

UCITS IV

Moving from basic Risk Management to Best Practices

The latest economic crisis has highlighted the need to improve the Risk Management processes and structures. More than trying to find the metric, Risk Managers and Board of Directors of Management companies will have to thoroughly understand their exposures and monitor them adequately. How should they capture all risks and build an efficient Risk Management framework?



UCITS IV, Risk Management

Following the increasing demands of the regulators for Risk Management, most of the Management companies and investment funds have developed their Risk reports. However, instead of implementing a solution that fits each funds, Risk Managers are now required to define a set of measures, limits and procedures that will cover all the risks faced.

Your challenge

The CSSF Circular 07/308 was abrogated on 1 July 2011 when CSSF Circular 11/512 came into force. This new Circular takes into consideration the level 2 and level 3 guidelines issued by the ESMA* and EU directives, and defines additional requirements (new Risk Management Process framework, new disclosure requirements in prospectus and financial statements, new guidelines regarding liquidity risk, counterparty risk, leverage computation, etc).

How we can help you

By leveraging on the extensive knowledge of our dominant audit practice, our team of experienced risk professionals has developed a library of best practices in Risk Management for investment funds.

Areas of focus

The scope of our assistance is focused on five main areas:

Governance

- CSSF Circular 11/512 upgrade
- Definition and implementation of dedicated responsibilities (e.g. reporting function, role of BoD + conducting person...)
- Administration
- Distribution
- Regulatory reporting
- Internal reporting
- Review and validation of Risk Management Process
- Eligibility of instruments, stock exchanges, financial markets

Market Risk and valuation

- Commitment computation with hedging/netting effects
- VaR - Parameters and computation review
- Valuation (pricing controls, valuation processes)
- Stress testing (review and selection of factors/scenarios)

Cutting edge areas

- Liquidity risk
- Model risk
- Derivatives coverage
- Disclosure (KIID and SRRI - Utilisation of VaR limits)

Counterparty Risk

- Analysis of your counterparty risk set-up
- Review of netting
- Counterparty selection process
- Reduction of your counterparty risk
- Collateral management
- Limits (warning - correction)

Operational Risk

- Review of your risk processes
- Flowcharts design
- Definition and review of key risk indicators
- Gap analysis
- Mitigating controls
- Limits (warning - correction)

*European Securities and Markets Authority

Our approach

Our review of key focus areas will be split in four different steps:

1

Diagnostic

A diagnostic of your current Risk Management set-up will be performed through interviews and reviews of all relevant documents:

- Are you compliant with the current regulatory requirements?
- Are your processes aligned with market trends and best practices?
- Gap analysis current set-up vs. UCITS IV.

2

Recommendations

Recommendations will then be proposed to align processes to best practices:

- (Re)definition of roles and responsibilities;
- (Re)definition of Risk strategies, appetite and tolerance;
- (Re)definition of Risk processes.

3

Action plan

An action plan will be elaborated to fill out the identified gaps:

- Definition of Risk measurement methods;
- Selection of proper Risk Management tools;
- Identification of required data and resources.

4

Assistance

Our team will assist you in the definition and the implementation of the recommendations:

- Assistance to management in the implementation of each solution;
- Implementation of new software;
- Organisation of training sessions.

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.



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Our people working alongside you

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