

# Navigating the post-AIFM Directive challenges and opportunities for depositaries

# Contents

<b>Introduction</b>	<b>1</b>
<b>1. AIFM Directive depositary requirements</b>	<b>2</b>
Duties of the depositary	3
Eligible entities	5
An extensive liability regime	6
Delegation	7
<b>2. Practical considerations</b>	<b>10</b>
2.1. Business impacts	10
Evolving client base	10
Restructuring in the depositary market	10
2.2. Organizational and operational impacts	11
Infrastructure	11
Relationship with other service providers	13
Custody and sub-custody network	13
“Hub and spoke” operating model	14
Risk management	14
Enhanced service offering and value proposition	15
<b>Conclusion</b>	<b>16</b>
<b>How Ernst &amp; Young can help</b>	<b>17</b>



# Introduction

The Alternative Investment Fund Managers Directive lays down requirements that Alternative Investment Fund Managers (AIFMs) are required to comply with from 2013. The Directive's impacts, however, go well beyond compliance, and could lead to significant restructuring in the alternatives sector, both in Europe and internationally.

While the main focus of the AIFM Directive is on managers of alternative funds, the Directive will also impact European Union (EU) and non-EU domiciled Alternative Investment Funds (AIFs) and their service providers.

Service providers need to assess the strategic impact of the Directive on their service offering and operating models, and consider how to prepare for the new opportunities and obligations, but also risks it introduces. This briefing focuses on the impact of the Directive on depositaries.

# 1. AIFM Directive depository requirements



The AIFM Directive<sup>1</sup> requires, for each AIF<sup>2</sup>, the appointment of a depository. EU AIFMs are required to appoint depositaries for EU AIFs, and non-EU AIFs<sup>3</sup> marketed in the EU from the date of application of the AIFM Directive (mid-2013).<sup>4</sup> Non-EU AIFMs are required to appoint depositaries for EU AIFs and non-EU AIFs marketed in the EU with a passport (from mid-2015 onward).

Under the AIFM Directive, the depository's duties are laid down in written contract form between the depository and the AIFM or, as the case may be, the self-managed AIF. The depository contract must, *inter alia*, regulate the flow of information necessary for the depository to perform its tasks under the Directive. The minimum content of this agreement will be defined by "Level 2 measures."<sup>5</sup>

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<sup>1</sup> Directive 2011/61/EU on Alternative Investment Fund Managers.

<sup>2</sup> An AIF is any collective investment undertaking, including investment compartments thereof, which raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors and which is not a UCITS. See also *The diversity of AIFs* on page 11.

<sup>3</sup> In the case of non-EU AIFs managed by EU AIFM and marketed to EU investors under the private placement regime, an entity must be appointed to execute depository functions, but the other depository requirements do not apply.

<sup>4</sup> There are certain exemptions for managers of closed-ended AIFs.

<sup>5</sup> The Level 2 measures consist of implementing legislation to be adopted by the European Commission on the basis of the advice of the European Securities and Markets Authority (ESMA).



## Duties of the depositary

The obligations of the depositary are:

- ▶ To ensure proper monitoring of cash flows
- ▶ To perform the safekeeping of financial instruments and other assets belonging to the AIF
- ▶ To carry out a number of monitoring and oversight tasks

The depositary is permitted to delegate safekeeping duties, but not any other duty.

The depositary must act honestly, fairly, professionally, independently and in the interest of the AIFs and their investors.

### Cash flow monitoring

The depositary must ensure that cash flows are properly monitored. This includes ensuring that:

- ▶ Payments made by investors (or on their behalf) for subscription to shares or units of the AIF are received
- ▶ All cash of the AIF has been booked in one or more cash accounts
- ▶ Where the cash account is opened in the name of the depositary acting on behalf of the AIF, no cash of the entity with which the cash account is opened, or the depositary's own cash, is booked on the same account

Clarifications on exactly how the depositary is to accurately monitor all the AIFs cash flows and ensure that payments related to investor subscriptions have been effectively received are expected in Level 2 measures.

Practically, cash flow monitoring is related to other depositary oversight responsibilities (e.g., on application of income, remitting of considerations from transactions, and net asset value (NAV) calculation). Therefore, in implementing analytical procedures in practice, depositaries should also consider:

- ▶ The procedures to use capital received from investors to acquire new assets
- ▶ How income is earned and distributed to investors
- ▶ How disposal proceeds are repatriated to investors

Our position is that the monitoring role of the depositary should be high-level analytical review work aimed at identifying material issues, and should not comprise detailed day-to-day cash reconciliation, which is the responsibility of the fund manager.

