



#Industry Insight

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David Kiener
Co-Founder and CEO
of FundsQ

FundsQ is a specialist 3rd Party Risk Management tool for the fund management industry.

Built and developed by senior industry experts and technology specialists, FundsQ was born from the desire to facilitate the work of the compliance officers and risk managers in a world where the delegation of activities is the norm but requires precise, constant and formalised monitoring.

To spotlight the best insights into FundsQ's excellence, we asked a few questions to David Kiener, Co-Founder and CEO of FundsQ:

- **Hello David, can you tell us a little about yourself and your company FundsQ?**

I have been working in Luxembourg for more than 22 years, with one foot in the financial industry and the other in the IT world. Eight years ago, I created my own consulting company. We had the ALCO (Association Luxembourgeoise des Compliance Officers) among our first clients. During a working lunch on a piece of the paper tablecloth (this cannot be invented), an idea, rather a problem, came up: an incredible amount of time was used to manage counterparties; this was done with Excel files, emails or other means of communication, all this so that at the end of a few months after a tedious and time-consuming work, the client and his counterparty could work in confidence. Moreover, the financial world has the particularity of working with a huge number of counterparties (on average, 70 per entity). The workload is huge, and there does not seem to be a solution adapted to the Luxembourg market.

This was in 2015. At that time, there was very little talk about Fintechs and even less about Regtechs (Regulation Technologies). We quickly decided to make the first "Proof of concept" (POC) on FundsQ. The objective was to confront the market with something concrete. We were convinced of the "Lean startup" approach based on the customer's needs was the right approach. I discussed it with some of my contacts, and they were all immediately interested, confirming that a flexible counterparty due diligence management solution was sorely missing. A first client, a prominent Italian financial institution, followed us. The FundsQ adventure began, followed by a second client in Luxembourg, which later extended to their group in France and then other clients arrived. At that time, we won a competition to go to Paris and integrate StationF, Xavier Niel's incubator, and thus increase our international presence. In 2018, the CSSF came out with the circular 18/698, offering a regulatory framework for the activity we were proposing, which was an excellent opportunity to boost the demand and the number of competitors. We refocused on the local market, and from our offices in Livange, we joined the LHoFT, the Luxembourg Fintech incubator. The regulation has this particularity of being conservative, as a guarantor of the excellent execution of the activities of a company, but also has the capacity to adapt quickly. Step by step, but at a fast pace, we optimised FundsQ to be as close as possible to the functional needs with the constant addition of new functionalities and new modules: KPI management, Registry, integration with KYC providers, proof of regulations... We also offer a lot of content related to the current context, which is constantly evolving.

FundsQ now goes far beyond our initial idea of a due diligence management platform. We want to turn our clients' counterparties into real partners and eventually offer them a wide range of services with funds.

- **The CSSF circular 18/698 specifies the obligations of IFMs with regards to the delegation of oversight and includes IT, compliance, internal audit and finance provisions. It aims to transform the relationships with the counterparts and create value-added for the Asset Managers.**
- **Could you please explain the core benefit of the CSSF circular 18/698?**

In risk management, financial institutions have always paid attention to their counterparty. So the circular 18/698, as such, did not reinvent the wheel. Nevertheless, the CSFF, with this circular 18/698, which resulted from the obligations requested by the ESMA (European Securities and Markets Authority), has officially "set the scene". Basically, with this circular, the Regulator said: "We have to do it", and it was good to have such a guideline and impulse for the market and the industry as a whole. The circular has made it possible to "shift the ratchet" from something that was practised before but seen as optional to something that has become mandatory. This circular made possible an actual structuring of the market and a clear definition of the risks.

- **How has the market evolved since the implementation of 18/698 in 2018?**

Since the circular 18/698 has been in place, FundsQ has taken a considerable step forward. In terms of substance, we see our clients asking more specific questions regarding their counterparties. And that's where we are positioning ourselves with FundsQ. Of course, we have libraries of general questions, but we also go much further, offering each of our clients the possibility of asking their counterparties the specific questions they want. We go into detail and ask the right questions at the right time. We have also added a collaborative section to our platform where our clients can exchange information or share questions. For example, UBS, which had already answered a question in a questionnaire, can decide that its answer is visible to all to maximise the impact. Moreover, the specific questions interest the regulator and not the general questions.

