



# **Standards Board for Alternative Investments (SBAI)**

June 2020

# SBAI Role & Purpose

1

Platform to set Standards

- Custodian of the Standards
- Bring together investors, managers and regulators
- **Collaborative process** for improving Standards

2

Addressing investor concerns

- Set levels of quality in behaviour and working practice
- Focus on **disclosure, valuation, risk management and governance**
- Investor education to improve due diligence practices

3

Benchmark for hedge fund manager practice

- **Formal sign up mechanism** with annual re-confirmation
- **Comply or explain** approach provides flexibility
- Standards **complementary to regulation**

4

Engagement with regulators

- **Promotion of high standards** in the interest of regulators
- **Mobilisation of investors** to drive better industry practices
- Advise on regulatory initiatives

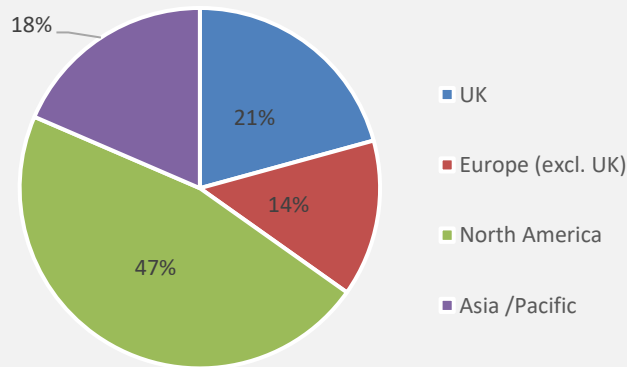
SBAI establishes a collaborative framework of discipline to improve market practices and transparency

# SBAI Stakeholders

## Signatories

- Signatory managers are formally signed up to the Standards
- Broad representation of strategies, including long short equity, macro, credit, CTA, commodities, ...
- >130 signatories, > \$ 1tn in AUM

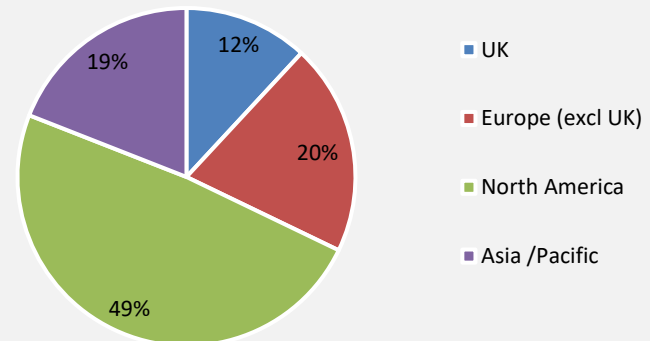
### Signatory break down by region



## Investor Chapter

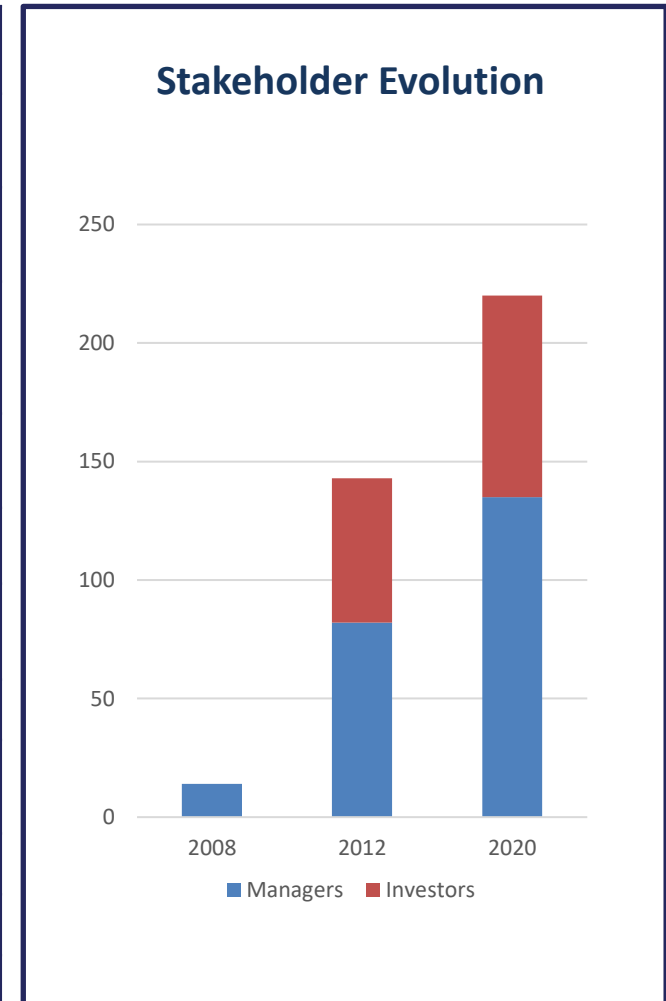
- Investors support the adoption of the Standards
- Includes sovereign wealth funds, endowments, pension funds, fund of funds, private banks, investment consultants
- >80 major investors, > \$ 3.5tn in assets

