



Covid-19: Challenges for asset managers

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Moderator of the webinar:

Vincent Ingham
Director, Regulatory
Policy at EFAMA



Niamh Mulholland
Director – Regulatory at
KPMG Ireland



Dan Page
Head of Asset Management
Advisory at KPMG Ireland
(London)



Alan Picone
Partner, Advisory - Asset
Management at KPMG
Luxembourg



Dan Page

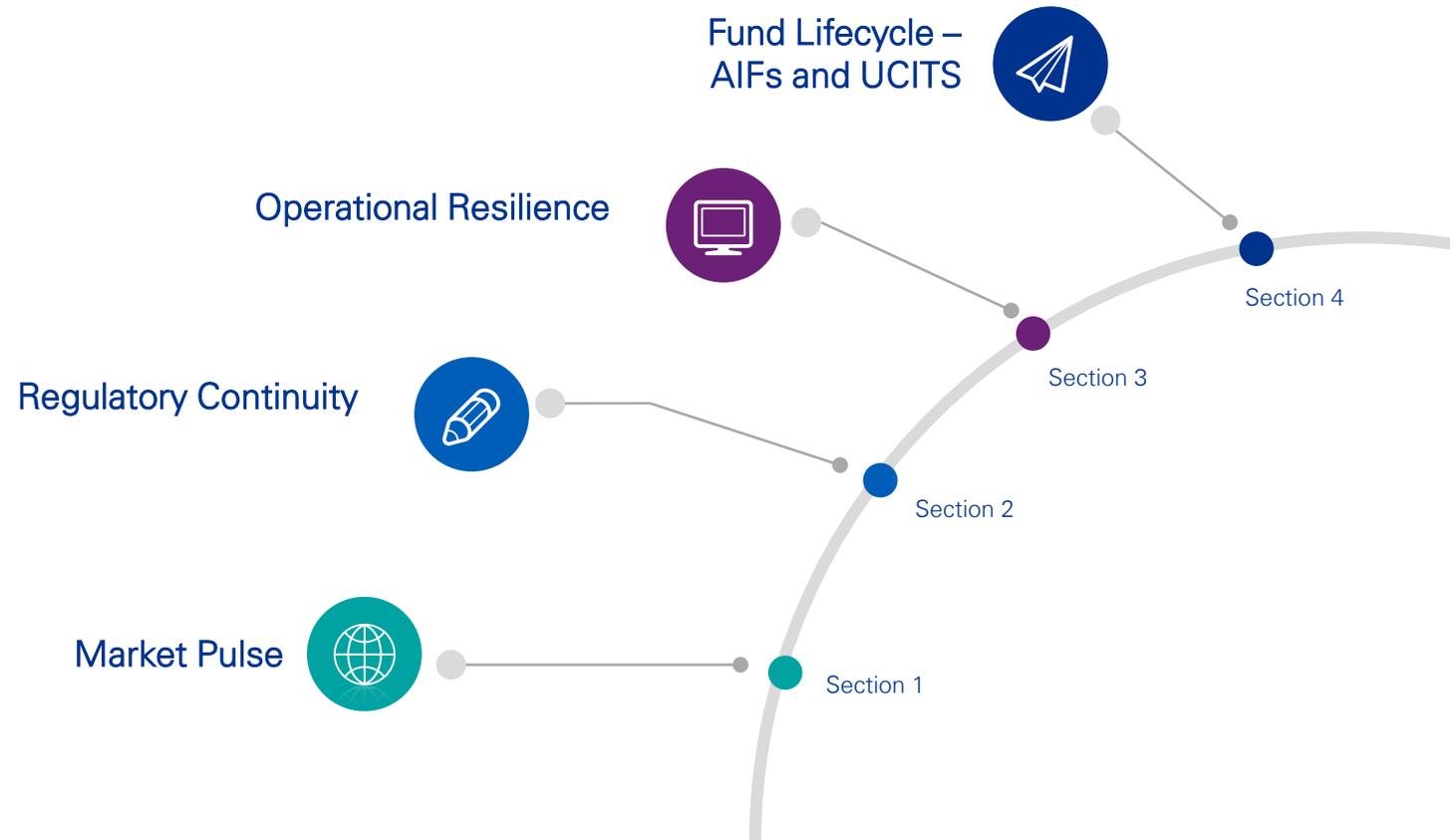
Head of Asset Management
Advisory at KPMG Ireland
(London)



