C56-2013-01



## CHECKLIST FOR THE INTERNAL PROCEDURES MANUAL THAT ACCOMPANIES THE APPLICATION OF

FOR THE GRANTING OF AN AIFM AUTHORISATION

## CONTENTS

CHAPTER 1	ORGANISATIONAL STRUCTURE	Page No.
Part 1	Organisational Requirements	
1.1	General Requirements	
1.2	Electronic data processing	
1.3	Accounting procedures	
1.4	Control by the governing body, senior management and	
	supervisory function	
Part 2	Permanent Compliance Function	
2.1	Policies and Procedures	
2.2	Independence	
2.3	Duties and Responsibilities of the compliance officer	
2.5	Limitation due to nature, scale and complexity of the	
	business of the AIFM	
Part 3	Permanent Internal Audit Function	
3.1	Independence	
3.2	Duties and responsibilities	
Part 4	Personal transactions	
4.1	Definition of relevant persons	
4.2	Arrangements	
Part 5	Valuation	
5.1	Valuation policies and procedures	
5.2	Use of models to value assets	
5.3	Consistent application of valuation policies and procedures	
5.4	Review of individual values of assets	
5.5	Frequency of valuation of assets held by open-ended AIFs	
5.6	Calculation of net asset value per unit or share	
5.7	Appointment of an external valuer	
5.7.1	Exchange of information between the AIFM and the external valuer	
5.7.2	Professional guarantees provided by external valuers	
Part 6	Delegation of AIFM functions	
6.1	Delegation rules of the AIFM	
6.2	Objective reasons for delegation	
6.3	Features of the delegate	
6.4	Effective supervision	
6.5	Conflicts of interests	
6.6	Consent and notification of sub-delegation	
CHAPTER 2	RISK MANAGEMENT	
Part 1	Permanent Risk Management Function	
1.1	Functional and hierarchical separation	
1.2	Duties and responsibilities of the Risk Management	

	Function	
Part 2	Risk management systems	
2.1	Description	
2.2	Assessment, monitoring and review	
Part 3	Risk Management Policy	
3.1	Identification of all the relevant risks	
3.2	Procedures to enable the AIFM to assess for each AIF it manages the risks defined in Article 44	
3.3	Techniques, tools and arrangements regarding risk measurement and management	
3.4	Techniques, tools and arrangements to assess and monitor liquidity risk of the AIF	
3.5	Allocation of responsibilities	
3.6	Limits set and justification of how these are aligned with the risk profile of the AIF disclosed to investors	
3.7	Terms, contents, frequency and addressees of reporting	
3.8	Safeguards against conflicts of interest (art. 43)	
Part 4	Liquidity Management	
4.1	Liquidity management systems and procedures	
Part 5	AIFMs exposed to securitisations	
5.1	Policies and procedures for analysing and recording the elements of Article 53	
CHAPTER	Conflicts of Interest	
3		
Part 1	Types of Conflicts of interest	
Part 2	Conflicts of Interest Policy	
CHAPTER 4	<b>OPERATING CONDITIONS FOR AIFMs</b>	

