

NORTHERN TRUST



## Alternative Investment Fund Manager Directive

### CEPS – ECMI Seminar


**Brussels, 29<sup>th</sup> May 2013**

**An overview of AIFMD**



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## AIFMD – Scope

*The AIFMD covers non UCITS funds managed in and/or domiciled in and/or marketed in the EU.*

	Managed in	Domiciled in	Marketed in
<b>Detail</b>	Each AIF needs an authorised AIFM, and while this entity is likely to be the “ManCo”, it is subject to new rules on delegation, wherein existing ManCos may need to demonstrate increased “in country” substance in order to qualify.	EU domiciled funds are eligible for the Passport from July 2013, upon authorisation and full compliance. Non EU funds can continue to private place, under a lighter compliance regime.	Three levels of marketing: <ul style="list-style-type: none"> <li>▪ The new Passport – requires full compliance</li> <li>▪ Private Placement – requires partial and/or delayed compliance</li> <li>▪ Reverse Solicitation – not covered by AIFMD</li> </ul>
<b>Benefit</b>	The primary benefit for asset managers is the creation of a pan-European Passporting regime for Alternative Investment Funds (AIFs), making EU distribution easier. This Passporting regime is analogous to the UCITS environment and focuses on “active marketing” – each national regulator needs to decide on their own implementation of Private Placement regimes.		
<b>How to take advantage</b>	In order to secure the Passport, managers (AIFMs) and funds (AIFs) need to comply with new regulations – in the area of Depositaries, Operations & Transparency, and Governance.		



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## AIFMD – Main Impacts

*The EU have new requirements on:*

Impact	Detail
<b>Governance</b>	Policies on risk management, liquidity management, best execution, conflicts of interest, remuneration.
<b>Operations and transparency</b>	New quarterly/annual regulatory report required (depending on size), new requirements to calculate leverage, insurance coverage/"own funds", AUM, valuation, annual financial statements, disclosure to investors.
<b>Depositories</b>	The Directive provides for new operational requirements on the Depository, particularly around cash and asset monitoring, and it also introduces a new liability on the Depository for loss of assets, in certain situations.

Various exemptions exist for funds that:

- Private Place (until 2018, but may be extended)
- Use Reverse Solicitation (undefined)
- Do not meet the "Scope" definition (size, SMAs, SPVs)
- Are domiciled outside the EU (Third country managers and/or funds can rely on exemptions until at least 2015)

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## AIFMD – Roadmap to Compliance

### Governance

Objective	EU AIFM / EU AIF	EU AIFM / Non EU AIF via PP	Non EU AIFM / Non EU AIF	Details
<b>Authorisation and delegation</b>	<ul style="list-style-type: none"> <li>▪ New managers seeking authorisation post July 2013, apply under new AIFMD code.</li> <li>▪ Managers existing pre July 2013, to apply on or before July 2014.</li> </ul>	<ul style="list-style-type: none"> <li>▪ New managers seeking authorisation post July 2013, apply under new AIFMD code.</li> <li>▪ Managers existing pre July 2013, to apply on or before July 2014.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Competent authorities of the home state of the AIFM to implement appropriate cooperation agreements with Member States where marketing taking place.</li> </ul>	AIFM to determine authorisation timeframe and location and to ensure AIFM complies with minimum substance requirements. "In certain situations, Northern Trust (NT) may be able to supply assistance with substance.
<b>Remuneration policy</b>	✓	✓	Subject to local requirements	Requirement to create remuneration policy consistent with AIFMD.
<b>Conflicts of interest</b>	✓	✓	Subject to local requirements	Requirement to create conflicts of interest policy.
<b>Liquidity policy</b>	✓	✓	Subject to local requirements	Requirement to create liquidity policy and to maintain as appropriate to the portfolio and investor profile.
<b>Risk management policy</b>	✓	✓	Subject to local requirements	Requirement to create risk management policy and to maintain as appropriate to the investor base, the portfolio and the assessment of risk in the fund and the portfolio strategy.

