



association of the  
luxembourg fund industry



**Considerations for investment fund managers  
with regard to on-site inspections  
in Luxembourg by the CSSF**

# Table of contents

<b>Introduction</b>	<b>3</b>
• <b>Objectives of this publication</b>	
<b>1. Legal basis for a CSSF inspection</b>	<b>4</b>
<b>2. The objective of on-site inspections</b>	<b>5</b>
<b>3. Types of inspection</b>	<b>6</b>
<b>4. The CSSF departments in charge of on-site inspections</b>	<b>7</b>
<b>5. Format of inspection</b>	<b>8</b>
<b>6. Considerations for IFMs preparing for inspection</b>	<b>9</b>
<b>7. Inspection feedback formal letter and remedial actions</b>	<b>11</b>
<b>Appendix 1: CSSF findings and other relevant statistics in 2017 and 2018</b>	<b>12</b>
<b>Appendix 2: Document readiness checklist</b>	<b>14</b>
• <b>On-site governance inspection</b>	<b>14</b>
• <b>AML/CFT inspection</b>	<b>15</b>
<b>Appendix 3: Example of CSSF presentation structure/content</b>	<b>16</b>

# Introduction

On-site inspections performed by National Competent Authorities (“NCAs”) are an essential feature of a well-regulated financial market. The principal objectives of inspections and supervision more generally are to ensure that regulation is adhered to, a robust financial centre exists, that the reputation of the industry is upheld and that investor confidence in the financial sector is maintained.

As such, the scope, nature and prevalence of inspections and the expectations of NCAs globally are continually evolving to keep pace with the industry in respect of new product offerings, advances in technology and process design within the value chain and ecosystem.

In this publication, we aim to provide the authorised Investment Fund Managers (“IFM”) with insight into the on-site inspection process in Luxembourg and to equip them with information that can assist in their preparedness for a visit. Many of the principles and considerations documented in this publication are equally relevant for funds and service providers subject to prudential supervision.

IFMs comprise of the following types of Luxembourg regulated entities:

- Management companies subject to Chapter 15 of the amended Law of 17 December 2010 relating to undertakings for collective investment in transferable securities (hereinafter the “2010 Law”);
- Authorised and registered alternative investment fund managers (“AIFMs”) subject to the amended Law of 12 July 2013 on alternative investment fund managers (hereinafter the “2013 Law”);
- Management companies subject to Articles 125-1 or 125-2 of Chapter 16 of the 2010 Law;
- Luxembourg branches of IFMs subject to Chapter 17 of the 2010 Law;
- Investment companies which did not designate a management company within the meaning of Article 27 of the 2010 Law; and
- Internally managed alternative investment funds within the meaning of point (b) of Art

cle 4(1) of the 2013 Law.

This publication focuses on the on-site inspections held by the *Commission de Surveillance du Secteur Financier* (“CSSF”) in Luxembourg, however many of the principles and considerations may be equally relevant for inspections or visits by other NCAs or supra-national bodies.

The inspection environment has developed substantially in the last few years. It is recommended that IFMs consider this type of engagement as a business as usual activity type rather than an ad hoc event in their business planning. Careful preparation is important as it assists in setting the tone and expectations for all stakeholders who will be involved in the engagement and ensuring relevant information is accessible for all.

## Objectives of this publication

The objectives of this publication are to provide congruency of expectation within inspection process between competent authorities and market participants, leading to a more effective and transparent engagement for both parties through:

- Providing greater insight into and considerations on the types of inspection an IFM can be subject to;
- Informing on the format of the inspection process;
- Detailing CSSF standard expectations of IFMs on the engagement.

This does not imply the inspection should be formulaic and predictable, however as far as possible, this publication seeks to provide IFMs with a consistent approach to preparing for and structuring the event.

# Legal basis for a CSSF inspection

By way of implementation of the UCITS and AIFM Directives, the CSSF's powers to perform inspections on IFMs are granted by article 147 of the 2010 Law and Article 50 of the 2013 Law. Articles 148 and 51 of the respective Laws provide the CSSF with the powers to impose sanctions or other administrative measures on funds or its management bodies (whether the fund is self-managed, managed by a management company or an alternative investment fund manager).

