



1 September 2016

Leanne Damary
Senior Lawyer - Investment Managers & Superannuation
Australian Securities and Investments Commission
Level 5 100 Market Street
SYDNEY NSW 2000

Dear Leanne

Risk Management Arrangement for Responsible Entities

Thank you for the opportunity to provide comments on the draft regulatory guide in relation to risk management systems of responsible entities.

We agree with ASIC's approach to provide guidance by issuing a regulatory guide rather than issuing a class order. We agree this provides responsible entities with more flexibility to take into account the nature, scale and complexity of their businesses.

Transition period

We request that ASIC provide a 6 month transition period from the time that the regulatory guide is finalised and published. We note that it is proposed that the regulatory guide will be issued in November this year. As you are aware, many responsible entities are currently in the midst of rolling all their product disclosure statements to comply with ASIC Regulatory Guide 97. Issuing a regulatory guide that takes effect from the date of issue will place unreasonable burden on the compliance resources of responsible entities, particularly the smaller standalone responsible entities. We acknowledge that these changes have been anticipated for some time due to ASIC's previous releases in this area. However, the feedback from our members is that even the larger responsible entities will need to make some changes to their risk management arrangements. Accordingly it is not reasonable to expect responsible entities to make these changes until the regulatory guide is finalised. Accordingly, we request a 6 month transition period to provide responsible entities will an opportunity to do this.

Stress testing at the responsible entity level

We note that ASIC expects responsible entities to conduct stress testing and/or scenario analysis of the liquidity risk of the schemes and at the business level. We understand that

most responsible entities conduct stress testing and/or scenario analysis to assess investment risk, market risk or liquidity risk of the schemes, but we understand that most responsible entities will not be currently doing such testing and/or analysis at their business level. It is also unclear to us why stress testing is relevant at the business level of a responsible entity.

Good practice guidance

We note that ASIC has proposed some good practice guidance which is not mandatory. In our view, responsible entities may have some challenges implementing some aspects of the “good practice” guidance. For example:

- the requirement to have an annual independent review of their risk management systems may be costly for smaller responsible entities. We suggest that an independent review "as appropriate" is better and ideally should be part of the comprehensive review every 3 years.
- We request clarification that the dedicated risk officer can also have other roles as it is too expensive and unnecessary for a smaller responsible entity to have a dedicated chief risk officer;
- As previously raised, we don't see the value in publicly disclosing details of risk management policies. We do not believe that describing processes in detail will assist investors. PDSs for hedge funds already go in to some detail around risk management strategies for hedge funds (see RG 240, disclosure principle 1). Requiring more disclosure in this regard is unlikely to achieve anything. The important thing is how the processes work, not how you describe the processes publicly. Surely there are enough checks and balances in place to review risk (such as audits, ASIC investigations, breach reporting etc). Requiring additional public disclosure is unlikely to fix any inherent risk problem.
- The guidance may require changes to scheme compliance plans. The content of compliance plans is already prescribed at law and “supplemented” via ASIC RG 132. To add additional content obligations via this guidance note is not appropriate and often ends up confusing industry and gets overlooked in the long run. Content of compliance plans should be contained in a central guide (i.e. RG 132), not scattered throughout many guides.
- We are unclear what a written risk treatment plan is and request further detail in the regulatory guide.

Please let us know if you would like to discuss any of our responses.

Yours faithfully

Michael Gallagher
General Manager
Alternative Investment Management Association