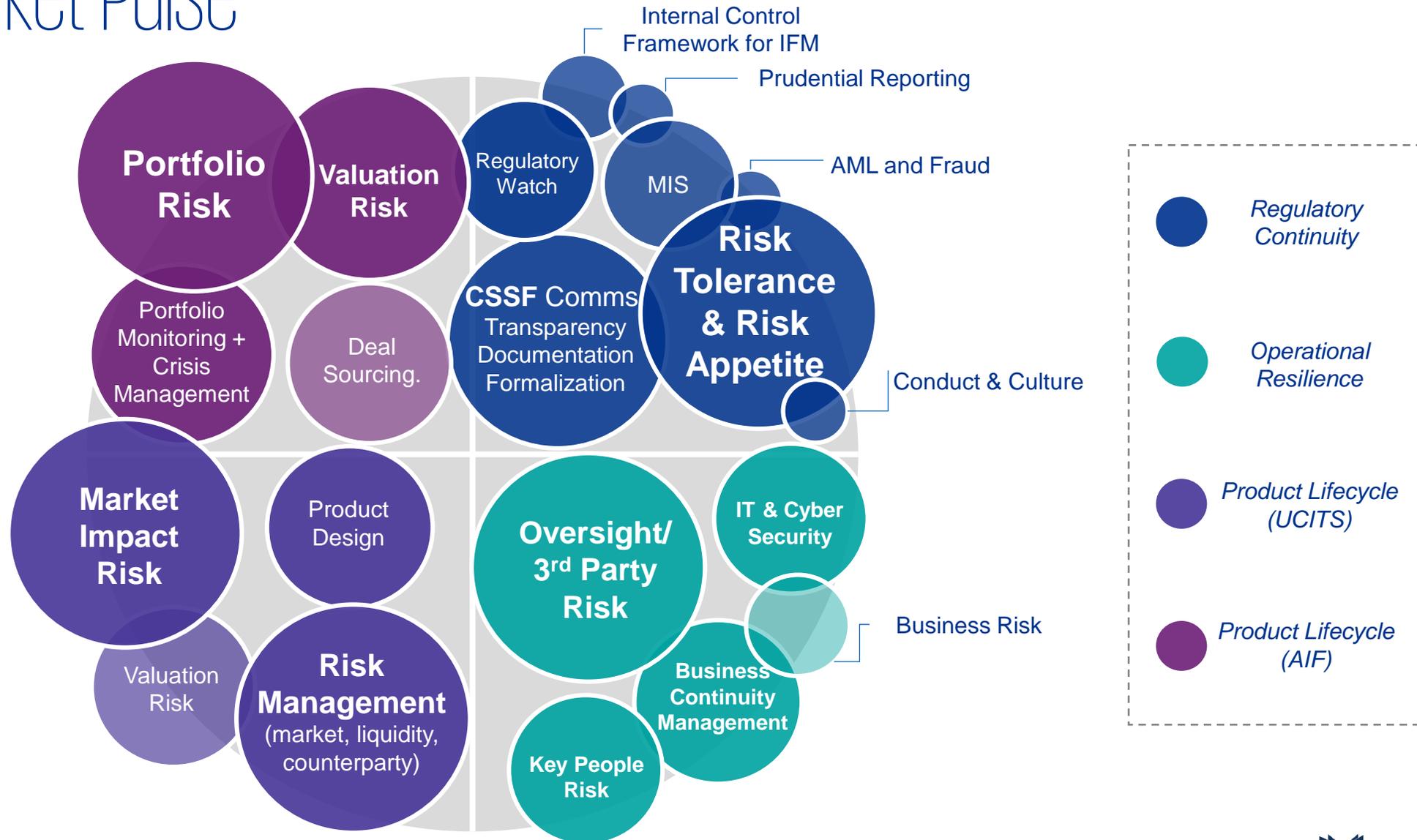
Dealing with Business-as-unusual

Alan Picone, Partner, Advisory - Asset Management at KPMG Luxembourg

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Market Pulse

AML & Fraud

Risk Tolerance & Risk Appetite

Business Continuity Management

CSSF Comms.

Business Risk

Regulatory Watch

Crisis Management



Regulatory Continuity



Operational Resilience



Product Lifecycle (UCITS)



Product Lifecycle (AIF)

Market Impact Risk

MIS

Oversight

3rd Party Risk

Risk Management

