Newsletter
February 2016

Overview:

- HFSB in Texas
- HFSB upcoming events
- HFSB releases results of working group on administrator transparency reporting

HFSB in Texas

Dame Amelia Fawcett, HFSB Chairman spoke at the Texas Hedge Fund Conference in Austin, Texas on 25 February 2016.

In her remarks, Dame Amelia noted that "the HFSB has an important role to play, alongside other key players, in making the case for the importance of this industry and how it conducts itself. We can do this by what we do even more than what we say -- bringing together the entire 'ecosystem', users and providers of a service, in a collaborative way to work continuously for better standards and better serving clients and addressing issues as they emerge. In doing so, we not only help our investors but we help our industry with regulators too.

HFSB Upcoming Events

3 March
HFSB Cyber-Attack simulation, New York

3 May
Institutional Investor Roundtable, Melbourne

4 May
Institutional Investor Roundtable, Sydney

19 May
Annual North American Stakeholder Forum, New York

HFSB releases results of working group on administrator transparency reporting

The HFSB has published the industry's first ever standardised Administrator Transparency Reporting (ATR) data structure as part of its Toolbox. The data structure was developed by a working group put together by the HFSB, following the publication of the HFSB Administrator Transparency Reporting Memo in May 2015. The working group consisted of 11 administrators, accounting for over US$ 4TN in assets under administration, hedge fund managers and investors.

The working group developed a tiered reporting framework to include basic, detailed and optional information and to focus on areas such as existence confirmation, counterparty exposure reporting, pricing source verification and fair value hierarchy.

Christophe Juhem, Head of Operational & Legal Due Diligence at Unigestion and a member of the working group said: "Administrators currently provide data at varying levels of granularity and sometimes in differing data structures. As this data is very important to investors, the template will help improve the quality and consistency of administrator transparency reports, as well as facilitate ongoing monitoring of investments by investors."

Administrators currently provide data at varying levels of granularity and sometimes in differing data structures. The hope is that, over time, the various data structures used will converge towards the proposed data structure. As a Toolbox "item", this standard ATR data structure will not form part of the Hedge Fund Standards and its "comply-or-explain" approach – in other words, it is purely optional.

The full report is available of the HFSB website.

Key points to consider for investors:

The ATR should be seen as a useful tool to understand a fund's risk profile but should not replace investor due diligence and the hedge fund manager's risk reporting.

ATRs likely can flag to investors:

- *Build-up of large exposures to single counterparties*
- *Rise in potentially less liquid level III assets*
- *Increasing proportion of instruments priced by the manager*
- *Changes in unverified assets / liabilities.*

*However, ATRs **cannot** address the following issues:*

- *In itself, the administrator transparency report cannot identify incorrect valuations, but it can provide insight into more subjective areas of valuation that can be further probed*
- *Risks (conflicts of interests) associated with using an affiliate audit firm to conduct annual audits (e.g. Bayou case)*
- *Risks (conflicts of interests) associated with using an affiliate administrator (who in turn prepares the administrator report)*
- *Fake track records*
- *Structural loopholes (e.g. multi-layered fund structures, where misappropriation/misevaluations could occur in underlying vehicles)*
- *Attributing illegitimate expenses to the fund*
- *Deviations from investment mandate (unless observable in shift of the Level I/II/III asset allocation)*
- *Sensitivity of the fund to market movements, risk exposure on derivatives.*

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