



Talking Point.

April 20th 2020

Welcome to Talking Point, a regular review of the key topics and themes our clients are talking to us about during this period of market turbulence. Talking Point is designed to be a two-way conversation, so please tell us about the issues or opportunities you are currently thinking and talking about within your own business.

Clients welcome regulatory flexibility in relation to returns deadlines

While most clients have been able to complete their regulatory filings on time, the market has welcomed industry regulators taking a pragmatic approach in relation to upcoming deadlines. Following on from the European Securities and Markets Authority (ESMA) recommendation that national regulators should offer flexibility to the firms they oversee because of the coronavirus pandemic, the Central Bank of Ireland (CBI) published details of deadline extensions in respect of the remittance dates of a number of regulatory returns. The full CBI statement can be found [here](#).

In Luxembourg the Justice Ministry announced that the Financial Action Task Force's scheduled assessment of Luxembourg's performance in combating money laundering and the financing of terrorism has been delayed. Safety restrictions, in light of the coronavirus, will prevent the FATF team from making on-site visits to businesses. The inspection was scheduled for later this year, with the final plenary discussion planned for February 2021. The on-site visits have not yet been rearranged, but the plenary session is now scheduled for October 2021.

In what ways has COVID-19 impacted your ability to complete your regulatory filings?

Valuing illiquid funds is going to prove challenging

Markets had another positive week, albeit with some inter-day volatility, buoyed by some positive indications coming out of the US and some European countries such as Germany in relation to the gradual unwinding of some of the existing restrictions.

Whilst the continued improvement in liquidity is to be welcomed, clients managing illiquid funds are now turning their attention to the Q1 valuations cycle. Capturing the impact of COVID-19 on the value of underlying assets is likely to prove challenging for some asset classes. The impact of COVID-19 coming later in the cycle and its continued

impact still being somewhat unknown, makes the process of valuing certain asset classes highly subjective. It's also notable that a number of real estate funds in the UK have already decided to suspend redemptions, due to valuation challenges. It's clear that as the Q1 valuation cycle unfolds it will bring further insight on the market consensus and the approach being implemented.

How are you approaching the valuation of underlying illiquid assets?

BCP likely to be tested as restrictions in the UK, Ireland and Luxembourg are extended

As the impact of COVID-19 continues, we would expect fund managers to start taking a closer look at the quality of their current service provider arrangements. Remarkably, almost everyone we've spoken to has said that the continuity planning execution across the industry has been as seamless as they could ever have hoped for. The feedback from our own clients is no different. Clients are delighted that the move to BCP has had no impact from an operational perspective and that they are continuing to operate business as usual.

The speed with which service providers have reacted to the short, sharp, shock of this crisis has been exemplary. However, it is likely that over time new challenges and issues will emerge and that the performance of service providers will be tested over this extended period. Whilst Germany and other countries are announcing a loosening of restrictions, the UK extended its lockdown for at least another 3 weeks, with Ireland and Luxembourg having made similar decisions. It is therefore likely to be some time before we see a return to a full staffing of offices. Service providers have stood up well to the initial challenges but further tests lie ahead.

Are there new operational concerns you are thinking about in light of the UK and other countries extending their lockdown?

We'd love to hear your thoughts about what you're seeing and hearing across the industry and would be delighted to share our own perspectives.

Please contact your Carne Relationship Manager or email us at TalkingPoint@carnegroup.com