Several other European legislative and regulatory texts have empowered NCAs to carry out on-site inspections and to impose sanctions, including but not limited to the Directive (EU) 2015/849 ("AML") Directive, the Market Abuse Directive, and the EuVECA, EuSEF, ELTIF and MMF Regulations. These provisions have been implemented in national law as follows and also constitute the legal basis of the CSSF's other on-site inspections: article 8-2(1) c) and Section 2 of the amended Law of 12 November 2004 on the fight against money laundering and terrorist financing, article 53(1) of the amended Law of 5 April 1993 on the financial sector, articles 4(1)4 and 12 of the amended Law of 23 December 2016 on market abuse, articles 2(2)4 and 3 of the Law of 16 July 2019 implementing, among other Regulations (EU) n° 345/2013 on EuVECA, (EU) n° 346/2013 on EuSEF, (EU) 2015/760 on ELTIF and (EU) 2017/1131 on money market funds.

# The objective of on-site inspections

The CSSF's prudential supervision aims to ensure that Luxembourg authorised IFMs observe all legal, regulatory and contractual provisions relating to their organisation and operation, with the objective of ensuring investor protection and stability of the financial system.

The principal objectives of on-site inspections are to ensure that regulation is adhered to, a robust financial centre exists, that the reputation of the industry is upheld and that investor confidence in the financial sector is maintained.

In addition, taking into consideration the business model of the IFMs, the following requirements are in particular assessed by the CSSF:

- Substance: assess whether the IFM maintains the sufficient level of substance in the head office in Luxembourg to carry out its activities including sufficient resources (number of full-time employees) and expertise with respect to the oversight of delegates, or the performance of activities in the IFM (e.g. in the performance of portfolio management and/or risk management functions);
- The concept of central administration: assess whether the IFM has its central administration (consisting of a "decision-making centre" and an "administrative centre") in Luxembourg which comprises in a broad sense the functions of direction and management, of execution and control that permits the IFM to maintain control of all its activities;
- Internal governance arrangements: assess whether the IFM has established sound internal governance arrangements (consistent with the three-lines-of-defence model) including, among others, clear and consistent organisational and operational structure including decision-making powers and reporting, adequate internal control mechanisms, risk culture and formal escalation process.

The above-mentioned requirements can be assessed/challenged in the context of a full corporate governance inspection or thematic inspection further discussed below.

# Types of inspection

This publication focuses primarily on on-site inspections performed by the CSSF in Luxembourg. However, the IFM may also be subject to inspections from other authorities, such as the *Commission Nationale pour la Protection des Données* (“CNPD”) or other NCAs where funds under management are registered for public distribution, or jurisdictions where branches of the IFM exist.

It is important to note that the prudential supervision is also performed via off-site inspection based on the analysis of the periodic financial information, annual reports, other reports (including the reports of the *réviseurs d'entreprises agréés* (approved statutory auditors) and regular or ad hoc information received by the CSSF. In this context, the CSSF may issue a letter containing extensive information/documentation requests with short deadlines. It is important that the IFM is able to respond within the timelines requested.

If an IFM manages undertakings for collective investment (“UCIs”) in other EU Member States via use of a passport, the NCA of that EU Member State can approach the CSSF to address matters regarding the UCI management where applicable.

The CSSF has the power to perform both unannounced and announced on-site inspections. The former is typically conducted where serious matters or concerns have been raised to the CSSF’s attention that require urgent investigation. This publication predominantly focuses on the second (and more common) type of event where the inspection is formally announced by the CSSF to the IFM by a notice period (usually between two to four weeks in advance).

The CSSF has two categories of on-site inspections:

- A full corporate governance inspection which covers the whole range of activities of the IFM; and
- A thematic inspection.

Common areas of thematic review may concern anti-money laundering and combating the financ-

ing of terrorism (“AML/CFT”), central administration, risk management, CSSF Circular 02/77 and information technology; however, this list is considered as non-exhaustive and does not preclude further types of thematic review occurring in future (e.g. EMIR) as the industry, regulations and responsibilities of the IFM evolve.