### Safekeeping

A distinction is made between the depositary's safekeeping duties relating to financial instruments that can be held in custody and those relating to other assets.

The depositary must hold in custody:

- ▶ All financial instruments belonging to the AIF that can be registered in a financial instruments account in segregated accounts (i.e., separately from the depositary's own assets), or at a third party (sub-custodian) account, opened in the name of the AIF (or of the AIFM acting on behalf of the AIF), so that they can at all times be clearly identified as belonging to the AIF
- ▶ All financial instruments that can be physically delivered to the depositary



Level 2 measures are expected to clarify the type of financial instruments that will be considered as capable of being held in custody. Such instruments may include transferable securities, money market instruments and units of collective investment undertakings (CIUs).

Level 2 measures are also expected on:

- ▶ The conditions to be fulfilled for financial instruments to be considered as registered in a financial instruments account opened in the depositary's books in the name of the AIF (or the AIFM acting on behalf of the AIF)
- ▶ Appropriate segregation
- ▶ Clear identification as belonging to the AIF

For all other assets of the AIF, the safekeeping duty of the depositary is limited to verifying ownership and maintaining a record of the assets for which it is satisfied that they belong to the AIF (or to the AIFM acting on behalf of the AIF). The assessment of ownership is determined on the basis of all information and documentation regularly provided by the AIF or the AIFM, or any external evidence the depositary can rely on. The conditions upon which the depositary shall verify ownership, the information, documents and evidence the depositary may rely on, and the record-keeping requirements should be clarified in Level 2 measures.

Level 2 measures may also clarify in which cases collateralized assets should fall under the depositary's safekeeping duties and, in cases where they do, whether those assets should be held in custody.

In general, depositaries need to define a clear strategy for verifying ownership of a wide range of alternative assets in different legal forms across an array of different geographies.

## Oversight

The depositary has a number of oversight roles in ensuring that:

- ▶ Any consideration in transactions involving the AIF's assets is remitted to the AIF within the usual time limits
- ▶ The applicable law and the AIF rules or instruments of incorporation are respected in the following operations:
  - ▶ Transactions on shares or units of the AIF (sale, issue, re-purchase, redemption or cancellation)
  - ▶ The calculation of the NAV of the AIF's shares or units
  - ▶ The application of the AIF's income
- ▶ The depositary must ensure that the instructions it receives from the AIFM do not conflict with applicable law and the AIF rules or instruments of incorporation

In general, depositaries may need to develop the specialist skills to perform technical reviews of certain operations, such as valuation or NAV calculations. In this context, it is important that Level 2 measures should:

- ▶ Clarify the scope of the depositary oversight tasks to be performed
- ▶ Clarify whether the oversight roles require high-level review or detailed controls

In this respect, the industry is keen to avoid duplication of work done by other service providers such as auditors, valuation experts and lawyers.

## Provision of information to competent authorities

The depositary is required, upon request from its competent authorities, to make available to them all information that it has obtained while undertaking its duties and that may be necessary for the competent authorities of the AIF or the AIFM.



## Eligible entities

The Directive requires that the depositary of an EU or non-EU AIF be:

- ▶ An authorized credit institution with its registered office in the EU
- ▶ An EU MiFID<sup>6</sup>-authorized investment firm
- ▶ Another institution subject to prudential regulation, to ongoing supervision and that is eligible to act as depositary of a UCITS<sup>7</sup>

For a non-EU AIF, the depositary can also be a credit institution or investment firm subject to effective prudential regulation and supervision “of the same effect” as the provisions laid down in EU law.

In addition, Member States may allow certain other entities (such as trustees, notaries, registrars and lawyers) to act as depositary for AIFs that do not permit redemption within five years, and generally invest in non-listed companies and issuers with a view to achieving control, or do not generally invest in financial instruments that can be held in custody.

An AIFM cannot act as depositary.

For an EU AIF, the depositary must be established in the AIF's home Member State. For a non-EU AIF, the depositary must be established in the third country where the AIF is established, or the home Member State of the AIFM or the Member State of reference of the AIFM (subject to additional conditions).

The competent authorities of the home Member State of the AIF (or, in cases of unregulated AIFs, of the AIFM), may allow depositaries that are credit institutions established in another Member State to be appointed for a period of up to four years following the date of implementation of the Directive.

