Asset & Wealth Management Snapshot

Current and emerging challenges for Responsible Entities

The COVID-19 pandemic is causing widespread concern and economic hardship for governments, businesses and communities across the globe. Responsible Entities (REs), asset managers and third party service providers will need to draw upon their risk management frameworks to guide them through this period of uncertainty. Below is a summary of current and emerging considerations to help you in supporting your customers.

Liquidity and stress testing	Increased number of investors making redemptions, reduced volume of investor applications and significant losses on currency and interest rate hedges have put a spotlight on liquidity. REs should revisit and closely monitor cashflow assumptions and stress test their liquidity, which is a requirement of ASIC's Regulatory Guide 259 – Risk Management Systems. These events are also having a significant impact on asset allocations, which need to be carefully monitored.
Asset and liability valuations	Volatile markets and increased investor activity means it is critical that valuations (including unlisted investments, derivatives, income and other receivables) are accurate and timely for unit pricing. Buy/ sell spreads included in unit prices also need to be carefully monitored and managed in accordance with established policies and regulatory requirements.
Investor services, ways of working and trust	Investors can be anxious in volatile markets and REs can distinguish themselves from their competitors with positive customer experiences during periods of uncertainty. Technology will be key to effectively communicating with investors when face to face meetings can't be held. Clear communication plans are essential as is the critical role of third party service providers in supporting the delivery of quality client service to investors. It's important for REs to adequately monitor third party service providers during this period to ensure they are responding appropriately to the impacts of COVID-19.
Regulatory risks	Although ASIC has announced the deferral of certain regulatory reforms, they have also advised that unless they have granted specific relief, legal, regulatory and reporting obligations remain unchanged. Consequently, complying with all existing requirements, as well as any future initiatives announced, will be a significant challenge for REs. Areas of heightened risk now include liquidity management, valuations, unit pricing, suspending redemptions, complaints handling and financial advice. AFSL holders will need to continually assess whether they have sufficient financial resources to comply with license requirements. It's important for REs to update Boards and Compliance Committees on how risk and compliance requirements are being captured and managed during this time. This includes assessing whether REs are operating within risk appetite, and where this isn't the case, plans should be established and documented to get back within appetite. REs should ensure rationale supporting key governance decisions are documented.
Counterparty and credit risk	In volatile markets and economic downturns, understanding and managing financial and operational exposures to counterparties is critical to achieving good outcomes. In particular, complex contractual arrangements can make credit risk assessments a challenging exercise. Knowing where you stand in these arrangements can help identify and manage risks more effectively.
Fraud, business continuity, cyber and information security	New risks and considerations regarding confidential and private information arise with most employees now working remotely. REs and outsourced service providers are also experiencing a sharp increase in attempted cyber-attacks. In light of these risks, REs should assess cyber security, fraud prevention and business continuity capabilities internally and at appointed service providers to ensure these are adequate.
Risk control effectiveness	ASIC has previously expressed concerns regarding the adequacy of risk management systems in the industry. REs will need to ensure key procedures and controls outlined in their risk management frameworks are complied with and continue to remain adequate in this challenging environment. This includes assessing effectiveness of controls that are supporting remote working arrangements.
Complex investments and transparency	Risks in geared, less liquid and transparent investment structures and securities can take some time to emerge. Early identification and management of these risks can improve outcomes.
Operating models and cost management	In an industry where income is typically asset and performance based, the downturn in markets will have a negative impact on revenues of organisations. Coupled with significant costs of business disruption, this will result in challenging economic conditions for many organisations within the asset and wealth management industry. Operations may now be stressed beyond what was ever previously envisaged so constant assessment and monitoring will be essential. Some organisations may start to consider mergers and acquisitions to achieve greater scale.

Contact now

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