AIFMD ISSUES LINGER PAST DEADLINE

August 13, 2014

July 22 marked the compliance deadline for fund managers to obtain authorization under the Alternative Investment Fund Managers Directive (AIFMD), a European-wide framework that requires funds to reevaluate, recalculate and reformat fund datato correspond with ESMA reporting guidelines.

The main challenge of AIFMD is its breadth, especially given that most of the affected fund managers have never seen regulations of that scale. The regulation targets all types of alternative investment managers – hedge funds, private equity firms, real estate fund managers, funds of funds; from small to medium to large ones.

"Some firms, depending on types and sizes of funds and respective strategies, may never have had all risk controls in place at a level required by AIFMD," Alexey Utkin, financial services practice leader at DataArt, told Markets Media.

Although some firms were tracking particular risk metrics before, AIFMD adds a variety of additional risk metrics and aspects. "Fund managers have to embrace and implement these risk controls and reporting in a tight timeline, as one of the steps of a larger AIFMD implementation program, covering many other aspects of the regulation," said Utkin. "Apart from time constraints, particular implementation challenges may reside in operational and resourcing, data and technology, and ultimately, costs."

DataArt, a provider of custom software and application development to the financial services industry, has been working in concert with its clients to implement the directive, while also monitoring the ongoing compliance atmosphere around the directive and its deadline, according to Utkin. The company expanded its Form PF software to include AIFMD reporting capabilities outlined by the European Securities Markets Authority (ESMA).

Systemic risk reduction is the main reason why AIFMD appeared in the first place. Reported exposures and risk data, being aggregated at the EU/region/regulator level, should enable thorough systemic risk analysis, scenario analysis, and stress testing.

“This analysis, at least in theory, should lead to the ability to fine tune the financial system in order to achieve better stability and potentially avoid dangerous misbehavior of individual firms, hence protect investors,” said Utkin.

Sentiment about AIFMD should change once the compliance effort has fully shaken out. “Given the scale of the regulation, it’s not surprising that the majority of opinions we hear before and during a roll out phase are somewhat negative, and mainly caused by the change, challenges and rising costs,” Utkin said. “Also, currently there is enough skepticism of the ability of regulators to soon make use of the data they will be getting under AIFMD, and positive AIFMD PR is clearly not the biggest priority for regulators at the moment.”

With the compliance deadline having passed, “this is a good moment to have a look at the future and see what fundamental benefits AIFMD will bring,” said Utkin. “It took a while for AIFMD’s sister regulation UCITS to become a positive brand among firms and investors, but that is what it is now.”