

Risk Management Services for Investment Funds - Ireland

Regulatory Obligations

Directive 2001/61/EU (the “Alternative Investment Fund Managers Directive” or “AIFMD”) and the Commission Delegated Regulation (EU) No 231/2013 (“AIFMD Level 2”) (collectively “the Regulations”) impose significant Risk Management organisational requirements on Alternative Investment Fund Managers (“AIFMs”) managing Alternative Investment Funds (“AIFs”) within the EU. Non-EU AIFMs that manage AIFs domiciled within the EU or market non-EU domiciled AIFs to EU investors are also impacted.

AIFM Risk Management Responsibilities

The Regulations require that an AIFM must functionally and hierarchically separate the risk management function from its operating units, including portfolio management. Each AIFM must also implement adequate risk management systems to identify, measure, manage and monitor all risks relevant to each AIF it manages or has exposure to. An AIFM must establish and implement risk limits for each AIF, covering market risks, credit risks, liquidity risks, counterparty risks and operational risks. These limits must be aligned with the AIF’s risk profile and take into account the AIF’s strategies and assets.

AIFMs may delegate elements of portfolio management and/or risk management however total delegation of both functions is not permitted. Finding the right balance between retention and delegation is of paramount importance for AIFMs as the Regulations require that an AIFM not delegate investment management functions (comprised of portfolio management and risk management) to an extent that *exceeds by a substantial margin* those performed by an AIFM itself.

KB Associates provides expert advice enabling its clients to meet these increasingly complex regulatory requirements.

KB Associates’ Risk Management Service

KB Associates can provide professionally qualified risk management staff to AIFMs enabling them to perform the Risk Management related Managerial Functions outlined in the Central Bank of Ireland’s AIF Rulebook.

Alternatively KB Associates’ existing management company, *KBA Consulting Management Limited* (“KBA”), is available to act as an AIFM for AIFs domiciled in Ireland.

KB Associates’ Risk Management Service will:

- on appointment and annually thereafter perform a detailed on-site review of the risk measurement processes and techniques employed by the Investment Manager in relation to each AIF;
- determine the risk profile of each AIF on the basis of its stated investment strategy and objectives;
- determine the risk appetite of each AIF;
- determine appropriate risk measures for each AIF;
- set risk limits for each AIF;
- set escalation reporting triggers for each AIF;
- establish and oversee implementation of procedures to ensure that all applicable risks pertaining to each AIF can be identified, monitored and managed at all times;
- review counterparty legal contracts from a risk management perspective ensuring inclusion of adequate risk mitigating provisions;
- review and approve all counterparties;
- conduct ongoing risk analysis of AIF exposure to key risks using appropriate measures;
- at least quarterly conduct a sample check of the validity of reported market risk exposure values (VaR);
- monitor AIF compliance with all qualitative and quantitative risk limits;
- advise remedial action in anticipated or actual limit breach scenarios;
- provide and present risk management reports for each board meeting;
- upon changes to the Regulations, assess the adequacy of the AIF’s existing risk management framework to ensure compliance;
- review all relevant regulatory developments and brief the board of directors on such developments and the practical implications thereof.

KB Associates’ Risk Management Service – Unique Features

KB Associates offers a team of dedicated professionally qualified risk consultants, led by Brendan Johnson, with significant investment fund and risk management experience.

KB Associates not only monitors and reports on the adequacy of compliance with the Regulations but also assists its clients to identify practical solutions to enable AIFMD compliance.



Brendan Johnson - Head of Investment Risk

Brendan has been active in the investment funds industry since 2005. He has a wide range of experience with funds that pursue alternative strategies, in particular focusing on market and operational risk management. He has extensive knowledge of valuing hard to price and illiquid securities and designing bespoke risk models to capture the full risk of a portfolio. Since joining KB Associates in 2014, he has supported a number of alternative investment funds in discharging their risk management related obligations under AIFMD.

Prior to joining KB Associates, Brendan was at Bank of New York Mellon where he managed the derivatives team in Dublin. He commenced his career with Citi Hedge Fund Services (Ireland) Ltd, (formerly BISYS) where he worked on the complex pricing team.

Brendan holds a Bachelor of Science degree (Hons) in Computer Science and a Post Graduate Master of Science in Financial Mathematics. He is a certified Financial Risk Manager (FRM) by the Global Association of Risk Professionals (GARP) and a Chartered Financial Analyst (CFA) Charterholder.

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