

Client	The client is the Luxembourg asset management subsidiary of a UK financial services group
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Project Name	Review of risk management arrangements based on new regulatory requirements
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Project Start Date	January 2011	Project End Date	April 2011
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Industry	<input type="checkbox"/> Commercial banking	<input type="checkbox"/> Insurance
	<input checked="" type="checkbox"/> Fund Custody & Investment Services	<input type="checkbox"/> Investment banking
	<input type="checkbox"/> Private banking	<input checked="" type="checkbox"/> Asset and wealth management
	<input type="checkbox"/> Retail banking	<input type="checkbox"/> Corporate

Category of Service	<input type="checkbox"/> Performance measurement and monitoring	<input checked="" type="checkbox"/> Regulatory compliance and reporting
	<input type="checkbox"/> Portfolio risk management	<input type="checkbox"/> Business process improvement
	<input checked="" type="checkbox"/> Specialised risks	<input type="checkbox"/> Training and people change
	<input type="checkbox"/> Data Quality	<input type="checkbox"/> System selection and implementation

The Challenge	<p>The client requested avantage to undertake a review of its existing risk management arrangement based on evolving regulatory requirements, including:</p> <ul style="list-style-type: none"> • Review of the risk management framework, including: <ul style="list-style-type: none"> ○ Risk governance, including the committee structure and the governance of 'outsourcing' arrangements regarding risk analytics (to London); ○ Risk management policy and credit risk policy; ○ Risk analytics, i.e. gaining an understanding of the methods used by London (essential to be able to comment on the risk reports) and detailed review of some of the key metrics based on a sample of say four to five sub-funds, including evaluation of style drift issues, robustness of the VaR model, etc. • Review of the investment mandate, including the limits that the asset managers are subject to (in other words, identification of the "investment risk budget" of the sub-funds so that we can compare the risk metrics to a set of limits). If these do not exist, determination of relevant limits with management; • Review of the agenda and minutes of the risk committee to identify any potential area for improvement (esp., in terms of supervisory scrutiny);
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	and <ul style="list-style-type: none">• Evaluation of the key enhancement requirements in light of CSSF requirements and the new regulatory requirements re risk management within UCITS IV and AIFMD.
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Approach and Solution	avantage used its proprietary tool, the Integrated Risk and Performance Measurement (IRPM™) tool to perform an independent and structured assessment of the firm’s risk management capabilities based on regulatory requirements, including existing CSSF requirements as well as forthcoming changes thereto under UCITS IV and AIFMD. The tool is a structured scorecard that has been designed to capture relevant descriptive information on a firm’s capabilities as a reliable means of identifying gaps between the firm’s current state and the minimum regulatory standards.
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Results and Benefits	avantage delivered a Risk Management Review addressing a twofold objective, i.e.: <ul style="list-style-type: none">• Optimising in a risk-based manner the firm’s risk management practices, identify and recommend opportunities to optimise risk management practices (business-driven objective) and;• Ensuring compliance with existing and ‘looming’ regulatory developments (regulatory-driven objectives). In this context, while avantage primarily took into account the new law relating to undertaking for collective investments of 17 December 2010 (implementing the UCITS IV Directive) as well as existing CSSF Circulars and CESR/ESMA guidelines and recommendations:<ul style="list-style-type: none">○ ESMA Guidelines 07-044b, <i>Guidelines concerning eligible assets for investment by UCITS</i>;○ ESMA Guidelines 09-178, <i>Risk management principles for UCITS</i>;○ ESMA Guidelines 10-788, <i>Risk measurement and the calculation of global exposure and counterparty risk for UCITS</i>;○ CSSF Circular 07/308, <i>Rules of conduct to be adopted by undertakings for collective investment in transferable securities with respect to the use of a method for the management of financial risk, as well as the use of derivative financial instruments</i>;○ CSSF Circular 08/356, <i>Rules applicable to undertakings for collective investment when they employ certain techniques and instruments relating to transferable securities and money market instruments</i>;○ CSSF Circular 11/498, <i>Entry into force of the law of 17 December 2010 relating to undertakings for collective investment and CSSF</i>
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	<p><i>Regulations No 10-04 and No 10-05 on implementing measures;</i></p> <ul style="list-style-type: none">○ Regulation 2010/N°239 dated 17 December 2010; and○ CSSF Regulation 10-04, <i>transposing Commission Directive 2010/43/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards “Organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company”.</i>
Software used	Not applicable