CHAPTER	ORGANISATIONAL STRUCTURE	Law <sup>1</sup> /	Page No.
1	ORGANISATIONAL STRUCTURE	Regulation <sup>2</sup>	1 age 110.
PART 1	ORGANISATIONAL	Buintion	
	REQUIREMENTS		
1.1	General requirements	L18	
1.1.1	Description of the organisational		
	structure specifying clearly and in a	(_)()	
	documented manner the reporting lines		
	and allocation of functions and		
	responsibilities		
1.1.2	Description of the decision-making	R57(1)(b)	
	process and any arrangements designed		
	to ensure that the relevant persons are		
	aware of the procedures to be followed		
	for the proper discharge of their		
	responsibilities		
1.1.3	Description of the internal control	R57(1)(c)	
	mechanisms designed to secure		
	compliance with decisions and		
	procedures at all levels of the AIFM		
1.1.4	Description of the internal reporting and	<b>R57(1)(d)</b>	
	communication of information at all		
	relevant levels of the AIFM, including		
	any information flows with any third		
115	party involved		
1.1.5	Description of the records to be kept	R57(1)(e)	
	regarding the AIFM's business and		
110	internal organisation	D57(2)	
1.1.6	Description of the systems and	<b>R57</b> (2)	
	procedures established in order to		
	safeguard the security, integrity and confidentiality of information taking into		
	account the nature of the information in		
	question		
1.1.7	Description of the business continuity	R57(3)	
1.1./	policy in case of interruption to the	<b>N</b> 37(3)	
	AIFM's systems and procedures		
	including the measures taken regarding		
	the preservation of essential data and		
	functions and the maintenance of services		
	and activities, or where that is not		
	possible, a description of the timely		
	recovery of the data and functions ant the		
	timely resumption of the AIFM's		
	services and activities		
1.1.8	Description of the accounting policies	<b>R57(4)</b>	
	and procedures and valuation rules that		
	enable the AIFM, at the request of		
	CySEC, to deliver in a timely manner		

 $<sup>^1</sup>$  Law 56(I)/2013 – The Alternative Investment Fund Managers Law of 2013  $^2$  Commission Delegated Regulation (EU) No 231/2013

		C30-2013-01
	financial reports which reflect a true and fair view of its financial position and which comply with all applicable accounting standards and rules.	
	Specific description of how the provisions of Article 59 are implemented shall be provided	
1.1.9	Description of the policies and procedures that ensure that the redemption policies of the AIF are disclosed to investors, in sufficient detail, before they invest in the AIF and in the event of material changes	R57(5)
1.1.10	Description of the procedures established to monitor and, on a regular basis, evaluate the adequacy and effectiveness of the systems, internal control mechanisms and arrangements established in accordance with paragraphs 1.1.1-1.1.9 above, and take appropriate measures to address any deficiencies.	R57(6)
1.2	Electronic Data Processing	L18(a)
1.2.1	Description of the electronic systems that shall permit the timely and proper recording of each portfolio transaction as per Article <b>64</b> or subscription, or where relevant, redemption order as per Article <b>65</b>	R58(1), 64, 65
1.2.2	Description of the policies adopted to ensure a high standard of security during the electronic data processing and integrity and confidentiality of the recorded information (including compliance with recordkeeping requirements as per Article <b>66</b> )	R58(2), 66
1.3	Accounting procedures	L18(a)
	See 1.1.8 above	
1.4	Control by the governing body, senior management and supervisory function	L18

1.4.1	Description of the policies and procedures adopted to ensure compliance with <b>each</b> paragraph of article 60 of the Regulation i.e how does the senior management oversee the implementation of the general investment policy <b>for each</b> managed AIF	R60
PART 2	PERMANENT COMPLIANCE FUNCTION	R61
2.1	Description of the policies and procedures designed to detect any risk of failure by the AIFM to comply with its obligations under the Law and the associated risks	R61(1)
	Description of the measures and procedures designed to minimise such risk and to enable the competent authorities to exercise their powers effectively under the Law	
2.2	Description of the policies and procedures adopted to ensure that the compliance function will be able to operate independently and properly perform its responsibilities to monitor, evaluate the adequacy and effectiveness of the measures, policies and procedures put in place, address any deficiencies and advise and assist the relevant persons responsible for carrying out services and activities in complying with the AIFM's obligations	R61(2) and 61(3)
2.3	Description of the duties and responsibilities of the compliance officer with specific reference to reporting obligations (timing of reports and to whom)	R61(3)(b)
2.4	Determine the remuneration policy regarding the compliance officer and other persons in the compliance function	R61(3)(d)
2.4	In case it is considered that the AIFM shall not be required to comply with point (c) or (d) of paragraph 3, in view of the nature, scale and complexity of its business, and the nature and range of its services and activities, it must be demonstrated <b>why</b> the requirement is not proportionate and <b>how</b> the compliance	R61 (last para.)