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<sup>6</sup> Directive 2004/39/EC on Markets in Financial Instruments Directive.

<sup>7</sup> Undertaking for Collective Investments in Transferable Securities subject to the UCITS Directive, Directive 2009/65/EC.



## An extensive liability regime

An important feature of the AIF depositary regime under the Directive is the definition and the extent of its liability.

### Contractual liability

As a general rule, the depositary is liable to an AIF or its investors for the loss of financial instruments held in custody by the depositary itself, or by a third party to whom custody had been delegated (the sub-custodian). In case of such loss, the depositary is required to return, to the AIF (or the AIFM acting on behalf of the AIF), a financial instrument of identical type or the corresponding amount from the depositary, without undue delay.

Level 2 measures are expected to clarify the notion of “loss of financial instruments,” including:

- ▶ What conditions have to be met in order for financial instruments held in custody to be considered permanently “lost” as opposed to temporarily unavailable. This may include, for example, cases where the financial instruments no longer exist or the AIF has lost beneficial right of ownership over them on a durable basis
- ▶ Who is responsible for declaring an instrument lost

However, the depositary is not liable if it can prove that the loss has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary.

It is anticipated that Level 2 measures will clarify each of these two notions:

- ▶ External event: an event that does not result from a failure within the depositary’s organization or an affiliated entity
- ▶ The categories of events beyond the depositary’s reasonable control, the consequences of which could not have been avoided despite all reasonable efforts: events to consider may include acts of state or of God, insolvency of a sub-custodian, and operational risks such as technical failures or disruptions

### Other liabilities

The depositary is also liable to the AIF or its investors for all other losses incurred as a result of negligent or intentional failure to properly perform its obligations pursuant to the Directive.



## Delegation

### Conditions for effective delegation

The depositary may delegate safekeeping duties to a third party if it can demonstrate that:

- ▶ The tasks are delegated for a demonstrable, objective reason and not with the intention of avoiding the requirements of the Directive
- ▶ It has exercised all due skill, care and diligence in the selection, appointment, periodic review and ongoing monitoring of:
  - ▶ The third party to whom it has delegated
  - ▶ The arrangements of the third party in respect of the matters delegated

Level 2 measures will clarify the procedures for the selection and the appointment of a third party and for the periodic review and ongoing monitoring of the third party and of the arrangements of that third party (e.g., frequency of review).

- ▶ It has ensured, and on an ongoing basis continues to ensure, that the third party:
  - ▶ Has the structures and expertise that are adequate and proportionate to the nature and complexity of the assets that have been entrusted to it
  - ▶ As far as the delegation of safekeeping of financial instruments is concerned, is subject to effective prudential regulation (including minimum capital requirements) and supervision in the jurisdiction concerned and to external periodic audit to ensure that the financial instruments are in its possession

- ▶ Segregates the assets of the depositary's clients from its own assets and from the assets of the depositary so that they can at any time be clearly identified as belonging to clients of the depositary. Level 2 measures should clarify this segregation obligation
- ▶ May not make use of the assets without prior consent of the AIF (or the AIFM) and prior notification of the depositary
- ▶ Complies with the same general custody obligations and prohibitions applicable to the depositary

A third party may, in turn, sub-delegate these tasks, provided that the same conditions are met.

AIFM are required to make available to AIF investors, before they invest in the AIF, information on any safekeeping function delegated by the depositary, the identification of the delegate and any conflicts of interest that may arise from such delegations, as well as any material changes thereto.

Where the law of a third country requires that certain financial instruments are held in custody by a local entity and no local entity satisfies the delegation requirements, some exemptions may apply, under strict conditions. In this case, the AIF (or the AIFM on behalf of the AIF) must have instructed the depositary to delegate the custody of such financial instruments to such local entity, and investors of the relevant AIF must be duly informed of this delegation (including the legal constraints and circumstances of the third country and the circumstances justifying the delegation) prior to their investment.



## Delegation and liability

In principle, the depositary's liability is not affected by delegation.

