

DUE DILIGENCE MATTERS - JULY 2022

Our flexible Operational Due Diligence (“ODD”) work, and coverage, continues to grow rapidly.

perFORM’s clients are global and diverse including: Investment Managers; Family Offices / Multi-family Offices; Private Banks; Wealth Managers; Fund of Funds; Asset Managers; Pensions; Endowments; Service Providers / VASPs; and Sports Teams.

Please [contact us](#) to discuss accessing our ODD Reports and Innovative Solutions. Thank you.

INSIGHTS, THOUGHTS AND OBSERVATIONS

Interview (HFM Connect)

Please click [here](#) to read an interview on “Operational Due Diligence – where are we now?” including:

[Are there any key things that fund managers should consider when aligning investor expectations, and demonstrating operational excellence, in today’s market environment?](#)

Fund managers should engage groups, like perFORM, directly to deliver an ODD review, paid by the fund manager and write the detailed accompanying ODD report. As a result, an independent and third-party ODD report can be distributed to all the fund manager’s chosen clients and prospects free of charge. This will:

- Meet the ODD demands of allocator clients and prospects in a proactive, efficient and impactful way, significantly reducing the amount of time spent managing inbound due diligence requests;
- Enable institutional allocators to complete their work more efficiently enhancing client/fund manager relationship; and
- Be a very impactful demonstration of the fund manager’s institutional ‘readiness’ and willingness to reach, and remain at, operational best practice.

In our opinion, any perceived conflicts of interest are not applicable as a perFORM ODD review is not a rating or a ‘pass/fail’ but a series of checks, confirmations and disclosures that an Institutional Allocator would need performed.

SOC and ISO type reports - while timely, useful and in some

cases a requirement for institutional firms, are targeted, limited and, on their own, do not generally fulfil the ODD requirements of Institutional Allocators. They are a source of information but not an ODD report. Our ODD reports combine these assurance reviews and certifications by incorporating a review of them in our ODD report, where available, and then go further to address an Allocator’s potential concerns across all operational ‘pillars’.

[Are there any common mistakes or ‘red flags’ you have spotted when working with clients, and what advice would you have for fund managers in regards to this?](#)

There are fundamentals that apply when considering handing over a multi-million dollar cheque to someone who you may have only known a few months. One of these is ‘segregation of duties’. Time and time again, fund managers overlook the need to have in place appropriate internal controls to manage assets that segregate the activities of the front office from that of the back office (outsourced or internal). This leads to elevated levels of fraud risk.

Another is transparency and openness. For example, we performed a review of a crypto fund manager, and together with our client agreed the upgrades needed for fund asset security, which were then implemented. Subsequently it was identified that the controls implemented were not then checked by the manager leading to a loss of client confidence. For digital assets, a lack of due diligence on counterparties that may be responsible for custody, or security, is an area in need of much improvement.

Podcast (SportsPro) – Understanding Crypto Risks in Sport

Please click [here](#) to listen to us discussing the risks that sports teams and organisations should recognise before entering into crypto partnerships, especially given the complexity of companies in the sector and the speed of change. In that context, we detail our ambitions for creating specialist operational due diligence services that facilitate smarter, more secure business in the space.

We also discuss the path towards greater regulation and why sport's relationship with crypto differs from other industries.

Feature (Blockworks)

Please click [here](#) to read an exclusive feature on us and our work in the crypto space by Managing Editor, [Michael Bodley](#).

The New EU Digital Finance Package of Regulations, Directives and Strategies

On June 30, 2022, the EU reached a provisional agreement on a landmark regulatory proposal to regulate crypto asset markets in the bloc. The EU Markets in Crypto Assets (MiCA) regulation is part of the wider EU Digital Finance package of measures which includes the Digital Operational Resiliency Act (DORA) and the pilot regime on DLT market infrastructure. The flurry of new measures is addition to the recent agreement to extend existing [EU AML](#) regulations to cover transparency around crypto asset transfers.

As the EU seeks to bolster digital finance innovation in the bloc, the MiCA proposals are designed to protect investors and enhance the integrity of the EU crypto landscape. MiCA primarily covers unbacked crypto assets, stablecoins, crypto asset service providers (CASPs) and wallets.

perform has summarised some of the key areas below:

Authorisation

MiCA will require CASPs to be authorised in an EU member state, which will include a passporting mechanism to enable the CASP to carry out its activities across all of the 27 member states. Larger CASPs will be monitored by the European Security Markets Authority (ESMA) for threats against financial stability or market integrity.

Investor Protection

A key characteristic of crypto assets has been the limited legal rights and protections to consumers. MiCA will require CASPs to ensure safeguards are in place to protect investors' assets and may result in the CASP becoming liable in cases where they lose crypto assets. In addition, there will be rules against insider trading and market abuse.

Stablecoins

Close attention is being paid to stablecoins and their potential risks to financial stability and consumer protection. MiCA will enact a number of risk-based measures such as the need for stablecoin issuers to maintain appropriate liquid reserves with a 1:1 ratio, and to enable investors to redeem at any time free of charge. Furthermore, stablecoins will become supervised by the European Banking Authority.

ESG

To the likely relief of many in the crypto industry, the current proposal does not ban proof-of-work (PoW) based crypto currencies. However, the European Securities and Markets Authority (ESMA) in consultation with environmental regulators and the crypto industry, will develop a regulatory framework on the standards, methodologies, and disclosures of environmental and climate footprint. CASPs will therefore be required to disclose information on their environmental and climate footprints.

The provisional agreement is to be ratified by the European Council and the European Parliament before being formally adopted, which could be in 2023 or 2024.

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DUE DILIGENCE SERVICES

perFORM Due Diligence Services Limited ("perFORM") is an award-winning provider of ODD services for a diverse base of UK and international Allocators, Investment Managers and Service Providers.

Launched in 2019 as the only London-based and technology enabled ODD service of its kind, we are a growing team of highly experienced ODD practitioners

with a laser-like focus on client service which ensures high levels of client satisfaction, trust and partnership.

In October 2021 we announced that perFORM had been formed as a subsidiary company of [JTC Group PLC](#), an award-winning provider of fund, corporate and private client services.