

AIFMD Compliance Independent and Transparent Valuation

TAKE THE NEXT STEP

An established leader with more than 25 years of experience, FINCAD provides innovative and trusted financial analytics software to organizations worldwide. With deep market understanding, a client-centered business approach, and unmatched quantitative and software engineering expertise, FINCAD is uniquely positioned to lead the market in enterprise risk and valuation technology. FINCAD serves more than 1,000 organizations across the globe. To learn more about FINCAD's award-winning solutions, please visit fincad.com.

Offices

Vancouver
New York
London
Dublin

Contact Sales or Support Toll-Free:

USA/Canada 1 800 304 0702
Europe 00 800 304 07020
Email info@fincad.com

With F3 technology, individual modeling assumptions and interdependencies are visible at a granular and aggregate level for completely transparent portfolio valuation.

Background

The Alternative Investment Fund Managers Directive (AIFMD) is a European Union directive aimed at the asset management industry in the European Union and non-European fund managers looking to raise capital in Europe.

The main thrust of the directive is transparency. Investment funds are required to disclose their funds' risk, their operations, processes, and other elements.

Although the directive has been in place since 2013, it is expected to take many years before all funds are in compliance.

An exception to the directive is in the case of investors who directly seek out a fund. In this case, called reverse solicitation, funds are exempt from being AIFMD compliant but need to document that they did not solicit the business.

For compliance purposes, an extensive report must be completed.

Valuation

A key component of transparency is the focus on valuation. The assets of the fund need to be valued consistently and independently. This requires that the fund exercise adequate due diligence and document the process followed.

The first things that a fund needs to do are document the current valuation process and determine where improvements can be made. As improvements are made, the valuation process document should be updated.

FINCAD can help by providing users with a fully documented valuation library. Included with the documentation is the list of references where more details can be found.

If the fund has an existing valuation process, FINCAD can help by providing the tools to help benchmark the existing process.

Risk Management

The risk management component under AIFMD is quite broad and includes both operational and process controls. This includes, but is not limited to, risk and liquidity management,

conflict of interest, data management and reporting, technology infrastructure, and capital requirements.

Scenario Analysis and Stress Testing

AIFMD risk reporting includes scenario analysis and stress test reporting.

These reports could require output describing the impact on portfolio value by selected percentage moves in equity markets, or a parallel shift in the yield curve by a certain number of basis points.

FINCAD can calculate such impacts on a portfolio of securities, including the non-linear effects of larger market moves on any derivatives overlays.

Value-at-Risk

AIFMD does not specifically set out what type of risk measures should be reported.

For example, VaR is not a specific requirement. In fact, VaR was part of the original draft but was removed prior to the final draft being issued. However, the European Securities and Markets Authority (ESMA) believes that VaR should be calculated and collected by regulators.

It may, therefore, be simply a matter of time before this is a requirement and it may already be required by the alternative funds home regulator.

For those funds that are just beginning to look into complying with the directive or are looking to improve their process, it may be prudent to include a VaR measure.

Reporting

AIFMD comprises many aspects that must be reported on. It requires answers to hundreds of questions each of which is specific to a single fund within a firm. In other words, each fund that a firm has needs to have a unique AIFM report generated. Organizations need to be prepared by having adequate processes in place to ensure reports are filed in a timely manner. As described previously, FINCAD can help with the risk and valuation questions.