Liability for loss of financial instruments held in custody can, however, be transferred from the depositary to the third party if the delegation is valid under the criteria laid down in the Directive for the delegation of safekeeping tasks and if:

- ▶ There is a written contract between the depositary and the AIF (or the AIFM acting on behalf of the AIF) that establishes the objective reason to contract such a transfer of liability. It is expected that Level 2 measures will clarify the meaning of *objective reason*
- ▶ There is a written contract between the depositary and the third party that explicitly provides for the transfer of liability from the depositary to the third party and makes it possible for the AIF, the AIFM, or the depositary acting on their behalf to make a claim against the third party in respect of the loss of financial instruments
- ▶ This arrangement is disclosed to investors before they invest

## Delegation to prime brokers

The Directive defines a prime broker as a credit institution, a regulated investment firm or another entity subject to prudential regulation and ongoing supervision that:

- ▶ Offers one or more services to professional investors primarily to finance or execute transactions in financial instruments as counterparty
- ▶ May also provide other services such as clearing and settlement of trades, custodial services, securities lending, customized technology and operational support facilities

Where an AIFM uses a prime broker, the arrangement must be set out in a written contract and must cover the terms under which the prime broker may transfer and reuse AIF assets. The contract must also provide that the depositary, if separate from the prime broker, be informed of the terms agreed in that contract.

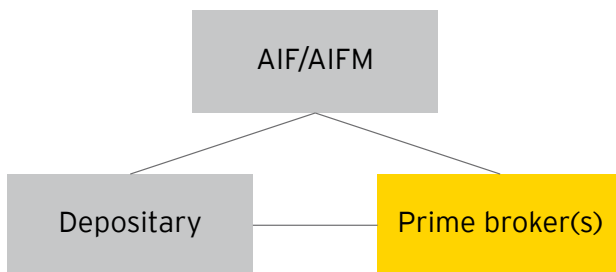
Delegation by the depositary to a prime broker of its custody tasks is also allowed under certain conditions. A prime broker can also act as a depositary if, and only if:

- ▶ The requirements on delegation of tasks by the depositary to a third party are met
- ▶ It has functionally and hierarchically separated the performance of its depositary functions from its tasks as a prime broker
- ▶ The potential conflicts of interest are properly identified, managed, monitored and disclosed to the investors of the AIF

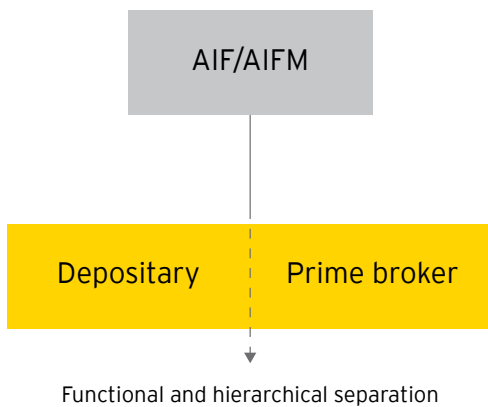
Disclosure must be made to investors on the identity of the prime broker, and any material arrangement with the prime broker, management of conflicts of interest, any provisions in the contract with the depositary covering the transfer and reuse of AIF assets, and any transfer of liability.



### Model 1: Use of depositary and prime broker



### Model 2: Use of prime broker as depositary



# 2. Practical considerations



## 2.1 Business impacts

Depositaries need to understand their alternative investment group clients'<sup>8</sup> future needs under the AIFM Directive and prepare to meet them. In this process, some depositaries may rethink the scope of their commitment to the alternatives sector, and the depositary market itself may undergo restructuring.

### Evolving client base

Asset management groups and general partners will expect their depositary to be able to meet their evolving needs, and, furthermore, depositaries will be required for AIFs that did not have one so far.

Most groups will conduct a strategic review of their fund ranges in the light of the Directive. They may respond to the evolving environment through re-domiciliation, liquidation and mergers of existing AIFs, creation of new AIFs in new domiciles or in domiciles they already use, and establishing master-feeder and fund of fund structures. There may also be intra-asset management group mergers and acquisitions. As part of their strategic review process, some managers may also review their service provider arrangements.

Such strategic restructuring changes the market for AIF depositary services. Overall, there may be increased demand for depositary services in some domiciles, decreasing demand in others, and opportunities to win new business.

### Restructuring in the depositary market

On the one hand, the expanded scope of depositary responsibilities, the onerous liability provisions and burden of proof under the Directive, will change the risk profile of the depositary business. Furthermore, many depositaries need to enhance their capabilities to meet their obligations. This may lead to restructuring and concentration in the depositary space – only those with a higher risk-bearing capacity (“deep pockets”) may be able to accommodate high risk and offer a full range of services.

Depositaries and custodians should therefore consider early on the extent to which they wish to service the alternatives sector going forward in the light of the AIFM Directive.

On the other hand, the Directive’s widening of their duties also creates new opportunities for depositaries to extend the scope of their service offering both to cover the regulatory requirements and to meet emerging demand.