### Investor Chapter Members by region



# SBAI History

2007	G820 policy leaders voice concerns over financial stability in relation to hedge funds
2007	14 leading hedge fund managers under chairmanship of Sir Andrew Large develop practice standards to be adopted by fund managers
2008	The Standards are published followed by the establishment of the Hedge Fund Standards Board (HFSB )with strong investor representation
2008	The UK FSA (the FCA predecessor) lends strong support to HFSB: "... takes compliance with these Standards into account when making supervisory judgements"
2010	Investor Chapter (IC) launched: 30 top global investors, including sovereign wealth funds, pension funds join IC
2014	HFSB becomes affiliate member of IOSCO
2016	International Forum of Sovereign Wealth Funds (IFSWF) and HFSB establish Mutual Observer Relationship
2016	HFSB establishes Asia-Pacific (APAC) Committee
2017	Open Protocol added to SBAI Toolbox HFSB rebranded to Standards Board for Alternative Investments (SBAI)
2017	HFSB renamed Standards Board for Alternative Investments (SBAI)
2018	SBAI establishes North American Committee
2020	Over 130 fund managers signed up to the Standards accounting for more than USD 1tn in AUM



# Board of Trustees

## Chairman:

Mario Therrien, Senior VP, Strategic Partnership – Developed Markets, Caisse de dépôt et placement du Québec

## Deputy Chairman:

Luke Ellis, CEO, Man Group Plc

## Managers:

- Leda Braga, CEO, Systematica Investments
- Jane Buchan, CEO, Martlet Asset Management
- Clint Carlson, President & CIO, Carlson Capital
- Stuart Fiertz, President, Cheyne Capital
- Chris Gradel, Founder, PAG
- Richard Lightburn, CEO, MKP Capital Management
- Dan H. Stern, Co-Founder & Co-CEO, Reservoir Capital Group

## Investors:

- Bruce Cundick, CIO, Utah Retirement Systems (URS)
- David George, Deputy Chief Investment Officer, Future Fund Australia
- Betty Tay, MD, Head of the External Managers Department, GIC
- Dale West, Sr. MD, Teacher Retirement System of Texas (TRS)
- Poul Winslow, Senior Managing Director, Global Head of Capital Markets and Factor Investing, Canada Pension Plan Investment Board

## Investment Consultant:

- Simon Ruddick, MD & Co-Founder, Albourne Partners

## Chairman Emeritus

- Sir Andrew Large

## Founding firms

- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"> <li>• Brummer and Partners</li> <li>• Cheyne Capital</li> <li>• CQS</li> </ul> | <ul style="list-style-type: none"> <li>• Man Group</li> <li>• Marshall Wace Asset Management</li> </ul> | <ul style="list-style-type: none"> <li>• Sculptor Capital Management</li> <li>• Winton</li> </ul> |
|---|---|---|

# Overview of the Standards

## Areas addressed

## Overview of the Standards

### Disclosure

- Investors need to be adequately informed about investment policy, commercial terms and performance.
- Disclosure to lenders/prime brokers; counterparties likewise need to be informed to make sound credit decisions.

### Valuation

- Conflicts of interest need to be adequately mitigated by segregating portfolio management and valuation function.
- Clear rules for valuing illiquid or other difficult to value assets are required.

### Risk Management

- Fund managers need to put in place a risk management framework to adequately deal with risk taking.
- Areas including portfolio risk, operational risk, outsourcing risk and liquidity are covered by the Standards.

### Fund Governance

- Adequate governance mechanisms and oversight are required to mitigate conflicts of interest inherent to a funds organisational and governance structure.