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## AIFMD – Roadmap to Compliance

### Operations and Transparency

Objective	EU AIFM / EU AIF	EU AIFM / Non EU AIF via PP	Non EU AIFM / Non EU AIF	Details
Distribution	<ul style="list-style-type: none"> <li>Passport available upon authorisation.</li> </ul>	<ul style="list-style-type: none"> <li>PP acceptable until at least 2018, but subject to PP regimes in each national country.</li> <li>Passport available after 2015 for non EU funds.</li> </ul>	<ul style="list-style-type: none"> <li>PP acceptable until at least 2018, but subject to PP regimes in each national country.</li> <li>Passport available after 2015 for non EU funds.</li> </ul>	
Valuation policy	✓	✓		Collective obligation to create a pricing and valuation infrastructure that creates clarity on ownership, responsibility, escalation, disputes, challenges etc.
Calculation of leverage	✓	✓		Obligation on AIFM but NT expect to assist with calculation.
Calculation of AUM	✓	✓		Obligation on AIFM but NT expect to assist with calculation.
Minimum capital	✓	✓		Obligation on AIFM but NT expect to assist with calculation.
Regulatory report	✓	✓	✓	Obligation on AIFM but NT will assist with compilation of report.
Annual financial report	✓	✓	✓	Obligation on AIFM but NT will work with auditors to create new templates.
Disclosure to investors	✓	✓	✓	Periodic and regular disclosure to investors required. Periodic reporting upon material changes to risk process or investment strategy. Regular reporting to cover transfer agency requirements and disclosure requirements as part of offering documents.

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## AIFMD – Roadmap to Compliance


### Depositary

Objective	EU AIFM / EU AIF	EU AIFM / Non EU AIF via PP	Non EU AIFM / Non EU AIF	Details
Depositary operations	<ul style="list-style-type: none"> <li>Full depositary requirement including new liability standard for "financial instruments held in custody".</li> <li>New formalised depositary operational requirements to supervise assets, cash and the NAV process.</li> </ul>	<ul style="list-style-type: none"> <li>Offshore Depositary requirement only.</li> <li>Operational requirements to supervise assets, cash and the NAV process.</li> <li>No new liability imposed.</li> </ul>	<ul style="list-style-type: none"> <li>Competent authorities of the home state of the AIFM to implement appropriate cooperation agreements with Member States where marketing taking place.</li> </ul>	NT creating new Depositary operating model, including daily procedures, reconciliations, oversight.
Asset safekeeping	✓	✓	✓	NT to supervise assets "in custody", and "other assets" – may require change of asset safekeeping arrangements, especially where assets currently held at Prime Brokers. NT also upgrading Network Management process including for Prime Broker sub-custodian arrangements.
Cash monitoring				NT creating new cash monitoring process, to be compliant with the new requirements.
Investment compliance				Depositary obligation to monitor investment compliance with stated investment objectives.
Supervision of NAV				Ongoing requirement to monitor compliance of the NAV process with AIFMD.

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## AIFMD – Timeline

Timeframe	EU managed EU fund e.g. London manager of Irish fund	EU managed non-EU fund e.g. London manager of Cayman fund	Non-EU managed EU fund e.g. Swiss manager of Luxembourg fund	Non-EU managed non-EU fund e.g. US manager of Cayman fund
22 July 2013	Official adoption of AIFMD in member states			
22 July 2013	New managers seeking authorisation, must comply in full			
22 July 2014	Deadline for managers operating pre July 2013, seeking authorisation under AIFMD			
July 2013 – July 2014	Full compliance with operational, transparency and governance provisions			Compliance with Articles 22 – 24 (annual report, investor disclosure and regulatory reporting)
July 2013 – July 2014			Requires authorisation from Member State of Reference	Requires cooperation agreement with home state of AIFM
July 2013 – July 2014	Full Depository	Offshore Depository	Full Depository	n/a
July 2013 – July 2014	Passport	Private Placement	Passport	Private Placement
July 2015		Passport available, requiring cooperation agreement and full compliance		Passport available, requiring cooperation agreement and full compliance
July 2018		Winding up of Private Placement		Winding up of Private Placement

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