



Private debt sector

Facing the challenges together

Context

Debt and debt-like instruments have recently become the silk route of investment managers and so-called shadow banks. Deloitte can help make the most of the situation.

Key points

Luxembourg and Deloitte are helping credit and debt funds exploit investment opportunities in a prudent, efficient and, optionally, a lightly regulated way.

Why Luxembourg is leading the way

Whether a fund is EU or non-EU, the choice of the gateway for distributing the fund to European investors is a key decision.

Now more than ever, Luxembourg offers a comprehensive product range for all players wishing to distribute their products across Europe and fully benefit from the newly introduced regulations (AIFM Directive, banking regulations, etc.).

Building on its track record, supportive environment for alternative industries and leading position as an alternative investment funds domicile, Luxembourg is increasingly trusted by investors and alternative players.

The bottom line is that Luxembourg tends to be the first choice of all lending market players who wish to leverage their potential through a stable platform for their investment strategies.

Major challenges

Debt and credit funds face several challenges, mostly concerning ever-changing frameworks and increasing scrutiny from regulators.

In practice, the daily agenda takes the form of an articulated and structured change process, in which the outcome of each phase determines whether the next challenge will be successfully surmounted.

- Determining the appropriate corporate structure depending on:
 - Jurisdictions involved and country factors to be monitored
 - Level of flexibility to be granted to investors and fund promoters
 - Economic constraints related to market uncertainty and increasing financial covenants

- Implementation of an efficient business model:
 - Optimising the tax position of the structure in light of the expected rate of return
 - Establishing efficient operating processes to make the daily management of the business easier
 - Developing best-in-class practices that can be replicated easily on different structures
- Daily operation of the structure by:
 - Managing debt portfolios and cash flows deriving from the investments and the investors
 - Increasing efficiency of business processes to minimise any waste of resources
 - Anticipating developments related to shadow banking considerations and their potential impacts on the structure
 - Complying with relevant frameworks and newly established regulations
- Monitoring investment strategies in light of:
 - Banking considerations and their potential impacts on the structure
 - The tax and accounting impact of existing regulations (FATCA, EUSD, AIFMD, etc.)
 - Luxembourg banking regulations
- Compliance with any relevant tax and accounting obligations applicable to the fund throughout its life-cycle with regard to:
 - Tax and accounting filing requirements
 - Disclosure to the market and the investors
 - Internal reporting and management control
- Exit from the investments and winding-up of the structure leading to:
 - Creation of synergies for newcomers and upcoming business initiatives
 - Maximisation of total returns for the parties involved
 - Creation of specific expertise on Luxembourg dynamics

Value proposition

Deloitte is proud to offer a centralised team using state of the art technology for legal, tax and accounting setup and day-to-day administration:



CDO Suite™
The market-leading portfolio administration and compliance solution

CDO Suite™ was designed for the portfolio management industry. The system brings the diverse perspectives of an agent, trustee, administrator, collateral manager and fund together in a single tool. The system's flexibility allows users to monitor portfolio collateral and cash activity, from cash reconciliation to hypothetical trades, collateral administration to portfolio reporting.

Setup of the structure

- Setup of a tax efficient fund structure, including investment vehicles (if applicable)
- Assistance on the design of flexible strategies for the management of financial flows and the distribution of investment returns to the investors
- Tax and accounting advice on the implementation of financing instruments

Loan administration

- Loan management (Performing or Non Performing): calculation, monitoring and accounting of
 - loan cash interest and PIK interest (if any)
 - loan principal amortisation or pay down
 - loan redemption
 - penalties and fees
- Anticipated interest rate reset
- Covenants monitoring
- Interest advice letter preparation including interest rate, period, days, calculation base, principal amount, interest rates, margin, interest due, unpaid interest, PIK interest, cash interest and communication with the borrowers
- Loan portfolio reporting
- Monitoring and reconciliation with the appointed loan agent or servicer notification (if any) and the accounted interest income

Cash flow management

- Monitoring and management of bank accounts including follow-up of cash receipts from loan interest and other income and preparation of wire instructions
- Closely monitored bank signatory control
- Monthly bank account reconciliations
- Waterfall computation and review
- Distribution or dividend computation and proposal

Process design and valuation

- Understanding or review regarding the transaction documents
- Setting timelines, agreeing details, on-going review of loan
- Quarterly or monthly operational review
- Following the appropriate valuation model and simulating fair value

Core solutions

- Accounting, valuation and impairment calculation in relevant GAAP
- IRR and carried interest calculations
- Multi-currency drawdowns and distributions
- Production and distribution and monitoring of drawdown letters with funds received
- Monitoring of drawdowns with agreed commitment
- Reconciliation of investment manager's records
- Equalisation provision calculation
- Impairment test and valuation calculation



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