Date	5 April 2022
Our reference	JrGt-21118417
Page	1 of 4
Re	AIFMD Reporting and DQEF

Dear Members of the Board,

1. Introduction

As an Alternative Investment Fund Manager, you are obliged to periodically report on your funds and your management activities. Depending on the size of the fund and the manager's licence, this reporting must take place on a quarterly, six-monthly or annual basis. In view of the supervision of systemic risks, the AFM considers it important that the reports are of a high quality and contain few errors. In this letter, the Dutch Authority for the Financial Markets (AFM) makes recommendations for improving the data quality of fund reports. This letter will also be published on the AFM's website.

The AFM also supervises data quality. The AFM annually reviews the data quality of the fund reports by means of a Data Quality Engagement Framework (**DQEF**) review. These reviews identify inconsistencies in the reporting that are probably due to reporting errors. In the DQEF review for 2021, the AFM found 1,754 inconsistencies in the fund reports.

In the next DQEF review, which will start in April 2022, the AFM will review the fund reports for Y1, H2 and Q4 of 2021. If inconsistencies are found in these reports, the AFM will require the relevant fund managers to re-report, i.e. to correct their report and then resubmit it. The AFM will check how many of the identified errors are corrected in the re-reports and will hold the fund managers to account on this.

2. Recommendations for AIFMD reports

2.1 Leverage: Calculating leverage as a percentage of NAV; pay attention to the netting rules

A key element in the quality reviews is the calculation of the AIF's leverage. Leverage must be calculated according to the 'gross´ and the 'commitment' method (fields 294 and 295 of the fund report). The calculation methods to be applied are described in Articles 6 to 11 of the Delegated Regulation supplementing the

AIFMD[1] In the DQEF reviews, these calculations are compared to the leverage ratios calculated by dividing the assets under management (**AUM,** field 48 of the fund report) by the fund's net asset value (**NAV,** field 53 of the fund report). In addition, the leverage ratios are compared to the fund's investment strategy.

The leverage ratios must be expressed as a percentage of the fund's NAV. Therefore, if there is no leverage, the value to be entered is '100'. However, fund managers often enter '0' or '1' in this field. In addition, when there is leverage, they often enter a value that is too low by a factor of 100, such as '1.5' or '2.84', whereas the correct value would be '150' or '284'.

The AFM observes that fund managers too readily resort to the netting of positions when calculating leverage. Pursuant to Recital 18 of the AIFMD,[2] netting arrangements must refer to the same underlying asset. This must be interpreted so strictly that even assets that are highly correlated, such as different share classes or bonds issued by the same issuer, should not be considered as identical for the purposes of netting arrangements.

2.2 AUM: Leverage as part of the AUM; cash positions should also be reported

The AFM observes that derivative instrument positions are not always included in the calculation of the AUM. Pursuant to Article 2(1) under b of the Delegated Regulation supplementing the AIFMD, all assets acquired through use of leverage must be included in the calculation of the AUM. To this end, each derivative instrument position, including any derivative embedded in transferable securities, must be converted into its equivalent position in the underlying assets of that derivative. The absolute value of that equivalent position must then be used for the calculation of the AUM.

Furthermore, fund managers sometimes erroneously report cash positions. Fund managers must take into account cash positions and cash equivalent positions for the purpose of the 'main instruments in which the AIF is trading' (fields 64 to 77 in the fund report), the 'principal exposures of the AIF' (fields 94 to 102 in the fund report) and the 'five most important portfolio concentrations of the AIF' (fields 103 to 112 in the fund report). This is also evident from the ESMA Q&A on the AIFMD, Section III, Question 63.

Another frequently occurring inconsistency is that fund managers do not enter all of their five largest 'portfolio concentrations' and/or ten 'main instruments in which the AIF is trading' and that these add up to less than the AUM. A fund manager may have less than five or ten positions, but in that case, the sum total of these positions would be equal to the AUM.

2.3 Returns: entering this information is not optional

[1] Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012.
[2] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011.

A frequently made error is that licensed fund managers do not enter the 'gross investment returns' (field 219 et seq.) and 'net investment returns' (field 219 et seq.) in the fund report. In ESMA's technical guidance, these and a number of other fields are marked as 'optional' (O). However, these fields are not (fully) optional; this depends on the reporting date.

It is mandatory for fund managers to enter the information on the performance related to the reporting period. With an annual report, this is mandatory for all months. With a quarterly report on Q1, it is mandatory to report information about January, February and March. This is explained in more detail in the AIFMD Q&A, Section 3, Question 74.

Not all fund managers calculate the fund's performance every month. When this information is not available (such as in the case of funds investing in illiquid assets), the fund manager must make a best estimate of the NAV. This is explained in more detail in the ESMA Q&A, Section 3, Question 52.

2.4 Classification of 'Investors': pay attention to consistency

In fields 119 and 120 of the fund report, the percentage of 'professional clients' or 'retail investors' must be entered. Here, fund managers must determine who the end client is that made the investment in the fund, rather than the party (such as an asset manager) that purchased the position in the fund. This prevents that inconsistency arises with respect to field 208 'Investor Group Type'. The basic principle is that investors of the 'Households' type by definition also qualify as 'retail investors', while all other values (except for 'Unknown' or 'None') are considered to be professional clients.

3. Reference documents for AIFMD reporting

For further information, please refer to the following documents:

- Directive 2011/61/EU (AFIMD) (link) and Delegated Directive (EU) No 231/2013 supplementing the AIFMD (link).

- Guidelines ESMA/2014/869 (link) and the ESMA Q&A (link), with instructions on how to report and answers to frequently asked questions about specific/complex issues.

- AIFMD Reporting IT Technical Guidance (link), with a technical description of the various fields in the reporting forms and their validation rules.

- The AIFMD reporting page on the AFM's website (link).

If you have any questions about the matters discussed in this letter or the documentation mentioned above or would like more information on a certain topic, please send an email to meldingenaifmd@afm.nl.

Yours faithfully,

Dutch Authority for the Financial Markets