### Shareholder Conduct

- All fund managers have to comply with applicable law and regulation; best practices include measures to prevent market abuse and restriction on voting on borrowed stock

# Evolution of the Standards

In line with its mandate to update the Standards, the SBAI has made the following amendments since 2008 after consulting with managers, investors and regulators:


<b>Consultation Paper CP1 : Handling of Redemptions</b>	<b>CP2: Administration and Safekeeping</b>	<b>CP3: Globalisation of the Standards</b>	<b>CP4: Managing Conflicts of Interest</b>
<ul style="list-style-type: none"> <li>Improved disclosure requirements regarding the handling of redemptions and to ensure fair treatment of investors, including disclosure of:               <ul style="list-style-type: none"> <li>Circumstances in which redemptions can be revoked</li> <li>Redemption penalties and details of lock up periods</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Appointment of a third party (independent of manager) for safe-keeping of the property of the fund and fund administration</li> <li>Nature, structure and governance of the above arrangements</li> </ul>	<ul style="list-style-type: none"> <li>Governance: mechanism to accommodate firms with “non-independent” boards, and handling of changes to investment policy/ commercial terms</li> <li>Disclosure:               <ul style="list-style-type: none"> <li>Material developments in the strategy or manager’s business</li> <li>Litigation against the manager</li> <li>Valuation disclosure (% level 2/3 assets)</li> </ul> </li> <li>Controls to prevent misappropriation of client monies</li> </ul>	<ul style="list-style-type: none"> <li>Disclosure:               <ul style="list-style-type: none"> <li>Existence of funds/ accounts managed by the firm using the same or similar strategy and any material adverse effect they may have on the investors in the fund</li> <li>Manager co-investment</li> <li>Employee/partner funds</li> <li>Trade allocation policy</li> </ul> </li> <li>Arrangements to mitigate conflicts of interest, including documentation of compliance policies and procedures</li> </ul>
Came into force on 1 Aug 2010	Came into force on 1 Aug 2010	Came into force on 1 Sep 2012	Came into force on 2 May 2016

# SBAI Toolbox: Industry guidance for investors and managers



- SBAI Toolbox complements the Alternative Investment Standards with technical guidance and disclosure templates
- No formal sign up required, resources publicly available

## Toolbox Contents

<i>Transparency Reporting Tools:</i>	<i>Templates and Guidance:</i>	
 Open Protocol Enabling Risk Aggregation	ILS Fund Valuation	Governance**
Administrator Transparency Reporting	Cyber Security	Standard Trial Data License Agreement
Standard Total Expense Ratio (STER)	Alternative Credit*	Co-Investments

\*Memos on Valuation, Fund Structuring and Conflicts of interest

\*\* Memos on Standardised Board Agenda and Conflicts of Interest



# SBAI Working Groups and Initiatives

*SBAI working groups cover a wide range of relevant industry topics to provide guidance to investors and managers on practical issues*

Alternative Credit	<ul style="list-style-type: none"> <li>Conflicts of interest</li> <li>Valuation</li> <li>Choice of fund structure</li> </ul>	Governance	<ul style="list-style-type: none"> <li>Indemnification wording In offering documents</li> <li>Cash handling and cyber security</li> <li>Manager committees/functions</li> </ul>
Factor Investing	<ul style="list-style-type: none"> <li>Back-testing practices</li> <li>Broker dealer practices</li> </ul>	Responsible Investment Working Group	<ul style="list-style-type: none"> <li>Develop a framework to help investors and managers calibrate their approach to RI in alternative investment strategies</li> </ul>
Insurance Linked Funds	<ul style="list-style-type: none"> <li>Guidance on valuation of ILS Funds (just published)</li> <li>Next steps: Side pocketing practices</li> </ul>	Standard Investor Profile (SIP) Template	<ul style="list-style-type: none"> <li>Standardising subscription, KYC and AML processes for investors via a standard data structure</li> </ul>
China Working Group	<ul style="list-style-type: none"> <li>Comparing Chinese standards and practice to international practice</li> </ul>	Risk Reporting	<ul style="list-style-type: none"> <li>Mapping regulatory reporting templates (Form PF, AIFM-D Annex IV, ...)/perspective on harmonisation</li> <li>Systemic risk analyses</li> </ul>
Japan Working Group	<ul style="list-style-type: none"> <li>Comparing Japanese standards and practice to international practice</li> </ul>	<b>Initiative:</b> Culture & Diversity	<ul style="list-style-type: none"> <li>Roundtable series</li> <li>Focus on critical business and strategic issues</li> <li>C-level working group (to be launched)</li> </ul>

# SBAI Working Groups and Initiatives

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## Recently completed work

- Big data / AI: Standard Data Trial Agreement Template (2018)
- China Standards comparison (2018)
- ILS Fund Valuation (2019)
- Cyber Security guidance for small/medium managers (2019)
- Co-Investments (2019)
- Alt Credit: Valuation (2020)
- Alt Credit Conflicts of Interest (2020)
- Alt Credit: Fund Structuring (2020)

# SBai Institutional Investor Roundtable Series



- Attendance usually restricted to investors and SBai signatories
- Key developments:
  - Broader topic coverage, including “investment themes”
  - Usually senior regulatory involvement/speakers
  - Collaboration with CFA Institute, etc.
  - Events stretching from US West Coast to Far East