Internal Control Framework

Portfolio Monitoring

Conduct & Culture

Portfolio Risk

IT & Cyber Security

Valuation Risk

Key People Risk

Valuation Risk

Deal Sourcing

Prudential Reporting

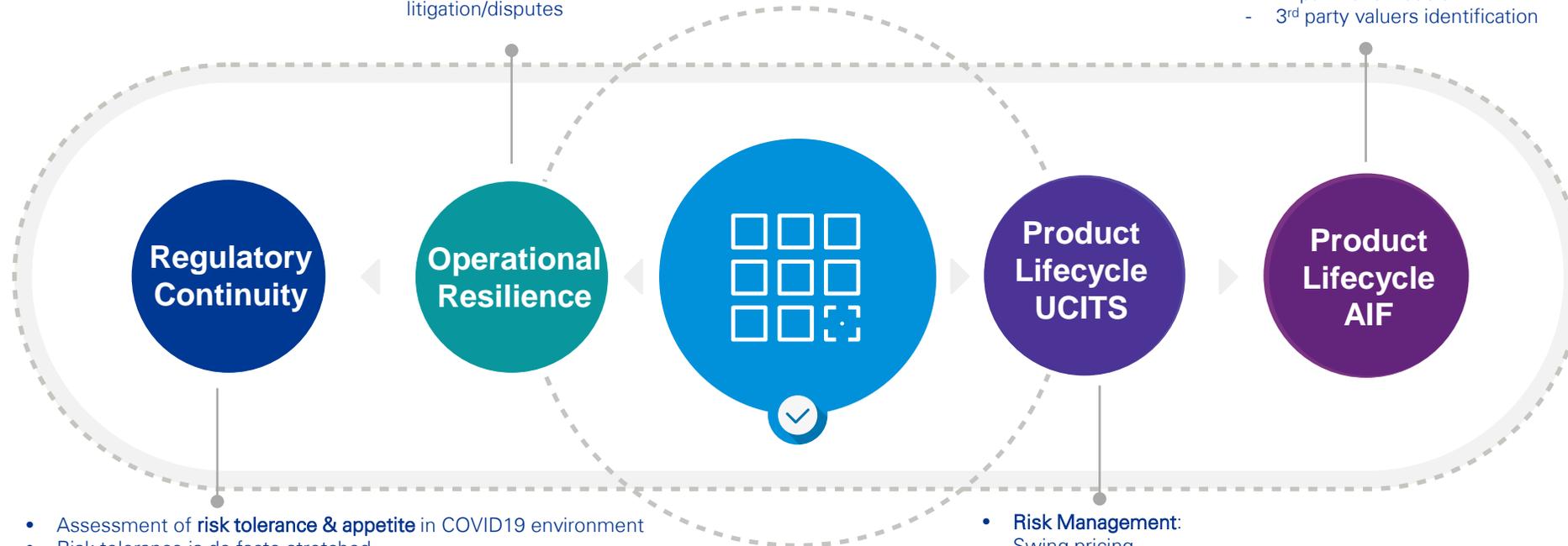
Product Design



Market Pulse - in depth

- Luxembourg ecosystem relies heavily on **effective delegates' monitoring**
- Managers mindful of reliance on 3rd parties
- Move from quarterly review to **daily vigilance**
- **Review** of BCPs, SLAs,
- Contractual aspects & potential litigation/disputes

