

November 2011



Quicksan tool

Your first step towards compliance

After more than 32 months of intensive debate, negotiations on the Alternative Investment Fund Managers (AIFM) Directive have reached a conclusion and the two year implementation phase across the European Union has started. The ESMA has now issued its technical advice on the implementing measures (so-called Level 2 measures) to the European Commission.

The rules of the future game are therefore becoming clearer. Now is the perfect time for each AIFM to start assessing its operational readiness towards some of the key provisions of the Directive.

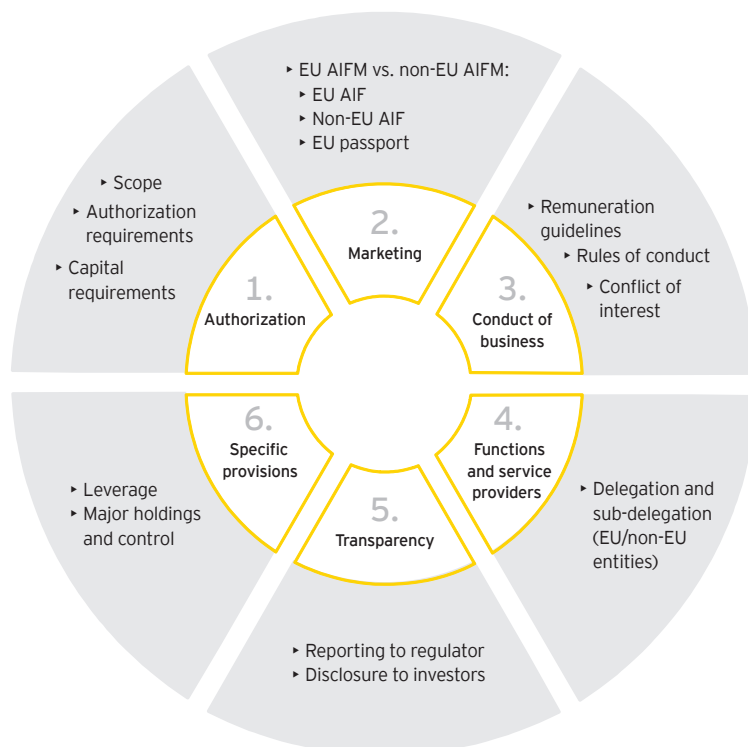
The **Quicksan tool** has been designed to be your first step towards the AIFM Directive.

Your medium to long-term challenge

The Alternative Investment Fund Managers (AIFM) Directive will, for the first time, introduce a harmonized European regulatory regime for managers of Alternative Investment Funds (AIF).

EU AIFM need to be compliant with the Directive by mid-2013. Non-EU AIFM which manage EU AIF or market AIF (EU or non-EU) in Europe will also need to comply with the Directive at a later stage.

In return for more regulation, the Directive provides for the introduction of a “passport”, enabling AIFM to offer their management services and market their AIF throughout the European Union under a single authorization. To become an authorized AIFM, the Manager will need to ensure that it complies with a range of provisions within the AIFM Directive relating to effective governance, organizational structure, monitoring and safeguards, third-party oversight, financial resources and liability insurance cover, as well as meet enhanced reporting and disclosure requirements.





Why is it important to take action now?

- 1. Enough information available**
The AIFM Directive (Directive 2011/61/EU) officially entered into force in July 2011; on November 16, ESMA issued its final advice for Level 2 implementing measures to the European Commission and the national regulators across Europe have started to work on their national laws to implement the AIFM Directive. We believe there is enough information for asset managers to start working in detail on the operational impact of the AIFM Directive.
- 2. Operational alignment takes time**
Operational alignment - even if limited to an initial phase - will take time; it requires adequate planning to make sure that changes are successfully implemented and are aligned with the strategic objectives of the manager. Timely consideration will ensure a competitive advantage and will enable each AIFM to make informed decisions with regards strategy, fund range and choice of domicile in light of the AIFM Directive.
- 3. A potential investors' requirement**
Private equity and real estate managers operate in a highly competitive environment; going forward, some categories of investors may grant a preference to managers able to display the AIFM Directive "quality and transparency" label or at least to provide clear evidence that they have taken the necessary steps to comply with best practices standards.