## Examples of topics covered

- Using the Standards in regulatory interaction (e.g. SEC compliance inspections)
- Conflicts of interest
- Risk of “tick box approach” to manager due diligence & compliance
- Cybersecurity
- Running a board meeting (board agenda)
- Investor risk monitoring
- Investor Due Diligence Case studies
- Harmonising market risk reporting
- An insurance company perspective on alternative investment fund investing
- Loan investments
- Responsible investments
- Long term investment structures
- Portfolio construction
- Background checks
- ODD: redemptions and gating

# Current areas of focus

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## **Standard setting:**

- Conflicts of interest / fair treatment of investors (see consultation CP4)

## **Toolbox guidance:**

- Alternative Credit
- Co-Investments
- Factor-based investing
- Cyber Security
- Administrator Transparency Reporting (standardisation)
- Fee calculation methodology
- Standardisation of risk disclosure
- Responsible investing / ESG

## **Financial Stability:**

- Role of Standards in addressing shadow banking concerns (workshops with regulators)

## **Other regulatory interaction:**

- Using the Standards in regulatory interaction (e.g. SEC compliance inspections)

# APPENDIX

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# SBAI Signatories

- 400 Capital Management LLC
- Acadian Asset Management
- Addenda Capital
- AlphaCat Managers Ltd
- AlphaCrest Capital Management
- Alyeska Investment Group
- Angelo Gordon & Co., L.P.
- Arcus Investment Ltd
- Arete Capital Partners
- ARP Americas LP
- Aspect Capital
- Black-and-White Capital
- BlackRock Investment Management
- BlueBay Asset Management
- BlueMountain Capital Management
- Boussard & Gavaudan
- Bridgewater Associates
- Brilliance Capital Management
- Brummer & Partners\*
- Brummer Multi-Strategy AB
- Cairn Capital
- Capital Fund Management
- Carlson Capital, L.P.
- Carve Capital
- CDAM Ltd
- CdR Capital Ltd
- Cerberus Capital Management
- Cheyne Capital Management\*
- Citadel
- Contour Asset Management AB
- CQS\*
- Crabel Capital Management
- Dorsal Capital Management LLC
- DSAM Partners
- Dymon Asia Capital Ltd
- Effissimo Capital Management
- Elementum Advisors, LLC
- Fiera Capital
- Finisterre Capital
- Florin Court Capital
- Formula Growth Ltd
- Fort LP
- Frost Asset Management
- Galliant Advisors
- GLG Partners\*
- GoldenTree Asset Management
- Goldman Sachs Asset Management
- Gopher Redwoods Asset Management
- Graham Capital
- Gramercy Funds Management
- Graticule Asset Management Asia
- HealthCor Management
- Hiscox Re Insurance Linked Strategies

\* Founders

The list includes existing signatories and applicants

# SBAI Signatories (cont'd)

- HPS Investment Partners
- HSCM
- Inherent Group
- Ichigo Asset Management International, Pte. Ltd
- IKOS CIF Limited
- Ionic Capital Management
- IXI Fund Managers
- Jasper Capital International
- Leadenhall Capital Partners
- LFIS
- Luxor Capital Group LP
- Lynx Asset Management AB
- Magnetar Financial LLC
- Man Investments Ltd (AHL)\*
- Marshall Wace
- Martlet Asset Management
- Maverick Capital
- Merian Global Investors (UK) Ltd
- Minority Asset Management
- Misaki Capital
- Monarch Alternative Capital LP
- MKP Capital Management LLC
- Myriad Asset Management Ltd
- Napier Park Global Capital
- Nephila Capital Ltd
- Neuron Advisers LLP
- Noah Holdings (Hong Kong) Ltd
- Nordkinn Asset Management
- Northwest Investment Management (HK)
- Noviscent
- Numeric Investors LLC
- Oasis Management Company Ltd
- Observatory Capital Management
- One William Street Capital Management
- Orchard Global Asset Management
- Otus Capital Management
- PAG
- Periscope Capital Inc
- Perseverance Asset Management
- Pictet Asset Management
- PIMCO
- Polar Asset Management Partners
- Polygon Global Partners
- Quantica Capital
- Quest Partners LLC
- Renaissance Technologies LLC
- Rockhampton Management
- ROW Asset Management
- Sandbar Asset Management
- Schroders Investment Management AG
- Scopia Capital Management LP
- Sculptor Capital Management\*