	function will continue to be officiative	0.00-2013-01
PART 3	function will continue to be effectivePERMANENT INTERNAL AUDITFUNCTION	L18
3.1	Description of the policies and procedures adopted to ensure that the internal audit function will be able to operate independently	R62(1)
3.2	Description of the duties and responsibilities of the internal audit function	R62(2)
PART 4	PERSONAL TRANSACTIONS	L18(b)
4.1	Define the relevant persons within the AIFM as per Article 63	R63(1)
4.2	Description of the arrangements established to ensure compliance with Articles 63(1)-(4) of Regulation	R63
PART 5	VALUATION	L19
5.1	Valuation policies and proceduresDescription of the policies and	R67
	procedures that ensure a sound, transparent, comprehensive and appropriately documented valuation process for each AIF managed. The valuation policy and procedures shall cover all material aspects of the valuation process and valuation procedures and controls in respect of the relevant AIF, in accordance with the requirements of Article 67 of Regulation	
5.1.2	Description of the obligations, roles and responsibilities of all parties involved in the valuation process, including the senior management of the AIFM. The procedures shall reflect the organisational structure as set out in the valuation policies and comply with the requirements of Article 67(2) of Regulation	R67(2)
5.1.3	If the valuation is performed by the AIFM itself, describe the safeguards for the functionally independent performance of the valuation task in accordance with point (b) of Article 19(4) of the Law	R67(4)
5.2	Use of models to value assets	R68
5.2.1	If a model is used to value the assets of an AIF, explain and justify the model	R68(1)
	used and its main features	

	model	
5.3	Consistent application of valuation	R69
	policies and procedures	
5.3.1	Demonstrate how the AIFM will ensure	R69(1)-(4)
	that the valuation policies and procedures	
	and the designated valuation	
	methodologies are applied consistently	
5.4	Review of individual values of assets	R71
5.4.1	Description of the procedures that ensure	R71(1)
	that all assets held by the AIF are fairly	
	and appropriately valued	
5.4.2	Description of the review process for the	R71(2)
	individual values of assets, where a	
	material risk of an inappropriate	
	valuation exists, as stipulated in Article	
	70(2) of Regulation	
5.4.3	Description of the review process and	<b>R71(3)</b>
	appropriate checks and controls on the	
	reasonableness of individual values	
5.4.4	Description of the appropriate escalation	<b>R71(4)</b>
	measures to address differences or other	
	problems in the valuation of assets	
5.5	Frequency of valuation of assets held	R74
	by open-ended AIFs	
5.5.1	Demonstrate the AIFM's compliance	
	with the provisions of Article 74 of	
	Regulation	
5.6	Calculation of net asset value per unit	R72
<b>-</b> - 1	or share	
5.6.1	Description of the frequency and	<b>R72</b> (1)
	occasions the AIFM calculates the net	
	asset value per unit or share of each AIF	
5.6.2	it manages	D72(2)
5.6.2	Document the procedures and the	<b>R72</b> (2)
	methodology for calculating the net asset	
5.6.3	value per unit or share Description of the remedial procedures in	R72(3)
5.0.5	place in the event of an incorrect	N/2(3)
	calculation of the net asset value	
5.6.4	Regular verification of the number of	<b>R72(3)</b>
5.0.4	units or shares in issue is subject to, at	
	least as often as the unit or share price is	
	calculated.	
5.7	Appointment of an external valuer	
5.7.1	If an external valuer is appointed, define	R67(3)
5.7.1	the process for the exchange of	
	information between the AIFM and the	
	external valuer	
5.7.2	Demonstrate how the external valuer	R73(3)
5.7.2	complies with the provisions of Article	
	73 of Regulation	
L		I

