

AIFMD: What fund administrators need to know

An overview of the impending directive and its implications for fund administrators



What is the AIFMD?

In the aftermath of the global financial crisis, the European Commission drafted one of the most ambitious and complex regulatory reform agendas ever introduced into the asset management industry in the form of the Alternative Investment Fund Managers Directive (AIFMD). The Directive will have profound, wide-reaching and long-term implications for in-scope alternative investment fund managers (AIFMs), who are required to comply by 22 July 2013. As a result, the Directive will also indirectly affect AIFMs' service providers, including fund administrators.

Implications for fund administrators

With the compliance deadline for the AIFMD quickly approaching, many AIFMs, fund administrators and other service providers to AIFMs find themselves rushing to prepare for the Directive and the wide-reaching implications that will accompany it.

For fund administrators, the AIFMD will mean the introduction of a series of stringent new rules and requirements in a

number of key areas, which will translate into significant changes to traditional business models. Here, we'll explore the impacts on three areas in particular: transparency, compliance and valuation.

Transparency

Given the rigorous new reporting requirements associated with the AIFMD, fund administrators will need to put in place the appropriate Information Technology (IT) infrastructure and framework to deliver the required level of transparency under the Directive. Many of the executives of the fund administration firms that KPMG member firms have met with, have expressed their surprise at the level and degree of information required under the AIFMD, including annual reports, initial and ongoing disclosures, reports to regulators, etc. In some cases, the amount of information required represents an exponential increase compared with the reports they've been accustomed to producing historically. To further complicate matters, this information will need to be split over several funds and provided to the client

far enough in advance to give them time to review the reports and submit them to the regulators by the deadlines, which are 30 or 45 days after quarter end, depending on the level and nature of assets under management.

As such, fund administration firms are grappling with questions around the efficiency of their IT systems, the quality of their data, whether they can delegate these functions, etc. For the most part, the larger players in the fund administration space are well on their way in terms of implementing these plans, putting additional pressure on small and mid-size players.

If fund administrators haven't already started fielding questions from asset managers about their level of preparedness on this front, they should expect such questions in the coming days. Specifically, fund administrators should be cognizant of the fact that since remuneration disclosures will be required for both the AIFMs and the AIFs that are in scope, this will translate into added responsibility and work for

the fund administrators, who will need to ensure they are administering these requirements at the appropriate level of detail. As this will represent a completely new requirement for the majority of funds, fund administrators are advised to take this into consideration as part of their overall preparations for the Directive.

Compliance

There will also be an increased onus on fund administrators with respect to compliance. Providers will need to be able to demonstrate the ability to provide ongoing monitoring and reporting with respect to calculations of leverage, maintaining alignment with the parameters outlined in the prospectus, redemptions, subscriptions, amount of cash in the fund and more.

Fund administrators will also need to be able to demonstrate that the appropriate stress testing exercises are in place to determine their level and adequacy of preparedness for hypothetical events and circumstances such as mass redemptions in the event of a crisis, proposed approaches in the event additional liquidity is needed, etc.

To a large extent, the capacity to deliver on the compliance front will come down to the quality of the database and the IT functionality. There may also be opportunities for providers to sell additional products on the compliance side, given the increased level of information they will be required to track.

Valuation

If the fund administrator is performing valuation duties on behalf of the AIFM, they will be required to demonstrate that

their firm has the capacity and knowledge to capably manage this function and that the specific individuals working on the account have the appropriate knowledge as well. This may entail the provision of employees' résumés and qualifications for third-party validation. It is also important

for providers to note that in the event they are appointed to handle the valuation function on their client's behalf, that they are deemed to be fully liable to the client for any losses resulting from their inability to perform these duties.

How KPMG can help ?

These are just a few of the many new requirements being placed upon fund administrators as a result of the AIFMD. With the compliance deadline approaching and with AIFMs scrambling to adopt their implementation plans, fund administrators would be well-advised to do so in lockstep.

KPMG member firms have extensive knowledge in helping some of the world's largest and most prominent AIFMs, fund administrators and other service providers prepare for this complex new regulatory regime. KPMG's global network of professionals has the credentials, the knowledge and the track record that comes from helping clients identify and implement their requirements under the AIFMD and position themselves to achieve not only compliance, but long-term profitability under these new rules.

Common AIFMD-related acronyms

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| AIF | Alternative Investment Fund |
| AIFM | Alternative Investment Fund Manager |
| AIFMD | Alternative Investment Fund Managers Directive |
| ESMA | European Securities and Markets Authority |
| EU | European Union |
| FATF | Financial Action Task Force |
| MiFID | Markets in Financial Instruments Directive |
| MS | Member State of the European Union |
| MSR | Member State of Reference for a non-EU AIFM |
| UCITS | Undertakings for Collective Investment in Transferable Securities |

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Designed by Evalueserve.

Publication name: AIFMD: What fund administrators need to know

Publication number: 130102

Publication date: May 2013