

Valuation for Alternative Investment Funds (AIF)

Preparing for the new requirements



As of July 2013, the new regulatory landscape for AIFMs will be in place

Context

The forthcoming transposition of the Alternative Investment Fund Managers Directive (“AIFMD”) into Luxembourg Law raises questions about how well-prepared the industry is with regards to the new regulatory landscape, and particularly the issues emerging from valuation requirements set out in the Directive.

Key Issues

The AIFMD introduces valuation requirements for alternative investment fund managers (“AIFMs”) with the aim of ensuring that assets are valued consistently, impartially and with care and diligence. Accordingly, appropriate and consistent procedures should be established by AIFMs so that a proper and independent valuation of the assets of the AIF can be performed.

AIFM’s will accordingly need to decide whether they will appoint an external valuer or perform the valuation themselves, provided that they can demonstrate that the valuation task is functionally separate from portfolio management activities and that conflicts of interest are mitigated. In both cases, AIFMs will remain responsible for the valuation of investments. Assistance from a valuation

expert providing any necessary professional guarantees should help them to reduce corresponding risks.

Main Challenges for AIFMs

The AIFMD requires AIFMs to establish:

- I. Policies and procedures for the valuation of assets:
 - Written policies and procedures ensuring fair, appropriate and transparent valuation methodologies for each type of assets
 - Obligations and responsibilities of parties involved in the valuation process
 - In cases where an external valuer is used, due diligence is to be conducted and evidenced
 - If valuation is to be conducted internally, a description of safeguards for independent valuation and management of conflicts of interest shall be drawn up
 - Models used to value assets must be approved by senior management and/or by an external valuer or auditor
- II. Periodic review of such valuation policies and procedures at least annually or when investing in assets not covered by the procedure

Challenges for AIF service providers

Fund administrators, custodian banks and other AIF service providers will also have to adapt their processes to comply with these new requirements.

Our Services

We offer our clients tailor-made solutions so as to facilitate the gradual movement towards new regulatory requirements.

Our services target both AIFM and AIF service providers:

- Gap analysis, recommendations and implementation roadmap
- Design and implementation of best practice valuation processes, procedures and policies
- Independent valuation services
- Independent valuation model review and/or validation
- Valuation sensitivity analysis/stress tests to support risk management activities
- Outsourcing of part of the valuation process (e.g. market research)
- Initial due diligence of delegates/service providers and/or ongoing monitoring procedures
- Tailor-made workshops/training on these subjects

Set-up of
valuation process

Independent
valuation services

Deloitte has developed a large scope of services in order to help you to deal with AIFMD issues



Contacts



Xavier Zaegel, FRM
Partner | Capital Market Services
Tel: +352 451 452 748
xzaegel@deloitte.lu



Pierre Masset
Partner | Corporate Finance
Tel: +352 451 452 756
pmasset@deloitte.lu



Mickaël Durand, FRM
Senior Manager | Capital Market Services
Tel: + 352 451 452 064
mdurand@deloitte.lu



Joachim Heukmes
Senior Manager | Corporate Finance
Tel: + 352 451 452 037
jheukmes@deloitte.lu

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