PART 6	DELEGATION OF AIFM FUNCTIONS	L20
	Provide details on the delegation arrangements proposed specifying the functions proposed to be delegated to third parties	
6.1	Delegation rules of the AIFM	R75
6.1	Describe the delegation rules and principles of the AIFM clarifying, among others, the following:	
6.1.1	How the delegation structure will not affect the AIFM's responsibilities or liability	R75(a)
6.1.2	How the obligations of the AIFM towards the AIF and its investors will remain unaltered	R75(b)
6.1.3	How the conditions with which the AIFM must comply in order to be authorised and carry out activities in accordance with the Law are not undermined;	R75(c)
6.1.4	A written agreement concluded between the AIFM and the delegate for the delegation arrangement exists	R75(d)
6.1.5	How the AIFM ensures that the delegate carries out the delegated functions effectively and in compliance with applicable law and regulatory requirements. Which methods and procedures are	R75(e)
	established for reviewing on an ongoing basis the services provided by the delegate.	
	Describe the actions taken if it appears that the delegate cannot carry out the functions effectively or in compliance with applicable laws and regulatory requirements	
6.1.6	How the AIFM supervises the delegated functions and manages the risks associated with the delegation and also how it ensures that the delegate properly supervises the performance of the delegated functions, and adequately manages the risks associated with the delegation	R75(f)
	The AIFM shall set out in the agreement its right of information, inspection, admittance and access, and its instruction	

		C30-2013-01
	and monitoring rights against the delegate	
6.1.7	How the AIFM ensures the continuity and quality of the delegated functions or of the delegated task of carrying out functions	R75(g)
6.1.8	How the respective rights and obligations of the AIFM and the delegate are clearly allocated and set out in the agreement. In particular, the AIFM shall contractually ensure its instruction and termination rights, its rights of information, and its right to inspections and access to books and premises. The agreement shall make sure that sub- delegation can take place only with the	R75(h)
6.1.9	consent of the AIFM; Where the delegation concerns portfolio management, the delegation must be in accordance with the investment policy of the AIF. The delegate shall be instructed by the AIFM how to implement the investment policy and the AIFM shall monitor whether the delegate complies with it on an ongoing basis	R75(i)
6.1.10	How the AIFM ensures that the delegate discloses to the AIFM any development that may have a material impact on the delegate's ability to carry out the delegated functions effectively and in compliance with applicable laws and regulatory requirements	R75(j)
6.1.11	How the AIFM ensures that the delegate protects any confidential information relating to the AIFM, the AIF affected by the delegation and the investors in that AIF	R75(k)
6.1.12	How the AIFM ensures that the delegate establishes, implements and maintains a contingency plan for disaster recovery and periodic testing of backup facilities while taking into account the types of delegated functions	R75(l)
6.2	Describe the objective reasons for delegation	R76
6.2.1	Provide a detailed description, explanation and evidence of the objective reasons for delegation taking into account the criteria specified in Article 76 of Regulation	R76(1)

6.3	Features of the delegate	<b>R</b> 77
6.3.1	Describe the main features of the	IX//
0.5.1	possible delegate that are examined	
	before proceeding to the delegation.	
	before proceeding to the delegation.	
6.4	Effective supervision	R79
6.4.1	Measures taken to ensure effective	
0.1.1	supervision of the delegate in accordance	
	with the provisions set in Article 79 of	
	Regulation	
6.5	Conflicts of interests	R80
6.5.1	Description of the policies and	
	procedures established to avoid conflicts	
	of interests between the delegate and the	
	AIFM or the investors in the AIF	
6.5.2	Description of how potential conflicts of	<b>R80(3)</b>
	interest are properly identified, managed,	
	monitored and disclosed to the investors	
	of the AIF	
6.6	Sub-delegation	R81
6.6.1	Description of the policies and	
	procedures to be followed in case of sub-	
	delegation	
CHAPTER	RISK MANAGEMENT	
2		
PART 1	PERMANENT RISK	L16
	MANAGEMENT FUNCTION	
		D.42
1.1	Functional and hierarchical separation	R42
	Describe the policies and procedures	
	adopted so as to ensure the functional and	
	hierarchical separation of the Risk	
	Management function from other	
	operating units, including the portfolio	
	management function in accordance with	
1.2	the provisions of Article 42 of Regulation <b>Duties and responsibilities of the Risk</b>	R39
1.4	Management Function	N.37
	Describe the duties and responsibilities	
	of the Risk Management Function taking	
	into account the requirements of Article	
	into account the requirements of Article 39 of Regulation	
PART 2	39 of Regulation	R38
PART 2 2.1	39 of Regulation <b>RISK MANAGEMENT SYSTEMS</b>	R38
PART 2 2.1	39 of Regulation RISK MANAGEMENT SYSTEMS Description	R38
	39 of Regulation <b>RISK MANAGEMENT SYSTEMSDescription</b> Describe the risk management systems	R38
	39 of Regulation <b>RISK MANAGEMENT SYSTEMS</b> DescriptionDescribe the risk management systemsemployed by the AIFM in relation to	R38
2.1	39 of Regulation <b>RISK MANAGEMENT SYSTEMS</b> <b>Description</b> Describe the risk management systems employed by the AIFM in relation to each AIF it manages	
	39 of Regulation <b>RISK MANAGEMENT SYSTEMS</b> <b>Description</b> Describe the risk management systems employed by the AIFM in relation to each AIF it manages <b>Assessment, monitoring and review</b>	R38
2.1	39 of Regulation <b>RISK MANAGEMENT SYSTEMS</b> <b>Description</b> Describe the risk management systems employed by the AIFM in relation to each AIF it manages	