- **Portfolio Risk:**
 - Internal risk assessment programs (supply chain, cash flows at risk, people risk)
 - Thematic funds such as market dislocation
- **Valuation Risk:**
 - Integration of COVID19 as a premium
 - Impairment models
 - 3rd party valuers identification



- Assessment of **risk tolerance & appetite** in COVID19 environment
- Risk tolerance is de facto stretched
- **Trade off** risk tolerance/operational continuity
- **Extreme measures** → NAV suspension
- **Temporary measures** → swing pricing
- Cannot meet two investment restrictions criteria at the same time
- **Board reporting** is being prepared with these in mind

- **Risk Management:**
 - Swing pricing
 - Liquidity analysis
 - Liquidity stress-testing
 - Ability to endure redemption shocks

Regulatory Continuity



➤ Challenges the market players are facing

- Daily activities taking the attention from keeping up to date with new regulatory developments (e.g. AMLD V)
- Increased regulatory obligations in terms of reporting due to communication on contingency measures due to COVID-19
- Dysfunctional patterns

➤ How are they **adapting & mitigation** measures in place

- **TRANSPARENCY:**
 - The majority of players has shown **increased attention** on communications from the CSSF (e.g. FAQs issued for COVID-19 with extended deadlines)
 - They are **engaging with the regulator** and willing to be **transparent** on what they should report (e.g. investment restrictions, VaR breaches, breaches on the rules of the investment funds)
 - ManCos are finding ways to **communicate** properly with **their boards**, showing heatmaps and links of the upcoming regulation and deadlines and how these are being addressed

UCITS

- **DOCUMENTATION:**
 - Increasingly and properly **documenting** the risks and mitigation measures
 - Increased **disclosures** to investors
- **GOVERNANCE:**
 - Elevated level of **formalization** through the recourse to internal mechanics
 - Increased frequency of **decision forums** → product approval, swing pricing committee, board meeting
 - Systematic Regulatory Watch
- **MARKET INTELLIGENCE**
 - Increased **scrutiny** over what is being done by **peers**
 - **Mimicking** effect and interest over who will take drastic measures
 - Increased attention over what's being provided by **consultants** on **market sentiment**

PE

- **Not the same risks as UCITS**
- Regulatory risk focused on **valuation** – proving that there is a proper valuation process in place
- Engage with **portfolio managers** to view the consequences on the portfolio companies

Operational Resilience

➤ Challenges the market players are facing

- Business Continuity Plan covering: IT, cloud, VPN and home-office
- Data security and confidentiality
- Key people risk
- Compliance obligations
- Oversight obligations

➤ How are they **adapting & mitigation** measures in place

- Majority of players have activated their **BCP** and are promoting home-office
- They are aware of the **downsides** e.g. increase in cyber criminality, risks for data confidentiality and protection
- A few players are considering relying on the **cloud**
- Extension of **VPN** capacity
- Players are reluctant to use tools that are not approved/for which there is no procedure in place
- Assessment of where **resources** are needed, with a view that people are not interchangeable
- Review of the **Compliance Monitoring Plan** that is being adapted to COVID19 actions and mitigation measures
- Improvement in the CMP for regulatory risk mitigation techniques in order to be able to demonstrate to have a proper response that is COVID19 specific
- Update **risk matrix** taking into account COVID 19 specific risks
- **Oversight** is becoming much **more granular** but asset managers still have a good overview on the delegated tasks