In EU Member States where a credit institution must be currently appointed as a depositary, the AIFM Directive may open up the market to new entrants, including EU MiFID-authorized investment firms. This opens the depositary market in such Member States, particularly to entities providing safekeeping services for non-financial assets, and may increase competition.

Financial services groups may decide to sell service provider businesses to focus on their key competencies or set up new joint ventures. Depositaries, custodians and sub-custodians that are not able to meet the requirements of the Directive may be taken over or wound down.

Taking all these structural considerations together, we expect mergers, acquisitions, spin-offs and joint ventures in the depositary space.

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<sup>8</sup> e.g., promoters, general partners, AIFM



## 2.2 Organizational and operational impacts

Two key challenges for depositaries will be:

- ▶ To meet the demand for their services, and the requirements of the Directive, while maintaining strict quality and risk management standards and competitive prices. To succeed, depositaries need to implement a practical, robust and efficient operating model
- ▶ To clarify their value proposition, clearly distinguishing their added value from the other service providers in the value chain

### Infrastructure

The scope of the procedures to be carried out by the depositary will depend on the profile of the AIF itself, and the client's risk profile. The depositary should therefore develop a clear understanding of their client's business and governance models, risks and asset-holding structures, in order to determine the frequency, depth and breadth of procedures to perform, and then customize its approach accordingly. The understanding of the client and its fund structure should be continuously updated.

In the new post-AIFM Directive era, effective document management and workflow management capabilities will become more important for adequate handling of alternative asset classes, often with paper-based processes. Future depositary infrastructure should include the following capabilities:

- ▶ Flexible checklist and work program design
- ▶ Workflow management capabilities
- ▶ Document management capabilities, including booking and record keeping
- ▶ Remote and online access
- ▶ Data interfacing capabilities

As there are currently no standard tools on the market to cover depositary tasks for alternative funds, the existing custody system for traditional assets should be complemented by specific tools to fill the gaps.

### The diversity of AIFs

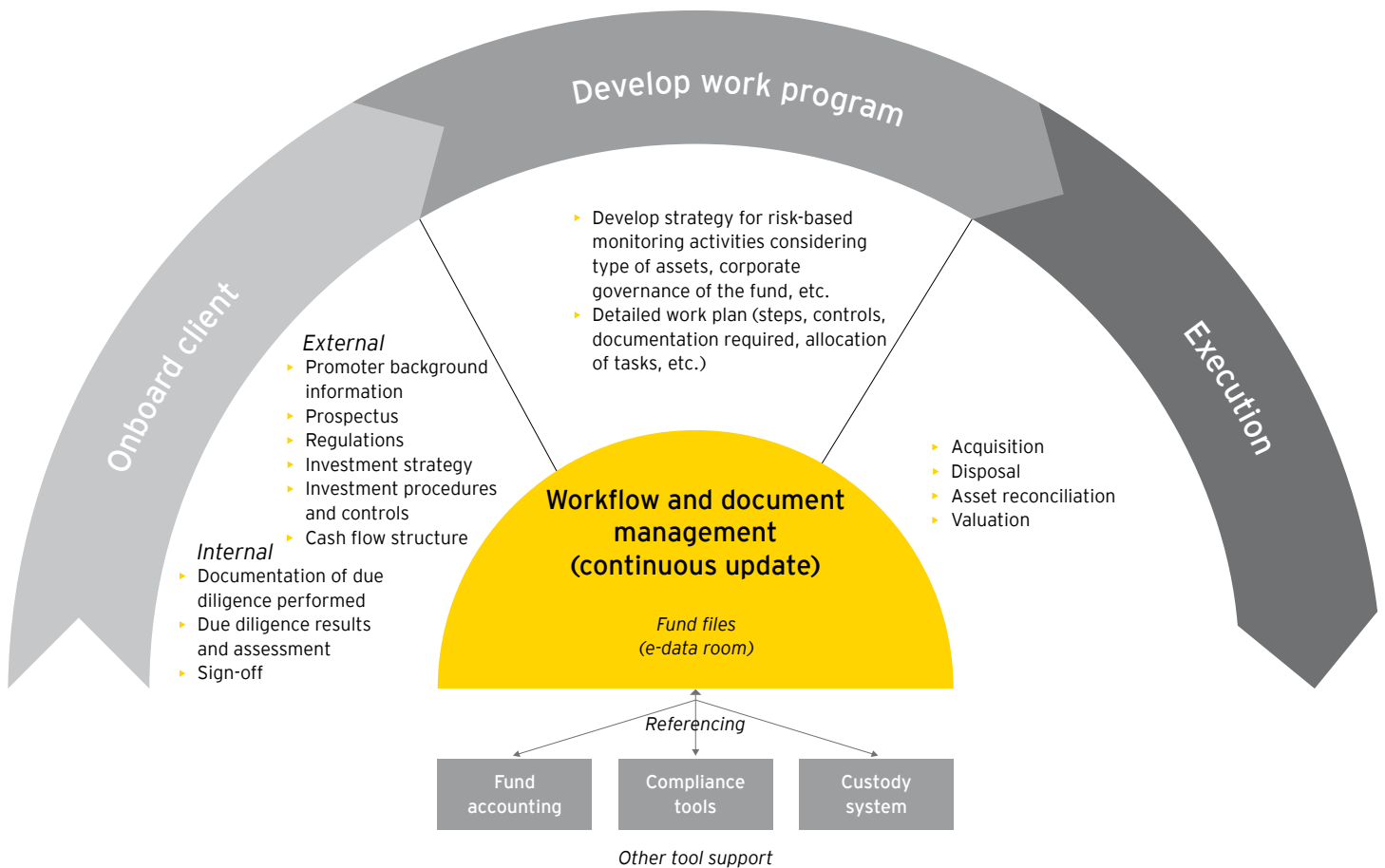
The depositary's approach needs to be customized to the specific characteristics of the AIF. Factors to consider include:

- ▶ The asset class:
  - ▶ Traditional financial assets e.g., equities, bonds and money market instruments
  - ▶ Alternative assets, e.g., real estate, infrastructure, private equity, derivatives instruments, commodities and exotic assets such as luxury goods and intellectual property
- ▶ The geographic focus (the region or country) and the language of the documentation
- ▶ Form of legal title
- ▶ The number of positions:
  - ▶ Large volume of small positions, e.g., hedge funds, certain types of debt funds, microfinance funds, etc.
  - ▶ A limited number of large positions, e.g., funds of funds, private equity, infrastructure and most real estate funds
- ▶ Fund cash flows and holding structure
- ▶ Application of look-through principles
- ▶ Sub-custody network



A workflow and document management tool serves as the central repository for storing all relevant information, including external documentation received, as well as for the internal planning and execution of tasks and controls.

### The role of the workflow and document management tool



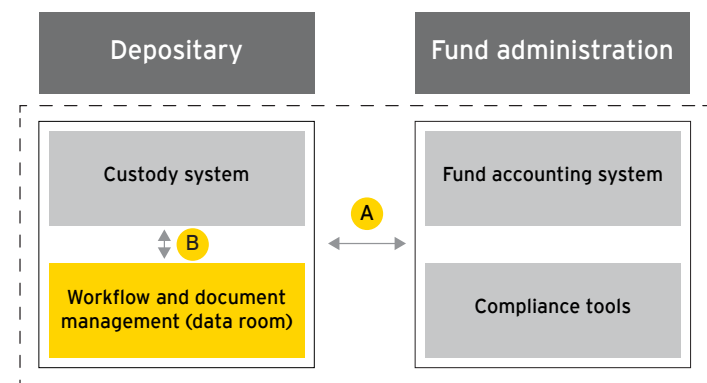


## Relationship with other service providers

The clarification of the depositary's duties in the AIFM Directive also entails increased sharing of information between the depositary, the AIFM and the administrator.

Efficient information exchange with the administrator reduces duplication of work. Provided appropriate Chinese Walls (i.e., information barriers) are put in place, the depositary and fund administrator may consider sharing data through a direct system link or a virtual data room.

The following is a schematic example of a robust and efficient intra-group flow of information between the depositary and administrator:



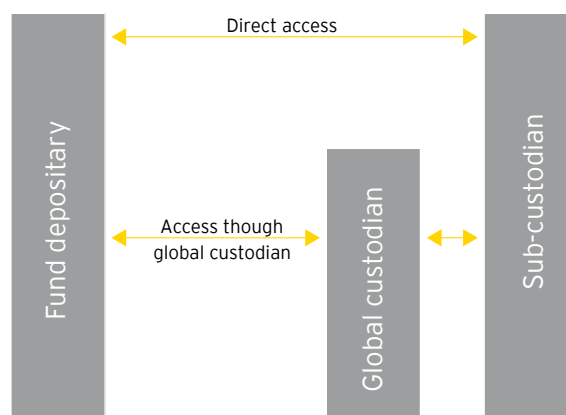
- A** The depositary has access to fund administration systems to fulfill valuation/NAV and compliance checks. The fund administration has access to document storage (data room).
- B** The workflow and document management tool is linked to the custody system in order to allow comprehensive portfolio view of all the assets of the AIF (alternative assets as well as traditional).