Finally, while not explicitly part of the inspection process itself, the CSSF is performing greater data collection on IFMs, governance practices and compliance through use of industry surveys and targeted requests of information, in order to build a more comprehensive profile of industry participants. This data assists the CSSF in defining part of its risk-based assessment of the IFM population.

# The CSSF departments in charge of on-site inspections

The CSSF “UCI on-site inspection” department (*OPC CSP*) carries out an in-depth review of the IFMs’ business models and governance as well as thematic on-site inspections covering, among others, the fight against money laundering and terrorist financing.

The CSSF “Prudential supervision and risk management” department performs thematic on-site inspections in relation to risk management, the procedures linked to Circular CSSF 02/77 and monetary UCIs.

The CSSF “on-site inspection” (“OSI”) department is responsible for coordinating all on-site inspections with regard to banks, payment institutions, electronic money institutions, investment firms, specialised professionals of the financial sector (“PFS”), support PFS, pension funds, securitisation undertakings and financial market participants. This department is in charge of thematic inspections in relation to central administration and the Markets in Financial Instruments Directive (“MiFID”) regulations at IFMs.

Other CSSF departments may also carry out targeted thematic OSIs as appropriate.

After each OSI, the team in charge draws up an internal report indicating any observations identified during the mission. OSIs are followed by an observation letter that is sent to the IFM. In the event of serious failures, the CSSF analyses whether an enforcement procedure is required which may include an administrative sanction pursuant to the sectoral laws in force.

With the entry into force of the Grand-Ducal Regulation of 21 December 2017 relating to the fees to be levied by the CSSF, as amended, an amount of EUR 10,000 is charged for every OSI<sup>1</sup> to IFMs.

---

1. [https://www.cssf.lu/fileadmin/files/Lois\\_reglements/Legislation/RG\\_NAT/GDR\\_211217\\_fees\\_CSSF\\_upd261019.pdf](https://www.cssf.lu/fileadmin/files/Lois_reglements/Legislation/RG_NAT/GDR_211217_fees_CSSF_upd261019.pdf)

# Format of inspection

The CSSF notifies the IFM of an inspection via a formal letter addressed to the members of the board of directors of the IFM (or the members of the board of directors of the fund).

This letter provides details and requirements such as:

- The type of inspection to be undertaken;
- The date on when the inspection intends to start;
- The contacts at the CSSF leading the inspection (who may be different to the persons physically performing the inspection);
- The documentation requests and the deadlines and format in which to transfer information;
- Details on the format of the inspection;
- The requirements of CSSF for the inspection (e.g. separate meeting room, internet connection);
- Who the CSSF expects to be available for the visit; and
- Fees to be paid for the inspection;
- The structure and components of the CSSF presentation to be issued taking into consideration the scope of the OSI (please refer to Appendix 3).

Documentation requests are typically detailed and expected to be sent within one to two weeks of the receipt of the letter (this will be requested by a specific deadline). This includes requests for information on contracts, policies and procedures, service level agreements, board packs and minutes of meetings (such as the management committee meetings). Examples of the documentation requests are included in Appendix 2 of this publication.

Information can be sent encrypted through email, via encrypted USB key or using the CSSF managed file transfer<sup>2</sup> (given the volume of data that may be required). Depending on the nature of the inspection, or the size of the IFM (or fund) being inspected, further documentation requests may be made for delivery before or after the visit.

The first meeting of the CSSF on-site visit is usually dedicated to the IFM providing a complete overview presentation on the company, business

model and governance structure/organisation around the scope of the OSI. This presentation should be physically provided to the CSSF during the day in hard or soft copy format for their records. Please refer to example of the structure/content of CSSF presentation is included in Appendix 3 of this publication.

It is reasonable to expect that the Conducting Officers and the Heads of internal control functions to be available for the duration of the OSI.

2. <https://mft.cssf.lu/webclient/Login.xhtml>

# Considerations for IFMs preparing for inspection

## 1. Preparation ahead of notification

This section lists some considerations regarding the preparation for the OSI. These considerations should be tailored to the specific IFM, depending on its set-up and organisation, and the specific questions of the Inspection Team.

It would appear obvious, however for the purposes of completeness for this publication, the IFM must ensure it is compliant with the laws and regulations in force. In case areas of development are identified it is recommended to define a remediation plan to improve/close the potential gaps as soon as practicable. This remediation plan must be duly monitored by the governing/management bodies of the IFM.

