivery requirement linked to short selling needs to be properly managed and monitored

Disclosure

- Transparency being one of the key overall objectives of the Directive, the level of quantitative and qualitative disclosures to authorities and investors is unprecedented

Our approach

We can assist you with our dedicated services aimed at addressing the Directive's Risk Management component.

1

Diagnostic

The diagnostic will consist of mapping the Level 1 and Level 2 guidance to your current Risk Management operations and clearly identifying the requirements necessary to become AIFMD compliant. This will be done through interviews and review of relevant documents.

What's in it for you?

The gap analysis will clearly identify the policies, processes and procedures which do not meet the regulatory standards and provide an understanding of the size and scale of the task ahead.

3

Action plan

The creation of an action plan that establishes clear actions to adapt your current operating model and set feasible deadlines to address gaps identified based on recommendations.

What's in it for you?

A clear and defined roadmap to compliance.

2

Recommendations

Recommendations will then be proposed to align your processes to AIFMD requirements, including clear description of practices to be implemented.

What's in it for you?

You will have a clear understanding of solutions to be implemented covering all relevant aspects from policies, procedures, controls, IT solutions, including tools to human resources.

4

Assistance

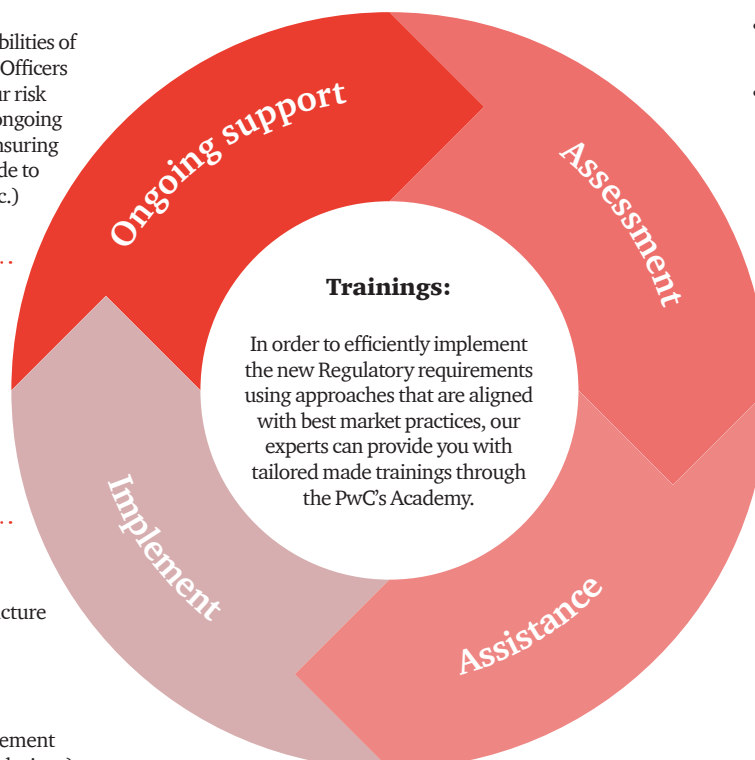
After careful analysis of the actions necessary to comply with the AIFMD, you will need to implement the identified resolutions.

What's in it for you?

We can assist you in various ways ranging from on-site day-to-day support, ad-hoc assistance, document review, testing, project assurance, training session, creating of dedicated tools.

Our service offering

- **Production of risk reports:** Using either internally developed or recognised vendors tools, PwC experts can provide you with your risk analysis (e.g. Liquidity risk benchmarking, Leverage, Market risk)
- **Ongoing assistance to board members:** Responsibilities of Board members and Conducting Officers are increasing. In that context, our risk experts can support them on an ongoing basis (challenging risk reports, ensuring that the required updates are made to meet the regulatory evolution, etc.)
- **Set-up of RM function:**
 - Set-up of your Governance structure
 - Analysis and selection of Risk Management tools
 - Drafting of Risk Management Procedures (RMP)
 - Implementation of Risk Management tools (including tailored made solutions)
 - Calibration of tools (e.g. backtesting, set-up of relevant internal limits, number of iterations in computation process)
 - Definition and structuring of reports/dashboards



- **Diagnostic:** Assessing the quality of Risk Management process
- **Gap analysis:** Our expert can support you in identifying the areas that need to be designed and implemented and/or those which simply needs to be upgraded
- **Risk appetite:** Defining and challenging company's risk appetite using our dedicated framework
- **Risk profiling:** Detailed analysis of risk exposures to determine the Key Risk Indicators that will need to be monitored
- **Assistance in implementing Risk Management Standards:** Define and implement Key Risk Indicators, create related dashboards, Stress testing, etc.

Why PwC Luxembourg?

Our specialist team members have gained a strong expertise as consultants and through their experience within the financial industry. As a result, they are able to quickly understand your concerns. Our solution is proportionate to the scale, diversity and complexity of your activities, hence it is really tailored and sound.



PwC Luxembourg (www.pwc.lu) is the largest professional services firm in Luxembourg with 2,300 people employed from 57 different countries. It provides audit, tax and advisory services including management consulting, transaction, financing and regulatory advice to a wide variety of clients from local and middle market entrepreneurs to large multinational companies operating from Luxembourg and the Greater Region. It helps its clients create the value they are looking for by giving comfort to the capital markets and providing advice through an industry focused approach.

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