In the light of the clarification of its duties and liability, the depositary should ensure that its agreements and arrangements with all related parties are reviewed and updated, including those with the AIFM and the administrator.

## Custody and sub-custody network

For the execution of its safekeeping tasks, the depositary will generally rely on a global custodian or a sub-custodian network, particularly for cross-border investments. The AIFM Directive requirements will lead depositaries to review their network.

### The depositary network



To ensure that it meets the requirements of the AIFM Directive, the depositary needs to review current delegation arrangements. The depositary's liability is, in general, unaffected by delegation, which increases the importance of the initial and ongoing due diligence on the sub-custodian. Factors to take into consideration include financial strength, market reputation, infrastructure, knowledge and expertise and internal control environment.

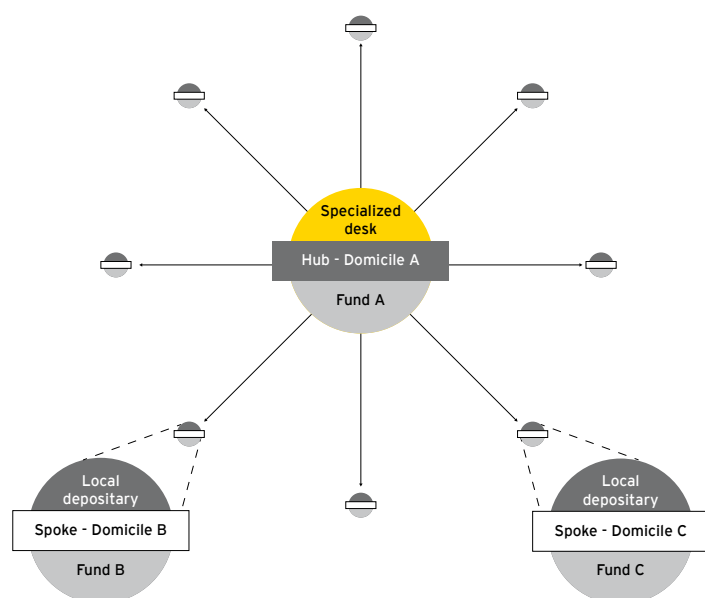
In view of the formalization of regulatory requirements in respect of delegation and the liability regime, depositaries will prefer to work with their proprietary network in order to limit exposure to third-party sub-custodians. Depending on Level 2 measures in clarifying the possible "objective reasons" for transfer of liability for loss of financial instruments to a sub-custodian, such transfer of liability may well be very limited.

Depositaries may therefore no longer service certain geographic markets or certain assets classes, or, alternatively, may consider extending their proprietary network into specific markets rather than rely on third party sub-custodians.



## “Hub and spoke” operating model

The hub and spoke model is an appropriate model to serve the alternative segment across multiple jurisdictions and realize economies of scale. Depositaries would set up sector centers of excellence as hubs with spokes in different countries. The “hub” will centralize technology, administration of the fund and deep sector expertise, while the “spokes” assist with the sales process, the onboarding and development and management of the clients.



## Risk management

The Directive defines the duties and liabilities of depositaries and custodians. This enables them to clearly align their organization with the requirements of the Directive, and implement a robust risk management framework to identify, measure, manage and monitor the risks they face. The controls framework should, in particular, adequately cover reputational, operational, counterparty and liquidity risks, and appropriate mitigating action plans prepared. Effective collateral management is also key. Depositaries should reconsider their professional indemnity cover in order to insure, where possible, against the risks they face under the AIFM Directive.

Client acceptance procedures are key to effectively managing the risks faced by depositaries and custodians. A rigorous evaluation process should be applied to determine a client's risk profile. A standardized client acceptance scoring tool could be implemented by the depositary on a cross-border basis, to ensure a harmonized approach throughout the group. The tool should be used to identify and measure risk and meet regulatory requirements.

The risk assessment depends on both the profile of the AIF itself (business model, holding structure, asset classes, geographic scope and expected number of positions) and the profile of the AIFM, generally as part of an asset management group.