Secondly, the IFM should not wait until a letter is received from the CSSF to prepare for an OSI. Inspections can have a short announcement time and so it is highly recommended to pro-actively establish and maintain a detailed business plan to ensure a state of “inspection-readiness”.

The plan should be customised to the size and structure of the IFM’s organisation and split into several key areas. It may be worth identifying a specific individual either in the preparation or during the inspection to ensure effective co-ordination of the engagement.

To understand its current state of readiness, an IFM should conduct a (gap) analysis of the information available against what is expected by the CSSF. As such, the respective regulations, CSSF Circulars, frequently asked questions or guidelines and the annual reports of the CSSF serve as a good starting point to understand what the CSSF may be expecting in respect of substance, organisation, documentation and governance process. The documentation lists in Appendix 2 will guide the IFM to ensure appropriate materials are kept updated and in good order.

It is recommended that persons responsible for a specific function or activity are identified and should be consulted/interviewed in respect

to the status of the related documentation and processes. As the CSSF OSI is not limited to a review of documentation but may also include testing of the operating effectiveness of policies, procedures and/or processes on a sample basis, focus should also be given to ensure adequate evidence exists of the activities described in the IFM’s documentation and processes (including the formalisation of internal controls). The IFM may also need additional time to request detailed information from the delegated or outsourced service providers to support the response (noting however that the proof of due diligence, oversight and ongoing monitoring are required to be stored within the IFM). It is important therefore to ensure an open dialogue with the inspection team to keep them updated on timelines for response.

It is worth also mentioning that whether the IFM is an in-house entity or a third-party firm, the same level of scrutiny applies. If in-house entities use group affiliates to perform key services, then a delegation standard of due diligence and oversight/ongoing monitoring is expected.

One approach for coordinating documentation could be having a centralised storage repository that provides an index of the persons or functions responsible for each activity/function (who would participate in the interviews), with all required static information and a registry of where corresponding (dynamic) documentation and data can be retrieved. This should include the intra-group support functions, outsourced and delegated activities and it is recommended that the repository be maintained and updated regularly.

Once a letter arrives announcing the on-site inspection and requesting the list of documents to provide upfront, it is worth activating the group to ensure the timely collection and review of the requested documentation.

The approach should not be only customised for the IFM entity under inspection but also to the wider group organisation. For example, terminologies or definitions may be specific to Luxembourg regulation and may not necessarily match the definition the IFM’s organisation uses and therefore it is recommended to have a glossary available to ensure consistency of approach.

## 2. Planning of the activities during the visit

If not already defined by the IFM before or specified as part of the on-site inspection letter it is recommended to determine which parties within the organisation will be present at interview. Planning could be undertaken by developing the agenda sent by the CSSF with topics that the IFM believes would be in the scope of discussion and proposing designated timeframes for each interview. This enhanced agenda could be shared with CSSF in advance to align expectations during the visit.

There are also some general aspects to consider:

1. Determine a single point of contact who attends all the meetings, takes minutes and maintains the log of open items and deliverables. This will help to centralise communication and ensure consistency of coordination and clear ownership among all stakeholders involved in the process.
2. Prepare a detailed business overview on your organisation, activities performed and your business model ready to kick off the on-site visit.
3. Consider the organisation of the visit and the appropriate room and technology requirements (e.g. for presentations; conferencing functionality). The CSSF will require a room in your premises with lockable cabinet space.
4. Ensure that all persons required for the interview are informed on content and duration of the interview. A presentation for each interview may be useful, covering all areas requested which can then be provided as supporting documentation to the inspection team.
5. Consider daily opening and/or closing meetings during the days of the visit. This may prove useful to recap and confirm actions taken during the day and provide status on information requests received.

During the on-site fieldwork, the CSSF maintains an inspection log shared on a daily basis with the IFM to request additional information and documentation where the IFM should demonstrate its capacity to retrieve information and documentation, and also to answer CSSF questions in a transparent manner.

After the on-site visit additional follow-up requests for information and documentation will usually be raised as the CSSF completes their inspection. It is recommended to treat these requests with a similar approach as the original request and ensure timely and high-quality answers.

