

Newsletter

December 2014

Dear All,

Before we all start our festive season, below is our end of the year report, including the developments in December.

The year of 2014 has been an eventful year for the HFSB, including [joining IOSCO](#) as an affiliate member, the launch of the [HFSB Toolbox](#) with the Standardised Board Agenda, the presentation of the [Standards in Japanese](#), and a successful series of our Institutional Investor Roundtables and regulatory workshops.

Hedge Fund Standards address emerging regulatory priorities

At a recent [New York Times conference](#), SEC Chair Mary Jo White gave an overview of evolving regulatory tools for the asset management industry to help tackle new risks and challenges, specifically controls of conflicts of interest; registration, reporting/disclosure regime; and controls on portfolio composition and operational risks. In her speech she focused on enhancing **controls on risks related to portfolio composition (including liquidity risks, use of derivatives) and stress testing**.

Adequate controls addressing fund portfolio risks are at the heart of the Hedge Fund Standards ([Std. 9-16](#)), including establishing a risk framework, a dedicated approach to liquidity risk management and stress testing. Stress testing/scenario analysis has been one of the core elements of the risk management section of the Standards, incorporating a wide range of factors, such as market volatility and liquidity, increases in collateral requirements, investor redemptions, cancellations of credit lines and “unexpected correlations”. **The HFSB Signatories are well positioned to respond to emerging regulatory demands and participate in the debate.**

From a standard-setting perspective, the challenge lies in devising a framework that is broadly applicable and adaptable to the specific circumstances of the relevant fund/advisor, and which avoids inadvertently promoting homogeneity in the way firms manage risk ([also see the Commentary in the HFSB 07/2014 Newsletter](#) on the “risk” of risk management mono-culture). The Standards provide a flexible tool to address the evolving practices in the market and encourage investors to participate in this process.

The HFSB is ready to collaborate with regulators to devise practical solutions to address these concerns.

3rd Annual Nordic HFSB Institutional Investor Roundtable in Helsinki

This month the HFSB held its 3rd Annual Nordic Institutional Investor Roundtable in Helsinki which was attended by around 40 institutional investors, HFSB stakeholders and regulators. The leading Finnish pension insurers Varma, Elo and Ilmarinen joined the roundtable to address **investor concerns about conflicts of interest** ([see our summary](#)) and how investors assess responsible investment/ESG* requirements in the hedge fund industry. A key takeaway was that the Hedge Fund Standards provide a powerful mechanism for managers to demonstrate a responsible approach, specifically in the area of governance and investor transparency.

The case study session focused on:

- Different effects of **investor versus fund level gates** and how it affects investors
- An **insurance company perspective on hedge fund investing** and the impact of regulatory and other investment restrictions on economic efficiency
- Key considerations for managers and investors when managers outsource certain functions
- Portfolio analysis across key risk dimensions

The HFSB would like to thank **Varma Mutual Pension Insurance Company** who hosted the event and the speakers from Albourne, Towers Watson and Unigestion (HFSB Core Supporters) as well as Finisterre Capital (HFSB Signatory), Varma, Elo and Ilmarinen (Investor Chapter Members) for the invaluable contribution to the event and making it a success.

This concludes the 2014 HFSB Institutional Investor Roundtable series, which also included San Francisco, Sydney, Melbourne, London, Montreal, Boston, New York, Geneva and Tokyo.

*Environmental, Social and Governance

Working Group: Conflicts of Interest

It was reported last month that as part of its ongoing review of the Standards and in collaboration with its stakeholders, the HFSB put together a working group to review the issues of conflicts of interest in the Hedge Fund Standards, specifically trade allocation, competing funds /employee funds. Currently the Standards address the following aspects:

- 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 (disclosure of conflicts of interest to investors (Std. 3)
- Risk management (risk framework, segregation of functions in risk & compliance (Std. 9.1, 11, 15.1, 17a).

The working group will continue its activities in 2015 and its recommendations will be reported.

Upcoming events in 2015

We are planning to continue our Institutional Investor Roundtable series in 2015 and so far have scheduled:

- 14 January 2015: Panel discussion on fund governance (in collaboration with the **Texas Hedge Fund Association**) in Dallas – [additional information](#).
- 17-18 February 2015: **HFSB Australian Institutional Investor Roundtables** in Sydney and Melbourne

We will let you know when the dates are confirmed for March onwards.

New Signatory in December

We are delighted to welcome a new addition to the HFSB family:

- **Emso Partners Ltd (UK)**

New Stakeholders in 2014

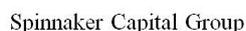
We are pleased to report that 2014 has been a very successful year in terms of welcoming new signatories and Investor Chapter members bringing the total of our stakeholders to 187.

Evolution of the HFSB Stakeholders



Core Supporters

We are immensely grateful to our Core Supporters for their continued contribution to our mission to promote better practices in the hedge fund industry. The role of our Core Supporters has been instrumental in the success of our global signatory campaign, particularly in North America and Asia.



We are looking forward to continuing our collaboration in 2015

Founders

We also would like to take this opportunity to express our deep gratitude to our Founders for their ongoing guidance and support, without which the HFSB could not do what it does.



Innovating to perform



HFSB Somerset House, New Wing, Strand, London WC2R 1LA, Email: info@hfsb.org; +44 (0) 20 3701 7560
If you would like us to remove you from our mailing list or add your colleagues, please let us know