		050-2013-01
	policy taking into account the	
	requirements of Article 41 of Regulation	
PART 3	RISK MANAGEMENT POLICY	R40
	Describe the risk management policy	
	established by the AIFM identifying the	
	following:	
2 1	All the relevant risks to which the AIFs it	<b>D</b> 40(1)
3.1		<b>R40(1)</b>
	manages are or may be exposed	
3.2	Procedures necessary to enable the AIFM	R40(2)
	to assess for each AIF it manages the	
	risks defined in Article 44 and all other	
	relevant risks	
3.3	Techniques, tools and arrangements	R40(3)(a)
	regarding risk measurement and	
	management (Article 45)	
3.4	Techniques, tools and arrangements to	R40(3)(b)
5.4		<b>K40(3)(0)</b>
	assess and monitor liquidity risk of the	
	AIF (Article 48)	
3.5	Allocation of responsibilities within the	R40(3)(c)
	AIFM pertaining to risk management	
3.6	Limits set in accordance with Article 44	R40(3)(d)
	of Regulation and a justification of how	
	these are aligned with the risk profile of	
	the AIF disclosed to investors in	
	accordance with Section 30(4)(c) of the	
	Law;	
3.7	Terms, contents, frequency and	R40(3)(e)
	addressees of reporting by the permanent	
	risk management function	
3.8	Description of the safeguards against	R40(4)
5.0	conflicts of interest (Article 43)	<b>K+0(+)</b>
		R46
PART 4	LIQUIDITY MANAGEMENT	K40
4.1	Describe the liquidity management	
	systems and procedures of the AIFM	
	taking into account Articles 47-49 of the	
	Regulation	
PART 5	AIFMS EXPOSED TO	R53
	SECURITISATIONS	
5.1	Policies and procedures for analysing and	
	recording the elements of Article 53	
CHAPTER	CONFLICTS OF INTEREST	
$\frac{1}{3}$		
PART 1	TYPES OF CONFLICTS OF	R30
	INTEREST	
1.1		
1.1	Description of the types of conflicts of	
	interest that may arise in the course of	
	managing an AIF	
<b>D</b> /D <b>C</b>		
PART 2	CONFLICTS OF INTEREST	R31
	POLICY	

2.1 CHAPTER	Describe the conflicts of interest policy established by the AIFM. The conflicts of interest policy adopted should be effective in preventing or resolving any conflicts of interest and which should be appropriate to the nature, scale and complexity of the business of the AIFM <b>OPERATING CONDITIONS FOR</b>	
	AIFMs	
	Describe the policies and procedures established by the AIFM to comply with the operating conditions of Articles 17- 29 of the Regulation	