It is important throughout to ensure an open and transparent dialogue with the CSSF, to ensure they understand status of requests. It is worth re-iterating that information should be sent in multiple batches rather than wait for all items to be complete. This ensures the engagement can proceed efficiently without delay – the inspection team can be reviewing initial responses received while other responses are being finalised.

It should not need to be stated however responses should be transparent and all information should be provided as far as possible in the manner requested – answers or information which is passive in nature, intended to mislead or hide underlying issues will be looked on unfavourably. This is likely to result in the inspectors questioning the trust placed in the IFM and lead to more lengthy process – e.g. through increased sample testing, or a more severe finding. Incomplete, incorrect or false information may lead to risk of an enforcement action.

# Inspection feedback formal letter and remedial actions

Once the inspection process has been conducted, the CSSF will usually request the IFM to provide formal feedback or confirm any observations. The IFM has the opportunity to clarify any points or provide further information in support of areas where the CSSF believes improvement is required.

After this dialogue has concluded, the inspection team at the CSSF will issue a formal report to the CSSF Executive Board. After this, the formal findings letter will be issued, which may range from a “no finding letter”, to observations for improvement or may result in an enforcement action such as administrative sanctions.

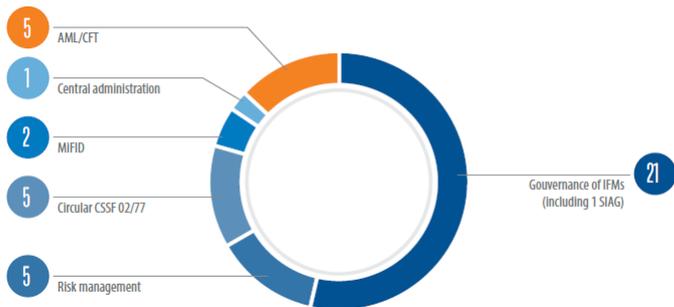
It is important that a formal letter is prepared by the IFM in response, detailing the actions that will be undertaken to remediate any observations and gaps (with anticipated timelines for completion). Items should be addressed in a short timeframe and ahead of the CSSF formal follow up. It may be useful and advisable to again appoint a coordinator to ensure each responsible stakeholder completes the remediation items.

It is also highly recommended that the different steps of this on-site inspection process as well as the potential observations and gaps identified by the CSSF, including the related remediation plan (and timeline for completion), are actively followed up and monitored by the management and governing bodies of the IFM to ensure sound internal governance of the respective organisation to address the regulatory requirements raised by the CSSF.

## Appendix 1: CSSF findings and other relevant statistics in 2017 and 2018

### 2017 On-site CSSF inspections

According to the CSSF's Annual Report 2017<sup>3</sup>, a total of 158 OSIs were conducted in 2017 by CSSF departments. Thereof, 39 OSIs were carried out at IFMs, including one self-managed investment company ("SIAG"), based on a long-term inspection plan using a risk-based approach. These OSIs concern:



Source: CSSF Annual Report 2017, page 86

During the 2017 OSIs, as part of the OSIs dedicated to the governance of IFMs, the CSSF identified shortcomings in the monitoring of delegated activities. More specifically, certain due diligence (i.e. initial and ongoing) was not sufficiently substantiated to allow for appropriate identification and assessment of the risks related to the use of delegation. The CSSF repeatedly noted that the executive board and board of directors of IFMs did not always have the information required to monitor all the activities of the IFMs as well as those of their delegates. The CSSF also noticed various shortcomings relating to the control of compliance with the investment policies and restrictions as well as several cases where the risk profiles were not approved by the board of directors.

A non-litigious administrative procedure was initiated against an IFM regarding deficiencies of its internal organisation, its arrangements for the ongoing monitoring of the delegates and its compliance with the rules of conduct.

