

# Alternative Investment Fund Managers Directive Meeting Valuation requirements



*The recent period of extreme market volatility and illiquidity has highlighted the continued importance of having reliable valuations processes.*

*In that context, AIFMD is imposing a set of new requirements that the Asset Management industry will have to cope with.*

*Providing efficient valuation methods and tools*

*April 2013*

## Your AIFMD valuation challenges:

### Responsibility under AIFMD

Irrespective of the operating model selected, the AIFM is ultimately responsible for the proper valuation of all assets and remains fully liable to the AIFs and its investors.

The AIFM must ensure appropriate, consistent and comprehensive written policies and procedures are established for the valuation of all assets. A valuation policy and methodology must be determined and documented for each asset before the AIFs invests in such asset. As part of its oversight responsibility, the AIFM will need to document its assessment over the fairness and appropriateness of the values and valuation process. As part of this assessment, some form of testing will need to be incorporated.

### Internal valuation function

If the valuation function remains internal, it must be functionally independent from

portfolio management. Should internal models be used to determine the value of an asset, such model must be approved by senior management and reviewed by someone who did not build the model. The regulator may request that such review be performed by an independent third party.

### External valuation function

When selecting one or more external valuer(s), the AIFM must ensure all delegation requirements are met; appropriate initial and on going due diligences will be necessary, a professional guarantee from valuer will need to be obtained.

The appointment of an external valuer will be subject to notification to the regulator.

While the external valuer will be liable to AIFMs for any negligence or failure to act, the AIFM remains liable to the AIFs and its investors.

# How we can help

Having valuation/pricing experts in transferable securities, derivatives (i.e. plain vanilla and exotic), Private Equity and Real Estate, we can act as a strategic adviser in AIFMD valuation challenges.

## Valuation governance

Based on the field experience gathered, we can support you in properly defining your valuation governance (i.e. valuation committee, delegation scheme and selection of an external valuer).

## Valuation procedure

We help you assess the quality of valuation practices in place and define robust pricing policies that fit your needs by:

- complying with AIFMD,
- reviewing the global documentation and benchmarking it with best market practices.

## Internal models

Thanks to our leading practice in controls reporting (ISAE 3000/ISAE 3402) and our valuation expertise, we can validate the quality of your pricing models using international standards.

## External models

Using our knowledge of valuation methods and principles, we can assist you in:

- selecting and engaging a third-party,
- coordinating the flow of information between you and the appraiser(s),
- performing appraisal review(s).

## Oversight

- Transferable securities: With our independent pricing sources, we can perform substantive periodic and critical reviews of portfolio valuations. Our dedicated “health check” tool can quickly identify potential issues like stale prices, illiquid securities, suspended funds, etc. When finding potential issues, our team of specialists will apply sound market practices. At the end of the process, we will provide you with clear and detailed dashboard summarising the results of the analysis.
- Derivatives: Thanks to the different models set-up by our valuation experts, we can perform independent valuation of a wide set of derivatives (including exotic). This will allow to challenge and get comfort on the valuation principles applied by your third parties and delegates.
- Private Equity/Real Estate: We can challenge the methods and approaches implemented by your internal/external valuer or provide you with independent pricing allowing you to manage the challenging oversight responsibility applicable to “non-traded” investments.

## Trainings

Through our dedicated training center PwC's Academy, our experts can provide your teams with concrete and easy-to-use valuation methods and tools. Our experience is yours.

## Delegation

Our technical experts can act as business partners in your due diligence exercise, supporting you in assessing the adequacy and level of competency of your delegates.

## Why PwC Luxembourg?

We have a multi-disciplinary and multi-industry team of professionals in business strategy, operation and structuring, regulatory compliance, tax, remuneration and assurance services ready to assist you: identify and assess the many impacts of the Directive on your organisation and develop an integrated response to the AIFMD. Our team works closely with the PwC European AIFMD working group to ensure knowledge and best practices are shared on a pan-European basis.



### To get started, call:

<b>Didier Prime</b> Partner, Luxembourg Asset Management Practice Leader	+352 49 48 48-6130	didier.prime@lu.pwc.com
<b>Sébastien Sadzot</b> Partner, Valuation Services Leader Asset Management	+352 49 48 48-5822	sebastien.sadzot@lu.pwc.com
<b>Marie-Elisa Roussel-Alenda</b> Partner, AIFMD Leader	+352 49 48 48-2522	marie-elisa.roussel-alenda@lu.pwc.com
<b>Benjamin Gauthier</b> Director, Governance, Risk and Controls	+352 49 48 48-4137	b.gauthier@lu.pwc.com

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