\* Founders

The list includes existing signatories and applicants

# SBAI Signatories (cont'd)

- Securis Investment Partners LLP
- Shanghai Topfund Investment Management
- Simplex Asset Management
- Sloane Robinson
- Solaise Capital Management
- Springs Capital
- Steadfast Capital Management
- Strategic Capital
- Strategic Value Partners LLC
- Sussex Capital Management
- Systematica Investments Limited
- Taconic Capital Advisors
- Telligent Capital Management
- Three Bridges Capital
- Tolis Advisors LP
- Transtrend
- Trium Capital LLP
- Trustbridge Partners
- Voss Capital
- Warwick Capital Partners
- Waterfall Asset Management
- Welton Investment Partners
- Wellington Alternative Investments
- Winton Capital Management\*
- Whitebox Advisors LLC
- Zebedee Capital Partners LLP

## Managed Account Platforms

- InfraHedge
- Innocap Investment Management Inc.
- Innocap Global Investment Management Ltd

\* Founders

The list includes existing signatories and applicants



# SBAI Investor Chapter

- Aalto University Foundation
- Aberdeen Standard Investments
- Aktia Asset Management
- Alaska Permanent Fund Corporation
- Alberta Investment Management Corporation
- Allianz Global Investors
- Andrew W. Mellon Foundation
- Annuitas Management Limited
- APG Asset Management
- Asset Management One Alternative Investments, Ltd.
- Avanda Investment Management
- BA Pension Investment Management Ltd
- Blackstone Alternative Asset Management
- BT Pension Scheme (BTPS)
- Caisse de dépôt et placement du Québec
- Canada Pension Plan Investment Board
- CERN Pension Fund
- Champalimaud Foundation
- Church Commissioners for England
- Clocktower Group LP
- CN Pension Fund
- Elo Mutual Pension Insurance Company
- Employees Retirement System of Texas
- EnTrustGlobal
- Ferd AS
- Fire and Police Pension Association of Colorado
- Florida State Board of Administration
- Fondation CSN
- Fonds de solidarité FTQ
- FRM
- Fullerton Fund Management
- Future Fund Australia
- GCM Grosvenor
- GIC
- Goldman Sachs Asset Management
- Gulf Investment Corporation
- Howard Hughes Medical Institute

# SBAI Investor Chapter (cont'd)

- HSBC Alternative Investments Ltd
- Ilmarinen Mutual Pension Insurance Company
- Japan Post Bank
- J Paul Getty Trust
- Keva
- LAB Limited
- LGT Capital Partners
- Mirabaud Asset Management (Suisse) SA
- Mitsui & Co. Pension Fund
- Morgan Stanley Investment Management
- New Holland Capital
- New Jersey Division of Investment
- New Zealand Superannuation Fund
- Noah Holdings (Hong Kong) Limited
- Office of the New York City Comptroller
- OMERS
- Ontario Teachers' Pension Plan
- OPSEU Pension Trust
- PAAMCO Prisma
- Pennsylvania Public School Employees' Retirement System
- Persistent Asset Management
- Pictet Alternative Investments
- PSP Investments
- QIC
- Regents of the University of California
- Reservoir Capital
- Rock Creek Group
- Royal Mail Pension Plan
- Silver Creek Capital Management LLC
- State of Wisconsin Investment Board
- Sunsuper
- Teacher Retirement System of Texas
- Telstra
- The Regents of the University of California
- The State Pension Fund of Finland (VER)
- Trans-Canada Capital (TCC)
- Unigestion

# SBAI Investor Chapter (cont'd)

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- Union Bancaire Privée
- Universities Superannuation Scheme Limited
- University of Toronto Asset Management Corporation
- University of Southern California
- University of Toronto Asset Management
- Utah Retirement Systems
- UTIMCO
- Varma Mutual Pension Insurance Company
- Victorian Funds Management Corporation
- West Virginia Investment Management

## **Investment Consultants**

- Albourne Partners

# SBAI Founders

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# SBAI Core Supporters

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# SBAI Core Supporters

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# SBAI Signatory Process

- Step 1:**
- Complete and submit to the SBAI:
    - Application Form (by email)
    - Information Form (by email)
- Step 2:**
- Conduct due diligence using the Excel template
  - Adopt the “comply or explain” approach
  - Prepare Disclosure Statement providing explanations in those cases where the manager chooses not to comply
- Step 3:**
- Send your signed Conformity Statement & completed Disclosure Statements to the SBAI
  - Provide the required funding to the SBAI
  - The Disclosure Statement should also be made available to investors upon request
  - Signatories are encouraged to display the SBAI kite mark on their website and marketing materials

Conformity with the Standards should be renewed annually along with the required funding



SBAI reviews the application and upon approval countersigns a copy



The SBAI issues a kite mark valid for 12 months.

