



Investor &  
Treasury Services



# Luxembourg Funds Trends and Opportunities for the Nordics

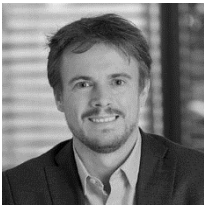
**Breakout session 3:  
Outsourcing trends  
in the Asset Management Industry**

# Speakers



**Nicolas Deldime**

Partner  
Arendt Regulatory & Consulting



**Yann Merillou**

Partner, Audit  
Deloitte Luxembourg



**Kerstin Lindgren**

Director, Global Client Coverage  
RBC Investor & Treasury Services



**Ben Pumfrett**

Head of Product and Profitability, Middle Office  
RBC Investor & Treasury Services

# Outsourcing trends in the Asset Management Industry

## - Luxembourg Fund Industry Trends

Outsourcing trends are common across the fund industry. The Luxembourg market has been a frontrunner, establishing outsourcing models to asset managers looking to limit the need for running operations outside the home market.

- Long tradition of outsourcing the administrative aspects of the fund management such as for example fund accounting, transfer agency and corporate secretarial services. The services are often outsourced to the same entity that is appointed as Depositary and or Global Custodian, but a separate entity can also be selected.
- Ucits Management Company and AIFM - Although some managers choose to passport the services from it's own organisation in its home market, many choose to appoint a third party service provider established in Luxembourg for the Luxembourg fund range.
- Additional parts of the value chain, such as for example FX hedging, transaction management or corporate actions handling are increasingly being outsourced, allowing the fund manager to focus on it's core activities.

# Regulatory trend - Brexit context

## Bigger regulator focus on delegation models

### Harmonization efforts EU level (2019 and 2020)

- EBA Guidelines on ICT and security risk management (EBA ICT Guidelines)
- EBA publishes “revised” Guidelines on outsourcing arrangements
- IOSCO Principles on Outsourcing – Consultation Report

### Information and Communications Technology (ICT) outsourcing risk – increased focus (2020)

- EIOPA Guidelines on ICT Security and Governance
- EU Commission draft Digital Operational Resilience Act (DORA)
- ESMA Guidelines on Outsourcing to Cloud Service Providers
- EIOPA Guidelines on Outsourcing to Cloud Service Providers

### National initiatives under scrutiny

- Upcoming dedicated CSSF circular on outsourcing
- Draft Cross-Industry Guidance on Outsourcing February 2021 CBI

### Learnings from supervisory practice (on-site inspections, authorisations)

# Overall applicable regulatory requirements

Since AIFMD entry into force, requirements and expectations have become more and more precise

## Legal framework

### E.U. sources:

- Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on **Alternative Investment Fund Managers** (AIFM)
- Commission Delegated Regulation 694/2014 of 17 December 2013 with regard to **regulatory technical standards** determining types of AIFM
- **ESMA Opinion** of 13 July 2017\* to support supervisory convergence in the area of investment management in the context of the United Kingdom withdrawing from the European Union

### Luxembourg sources:

- Law of 12 July 2013 on Alternative Investment Fund Managers
- Grand-Ducal regulation of 2 July 2018 and 21 December 2017
- CSSF regulation 15-03 and 16-07
- CSSF Circular 18/698

Key constraints implied by the legal framework include delegation of core and non-core function, proportionality principle, minimum substance rules and delegation and oversight

\* The July 2017 ESMA opinion shall not be considered legally binding though national regulators shall tend to enforce its recommendations

## Subsequent obligations

### Justification to the delegation

#### Policies & Procedures:

- Define policies & procedures to select and monitor delegate
- Create written contractual arrangements

#### Due Diligence and Oversight:

- Design oversight model (digital, paper based, use of generally accepted standards?)
- Build/customize a Due Diligence questionnaire
- Run the documented due diligence process
- Constructively challenge the delegates
- Identify sources of risk, validate result of due diligence with relevant internal control and management bodies

#### Contractual agreements:

- Create written contractual arrangements
- Sign contract before start of service
- Organize regular contracts review & recordkeeping
- Organize effective access to data

#### Ongoing Monitoring:

- Organize the monitoring of the delegate (periodic due diligence (with on-site visits where relevant), review of KPIs, etc.)
- Define operational aspects of the oversight according to risk-based approach

# Delegation, Oversight and Due Diligence

Challenging a delegation model shall be made difficult by the objective reasons driving the delegation as well as the selection process and ongoing monitoring of the delegate(s)

## Possible objective justifications for Portfolio Management delegation

### Additional expertise

- Expertise in specific markets or investments
- AML/KYC expertise
- Specific local regulatory expertise in AIF's jurisdiction

### Cost saving

- Size of investor base
- Existing investor relationships
- Number of lines in portfolio and absence of turnover over the lifetime of the fund

### Centralization and consistency

- Centralized and coherent distribution and marketing
- Operational consistency across parallel funds

1

## Delegation Policies & Procedures

### Key elements:

- Build a formal framework around delegation including the selection of delegates and the objective reasons

2

## Initial Due Diligence

### Key elements:

- Justification on how and why the candidate has been selected over others
- Identification and analysis of all benefits and risks (incl. knowledge, experience, reputation, track-record, technical capabilities, effective oversight and supervision, legal system of the relevant jurisdiction, financial soundness, country and concentration risks, efficiency, pricing etc.)
- Assessment of potential conflicts of interest deriving from potential delegate
- Verification of compliance with EU legislation (e.g. due diligence, recordkeeping requirements, etc.)

3

## Ongoing Monitoring

### Scope:

Compliance with EU investment management legislation, KPIs

### Frequency:

Depending on nature of delegated activities

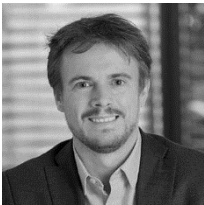
# Q&A

# Contact us



**Nicolas Deldime**

Partner  
Arendt Regulatory & Consulting  
nicolas.deldime@arendt.com  
+352 26 09 10 77 44



**Yann Merillou**

Partner, Audit  
Deloitte Luxembourg  
ymerillou@deloitte.lu  
+352 45145 2731



**Kerstin Lindgren**

Director, Global Client Coverage  
RBC Investor & Treasury Services  
kerstin.lindgren@rbc.com  
+352 26 05 2550



**Ben Pumfrett**

Head of Product and Profitability, Middle Office  
RBC Investor & Treasury Services  
ben.pumfrett@rbc.com  
+44 0207 653 4364

9 June 2021

**Important Notice and Disclaimer:** Whilst a best efforts approach has been taken to ensure the accuracy of the information provided in this presentation, as at the date thereof, this information is only designed to provide with summarised, and therefore non complete, information regarding the topics covered. As such, this presentation does not constitute legal advice, it does not substitute for the consultation with legal counsel required prior to any undertakings and it should not be understood as investment guidelines. If you would like to receive a legal advice on any of the issues raised in this presentation, please contact us.