



association of the  
luxembourg fund industry

# **Framework for Due Diligence Information Packs**

**for service providers acting as central administrators  
and/or depositary/custodian with a view to simplify and  
facilitate initial and ongoing due diligence reviews**



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*This framework for due diligence information packs (the “Framework”) seeks to provide a table of contents upon which service providers (delegates) to which a fund Board, Management Company or AIFM has delegated activities and services can base their preparation of documentation required to support the initial and ongoing due diligence reviews of a fund and/ or its Management Company under Luxembourg regulations. It should not be considered as an exhaustive list of areas for delegates to cover, nor a prescriptive guide on the approach to a due diligence process. It is intended to facilitate an effective due diligence process for the delegates as well as those undertaking due diligence.*

*This Framework may not be suitable for every circumstance and it has not been validated by any regulator. Furthermore, as ALFI is a non-for-profit organisation pursuant to Luxembourg law it does not provide legal advice. Therefore, this Framework must not be relied upon as legal advice and is provided without any warranty of any kind by ALFI or its members who contributed to producing this Framework. Nor does ALFI accept any liability whatsoever for any action taken in reliance thereupon.*

*Should readers of the Framework feel it is necessary, it is suggested they seek the advice of legal counsel for any specific queries they may have.*

## I. Purpose and scope of the Framework

It is a regulatory requirement that the board of a Fund, the Management Company or the Alternative Investment Fund Manager ("AIFM") remain responsible for the activities delegated to third parties and the need to oversee their activities and performance. Principle IV of the X principles set out in the ALFI Code of Conduct<sup>1</sup>, applicable to boards of Luxembourg funds and management companies, sets out that they should *act with due care and diligence in the performance of their duties*. Ultimately the Board of the fund is responsible for the appointment of delegated parties, and by inference also the oversight and the performance of such delegate.

From a regulatory perspective, Directive 2009/65/EC (generally referred to as "UCITS IV")<sup>2</sup>, and Directive 2011/61/EU (generally referred to as "AIFMD"), (transposed into Luxembourg law by the Law of 17 December 2010 and the Law of 12 July 2013, respectively) focus more closely on the oversight of activities undertaken by delegates. In addition, CSSF Circular 12/546, should be considered as being applicable to both UCITS ("Undertakings for Collective Investment in Transferable Securities") Management Companies and to Alternative Investment Fund Managers ("AIFM"), which requires evidence of delegate oversight, including documentation of initial due diligence and on-going monitoring.

ALFI considers it to be in the interest of the Luxembourg fund industry to conduct oversight and review of performance ("Due Diligence"), which is required to be performed on delegated fund activities in Luxembourg, in an efficient and consistent manner. An ALFI working group under the aegis of the ALFI Fund Governance Forum was created to consider whether the different approaches taken to due diligence on delegates by the boards of Luxembourg funds, management companies, and AIFMs could be more consistent with a view to simplify and facilitate initial and ongoing due diligence reviews.

Service providers based in the Luxembourg market place will typically be providing "Central Administration" services (including "Transfer Agency" and "Fund Accounting") and "Custodian" / "Depository" services to funds, Management Companies and/or AIFMs.

The purpose of this Framework is to offer guidance in the form of a high-level table of contents for due diligence information packs, by identifying areas which would normally fall within the scope of due diligence reviews in respect of Central Administration and Custodian / Depository services provision.

By making this Framework broadly available to the Luxembourg fund industry, including the providers of Central Administration and Custodian / Depository services, ALFI believes the industry will be in a position to establish a recognised pack of due diligence materials to efficiently respond to the broad due diligence needs of the boards of Luxembourg funds, Management Companies and AIFMs.

Such a consistent approach to due diligence documentation will enable service providers of Central Administration and Custodian / Depository services to produce more standardised packs of due diligence materials to efficiently respond to regulatory requirements (in respect of initial and ongoing due diligence). Setting out a table of contents with a minimum set of information that needs to be made available was challenging, due to the wide range of services, products and strategies in the market place. The aim of this Framework is to keep it sufficiently broad. Therefore, it is imperative that the board of a Fund, a Management Company and/or an AIFM needs to exercise its judgement at all times to ensure that any due diligence is tailored appropriately to characteristics of its funds and the services received according to the risk profile and appetite of those undertaking due diligence.

Please note that this Framework is limited to service providers acting as central administrators and /or custodian / depository banks. It does not extend to due diligence on distribution and investment management services.