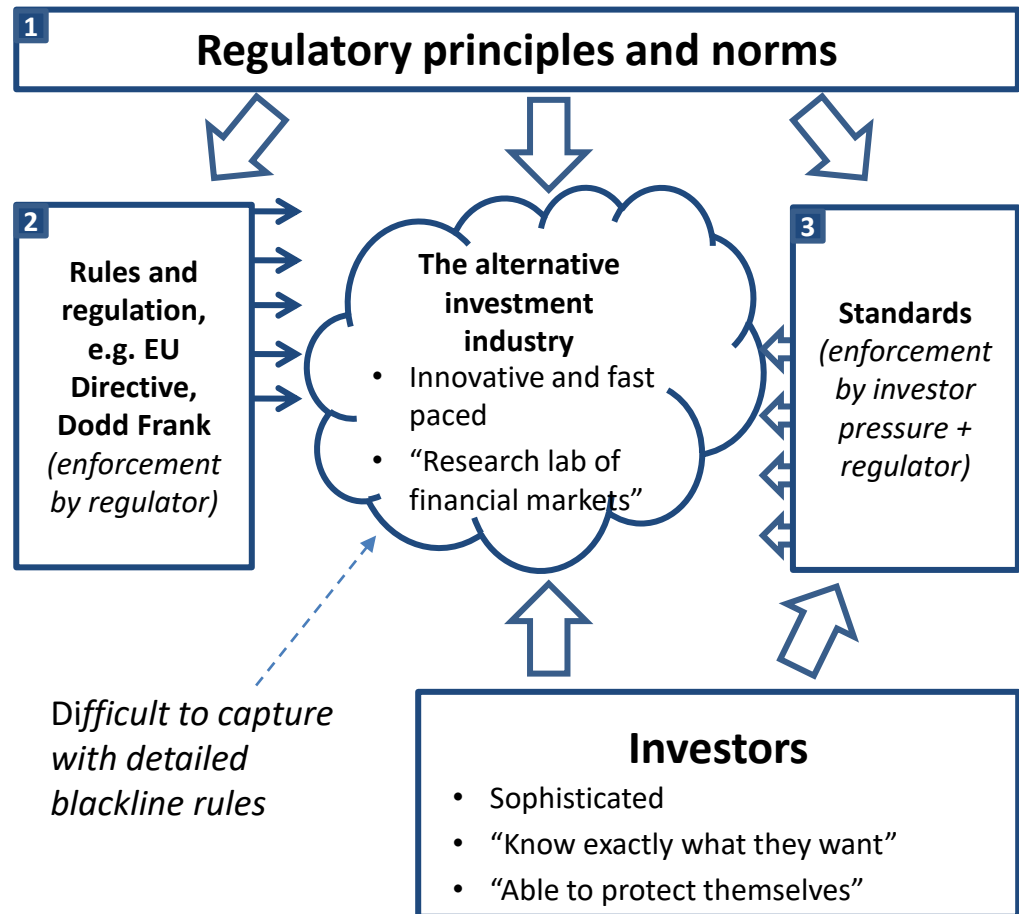


# The Standards complement regulation...

*The regulator's conundrum: Principles lack specificity so rules are needed; rules create loopholes, so principles are needed.*

The solution:

- 1** Legislative definition of key principles and fundamental norms
- 2** Detailed rules and regulation (where needed)
  - Delivery through commitment of market participants
  - Enforcement mechanism through constant investor pressure and regulatory scrutiny
- 3** A set of Standards of the highest level
  - Delivery through commitment of market participants
  - Enforcement mechanism through constant investor pressure and regulatory scrutiny



... and help to achieve the desired public policy objectives without the need for prescriptive regulation



# Regulatory “endorsements”<sup>1</sup>

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**Ashley Alder, CEO of the Securities and Futures Commission of Hong Kong, April 2017:**

*“When the industry evolves its own robust conduct standards, particularly through an organisation like the HFSB, where funds and investors come together, laws and regulations we enforce are less likely to be breached. There is no reason why the Standards should only apply to hedge fund managers, and we would like to encourage the HFSB to explore widening its remit.”*

**Christina Choi, Executive Director of Investment Products, Securities and Futures Commission of Hong Kong, May 2018:**

*“We commend the SBAI’s activities in cyber security, specifically its series of table-top cyber-attack simulation exercises, as well as its helpful guidance on basic measures to prevent cyber-attacks. These initiatives help market participants understand key risks and develop practical approaches to address them.”* The SBAI’s collaborative approach is unique in that it gives managers and institutional investors an equal voice in the development of industry practices and proactively addresses emerging issues.”

