

Valuation and Internal Model Assurance

The AIFMD has had a significant impact on the valuation procedures, processes and responsibilities for alternative investment funds.



What is the main impact of AIFMD on valuations?

The main valuation requirements that Alternative Investment Fund Managers Directive ("AIFMD") has had an impact upon, are the documentation requirements of the valuation policies and procedures, the frequency of the valuations performed, the responsibility for the valuations, and the requirement for the valuation performed independently of the front office.

The Alternative Investment Fund Manager ("AIFM") must maintain consistent and appropriate independent valuation policies and procedures. These must be documented in sufficient detail to clarify the methodologies implemented, and the roles of each of the parties involved in the valuation. The directive also requires that the documented policies and procedures must set out the review process for both individual assets subject to a material risk of an inappropriate valuation, and for assets which have been valued by a single broker quote.

For models used in the valuations process, ESMA has advised that the main features of the model should be documented in the valuation procedures and policies. Also included should be the reason for the choice of the model and the underlying data and assumptions. ESMA has also recommended that the model is validated by an independent party that is not involved in the model development.

There is now a requirement for the valuation policies and procedures to be reviewed at least annually.

The directive also sets out requirements on the frequency of valuation, and the responsibilities of external valuers.

What are the key challenges?

One of the key challenges is that it is now the AIFM, and not the Board of Directors of the Fund, that has prime responsibility and is liable for the valuation of the AIF (unless the Board has been appointed as the AIFM).

Another key challenge is that the model must now be validated by a party that is independent to the model development.

Although there is additional requirements around the valuation and documentation of procedures and policies, these have not had a huge impact as most of this information will have been previously captured in other documents. But it has had a small impact on the content and is now included in the review process.

About KPMG

We can support you by providing assurance on the internal valuation models used through independent validation of the models and inputs. We can also provide guidance on all of the documentation requirements for the valuation products and policies.

We have a unique understanding of both the regulations and the regulators, through our Regulatory Centre of Excellence, and through secondments with the regulatory bodies. We understand the desired outcomes, and the detailed rules for attaining these.

In addition to our Regulatory Centre of Excellence, we have an established a Valuations Centre of Excellence and can leverage the support of these two units as needed.

We are committed to the Alternative Investments industry and have had a dedicated Investment Management practice in Ireland since 1998. Within this practice, over 500 professionals work across our audit, advisory and tax areas specialising in the issues that impact you. We offer a unique mix of skills and experience as we have undertaken a number of consultancy assignments within the sector.

We have a competitive edge because we really understand the range of issues impacting the alternative investments industry. Our clients range from small specialist boutique firms to large multinationals and their services in the Alternatives market ranges from property and private equity funds to hedge funds.

We bring together the best practices from industry along with the best people and resources to offer you a strong, integrated team.

ALTERNATIVE INVESTMENTS

Contact us



Vincent Reilly
Partner & Head of Alternative Investments
t: +353 1 410 1378
e: vincent.reilly@kpmg.ie



Frank Gannon
*Partner-in-charge,
Investment Management Advisory*
t: + 353 1 410 1552
e: frank.gannon@kpmg.ie



Heleen Rietdijk
Director & Global Lead AIFMD
t: +353 1 700 4111
e: heleen.rietdijk@kpmg.ie



Daniel Page
*Head of Asset Management
Advisory*
t: +44 776 965 0353
e: daniel.page@kpmg.ie



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Produced by: KPMG's Creative Services. Publication Date: March 2015. (531)