



Challenges of AIFMD Reporting Implementation

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AIFMD brings alternative fund managers from hardly any regulations to a very comprehensive framework in a very short period of time. And the directive's reporting requirements present a significant data management challenge.

The Alternative Investment Fund Managers Directive, or AIFMD, became law in July 2013. Now deadlines for AIFMD Annex IV guidelines, which prescribe transparency reporting requirements, are fast approaching, and fund managers are facing major challenges as they begin implementing solutions to comply with them.

As is common when addressing many regulations, time pressure is one of the dominating challenges that fund managers are facing. AIFMD comprises much more than just its reporting requirements. It touches many other aspects of fund managers' reality – depositaries, delegation, independent valuations, audit, remuneration, and risk and liquidity management. Effectively, AIFMD brings alternative fund managers quite close to Undertakings for Collective Investments in Transferable Securities (UCITS), from hardly any regulations to a very comprehensive framework in a very short period of time. While earlier this year, many firms did not view the reporting portion of AIFMD as a top implementation priority, it has now climbed to the top of their lists.

Generally, implementation of AIFMD requirements has two streams of work. The first is defining a workflow and process within an organization. This includes identifying responsibilities, roles and stakeholders who are responsible for determining what funds and what sections are applicable, as well as filling in the data and deciding who approves it. The second is assessing how and to what extent problems should be solved from a technology perspective. Some, generally smaller funds may choose manual filing, although that choice comes with a higher risk of human error. Other, generally bigger firms are willing to make an investment and solve the problem with automations that lower future costs and human errors.

In regards to AIFMD reporting implementation and its technical challenges, it's worth identifying two types of situations. In the first scenario, fund managers are using a fund admin that has access to all required data and that implemented AIFMD requirements on its end to provide a reporting service. In the second scenario, the fund managers are using a product line or a comprehensive software platform, which holds most of the data required for AIFMD reporting and also includes the AIFMD reporting software from the vendor of the product or platform. While neither of these situations may be ideal from a functional or workflow perspective, they are certainly a good place to start.

Unfortunately, the majority of fund managers are in a slightly different position. In fact, most of them have a unique data management situation, which combines a custom and third-party system that holds only subsets of data – positions data, trading data, market risk data, liquidity and counterparty risk, strategies, and investors' data. The problem tends to be bigger for bigger funds. They may use different systems for different funds or types of managed funds. This hefty data management challenge is not generally solvable by an out-of-box product and these companies would normally seek a custom solution implementation with or without integration of a third-party software product.

A custom technical solution implementation for AIFMD filing normally consists of three major steps: identifying all required data points, bringing those together into a reporting system, and aggregating according to AIFMD-specific aggregation and calculation rules, and implementing the users' functionality to support the desired compliance reporting workflow. Some managers may already have products or systems simplifying certain implementation aspects – for example, they may already have a reporting warehouse or portfolio management system capable of performing AIFMD-specific aggregation.

Another challenge that fund managers are facing is the level of uncertainty related to AIFMD requirements, including changes and clarifications. In fact, ESMA released its final AIFMD guidelines only in October 2013, with some firms having to file in the beginning of 2014. It then updated the guidelines again in November/December. Such changes create a risk for companies that rely on third parties, making them dependent on the third-party's ability to react to the regulation changes quickly, and respond in a matter of weeks if not days.

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