Product Lifecycle - AIFs and UCITS

Contingency Measures



➤ How are they **adapting & mitigation** measures in place

- Majority of players have opted for a **segmentation** of the **risk analysis**, by portfolio companies – along various criteria (risk to employees, liquidity, financial, sector/geography)
- Players are taking **contingency measures** such as NAV suspension, measures on capital calls/drawdowns
- Increased concerns over **reputation**
- **Valuation** for **UCITS** → concerns on the reliability of the valuation, some players are disclosing it in disclaimers informing investors of reduced accuracy in the valuation
- **Valuation** for **PE** → overall reluctance to proceed with a different view on valuation
- 1-on-1 valuation reviews and most AIFMs have the intention of being more involved for the next quarter round of valuation
- Some players mention the use of **Moody's** analytics credit hedge to calculate PD
- Some players are **reviewing** their **investment range** (asset class, sector, geographies) and target markets
- Majority has been **actively seeking deals**
- Concrete actions for **crisis management**:
 - *Shoring up liquidity*
 - *Contingency planning for key people*
 - *Maintenance/continuation of supply chain*
 - *Business infrastructure and operations integrity*

➤ **Challenges** the market players are facing

- Risk Management in terms of market, liquidity, counterparty risk
- Valuation risk
- Product design
- Portfolio monitoring and crisis management
- Deal sourcing and opportunities



- **Portfolio risk for AIFs:**
 - internal risk assessment programs (supply chain, cash flows at risk, people risk)
 - Thematic funds (market dislocation)
- **Valuation risk for AIFs:** integration of Covid-19 as risk premium, impairment models, identifying 3rd party valuers
- **Risk Management for UCITS:** swing pricing, liquidity analysis & stress-testing, redemption shocks



Cutting through complexity

Niamh Mulholland, Director – Regulatory at KPMG Ireland

C-19 related Regulatory Impacts

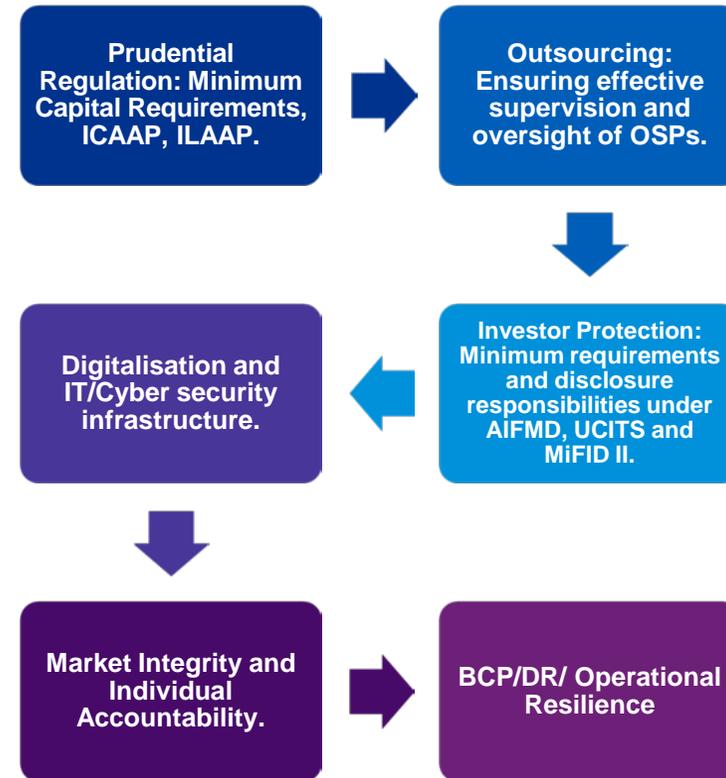


C-19 Operational Effectiveness and Resilience Considerations

Focus on operational efficiency and effectiveness and end-to-end continuity of customer service



Regulatory impact on existing Regulatory Requirements





Q&A



Thank you!



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