

AIFMD level 2

Extracts on the need to establish proper Risk Management Governance and keeping it up to date

Risk Management Policy

1. AIFMs shall **establish, implement and maintain an adequate and documented risk management policy** which identifies all the relevant risks to which the AIFs they manage are or might be exposed to.
2. The risk management policy shall comprise such procedures as are necessary to **enable the AIFM to assess for each AIF it manages the exposure of that AIF to market, liquidity and counterparty risks, and the exposure of the AIF to all other relevant risks**, including operational risks, which may be material for each AIF it manages.
3. AIFM shall address at least the following elements in the risk management policy:
 - (a) the techniques, tools and arrangements that enable them to comply with the obligations set out in Box 28;
 - (b) the techniques, tools and arrangements that enable the assessment and monitoring of the liquidity risk of the AIF, under normal and exceptional liquidity conditions including through the use of regularly conducted stress tests in accordance with Box 33;
 - (c) **the allocation of responsibilities within the AIFM pertaining to risk management;**
 - (d) **the limits set in accordance with Box 29 and a justification of how these are aligned with the risk profile of the AIF disclosed to investors in accordance with Article 23(4)(c) of Directive 2011/61/EU;** and
 - (e) where the risk management function is not functionally or hierarchically separate the AIFM shall include a description of the safeguards referred to in Box 30 that allow for an independent performance of the risk management function. This description shall include:
 - (i) the nature of the conflict of interest;
 - (ii) the remedial measures put in place;
 - (iii) the reasons why this measure should be reasonably expected to result in an independent performance of the risk management function; and
 - (iv) how the AIFM expects to ensure that the safeguards are consistently effective.
4. **AIFM shall ensure that the risk management policy referred to in paragraph 1, 2 and 3 states the terms, contents and frequency of reporting of the risk management function** referred to in Box 25 to those charged with governance, to senior management and, where appropriate, the supervisory function.
5. For the purposes of paragraphs 1-4, AIFMs shall take into account the nature, scale and complexity of their business and of the AIFs they manage.

Box 27

Assessment, monitoring and review of the risk management policy

1. AIFMs shall **assess, monitor and periodically review:**
 - (a) **the adequacy and effectiveness of the risk management policy** and of the arrangements, processes and techniques referred to in Box 28;

- (b) the level of compliance by the AIFM with the risk management policy and with the arrangements, processes and techniques referred to in Box 28;
 - (c) the adequacy and effectiveness of measures taken to address any deficiencies in the performance of the risk management process; and
 - (d) **the measures set out in the risk management policy to ensure the functional and hierarchical separation of the risk management function** in accordance with Box 30.
2. **AIFMs shall notify the competent authorities of their home Member State of any material changes to the risk management policy and of the arrangements, processes and techniques** referred to in Box 28.
3. AIFMs shall ensure that the periodic review in accordance with paragraph 1 is carried out:
- (a) at a set frequency which is in accordance with the principle of proportionality including its appropriateness given the nature, scale and complexity of their business and the AIF it manages, that frequency being at least annual;
 - (b) when material changes are made to the risk management policy and to the arrangements, processes and techniques referred to in Box 28;
 - (c) when internal or external events indicate that an additional review is required; and
 - (d) when material changes are made to the investment strategy and objectives of an AIF the AIFM manages.

Explanatory Text

15. ESMA's advice is based on Article 39 of 2010/43/EU and explains the frequency and content of the review that needs to be performed. The key elements that need to be reviewed are:
- the accuracy, effectiveness and the compliance with the policy and procedures for risk management;
 - the adequacy of remedial measures taken when there have been problems with the accuracy, effectiveness or compliance with the policy and procedures for risk management; and
 - the effectiveness of the safeguards to ensure an independent performance of the risk management function.
16. The frequency of review of the above elements must at least be annual but should be made when there is a risk that it may no longer be adequate.
17. The AIFM should notify the competent authority when there is a material change to the risk management policy and of arrangements, processes and techniques used to manage risk.
18. **The senior management of the AIFM should** be responsible for, and be actively involved in the control of the adequacy and effectiveness of the risk management process and should regard this as an essential aspect of the business to which adequate resources need to be devoted. In particular, senior management should ensure that all aspects of the risk management process, including the risk management function itself, are subject to appropriate review. It should **take appropriate action in the best interest of investors in the cases of evidence that the actual level of risk incurred by the AIF is not consistent with its target risk profile.**