Risk Management of Alternative Investment Funds under the AIFMD
Managing a wide range of risks

The wide range of AIF assets, from traditional financial securities and derivatives to less liquid assets such as private equity, real estate properties and infrastructure, is likely to pose a challenge for risk managers in the context of the AIFMD.

Context

The Law on 12 July 2013 implementing the Alternative Investment Fund Managers Directive ("AIFMD") in Luxembourg and the EU Commission Delegated Regulation 231/2013 have set the rules of the game for alternative investment fund risk management. In Luxembourg, this is likely to have an impact on “Man Cos” managing Part II funds and SIFs.

Key Issues

The AIFMD framework introduces stringent and new risk management requirements for alternative investment fund managers ("AIFMs") but does not provide full detailed implementation measures with regard to risk measurement techniques or monitoring procedures. Implementing organisational and documentation requirements is already challenging in most cases, but identifying and implementing appropriate risk management procedures for alternative asset classes—private equity, real estate, infrastructure—is likely to represent an additional significant amount of work for risk managers.

Main Challenges

The AIFMD requires AIFMs to establish:

I. A risk governance framework, through:
   • A permanent and independent risk management function
   • Definition of risk profiles
   • Documentation of risk management procedures covering risks material to each AIF
   • Setup of internal risk and leverage limits
   • Oversight of delegated risk activities

II. A risk measurement and reporting framework, covering:
   • Identification, measurement and monitoring of all risks relating to the AIF as well as their contribution to the AIF’s risk profile
   • Calculation of leverage through the gross and the commitment method
   • Back-testing and stress testing procedures
   • Monitoring of compliance with risk and leverage limits
   • Periodic disclosure of risk-related information to investors and competent authorities
Our services

We offer our clients regulatory and quantitative risk solutions so as to facilitate the gradual movement towards new AIFMD requirements. Our services can be articulated over organisational and/or operational dimensions and cover all asset classes:

- AIFMD gap analysis, recommendations and implementation roadmap
- Definition of each AIF’s risk profile and determination of qualitative/quantitative risk limits
- Formalisation of roles and responsibilities, and of the oversight model at BoD level
- Identification of appropriate risk indicators and techniques
- Initial due diligence on delegates and drafting of delegates’ monitoring procedures
- Development of ex-ante quantitative risk techniques for private equity or real estate funds
- Development of ex-post risk indicators and control plans
- Design of stress-testing framework
- Independent risk model validation
- Periodic risk reporting to all stakeholders, including regulatory risk reporting
- Design of synthetic risk dashboard for senior management and directors

How can we help?

Our value proposition for risk management for AIFs and SIFs covers the following areas:

- Review, gap analysis or development of your risk management procedures in light of the AIFMD
- Identify, develop and implement appropriate quantitative/qualitative risk indicators and techniques
- Outsource your risk measurement and reporting, including executive and regulatory reporting
- Prepare and facilitate dedicated risk management training sessions for specific asset classes (e.g. on private equity or real estate)

Contacts

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

Joachim Heukmes, CFA
Directeur | Corporate Finance
Tel: + 352 451 452 037
jheukmes@deloitte.lu

Sylvain Crépin, FRM
Senior Manager | Capital Market Services
Tel: + 352 451 454 054
screpin@deloitte.lu

Antoine Capone
Senior Manager | AIFMD Reporting
Tel: +352 451 454 131
acapone@deloitte.lu

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