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<sup>1</sup> [http://www.alfi.lu/sites/alfi.lu/files/files/About\\_ALFI/Code-of-Conduct-2013-3-final.pdf](http://www.alfi.lu/sites/alfi.lu/files/files/About_ALFI/Code-of-Conduct-2013-3-final.pdf)

<sup>2</sup> "Directive 2009/65/EC" means Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

This Framework is principled based and not prescriptive, therefore it does not address how due diligence should be performed. We elected not to address: the due diligence approach; risk profiling, weighting and assessment; or detailed due diligence questions and process for carrying out due diligence on providers of central administration or depositary services.

As best practice develops, this Framework will be subject to review and amendments accordingly.

## II. Content of the Framework

Service Providers may wish to prepare, and regularly update, due diligence information packs based on the Framework outlined below. The table of contents is not an exhaustive list of documentation covering due diligence, but offers a basic set of information to be provided to the party performing the due diligence. Any party using this Framework should broaden the scope of information and/or request more granular information based on their particular areas of focus or the specific nature of the investment products, and their profiling and risk appetite.

The Framework is not intended to provide guidance as to how the information offered is to be interpreted as this must be determined by the delegating party based upon the specific services provided and an assessment of the risks involved in the delegation.

Documentation provided by the service providers as part of the information pack will take the form (electronic or printed) of: organisation charts; policies; procedures; description of processes; copies of reports; etc.

There will possibly be specific documentation relating to a particular client situation where access to particular documents will be provided during the course of a due diligence visit by the delegating party rather than be included in the basic document pack.

The Framework has been broken down into different sections:

- 1) General information, business operating model, technology/systems etc.;
- 2) Transfer agency;
- 3) Fund administration;
- 4) Custodian/depositary bank;
- 5) Other service providers (e.g. middle office, custody, ancillary, other matters, etc);

### III. Table of contents for due diligence information pack

#### Part I: Generic Headings

Title
<b>1. General information</b>
1.1 Key contacts, address and contact details
1.2 Company overview
1.3 Board and leadership / Corporate / ownership structure
1.4 Country of incorporation
1.5 Internal governance guidelines
1.6 Organization structure
1.7 Key personnel and any changes
1.8 Financial Statements, Capital Adequacy, Solvency, etc.
1.9 Insurance coverage
<b>2. Business operating model</b>
2.1 Products and Service lines
2.2 Office locations
2.3 Functional overview by location
2.4 Overview of operations, staff and systems
2.5 Staff Turnover
2.6 History and trends
<b>3. Technology / Systems</b>
3.1 Overview of technology architecture and inventory of systems
3.2 Material systems changes
3.3 Information security policies and procedures
3.4 Business Continuity Planning and Disaster Recovery Plan
3.5 Governance and change management
3.6 Confidentiality and system security breaches
<b>4. Legal / Regulatory</b>
4.1 Pending litigations
4.2 Fraud prevention schemes
4.3 AML procedures
<b>5. Regulatory Compliance</b>
5.1 Governance Framework
5.2 Management of regulatory breaches
5.3 Regulatory changes (e.g. FATCA, AIFMD, UCITS V, etc.)
5.4 Compliance trainings
5.5 Summary of UCITS IV policies (Code of Conduct, Conflict of Interests, Personal Account Dealing, Best Execution, Complaints handling, Remuneration, Inducements, Voting rights, etc.)
5.6 Breaches to compliance policies
<b>6. Internal / External audit</b>
6.1 Description of IA (function, last internal audit report, finding(s), planning)
6.2 Last audited financial statements
6.3 Control reports (e.g. ISAE 3402, SSAE 16, SOC reports, etc.)
<b>7. Risk Management</b>
7.1 Governance Framework
7.2 Risk appetite profile
7.3 Risk Management process
7.4 Operational risk Controls

7.5 Control and Escalation process
<b>8. Delegated / Outsourced activities</b>
8.1 Overview of material functions delegated / off-shored / outsourced
8.2 Monitoring arrangements
8.3 Inventory of activities outsourced / activities off-shored
8.4 CSSF approvals and type of license
8.5 SLA
8.6 Legal and Contractual agreements
<b>9. Reporting</b>
9.1. Standard reporting pack
9.2. Frequency of reporting
9.3. Reporting mode: web solution, swift, other
9.4. Ability to customize reports through data warehouse
9.5. Number of years of history in system