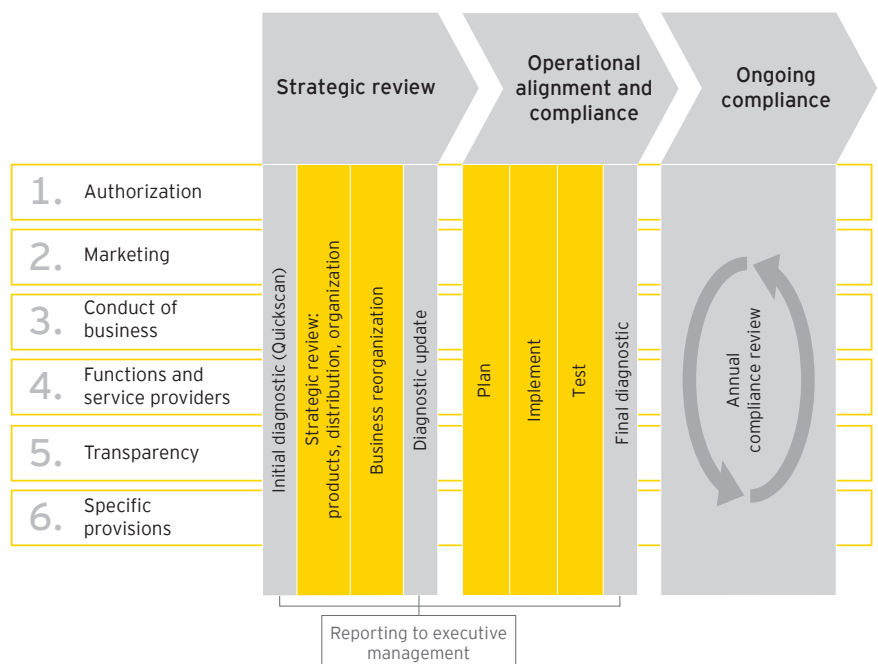
The Ernst & Young AIFM service model

We have developed a comprehensive service model for clients wishing to address changes brought by the AIFM Directive at all levels.

The service model consists of three key phases:

- ▶ An initial strategic review (Quickscan)
- ▶ An operational alignment and compliance phase
- ▶ An annual compliance review process

High-level but insightful diagnostic (Quickscan) can be used to initiate the process and track progress to enable senior executives to have a clear picture. This is an excellent and cost-effective way to make a start. Our service model provides a safe pathway to achieve and maintain compliance with the AIFM Directive.



Making a start - The objective of the Quickscan tool

The Quickscan tool aims to enable private equity and real estate funds and their managers to assess their current positioning towards a few selected key operational requirements of the AIFM Directive.

Methodology

The process starts with a standardized questionnaire designed to assess the extent to which your fund/manager is likely to fall in scope of the Directive. Being technical in nature, this interview is conducted by Ernst & Young AIFMD experts and complemented by a maturity matrix which assesses the manager's maturity in the context of the operational requirements with regards to authorization, conduct of business, functions and service providers, and transparency.