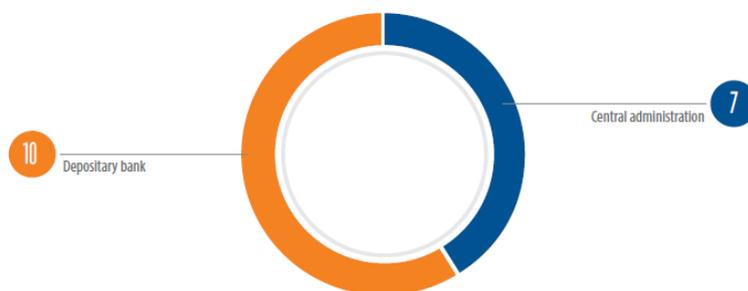
During the 2017 OSIs relating to AML/CFT, the CSSF noted that the risk analysis was not performed in accordance with the provisions of

3. [http://www.cssf.lu/fileadmin/files/Publications/Rapports\\_annuels/Rapport\\_2017/RA\\_2017\\_eng.pdf](http://www.cssf.lu/fileadmin/files/Publications/Rapports_annuels/Rapport_2017/RA_2017_eng.pdf)

CSSF Regulation N° 12-02. The CSSF also noted that AML/CFT diligence was often focused on investors and omitted to consider the AML/CFT risks arising from the assets of the funds under management.

Deficiencies in the diligence concerning business relationships of IFMs (i.e. initiators, distributors, business providers) were also observed by the CSSF. Many deficiencies regarding the verification of business relationships of IFMs in accordance with sanctions lists and politically exposed persons were observed.

Moreover, in 2017, the CSSF carried out 17 OSIs at UCI service providers (i.e. depositary banks and central administrations).



Source: CSSF Annual Report 2017, page 86

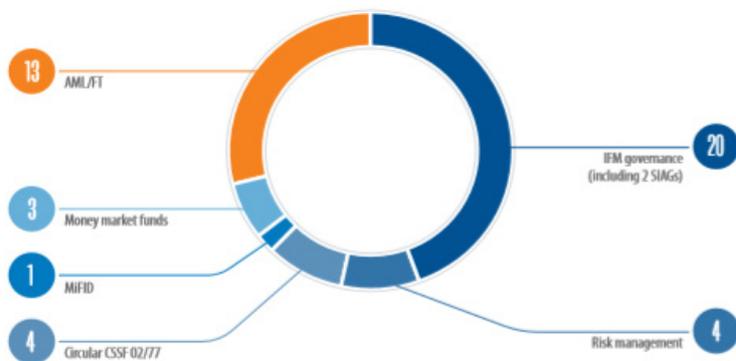
### Administrative fines imposed by the CSSF in 2017

The total amount of administrative fines imposed by the CSSF in 2017 reached EUR 17,571,271.

In accordance with Article 148(1) of the 2010 Law, the CSSF imposed an administrative fine amounting to EUR 4,000 on the director of one IFM for filing an incomplete declaration of honour. The CSSF imposed an administrative fine of EUR 6,000 on an IFM for lack of transparency in the transmission of information, non-compliance with the procedures and arrangements imposed pursuant to the provisions of point (a) of Article 109(1) of the above-mentioned law and non-compliance with the requirements regarding the delegation of functions to 3rd parties prescribed by the provisions of Article 110 of the 2010 Law. In the context of the analysis performed by the CSSF in relation to the "Panama Papers" affair, two IFMs were sanctioned for non-compliance with several AML/CFT professional obligations.

### 2018 On-site Inspections

According to the CSSF's Annual Report 2018<sup>4</sup>, a total of 95 OSIs were conducted by the CSSF. Thereof, 45 OSIs were carried out at IFMs, including two SIAGs, based on a long-term inspection plan using a risk-based approach. These OSIs concern:



Source: CSSF Annual Report 2018, page 92

During the 2018 OSIs, with regard to those dedicated to the governance of IFMs, the CSSF again identified shortcomings in the monitoring of delegated activities. Weaknesses were noted in the due diligence process, both at the time of entering into the relationship and on an ongoing basis. It appeared that due diligence was sometimes incomplete or even missing. As regards activities delegated to entities belonging to the same group, the CSSF noted a lack of involvement of the IFMs in the ongoing monitoring of the delegates. In addition, some due diligence did not include an analysis of the results of the controls performed.

As regards the internal audit function, the CSSF noted that the audit plan did not always cover all the functions of IFMs and their subsidiaries and branches. Also, the recommendations made by the internal auditor were not systematically followed up appropriately.

