Time to prepare
ESMA issues final guidelines on AIFMD reporting

The wait for the final set of reporting guidelines under the Alternative Investment Fund Managers Directive (AIFMD) is now over. A number of helpful and important new clarifications have been made, enabling AIFMs to step up their preparations. Much to the relief of industry, initial reporting will now be aligned with authorisation and the quarterly calendar year. This will allow for a phasing in of filings from 31 January 2014. AIFMs will need to consider a separate opinion ESMA issued to national regulators advising them to collect some additional items of information. The guidelines now pass to national regulations for adoption and roll-out.

On 1 October 2013 the European Securities and Markets Authority (ESMA) issued its final guidelines on the comprehensive regulatory reporting required under AIFMD. This will require AIFMs to report on a wide variety of areas, including investment profile, portfolio concentrations and the risk profile of their AIFs. The guidelines were accompanied by a new consolidated reporting template and detailed IT technical guidance.

ESMA also issued an 'opinion' on the collection of additional information for "effective monitoring of systemic risk". It includes a request to gather value-at-risk (VaR) reporting on AIFs, among other additional measures. AIFMs will need to monitor carefully developments in relation to this opinion and plan for inclusion of this additional information.

This briefing provides a summary of the key changes in comparison with the draft guidelines and key impacts for AIFMs to consider, as they finalise their preparations for AIFMD reporting.

Transitional arrangements and reporting cycle

Where previously ESMA had required all AIFMs in scope to report by 31 January 2014, it has now taken a more flexible approach to the phasing in of reporting, following comments by industry. In determining the timing of their reporting obligations, AIFMs should take into account certain factors, such as their authorisation status.

Reporting will be required within half the timeframe that is provided for under Form PF regulatory reporting in the US.

The likely effect of this clarification is that AIFMs will not be expected by national regulators to report until they are fully authorised (or registered in the case of private placement). Furthermore, the initial reporting will be aligned with the quarterly calendar year.

Once an AIFM is required to report, the first reporting period starts from the first day of the following quarter and runs until the end of the relevant reporting period. The length of the first reporting period will depend on reporting frequency, which is determined by the level of regulatory AuM managed.

For example, an AIFM subject to half-yearly reporting obligations that has information to report as from 15 February would have an initial reporting period running from 1 April to 30 June, and would be required to report by 31 July.

AIFMD regulatory reporting frequency and dates

	Regulatory AuM threshold	Reporting frequency	Reporting period	Report due by
AIFM reporting	< €100 million < €500 million unleveraged with 5 year lockup period)	Annual	Jan to Dec	Last business day of January*
	> €100 million to €1 billion	Half-yearly	Jan to Jun Jul to Dec	Last business day of July and January*
	> €1 billion	Quarterly	Jan to Mar Apr to Jun Jul to Sep Oct to Dec	Last business day of April, July, October and January*
Reporting for specific AIF types	Each AIF > €500 million	Quarterly	Jan to Mar Apr to Jun Jul to Sep Oct to Dec	Last business day of April, July, October and January*
	Each unleveraged AIF investing in non-listed companies and issuers in order to acquire control	Annual	Jan to Dec	Last business day of January*

*An additional 15 days is provided for reporting with respect to fund of funds.

After the first cycle of reporting, AIFMs will be required to report either annually, semi-annually or quarterly in alignment with the calendar year and according to regulatory AuM thresholds as set out in the table above. It is important to note that regulatory AuM includes the notional amounts underlying derivatives and is consequently likely to be higher than net asset values for most AIFMs. The regulatory AuM calculation will therefore have a significant bearing on reporting frequency. The reporting is due on the last business day of the month following the period end (fund of funds have an extra 15 days to report). Reporting will therefore be required within half the timeframe that is provided for under Form PF regulatory reporting in the US. This will undoubtedly place an extra burden on AIFMs and their service providers.

ESMA 'opinion' and additional risk metrics

In its earlier consultation ESMA proposed to request reporting of VaR in addition to the reporting of leverage exposure under the gross and commitment approaches. ESMA also requested additional information on high frequency trading (HFT) in this consultation. Respondents pointed out that these information requests went beyond what was required under the Commission's Regulation.

> Divergence among member states on the reporting elements should be avoided to reduce uncertainties and risk for AIFMs.

However, ESMA remains convinced that this information should be collected. While ESMA has removed these additional information requests from the guidelines, it is empowered to request additional information for systemic monitoring purposes and has used this power to issue an 'opinion' to national regulators. ESMA opinions are normally observed by national regulators and it may create unwelcome divergence if member states were to adopt different approaches.

ESMA's opinion considers that, where appropriate and particularly in the case of hedge funds, the VaR of AIFs should be reported. Where VaR is reported, it should be calculated using either a Monte Carlo simulation, Historical simulation or a Parametric VaR. ESMA considers that it would be appropriate for regulators to require HFT reporting following the entry into force of MiFID II. This includes the total number of transactions and the corresponding market value of buys and sells over the reporting period.