**Gerard Fitzpatrick, Senior Leader, Investment Managers and Superannuation, Australian Securities and Investment Commission (ASIC), May 2017:**

*“I commend the HFSB for identifying the importance of adequate risk disclosure and its ongoing transparency initiatives, including the launch of the standardised Administrator Transparency Report last year and the Open Protocol risk reporting standard later this month. These initiatives are not just relevant to hedge fund managers, but to all alternative investment funds and beyond.”*

**Tan Yeow Seng, Director & Head of the Technology Risk and Payments Department of the Monetary Authority of Singapore, April 2017:**

*“I commend the HFSB’s efforts to improve cyber security practices in the asset management industry. The cyber-attack scenarios explored during the event were useful in raising awareness of the participants about different safeguards and actions to consider when responding to a cyber-attack incident.”*

# Regulatory “endorsements” (cont’d)

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**Ashley Alder, CEO, Security and Futures Commission of Hong Kong, Jun 2016:**

*“I would like to recognise the fact that in its short existence, the HFSB has, in my view, broken new ground in the way in which industry associations can operate as standard setters.... The HFSB is one of the first of a new brand of industry associations which bridges the gap between the old self-regulatory organisation model and conduct regulation by the likes of the SFC. It is significant that the HFSB was the model for the FICC Markets Standards Board set up in the UK last year as a result of the Fair and Effective Markets Review recommendations....”*

**Drew Bowden, US SEC’s Office of Compliance Inspections and Examinations, Sep 2014:**

*“investors play a critical role in improving the industry and the HFSB created a helpful platform for collaboration between managers and investors.” Ashley Alder, CEO, Security and Futures Commission of Hong Kong, Jun 2016:*

*“I would like to recognise the fact that in its short existence, the HFSB has, in my view, broken new ground in the way in which industry associations can operate as standard setters.... The HFSB is one of the first of a new brand of industry associations which bridges the gap between the old self-regulatory organisation model and conduct regulation by the likes of the SFC. It is significant that the HFSB was the model for the FICC Markets Standards Board set up in the UK last year as a result of the Fair and Effective Markets Review recommendations....”*

**Marc Wyatt, US SEC’s Office of Compliance Inspections and Examinations, Nov 2013:**

*“investors play an important role in driving better standards in the industry and the HFSB created a helpful mechanism for collaboration between managers and investors.”*

# Regulatory “endorsements” (cont’d)

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**Andrew Bailey, Deputy Governor, Bank of England and CEO, Prudential Regulatory Authority, May 2015:**

*“The trend towards greater market-based finance should be welcomed, but it is important that accompanying risks to financial stability are well understood and managed. The HFSB provides a powerful platform for the market participants, specifically institutional investors and managers, to contribute to this effort to strengthen the resilience of capital markets.”*

**Hector Sants, Former CEO, FSA, Oct 2008:**

*“FSA sees the HFSB Standards as a very constructive addition to the wider regulatory architecture. It should be noted that the FSA will take compliance with these standards into account when making supervisory judgements..”*

**David Wright, Secretary General, IOSCO, Jul 2014:**

*“We are pleased to welcome the Hedge Fund Standards Board as an affiliate member of IOSCO. There is an important role for industry standards to play alongside statutory regulation in promoting transparency and good governance in the financial markets. The HFSB can play a valuable role working with regulators and supervisors.”*

**Drew Weilbacher, US SEC’s Office of Compliance Inspections and Examinations, Sep 2015:**

*“I welcome investors and managers collaborating to improve industry standards and the HFSB has created an important framework to allow such collaboration to occur.”*

# Regulatory “endorsements” (cont’d)

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**James Shipton, Exec Director, Member of the Securities and Futures Commission of Hong Kong, Mar 2015:**

*“improvements in culture cannot be achieved through rules alone, and that the industry needs to take a proactive approach in addressing emerging issues. This is why what the HFSB does is so important.”*

**Tang JinXi, Vice Chairman, Asset Management Association of China (AMAC), the self-regulatory organisation for the mutual fund industry, Apr 2015:**

*“the Hedge Fund Standards can help the Chinese hedge fund industry improve risk management, investor disclosure and governance.”*

**Michel Noel, Head of Investment Funds, Finance & Markets Global Practice, World Bank, Sep 2015:**

*“As part of its support to the development of financial markets in emerging markets and developing countries (EMDEs), the World Bank places a great emphasis on the development of broad and well-regulated capital markets... It welcomes the work done by the HFSB and looks forward to collaborating with the HFSB to contribute to the development of transparent capital markets across EMDEs.”*

**Mathieu Simard, Director, Investment Funds Dept of Quebec’s Autorité des marchés financiers, Jun 2014:**

*“the application of industry standards that are aligned with the securities regulatory framework and IOSCO principles are encouraged”. He also gave examples where the Hedge Fund Standards align with the Quebec/Canada investment funds regulatory framework and IOSCO principles.”*

# Regulatory “endorsements” (cont’d)

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**Esther Wandel, Head of Investment Funds Policy, UK FCA, May 2014:**

