

Conflicts of interest

Conflicts of interest can arise between managers and their investors, and between investors. Addressing such situations can be challenging for large diversified institutions. Smaller firms also need to introduce procedures and control mechanisms to eliminate or manage such conflicts.

Regulators have addressed these issues as well: e.g. [FCA Principles 6 & 8](#), FCA Handbook [COBS 11.3.1 \(3\)](#), [SYSC 10.1](#). The US SEC OCIE has looked at conflicts of interest as a separate area of focus in its [Examination Priorities for 2014](#) (p.4).

The [Hedge Fund Standards](#) review conflicts of interest in great detail, including:

- Protections around changes to offering documents that are detrimental to investors (Std. 1.3, 2.2)
- Side letters (Std. 2.3)
- Existence of parallel funds and accounts using the same strategy and aggregate AUM (conflicts between different investors) [Std. 2.4, 1.1]
- Fair disclosure of fees and expenses, remuneration of the manager (Std. 2.1, 2.2, 2.5, 2.6)
- Valuation, including disclosure of conflicts of interest to investors (Std. 3)
- Enterprise risk management, including risk framework, segregation of functions (Std. 9.1, 11, 15.1, 17a).

The HFSB would like to encourage managers to review their approach to handling conflicts of interest from time to time in light of evolving regulatory requirements and revisit these Standards. In particular in situations where organisational changes are made or where new funds or products are added, it is important to revisit existing arrangements and take a proactive approach to informing investors about relevant developments (Standard 1.5).

As part of its ongoing review of the Standards and in collaboration with its stakeholders, the HFSB has explored the topic in more detail at its recent Institutional Investor Roundtables and is currently conducting a survey on the topic. Also, the HFSB has now formed a working group to review this topic over the next few weeks. The working group will report its findings to the board of trustees, which will then decide about the next steps.

HFSB approach to standard setting

The HFSB holds consultations from time to time to enhance and update the Standards. All amendments from past consultations have been incorporated in the [relevant documents](#).

Overview past consultations

CP 1 (Redemptions) - 2009	CP2 (Administration & Safekeeping) – 2009	CP3 (Internationalisation) - 2011
HFSB Feedback Statement on CP1/2009 (Redemptions)	HFSB Feedback Statement on CP2/2009 (Administration and Safekeeping)	HFSB Feedback Statement on CP3/2011 The revised Standards in PDF and Excel .
CP1 (redemptions) : handling of redemptions and issues related to significant redemption pressure, as seen late 2008 and early 2009. The proposed 'Standards/Guidance' address potentially damaging externalities that can develop in such situations.	CP2 (administration and safekeeping) : risk mitigation of fraud and misrepresentation. The proposed Standards/Guidance include the appointment of 3rd parties for safekeeping and administration of assets complemented by adequate investor disclosure	The CP3 : applicability of the Standards globally, strengthening of the Standards in light of the recent financial crisis.

Source: www.hfsb.org

HFSB Toolbox

The HFSB Toolbox complements the HFSB's standard-setting activities. It provides additional guidance to managers, investors and fund directors on practical issues, including fund governance, internal processes, etc.

The materials available through the HFSB Toolbox serve as a guide only and are not formally part of the Hedge Fund Standards and the "comply-or-explain" approach.

The HFSB will not hold special consultations in relation to the Toolbox contents but welcomes input by email. The received feedback will be analysed and discussed with managers and investors at the HFSB Institutional Investor Roundtables and included in the Toolbox from time to time, as appropriate.