The CSSF also noted that the updating of IFMs' procedural manuals was not always in line with their activities and the regulations in force. In addition, the CSSF noted that the governing bodies of some IFMs did not have an information management system and did not record in writing the decisions taken.

Regarding the use of information technology, the CSSF noted weaknesses in the management of

4. [http://www.cssf.lu/fileadmin/files/Publications/Rapports\\_annuels/Rapport\\_2018/CSSF\\_RA\\_2018\\_eng.pdf](http://www.cssf.lu/fileadmin/files/Publications/Rapports_annuels/Rapport_2018/CSSF_RA_2018_eng.pdf)

access rights and in the design and implementation of continuity plans.

Moreover, in 2018, the CSSF carried out 24 OSIs at UCI service providers.



Source: CSSF Annual Report 2018, page 92

### Administrative fines imposed by the CSSF in 2018

The total amount of administrative fines imposed by the CSSF in 2018 was EUR 5,588,365.

In accordance with Article 148(4)(e) of the 2010 Law, the CSSF imposed an administrative fine amounting to:

- EUR 91,000 on an IFM on the basis of Articles 148(2)(g), 148(2)(j) and 148(2)(k) of the aforementioned law; and
- EUR 60,000 on an IFM on the basis of Articles 148(1)(b), 148(2)(g) and 148(2)(n) of the aforementioned law.

In addition, pursuant to Article 51(2) of the 2013 Law, the CSSF imposed an administrative fine of EUR 5,000 on an IFM for non-compliance with Article 17(8) of the aforementioned law and Articles 67(4), 68(1) and (2), 69(1) and 70(1) of Commission Delegated Regulation (EU) No 231/2013 supplementing Directive 2011/61/EU with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.

In 2018, the CSSF decided to withdraw two IFMs from the official list for non-compliance with the legal provisions.

## Appendix 2: Document readiness checklist

This list is taken from samples issued by the CSSF but does not presume to be an exhaustive list of requirements.

### On-site governance inspection:

#### Required documents

1. Current copy of the shareholder register.
2. Current organisation chart of your company, which should include a clear description of the split of functions between the conducting officers.
3. Copy of the current procedures governing the functioning, and the work, of the board of directors and of the executive committee.
4. Copies of agendas and minutes of all meetings of the board of directors held during the previous 12 months.
5. Copies of agendas and minutes of all meetings of the executive committee held during the previous 12 months.
6. Copies of the reports covering the activities of the management company and the funds sent to the board of directors during the previous 12 months.
7. Current list of external mandates held by members of the board of directors and of the authorised management.
8. Current list of directors for each fund for which your company acts as a management company.
9. Current conflicts of interest <u>policy</u> .
10. Current remuneration policy.
11. Current outsourcing policy and procedures.
12. List of all outsourced activities and a brief description of such activities and/or delegated functions.
13. Current risk management procedure (RMP) and policies.
14. List of training courses attended by all employees over the previous two years.
15. Current procedures manual.
16. Overview of the fund under management including a breakdown of the assets under managements as per end of previous quarter.

17. Current conflicts of interest <u>register</u> .
18. Copy of the board of directors board pack sent to directors before each meeting in the previous 12 months.
19. Copy of the executive committee board pack sent to members before each meeting in the previous 12 months.
20. Latest reports submitted to the authorised management and/or the board of directors by the internal control functions.
21. Current contracts and/or service level agreements signed with all service providers to whom activities or functions are delegated, as well as the initial and continuing due diligence performed on such providers.
22. List of controls performed by the company for each activity or delegated function, indicating their purpose and their frequency.
23. Latest report (s) from each of your external service providers.
24. Copy of the investors complaints register.
25. Copy of the personal transactions register.
26. Current written contracts with depositaries.
27. The accounting balance of your company as at end calendar year and the general ledger for the previous two years.
28. A copy of the compliance 1) policy, 2) monitoring plan, 3) charter in force with your company.
29. The presentation of the company at the end of the kick-off meeting.