## Part II: Transfer Agent Headings

Title
<b>1. Operational structure / Operating Model</b>
1.1 Organization structure
1.2 Key roles and responsibilities
<b>2. Technology and IT systems</b>
2.1 Systems changes
2.2 Information security
2.3 Business Continuity Planning and Disaster Recovery Plan
<b>3. Delegated / Outsourced activities / Third party management and SLAs</b>
3.1 Monitoring arrangements
3.2 Inventory of activities outsourced / activities off-shored
3.3 CSSF approvals and type of license
3.4 SLA
3.5 Legal and Contractual agreements
<b>4. Registration process</b>
4.1 Procedure for account opening
4.2 Register maintenance and update procedures
4.3 Checklists
<b>5. Reconciliation shares/units outstanding</b>
5.1 Process description
5.2 Frequency
5.3 Controls and checks around process
<b>6. AML / KYC Compliance</b>
6.1 Investor identification process
6.2 Risk assessment (incl. country, investor type, reputation, industry sector, etc.)
6.3 AML procedures
6.4 On-going review of KYC files
6.5 Suspicious Transaction reporting
6.6 Black list screening (specify sources used)
6.7 PEP screening
<b>7. Dealing (Subscriptions/Redemptions/ Conversion of shares)</b>
7.1 Processing subscriptions / redemptions
7.2 Controls and checks on institutional share classes
7.3 Controls and checks on minimum holdings, minimum subscriptions
7.4 Late trade and Market timing procedures
7.5 Short-term & frequent trading
7.6 Missed trades
<b>8. Client Services</b>
8.1 Distributors set up
8.2 Shareholder Communication
8.3 Complaint handling
<b>9. Dividend distribution</b>
9.1 Process overview
9.2 Payments to shareholders
9.3 Controls and process

## Part III: Fund Administrator Headings

Title
<b>1. Operational structure / Operating Model</b>
1.1 Organization structure
1.2 Key roles and responsibilities
<b>2. Technology and IT systems</b>
2.1 Systems changes
2.2 Information security
2.3 Business Continuity Planning and Disaster Recovery Plan
<b>3. Delegated / Outsourced activities / Third party management and SLAs</b>
3.1 Monitoring arrangements
3.2 Inventory of activities outsourced / activities off-shored
3.3 CSSF approvals and type of license
3.4 SLA
3.5 Legal and Contractual agreements
<b>4. Processing /input trade</b>
4.1 Authorizing and processing transactions
4.2 Controls and checks around process
4.3 Failed trades
4.4 Escalation process
<b>5. Reconciliations</b>
5.1 Description of the processes for cash, securities and derivatives
5.2 Frequency
5.3 Controls and checks around process
<b>6. Income</b>
6.1 Dividends
6.2 Investment income and corporate actions
6.3 Income reconciliation
<b>7. Pricing</b>
7.1 Systems and methodology
7.2 Data feed
7.3 Valuation points per each market
7.4 Stale pricing / Fair Valuation
7.5 OTC valuation
7.6 AIFs independent valuer
<b>8. Accounting</b>
8.1 NAV calculation process overview
8.2 Number of share classes support by system
8.3 Control procedures over production of NAVs
8.4 Benchmarking
8.5 Expenses/Budget set-up and maintenance
8.6 Ratios (TER, PTR, etc.)
8.7 Cash monitoring and overdrafts
8.8 Performance fees
8.9 Swing pricing
8.10 Share class hedging
8.11 Shareholder equalization
8.12 Dividend distribution calculation
<b>9. Tax</b>
9.1 Calculation of tax figures (Zwischengewinn, Belgian TIS etc.)
9.2 Process for automatic exchange of information of tax figures
9.3 FATCA compliance
9.4 Tax rulings, exemptions or specific services not covered elsewhere
<b>10. NAV publication</b>
10.1 Process description

10.2 Reporting to clients, regulators, etc.
<b>11. Financial statements</b>
11.1 Process description
11.2 Reporting to clients / regulators
<b>12. Active breach and NAV errors</b>
12.1 Impact calculation
12.2 Reporting to the Management Company, client and CSSF

