

East Capital Asset Management | Outsourcing of risk management

Background and project assignment

East Capital is one of the world's largest asset managers with regard to investments in Central, Southeastern and Eastern Europe. The assets under management amount to approximately SEK 32 billion. East Capital was established in Stockholm in November 1997 and is an independent asset manager in which the owners are fully involved in daily operations.

The investors are well diversified and include both private individuals and institutions, which ensures stable investments and long-term investment strategies. The investment products cover a broad range of countries, regions and industrial sectors. Daily traded UCITS funds account for a major share of assets under management. The investment strategy is based on focus investment regions, a long-term view and local presence.

East Capital Asset Management is the fund management company for Swedish UCITS funds and has its own risk management and compliance functions. In the spring of 2010, the risk management function was outsourced to crescore/ Risk & Compliance Partner. Thus, the function is independent from the business and can yet support it with expertise in risk management and new financial regulations adopted by European and Swedish authorities.

Project content and approach

The division of responsibility for risk management is based on the principle of three lines of defense. In the first line of defense, every employee is responsible for managing risks in their operations and processes and for complying with external and internal regulations. As a third line of defense, the internal auditing function, through a risk-based approach, provides assurance to the organization's board and senior management on how effective the organization assesses and manages its risks, including the way in which the first and second lines of defense operate.

In the second line of defense, the risk manager and compliance officer (cp. Fig. 1) is responsible for translating the board's risk policies and risk management intent into instructions, processes and procedures to be implemented in the different business units. The risk manager is in charge of developing and maintaining the company's framework and providing guidance and support to business areas in the implementation of this framework. Moreover, the risk manager is also responsible for consolidating and monitoring risks. The risk management function should be embedded in, yet independent from, business operations.



Fig. 1: Risk management based on three lines of defense

On a regular basis, the tasks to be performed are to improve the risk system by quantifying and mitigating risks and, of course, continuous management reporting. Besides those daily duties, the risk manager from crescore/ Risk & Compliance Partner worked, for example, on the conceptual design of risk reports to be provided to the chief executive officer and the board.

A major project in which the risk manager was strongly involved was the implementation of the UCITS IV Directive in the organization. This project included many different aspects related to the capacity of the risk function—from the interpretation of the regulations to support during its implementation in business operations—as well as quantitative work, e.g. improving liquidity stress tests for the funds. Educational sessions were held in different parts of the organization to strengthen risk awareness among employees.

Project results

crescore/ Risk & Compliance Partner helped East Capital Asset Management align the risk management function as the regulatory framework has evolved. The implementation of the UCITS IV Directive improved risk management especially for the funds. Based on long-standing experience within the company, the external risk manager has gained the organization's trust and now forms a natural part of the risk management function.



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