*“the FCA encourages the asset management industry to challenge itself constantly. We need a change of culture, not just a change of rules or systems. Initiatives like the Hedge Fund Standards Board can be an important driver for that.”*

**Arminio Fraga, former Governor of the Central Bank of Brazil, Sep 2014:**

*“the work of the HFSB is incredibly important at a time when we see the limitations of conventional regulation.”*

# How does the SBAI mechanism work, and does it have “teeth”?

## How does the SBAI regime work?

- Managers formally commit to the Standards
- Regime works on a “comply or explain” basis
- Explanation needs to be given to investors where a manager does not comply with a given Standard

## Why does it have “teeth”?

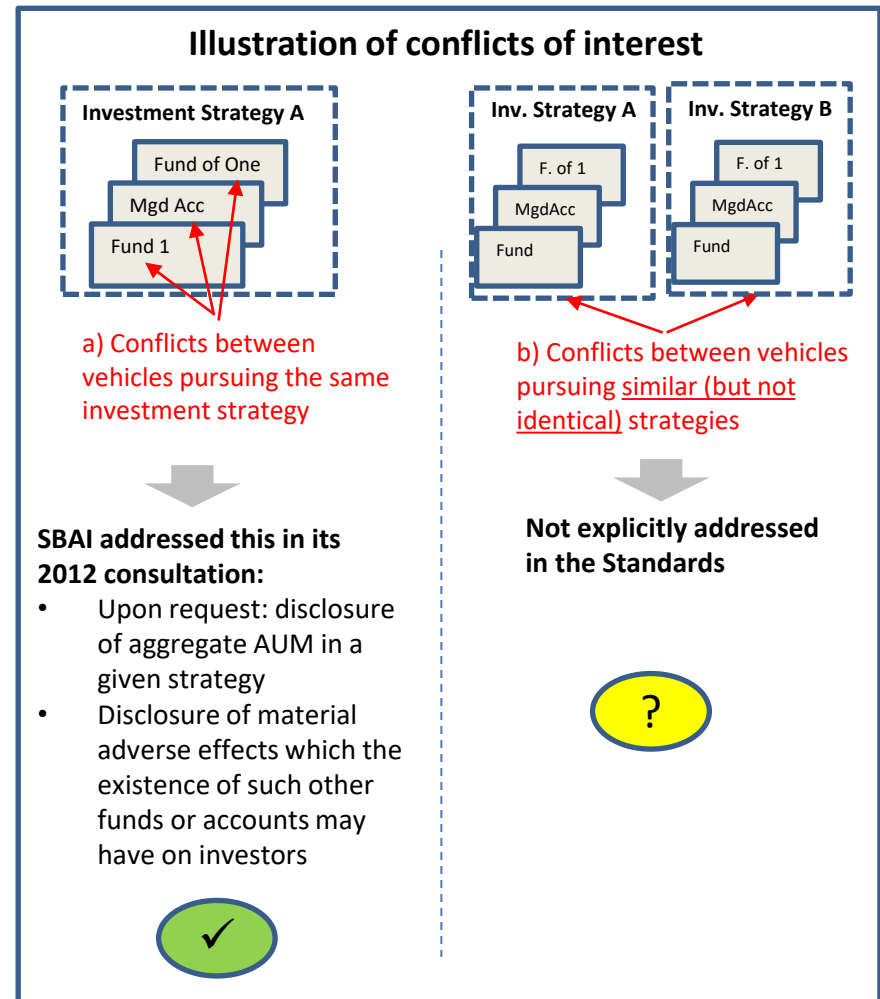
- Regime relies on investors to apply and use the Standards
- Investors are best positioned to scrutinise managers
- Investors’ interests are fully aligned, they “vote” with their allocations
- Formal sign-up to the regime implies an element of soft law

## Benefits

- Regime enhances transparency to investors across all areas covered
- Comply or explain avoids need for very detailed and complex standards, and ensures global applicability
- Regime accounts for the breadth and diversity of the industry, and allows for innovation

# Consultation on conflicts of interest

- **How it started:** Investors expressed their concern about conflicts of interest in relation to “parallel/competing funds” and “employee funds”
- **What SBAI did:**
  1. Covered topic in Institutional Investor Roundtables and via newsletter
  2. Put together a working group (signatories & investors)<sup>1</sup> to assess issues in Q4 2014
  3. Published consultation paper CP4 in March 2015
  4. Completed consultation in June 2015
  5. Assessed feedback over 2015
  6. Published amendments to the Standards in Nov 2015
  7. Signatories were given 6 months to achieve conformity, i.e. by May 2016



# Our contact details:

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Standards Board for Alternative Investments

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