**Alternative Investment Fund Manager applicants under pressure**

Luxemburger Wort 30/04/2014



Photo: Jim Kent

More than 250 risk professionals attended the ALFI ALRIM Risk Management Conference on Tuesday, highlighting the growing importance of this sector and the increasing number of jobs it has created in the Grand Duchy in recent years.

ALFI has had a dedicated working group since 2006 and despite some criticism of the sector following the Madoff scandal, there is evidence that Luxembourg is evolving into a risk management hub.

The timing of this event could not be more relevant as under the Alternative Investment Fund Managers Directive, funds falling within the scope of this directive have to choose between creating their own Management Company or using the services of a third party to fulfill the new risk management regulations. Time is short with a deadline on July 22, 2014 for funds to choose.

At the moment there are only 26 AIFMs (Management companies for Alternative Funds) on the official list published by the CSSF. However the regulator has indicated that an additional 24 firms have also been approved in principle but their authorisation had not yet been published.

An additional, 198 firms have commenced an application procedure although it is unknown if the CSSF will complete the processing of all the applications before the deadline, potentially leaving some funds in regulatory limbo because of processing delays to ensure they are AIFMD compliant.

The day started with the most creative session of the conference presented by Iver Ekeland, Professor at the University of Paris-Dauphane, who recounted the story of Nordic sagas, when the King of Sweden and the King of Norway decided to roll dice to determine who should have ownership of an island, with the highest winning.

Already unlikely, on the first round they both threw two sixes. On the second round, the King of Sweden rolled two sixes again. The King of Norway rolled one six and the other die split, meaning that he rolled a 7, and won ownership of the land.“This is the moment when the model fails,” Ekeland claimed.



Photo: Jim Kent

Future events, including those within the financial sector, can be determined into knowns and unknowns. The unknowns are themselves divided into knowns and other factors that could never have been envisaged.

Across the globe, the financial sector is still responding to the economic shocks associated with the banking crisis in 2008 and the sovereign debt crisis, most vividly seen in Greece but also involving many other nations.

The investment fund industry, so central to Luxembourg’s own future, is responding, driven by European Union directives, national regulators, investors and shareholders. Managers are therefore now putting into place many complex structures and processes to minimise the risk of these financial shocks occurring again.

Hiring new risk managers is an additional challenge within the industry. Christophe Adamy VP, and Head of Risk Management for Allianz Global Investors, commented that the perfect AIFM risk manager is hard to find as the combination of decent risk management and deep alternative investment fund experience is not common.

Benjamin Gauthier, Director of Governance, Risks and Controls for PwC (Luxembourg) illustrated how effective risk management under AIFMD requires firms to create a grid to identify, measure, manage and monitor the five main types of risk: market, credit, counterparty, operational and liquidity. “We are entering a period where risk management principles are overlapping with reporting requirements,” he said.

There was some discussion of the role of Third party Management Companies that are providing services to many different funds and therefore assessing risk across varying sectors.

Some from within the industry have commented this makes the risk assessment to be extremely complex and therefore very difficult to manage.

However, Ludivine Nicolai, Conducting Officer of Crestbridge Luxembourg, itself a third a party provider, commented: “A third party Manco does not have the same function, our focus is on oversight rather than operations. In fact in terms of due diligence, third party Mancos can and do challenge other service providers, whereas larger organisations may depend too much on the implementation of their own internal policies.”

*By Jim Kent*