- **And what are the impacts of IFM Governance?**

Clearly, IFMs have gained speed thanks to the questionnaires, especially when dealing with specific issues: Brexit in 2018, ESG today, and even more recently with sanctions in relation to the situation in Russia. It is fundamental to know who you are working with and who is behind your counterparty in this highly complex context.

- **On 22nd of April, the CSSF published the Circular CSSF 22/806 on outsourcing arrangement. What is added value of the Circular CSSF 22/806 compared to the Circular CSSF 18/698?**

These two CSSF circulars are complementary as their respective scope of application are slightly different. The circular 18/698 focuses only management companies. By design FundsQ addresses all types of delegates and outsourcing covering all types of supervised entities. Our platform embodies agile principles and can tackle the requirements of all regulations and sectors (investment fund, bank, insurance, IT, etc.). For the past two years, we have been working in collaboration with some of our customers to ensure that they comply with the guidelines EBA/GL/2019/02, and Circular 22/806 is actually based on it. So, any gaps with the circular 22/806 for our clients are minor and will be closed in the upcoming weeks.

- **If outsourcing is good for growth opportunities, a company is never relieved of its responsibility in outsourcing to a third party. Compliance and control are critical. How is FundsQ ensuring this control?**

FundsQ does two things:

- **PROCESS:** that allows you to collect the most consistent information possible in the easiest way possible. This is what is difficult today: gathering information from counterparties. Once this information is collected, the analysis work begins. Thanks to FundsQ, we have the libraries that allow you to manage the correct information. And we also have the tool that will enable you to evaluate the counterparties correctly.
- **PERSONALISED SUPPORT:** Since the implementation of circular 18/698, our teams have gained experience and can offer advice and support to clients who have identified a particular need for a questionnaire to evaluate a counterparty correctly. Today's good questionnaire is not tomorrow's good questionnaire. So human support and consulting are fundamental to the FundsQ solution.

Today, counterparty management is more or less everyone's business. For example, if we want to know whether a counterparty has a DRP (disaster recovery plan), the compliance officer will have to ask the IT department. Thanks to FundsQ, there are no layers in sharing information, and we can add all the collaborators, including IT, to the platform to make the data available at the source.

- **After 20 years of experience in the financial and ICT business in Luxembourg and in Europe, you decided to launch your own startup/ fintech. What is a leap of faith or a logical continuity? What did you learn?**

There is no such thing as chance. FundsQ was born out of an unexploited need that allowed us to launch a market study, a project, and finally, a company: "Novireg" specialized in regulation. We didn't wait for the CSSF circular 18/698 to come out; we were ahead of it, which allowed us to be ready and already in production with clients when it came out. Although I was already an entrepreneur since I owned my consulting company DeKan-group, the Fintech world was entirely new for me, and I knew little or nothing about the codes of startups. If my daily work from a technical or commercial point of view is not completely new, the interactions with prospects, customers and the startup ecosystem are different. We have to be constantly on the cutting edge of innovation and anticipate new market demands. Indeed, we no longer manage a counterparty (or a delegate) in the same way as 5 years ago. The financial world has become more mature in this area, and more is being asked of us to turn a counterparty into a trusted partner. FundsQ has adapted over the last few years. My biggest lesson about FundsQ was the reality of the sales cycle. One of the first times I presented the platform, a week later, the prospect signed, and we went live two days later. FundsQ has grown well, but the sales cycle is more fluid than we thought, ranging from a few weeks, as was the case that time, to many months, even though our product is an immediately available SaaS solution. The Covid crisis has certainly slowed some things down. I am closing deals now with customers I discussed with two and a half years ago. Nonetheless, the industry is booming, and I'm sure the market and opportunities will only continue to grow.