



📅 29 July 2021  
Communiqué

## **AML/CFT controls applied to unregulated AIFs by the IFM**

### **Thematic review June and July 2020**

Recent years have seen an increasing trend for the management of alternative investment funds (“AIF”) not supervised by the CSSF for anti-money laundering and countering the financing of terrorism (“AML/CFT”) purposes by Luxembourg investment fund managers (“IFM”). In this context, the CSSF’s “UCI On-site Inspection” department carried out a thematic review in June and July 2020 of the AML/CFT controls applied to unregulated AIFs managed by five authorised Luxembourg IFMs.

The sample of entities to be included in the scope of the thematic review was determined based on the assets under management of unregulated AIFs and the number of managed unregulated AIFs, while covering different sizes of AIFs.

Our main finding was that the indirect supervision of the unregulated AIFs through the supervision of its IFM works properly in practice. In fact, we did not observe any divergence in terms of application of AML/CFT procedures and controls between regulated funds and unregulated AIFs. Furthermore, the shortcomings identified during the thematic review were similar to those found during inspections of IFMs of regulated investment funds. Indeed, the identified weaknesses were not specific to the management of unregulated AIFs but were linked to the operating framework of the concerned entities.

The thematic review brought out the following key findings related to certain IFMs of the sample of entities:

### **1. Weaknesses in the risk assessment at the IFM and the unregulated AIFs level**

We noted that the risk analysis of IFMs were incomplete in terms of identification of the risks inherent to their business activity or description of mitigation measures put in place. In addition, the ML/TF risk assessment of unregulated AIFs was incomplete with regard to identification and assessment of risks, and the absence of description of mitigation measures of the identified risks.

We remind IFMs to take appropriate steps to identify and assess the ML/TF risks faced by them and the products they manage, considering risk factors including those relating to their customers, countries or geographic areas, products, services, transactions or delivery channels and to complete the analysis with a clear and precise description of the different measures implemented in order to mitigate the previously identified risks.

### **2. Weaknesses in the oversight of the delegated portfolio managers**

Some IFMs included in our sample have outsourced wholly or partially the portfolio management function of unregulated AIFs to external portfolio managers. In this situation, we noted a lack of oversight for AML/CFT purposes of the delegated tasks performed by the portfolio managers while relying on them for on-going monitoring, including name screening on targeted financial sanctions on investments.

We remind IFMs that they must effectively monitor and control the delegated AML/CFT tasks performed on investments by their portfolio managers.

### **3. Weaknesses with regard to the risk-based approach on investments**

We noted some weaknesses regarding the risk-based approach in the initial and ongoing AML/CFT due diligence on investments held by the unregulated AIFs managed by IFMs. In fact, we noted a lack of risk scoring at asset level and insufficient due diligence on investments (in particular in terms of missing verification of identity documents).

We remind IFMs to carry out an analysis of the ML/TF risk posed by the investments (either for each asset individually or by buckets of type of assets) and take due diligence measures adapted to the assessed risk for higher risk investments. Such measures should be commensurate with the assessed AML/CFT risk, taking into

consideration the value of investment.

#### 4. Weaknesses of name screening on Targeted Financial Sanctions on investments

We noted weaknesses with regard to name screening control framework in relation to Targeted Financial Sanctions on investments.

We remind IFMs to ensure that name screening against official sanctions lists is performed at least upon publication of such lists for all relationships linked to investments and, in any event, upon acquisition and sale of the investment.

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## Keywords

AIF (alternative investment fund) [[/en/search/AIF \(alternative investment fund\)?content\\_keyword=7158](/en/search/AIF%20(alternative%20investment%20fund)?content_keyword=7158)]

AML/CTF [[/en/search/AML/CTF?content\\_keyword=1586](/en/search/AML/CTF?content_keyword=1586)]

### Topic

- Financial crime [<https://www.cssf.lu/en/financial-crime/>]

### Relevant for

- Alternative Investment Fund Managers (AIFM) [<https://www.cssf.lu/en/aifm/>]
- Undertakings for collective investment (UCI) [<https://www.cssf.lu/en/undertakings-for-collective-investment-uci/>]

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