## Part IV: Custodian / Depository Bank Headings

Title
<b>1. Safekeeping of assets within your custody network</b>
1.1 Asset types held
1.2 Segregation of customer assets
1.3 Reconciliation of customer assets
<b>2. Safekeeping of assets not within your custody network</b>
2.1 For assets not within the custody network are counterparty statements independently received
2.2 Reconciliation of customer assets with brokers/counterparties confirmation
<b>3. Delegated / Outsourced activities / Third party management and SLAs</b>
3.1 Monitoring arrangements
3.2 Inventory of activities outsourced / activities off-shored
3.3 CSSF approvals
3.4 SLA
3.5 Legal and Contractual agreements
<b>4. Monitoring of Cash with Third Parties</b>
4.1 Reconciliations sub-custodian records with the Custodian
4.2 Reconciliation process for derivatives and "not in Bank assets"
<b>5. Review of Custody Operations</b>
5.1 Supervision of settlement of assets
5.1.1 Systems
5.1.2 Settlement of trades
5.1.3 Monitoring of failed trades
5.1.4 Monitoring unmatched trades at sub-custodian level
5.2 Supervision of Assets Administration
5.2.1 Failed trades
5.2.2 Overdue Interest
5.2.3 Overdue corporate action entitlements
5.2.4 Outstanding market claims
5.2.5 Tax reclaims
5.2.6 Dividend payments
<b>6. Review of Fund Accounting and NAV errors and breaches</b>
6.1 Sanity check of cash and securities reconciliations performed by FA
6.2 Exceptions monitoring on reconciliations
6.3 NAV error monitoring
<b>7. Global and Sub-Custodian network review</b>
7.1 Sub-custodians selection process
7.2 Sub-custodian network monitoring
7.3 Sub custodian/service standards agreements
7.4 Reconciliations process with sub-custodians
7.5 Oversight of prime brokers
<b>8. Investment restrictions monitoring</b>
8.1 Systems
8.2 Investment restrictions checks and controls
8.3 Reporting of breaches to third parties (i.e. Investment Manager, Management Company, Auditors, CSSF, etc.)

## Part V: Other Items

Title
<b>1. Middle offices</b>
1.1 Foreign Exchange
1.2 Share Class & FX Portfolio Hedging
1.3 Liquidity Solutions
1.4 Portfolio Insight
1.5 Derivative Pricing & Evaluation
1.6 EMIR Reporting Services
1.6.1 Trades Executed Through Depository
1.6.2 Trades Executed Through Other Brokers
1.7 Performance & Risk Reporting
1.8 Agency Clearing, Collateral Management & Execution
<b>2. Custody</b>
2.1 Securities Lending Services (in-house or third party)
2.2 Post Trade Compliance
2.3 Prime Brokerage Services
2.4 Debt and Loan Administration
2.5 Overdraft Facility and Conditions (Confirmed/ Unconfirmed)
2.6 Proxy Voting Services
<b>3. Ancillary</b>
3.1 Tax Services
3.2 Company Secretarial Services
3.3 KIID
3.4 Depository for Bearer shares
3.5 New product / service introduced as a result of changing regulation



The Association of the Luxembourg Fund Industry (ALFI), the representative body for the Luxembourg investment fund community, was founded in 1988. Today it represents more than 1 300 Luxembourg-domiciled investment funds, asset management companies and a wide variety of service providers including depository banks, fund administrators, transfer agents, distributors, law firms, consultants, tax advisers, auditors and accountants, specialist IT providers and communications agencies.

Luxembourg is the largest fund domicile in Europe and its investment fund industry is a worldwide leader in cross-border fund distribution. Luxembourg-domiciled investment structures are distributed in more than 50 countries around the globe, with a particular focus on Europe, Asia, Latin America and the Middle East.

ALFI defines its mission as to “Lead industry efforts to make Luxembourg the most attractive international centre”.

Its main objectives are to:

### Help members capitalise on industry trends

ALFI’s many technical committees and working groups constantly review and analyse developments worldwide, as well as legal and regulatory changes in Luxembourg, the EU and beyond, to identify threats and opportunities for the Luxembourg fund industry.

### Shape regulation

An up-to-date, innovative legal and fiscal environment is critical to defend and improve Luxembourg’s competitive position as a centre for the domiciliation, administration and distribution of investment funds. Strong relationships with regulatory authorities, the government and the legislative body enable ALFI to make an effective contribution to decision-making through relevant input for changes to the regulatory framework, implementation of European directives and regulation of new products or services.

### Foster dedication to professional standards, integrity and quality

Investor trust is essential for success in collective investment services and ALFI thus does all it can to promote high professional standards, quality products and services, and integrity. Action in this area includes organising training at all levels, defining codes of conduct, transparency and good corporate governance, and supporting initiatives to combat money laundering.

### Promote the Luxembourg investment fund industry

ALFI actively promotes the Luxembourg investment fund industry, its products and its services. It represents the sector in financial and in economic missions organised by the Luxembourg government around the world and takes an active part in meetings of the global fund industry.

ALFI is an active member of the European Fund and Asset Management Association, of the European Federation for Retirement and of the International Investment Funds Association.

To keep up to date with all the news from the association and the fund industry in Luxembourg, join us on [LinkedIn](#) (The Luxembourg Fund Industry Group by ALFI), [Twitter](#) (@ALFI-funds), [Youtube](#), [Vimeo](#) or visit our website at [www.alfi.lu](http://www.alfi.lu).





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