



**AIMA**

THE ALTERNATIVE INVESTMENT  
MANAGEMENT ASSOCIATION

## Executive Summary

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# **GUIDE TO SOUND PRACTICES FOR THE SELECTION AND PERIODIC ASSESSMENT OF ADMINISTRATORS**



## Executive summary

For funds, the fund administration relationship is second in importance only to the investment management arrangements. The administrator performs many vital functions for the fund and, as a result, significant care and consideration should be taken in selecting a new administrator and choosing to continue an existing relationship with an administrator. This will assure that the services to be provided are of the highest quality and suited to the needs of the fund and its investors and that the administrator will work well with the investment manager.

This Guide examines various aspects of the relationship that funds and investment managers have with fund administrators, from the start of a new relationship through to the end of a relationship and transition to a new one. The Guide frames what funds and investment managers should consider when selecting a new administrator or assessing the ongoing service of an existing administrator, specifically looking at sound practices in relation to assessing the administrator's services and practices in relation to:

- **On-boarding and starting new relationships:** The amount of regulatory and compliance obligations involved in accepting a new client's business requires a review of the subscription agreements, the offering memorandum, the SLAs and KPIs, AML/KYC/CTF matters in relation to the fund and the investment manager and the administration agreement, all of which are explored in greater detail in **Section 2** of the Guide;
- **Relationship management and oversight:** **Section 3** of the Guide outlines the importance of the investment manager establishing and agreeing a clear relationship management and interaction process with the administrator from the outset, and outlines some key considerations the investment manager should consider with regard to both the oversight and relationship management processes;
- **Transfer agency and paying agent services:** **Section 4** of the Guide outlines the formal role of a transfer agent and the role they play in relation to subscription, redemption, transfers, bank accounts, cash payments and the signatory process;
- **AML/KYC/CTF checks:** The purpose of AML/KYC/CTF policy is to protect the fund, the investment manager, the administrator and its clients from being associated with money laundering or other criminal activities. The applied AML/KYC/CTF policies should include KYC screening, processes for subscriptions and redemptions and verification of clients and their source of funds or wealth, bearing in mind country risk, all of which is covered in **Section 5** of the Guide;
- **Fund accounting and NAV calculations:** **Section 6** of the Guide looks at the role the administrator plays in the key stages of the NAV process, from initial trade capture reflection in the books and records, through to allocation of P&L and calculation of fees. The calculation of the fund's NAV is one of the primary roles of an administrator, with the administrator needing to independently calculate the NAV for each fund on an accurate and timely basis;
- **Middle office services:** **Section 7** of the Guide highlights the key considerations the investment manager should assess when outsourcing middle office services to an administrator;
- **Financial reporting:** Financial reporting and regulatory reporting have become far more important in the current environment, and the depth and type of such services are explored in **Section 8** of the Guide along with the how administrators are able to assist in these areas;
- **Other reporting to investors and regulators:** **Section 9** of the Guide outlines how the administrator can assist with investor reporting and other regulatory, tax and systematic risk reporting obligations;
- **Monitoring undertaken by the administrator:** The administrator can offer the investment manager valuable post-trade monitoring services including investment strategy and restriction compliance, investor profiling and U.S. investor monitoring, all of which is discussed in **Section 10** of the Guide;
- **How the administrator provides services:** **Sections 11, 12 and 13** of the Guide outline the services administrators offer, and consider some of the relevant regulations namely around outsourcing by investment managers that may impact how the administrator delivers services to the investment manager. These sections also explore some of the operational risks related to the administrator's business;
- **Additional services the administrator may provide:** Although the primary roles of the administrator are to calculate the fund's NAV and record its investor transactions, there may be other services the administrator can provide to the investment manager and/or the fund, including, company secretarial services for example. Some of these additional types of services are discussed in **Section 14** of the Guide; and
- **Off-boarding/transitioning:** It is important that the investment manager is satisfied with the administrator's termination process, and that the administrator is able to demonstrate the steps that would be taken if the investment manager and/or the fund were to issue a notice of termination. **Section 15** of the Guide highlights the considerations the investment manager should keep in mind when reviewing the administrator's termination process.

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## AIMA members have exclusive access to a growing library of industry references:

### Due Diligence Questionnaires:

- Clearing Members
- Fund Administrators ^
- Hedge Fund Boards of Directors
- Hedge Fund Managers ^
- Individual Fund Directors
- Prime Brokers
- Vendor Cyber Security

### Guides and Guidance Notes:

- Fund Directors' Guide
- Guide to Liquid Alternative Funds
- Guide to Managed Accounts
- Implementing MiFID II
- Side Letter Guidance
- Expense Allocation Guidance \*

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- Business Continuity Management
- Cyber Security
- Selection and Periodic Assessment of Administrators
- Valuation ^
- Investor Relations
- Liquidity Risk Management \*
- Market Abuse and Insider Trading \*
- Media Relations
- Operational Risk Management
- OTC Derivatives Clearing
- Paying for Research
- Selecting a Prime Broker

\* Forthcoming    ^ Update in progress

Electronic copies of the full *Guide to Sound Practices for the Selection and Periodic Assessment of Administrators* are available to AIMA member contacts via the AIMA website. The electronic copies are subject to a limited licence and are reserved for the use of AIMA members only.

For further details on AIMA membership, please contact Fiona Treble (ftreble@aima.org), who will be able to assist you.

## About AIMA

AIMA, the Alternative Investment Management Association, is the global representative of the alternative investment industry, with more than 1,800 corporate members in over 50 countries. AIMA's fund manager members collectively manage more than \$1.8 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 80 members that manage \$300 billion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors).

For further information, please visit AIMA's website, [www.aima.org](http://www.aima.org).



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