The depositary should define, as a function of the risks identified, an appropriate and proportional frequency and level of procedures to be performed, such as depth of due diligence, scope of sampling, the type of evidence to collect, the degree of reliance on external expertise and documentation of the work performed. This should form an integral part of the depositary's own risk-monitoring and management process, and be integrated into the workflow system.

In order to meet their proof of ownership responsibilities, depositaries should implement a checklist of documentation requirements and other duties for each asset class. The country and asset class risks need to be reflected in the depth and breadth of custody procedures (risk-based approach).

As well as appropriate infrastructure, a depositary requires specialist knowledge and experience to assess risks in order to determine the appropriate level of control procedures. Depositaries may therefore need to recruit professionals with specialist sector knowledge and experience.



## Enhanced service offering and value proposition

AIFM Directive depositary requirements represent a significant incremental cost in operating alternative investment vehicles, due to the need to meet their obligations and cover liability under the AIFM Directive. Furthermore, depositaries will be required for structures previously operating without them. These costs will ultimately be passed on to current and future investors; depositaries may therefore have to reconsider their fee structures.

The bigger challenge for depositaries is demonstrating their added value, and not duplicating work already performed by other service providers. Depositaries may also consider offering added value services to differentiate themselves. These will be primarily comprise banking and cash flow management services, but may include additional services such as:

- ▶ Provision of insight into country and asset class risks
- ▶ Leveraging their knowledge to ensure all transactions are well documented
- ▶ Providing other service providers with controlled access to data rooms

In order to reduce their risk exposure, some depositaries may no longer offer depositary services that are not bundled together with administration.

Also, non-bank administrators and other service providers may consider enhancing their current service offering to *include* depositary services, if this is specifically permitted by local regulation. They will need to be able to overcome the barriers to entry into the market, *inter alia* related to their financial capacity to underwrite the risk of operating as a depositary.

Depositary services are complementary to the typical services offered by such service providers, which include:

- ▶ Sophisticated client and regulatory reporting
- ▶ Local tax filing and reporting
- ▶ Valuation support
- ▶ Risk management and monitoring
- ▶ Compliance
- ▶ Providing services to the holding structures, such as special purpose vehicles (SPVs)
- ▶ Management company services

# Conclusion

The AIFM Directive will cause a major shift in the way in which depositaries and custodians provide services. Although 2013 seems far away, depositaries and custodians should be asking themselves if they are committed to the AIF sector and are ready to embrace the changes brought by the Directive. Those that are, should already be thinking about their future strategy and operating model to ensure that they have the right framework and systems in place.



# How Ernst & Young can help

Ernst & Young has built a dedicated multidisciplinary team of high-caliber experienced professionals to support all major stakeholders in the alternative investment industry value chain throughout the cycle of work in light of the Directive. Our approach is coordinated across Europe and globally, and across alternative investment fund segments, via our dedicated AIFM network.

As a first step, Ernst & Young's diagnostic tool can be used to help depositaries and custodians assess their readiness for the Directive, and to obtain an overview of the options available and the amount of work associated with each.

Going forward, we offer:

- ▶ Detailed gap analysis and assessment: in-depth assessment of the main strategic opportunities and operational changes needed to meet the requirements of the Directive
- ▶ Assistance in implementation services:
  - ▶ Provide market entry support and development of an operational change program specifically for depositaries and custodians
  - ▶ Assess the adequacy of risk management processes
  - ▶ Assist in definition of technical framework and roles and responsibilities of depositaries and custodians under the Directive
  - ▶ Assist in implementing efficient and effective operating models, including risk management, and delivery of value added services
  - ▶ Review pricing structures
- ▶ Review and assurance services, including risk and control framework (e.g., SAS 70 or ISAE 3402 reports)
- ▶ Regulatory services including ongoing advice

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The asset management industry is facing a number of fundamental challenges. These include changing customer demand, the need to innovate, downward margin pressure, the rising tide of regulation and investors' increasing focus on governance. In response, the industry is restructuring, developing new products, improving risk management and seeking greater efficiency. Ernst & Young's Global Asset Management Center analyzes these themes and assesses their implications for individual firms. We also draw together a worldwide network of nearly 35,000 industry-focused professionals with deep knowledge of asset management and a range of technical experience in assurance, tax, transaction and advisory services. If you run an asset management company, we can provide you with consistent, high quality service wherever you are located. We can help you respond to the challenges facing your business and increase your competitive advantage. If you want to compete powerfully in your market, we'll help you achieve your potential today and tomorrow.

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EYG no. EH0083

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