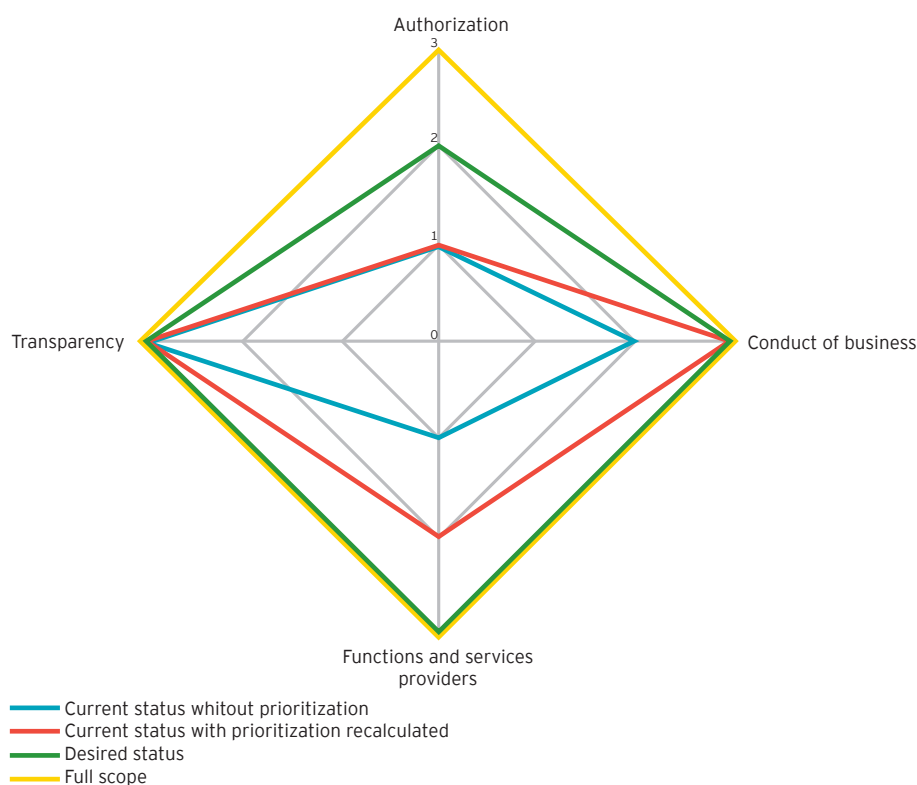
Deliverables

Our final deliverables will consist of a management dashboard to be used as a high-level roadmap to achieve compliance with the AIFMD. For each of the four main sections of the questionnaire we will then provide you with our AIFM Directive expert's comments on:

- ▶ The current situation and maturity level - please see example of deliverable report below
- ▶ The major gaps identified
- ▶ Possible actions to address in view of the upcoming new regulation and the extent to which it may impact your fund and manager
- ▶ An analysis of the areas where further guidance on interpretation is required from the regulator before a firm conclusion can be reached
- ▶ A highlight on your hot topic identified following our interview

The Quickscan status report

Key deliverable of the current situation and maturity level of your fund and manager - A visual approach



The Quickscan tool proposes a high level assessment of readiness based on four key pillars of the AIFM Directive relevant to private equity and real estate.

Our team of experts has designed a survey with 30 key questions focused on these topics. Based on your answers, a rating will be issued pillar (blue line):

- ▶ Rating 1: the firm has been identified as currently positioning at a **basic** level
- ▶ Rating 2: the firm has been identified at a **developing** level
- ▶ Rating 3: the firm has been identified at an **advanced** level (i.e., in line with best practice as per the Directive)

The graph shows a dynamic framework using an issues prioritization weight approach, overall illustrating the gap and the effort to reach the desired outcome:

- ▶ Current state (without prioritization) - the manager's rating of the current state after making analysis using questionnaire
- ▶ Current state (with prioritization) - the manager's rating taking account of the prioritization of issues and hot topics
- ▶ Future desired state - the manager's desired outcome on each topic after consultation with the Ernst & Young team
- ▶ Full Directive scope - status if the full scope of the Directive was applied in all areas

The Ernst & Young difference

Ernst & Young has committed significant resources to serving the needs of AIF firms over the last 20 years. In Luxembourg, Ernst & Young has the largest specialized and dedicated alternative investment team as well as the broadest range of services in that industry among local audit and advisory firms. Our professionals audit countless funds and structures in Luxembourg and advise investment managers on valuation, reporting and operational procedures. We also advise Luxembourg service providers on the implementation of alternative investment services in terms of accounting procedures, IT software advisory engagements, training and recruiting.

Our service delivery team combines dedicated professionals with significant experience performing private equity and real estate AIFM advisory engagements with experts from the alternative investment fund industry. This means you will be teaming with people who understand the issues, and how critical your programs and projects are to your organization's success across all borders and country specifics.

While many firms are capable to issue AIFM diagnostic reports, Ernst & Young is uniquely positioned to go the extra mile and provide you with a high value-added service and share with you significant industry knowledge. In addition, we will also bring a fresh perspective to your current compliance and control environment.

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Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

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Contacts

Michael Hornsby

EMEIA Real Estate Funds Leader

+352 42 124 8310

michael.hornsby@lu.ey.com

Shaun Swanepoel

Senior Manager, Real Estate

AIFM Directive subject matter expert

+352 42 124 8085

shaun.swanepoel@lu.ey.com

Olivier Coekelbergs

Partner, Private Equity

+352 42 124 8424

olivier.coekelbergs@lu.ey.com

Axelle Ferey

Director, Private Equity

AIFM Directive subject matter expert

+352 42 124 8329

axelle.ferey@lu.ey.com

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