## AML/CFT inspection:

### Required documents

1. Copies of agendas and minutes of all meetings of the board of directors held during the last 12 months;	18. List of intermediary shareholders acting on behalf of their customers within the meaning of Article 3 of the CSSF Regulation 12-02 with the country of residence and nationality of the investor, the holdings in euros, the ML/TF risk rating, the status (blocked or active);
2. Copies of agendas and minutes of all meetings of the executive committee held during the last 12 months;	19. Description of the measures put in place in the wake of the publication of CSSF Circular 17/650;
3. AML/CFT risk analysis for your Company as per CSSF Circular 11/529;	20. List of all requests from authorities related to AML/CFT for the past five years; and
4. AML/CFT policy and its related procedures;	21. List of all suspicious transactions reports filed by your company to the Luxembourg Financial Intelligence Unit or to the Ministry of Finance for the last five years;
5. List of all countries that you have identified as being risky;	22. List of refused clients for the past 3 years, including the reason for refusal;
6. List of all your AML/CFT delegates with the detail of the services delegated (if this concerns only certain investment funds/sub-funds please detail);	23. List of all investment funds business relationships terminated within the past 3 years, including the reason for closure;
7. Latest AML/CFT oversight reports on the aforementioned AML/CFT delegates;	24. Current list of employees;
8. Latest AML/CFT Key Performance Indicators (KPIs) received from these AML/CFT delegates;	25. List of dedicated funds you provide services to;
9. List of all initiators you have worked with for the past five years (with name of initiator, country of incorporation, potential links to your Company);	26. With regard to distribution of the investment funds for which you act as management company, list of third party introducers within the meaning of Article 3-3 of the AML/CFT Law of 12 November 2004 and list of third party relationships in the context of outsourcing as referred to in Article 3-3(5) of the AML/CFT Law of 12 November 2004; and
10. List of all investment funds you provide services to (with name, country of incorporation, the type of service you provide as well as the money laundering/terrorist financing (“ML/TF”) risk rating);	27. Current list of authorised signatures.
11. List of all distributors used by the investment funds you service (with name, country of incorporation, amount of retrocessions paid in 2017 and 2018 as well as the ML/TF risk rating);	
12. Attendance sheet and curriculum of the latest AML/CFT training;	
13. Current compliance monitoring plan;	
14. Latest compliance report/report from the Money Laundering Reporting Officer (MLRO);	
15. Current multi-year internal audit plan;	
16. Latest internal audit report;	
17. Recent shareholders registers of all the investment funds to which you provide services with the reference number, the country of residence and nationality of the investor, the holdings in euros, type of investor (natural person/legal entity), the ML/TF risk rating, politically exposed person (“PEP”) status (yes/no) as well as the status (blocked or active);	

### Appendix 3: Example of CSSF presentation structure/content

A typical structure and content that the CSSF may request in its letter in the context of an on-site inspection on internal governance is as follows:

- Company overview
  - » Key figures
  - » Ownership structure
  - » Organisation chart
  
- Business model
  - » Fund and assets under management
  - » Investment management
  - » Distribution
  - » Other services
  
- Governance structure (including charters and terms of reference where applicable)
  - » Board of directors
  - » Authorised management
  - » Committees (where applicable)
  
- Monitoring of delegated activities
- Internal control functions (risk management, compliance, internal audit)

Please note that this is an outline of the typical structure/content that could be proposed by the CSSF and does not presume to be exhaustive. This could be further enhanced and integrate other internal governance arrangements (e.g. information technology, accounting and finance, new product approval process, branch(es), management of conflicts of interest, remuneration policy).

# About ALFI

The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community. The Association is committed to the development of the Luxembourg fund industry by striving to create new business opportunities, and through the exchange of information and knowledge.

Created in 1988, the Association today represents over 1,500 Luxembourg-domiciled investment funds, asset management companies and a wide range of businesses that serve the sector. These include depository banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialist IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg-domiciled investment funds are distributed in more than 70 countries around the world.

ALFI defines its mission as to “Lead industry efforts to make Luxembourg the most attractive international investment fund 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](#), [Flickr](#).



January 2020  
© 2020 ALFI. All rights reserved.



**alfi | association of the  
luxembourg fund industry**

**Tel: +352 22 30 26 - 1**

**12, rue Erasme  
L-1468 Luxembourg**

**info@alfi.lu  
www.alfi.lu**