Furthermore, ESMA's opinion advises that supplementary information would be useful with regard to:

- Whether a short position is used to hedge a position with similar exposure and, if so, the extent of the hedging expressed as a percentage of the position hedged
- Geographical focus based on fund domicile should also be expressed as a percentage of regulatory AuM according to the ESMA opinion
- The portfolio's sensitivity to a change in FX rates or commodity prices

Non-EU AIFMs report only on AIFs marketed in the EU

ESMA confirmed in the consultation that non-EU AIFMs permitted to market under private placement are subject to reporting only for the AIFs they market in the EU. There was some remaining ambiguity with regard to information to be provided at the AIFM level. ESMA has now confirmed that the AIFM level information is to be provided only with respect to AIFs marketed in the EU as opposed to all assets under management. On the other hand, EU authorised AIFMs must report in respect of all AIFs managed, regardless of whether they are marketed in the EU or not.

Master-feeder structures

Following through on the draft guidance, ESMA requires separate reports for each feeder AIF. One report combining all the information on feeder AIFs and the master AIF will not be possible under the ESMA rules.

Each feeder fund must report separately but is not required to look through to the master.

In its original guidance, ESMA also proposed to apply the reporting obligation to non-EU master AIFs not marketed in the EU when one of its feeder AIFs is marketed in the EU. Respondents argued that this request went beyond the Directive and that ESMA should not modify the scope. As a consequence, ESMA has removed this requirement from its guidelines but included it in the opinion (see above). Non-EU masters should not have to adhere to the reporting requirement if the feeder AIFs marketed in the EU do not have the same AIFM as the non-EU master, according to the ESMA opinion.

In addition, ESMA has helpfully confirmed that AIFMs are not required to look through the holdings of the master AIFs when reporting on feeder AIFs.

No look through requirement for fund of funds

Similar to above, ESMA has clarified that when reporting on fund of funds, there is no requirement to look through the holdings of the underlying funds. This clarification will make the aggregation process significantly less burdensome for fund of funds managers.

Value of turnover

Based on the feedback received, ESMA did not include in the final guidelines information on the turnover expressed in number of transactions. ESMA has provided that the value of the turnover should be the sum of the absolute values of buys and sells that occur during the reporting period. This must be calculated in accordance with the conversion methodologies for derivatives set out in the Commission's AIFMD Level 2 Regulation.

Consolidated template

For ease of use ESMA has issued a consolidated reporting template in excel format. This template includes some practical re-configurations in comparison with the template provided in the Commission's Level 2 Regulation in December 2012. In the AIFM level section, the table requiring a "detailed list of all AIFs which the AIFM manages" has been removed in the final template. As per the Directive, AIFMs may be required to provide this each quarter *on request* from the national regulator. AIFMs will need to monitor local reporting requirements in this regard.

Differences between the guidelines, the ESMA opinion and the consolidated template can lead to some uncertainties. While ESMA has removed risk metrics on Net FX Delta, Net Commodity Delta and Vega exposure from the guidelines, these are still included in the consolidated template. The template also reflects the additional information requirements under the ESMA opinion.

For AIFMs seeking to comply, the most practical approach may be to prepare to file on the basis of the consolidated template, while also ensuring to incorporate any national requirements or further clarifications that may emerge.

Reporting obligation decision trees

ESMA has updated its decision tree on AIFM reporting obligations. The title at the top of the decision tree now refers to "Authorised" AIFM in a move away from requiring all AIFMs in scope to report in January 2014. Separate diagrams for non-EU AIFM reporting under private placement and "Registered" or sub-threshold AIFM reporting are also included.

Next steps

The guidelines will be translated into the official languages of the EU. National regulators will then have two months from the date of the publication of the translations on ESMA's website, to confirm to ESMA whether they comply or intend to comply with the guidelines by incorporating them into their supervisory practices. ESMA has fully standardised the format of the reporting to national authorities. It is hoped that national authorities will not alter or add to this format, as to do so would create additional challenge and inefficiencies for AIFMs.

Developments with regard to ESMA's opinion on additional information requests will need to be monitored carefully.

AIFMs should now move to finalise their reporting arrangements in line with the new guidelines.

The ESMA AIFMD reporting guidelines and associated documents are available **here**

How can we help?

Deloitte offers a range of solutions on AIFMD reporting tailored to your business requirements. Whether you are at the start or the end of the process, whether you are an AIFM or a fund service provider, Deloitte can help. We can provide:

- A fully managed reporting solution
- A partially outsourced solution
- A complete AIFMD notification and disclosure offering
- A validation process over the design of your reporting programme

For more information, please contact your usual Deloitte relationship manager or any of the Deloitte representatives below.

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