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New Signatory

The HFSB is delighted to welcome a new addition to its Signatory family:

- **BCK Capital (USA)**

HFSB Upcoming Events

26 April: Institutional Investor Roundtable, Los Angeles

3 May: Institutional Investor Roundtable, Melbourne

4 May: Institutional Investor Roundtable, Sydney

19 May: Annual North American Stakeholder Forum, New York

HFSB & IFSWF Become Mutual Observers

The HFSB and the International Forum of Sovereign Wealth Funds (IFSWF), a global network of sovereign wealth funds, have established a Mutual Observer Relationship.

The HFSB has an ongoing relationship with the sovereign wealth fund community via GIC and the Future Fund of Australia. The Mutual Observer role will enable the IFSWF and HFSB to:

- Participate in each other's events through attendance and speaking roles;
- Organise and co-host seminars that bring together the IFSWF and HFSB memberships to discuss topics of mutual interest and relevance;
- Foster a constructive dialogue between hedge fund managers and SWFs and align their interests;
- Collaborate on issues of mutual interest, including governance, transparency and financial stability; and
- Make the HFSB's resources, including its Standards and Toolbox, more accessible to the SWF community and invite SWFs to take an active part in the HFSB process.

Adrian Orr, IFSWF Chairman and Chief Executive Officer of the New Zealand Superfund, said: *"We are delighted to form a closer relationship with the HFSB to share knowledge and experience with the objective to raise Standards in the financial industry. This relationship will help ensure that sovereign wealth funds have a voice in the hedge fund standard setting process."*

Please read the full [press release here](#).

Second HFSB Cyber-Attack Simulation Exercise

The HFSB held its second Cyber-Attack Simulation in New York City, following a [similar event in London in December 2015](#) and the publication of the [HFSB Cyber Security Toolbox memo](#).

The panel included speakers representing hedge fund managers, the FBI and legal and cyber security experts. The discussion focussed on the response to three cyber-attack scenarios, **1) data theft, 2) financial**

infrastructure attack and 3) crypto ransomware. Each of the scenarios unfolded in several stages to illustrate how such incidents play out in practice, including complications such as press inquiries, etc.

The discussion highlighted that cyber incidents are not just “technical issues” and management should be prepared/trained for cyber incidents. In particular, senior management needs to be prepared to manage the “fallout” and run the response to an attack. The panel discussed many of the important basic hygiene factors, including timely patching of systems, having an incident response plan and examples of “quick win cyber security projects” (for more details on steps to mitigate cyber risk, see [HFSB Cyber Security Toolbox memo](#)).

Some of the more specific areas discussed included:

- **Data theft:** In situations where confidential investor information is leaked--understanding the regulatory reporting/notification requirements for different countries. In situations where material non-public information has been leaked--understanding possible violations of the Investment Advisors Act;
- **Financial infrastructure attack:** a) “Prime broker down” scenario--assessment of the counterparty risk angle and the need for back-up prime broker relationships; b) fund administrator “redemption day heist”--review of safeguards to prevent misdirection of client monies;
- **Crypto Ransomware:** pros and cons of paying the attackers (e.g., ensuring business continuity versus possibly facing further attacks because a firm has paid the ransom).

Richard T. Jacobs, Assistant Special Agent in Charge of the Cyber Branch New York Office, FBI, said: *“Practical attack simulations compel firms to think beyond the development of cyber security policies and incident response plans to the actual soundness of them. The scenarios force companies to consider the challenges that may arise in the aftermath of an attack.”*

Richard Alexander, Chief Information Officer, Cerberus Capital Management LP said: *“This is a very timely initiative in light of the heightened regulatory focus, including the SEC’s intention to test firms’ implementation of cyber security procedures and controls.”*

The HFSB will continue to explore this topic as part of its Institutional Investor Roundtables and engage with the supervisory and law enforcement community to help improve the overall understanding of cyber security in asset management.

The HFSB would like to thank Stroz Friedberg for hosting this event in New York, moderating the panel and sharing their “war stories”.

P.S. The National Futures Association (NFA) has issued [Interpretive Notice I-16-10](#), informing that it has added cyber security questions to its [Self-Examination Questionnaire](#). This new addition has now been included in the [HFSB Cyber memo](#).

Standards’ Corner: Liquidity Risk Management

Liquidity risk management at funds investing in fixed income securities is among the current key global regulatory priorities. Earlier this year, it was included in the SEC’s OCIE [2016 Examination Priorities focussing on](#) firms’ controls in the area of market risk management, valuation and liquidity management. Last month the [FCA published a new webpage on liquidity management for investment firms](#) investing in the fixed income sector to share good practices in this area.

[The Hedge Fund Standards](#) address issues in relation to liquidity risk management from a number of different angles, including the overall risk framework (segregation of functions), dedicated risk management techniques (including stress testing to assess the sensitivity of the portfolio to margin calls, reduction of market liquidity, investor redemptions etc. [Standard 12]) as well as disclosure of commercial terms as they relate to the exit terms (of open-ended funds) and the mechanics to deal with situations of liquidity distress (Standard 2.1). The liquidity position of the fund is also an area that is usually reviewed in fund board meetings (e.g. see sections 3 & 5 of the [HFSB Standardised Board Agenda](#)).

The following resources provide additional guidance to managers:

- [IOSCO: Principles of Liquidity Risk Management for Collective Investment Schemes \(03/2013\)](#)
- [IOSCO Survey Results: Liquidity Management Tools in Collective Investment Schemes \(12/2015\)](#)
- [FCA: Liquidity Risk Management for Investment Firms – good practice](#)
- [SEC: Proposed Liquidity Risk Management Rules for Mutual Funds and ETF](#)
- [Hedge Fund Standards](#) (Standards 2.1, 12)
- [HFSB Standardised Board Agenda](#) (sections 3 & 5)

A solid approach to liquidity risk management and handling of redemptions is crucial, as it improves investor trust, prevents unfair treatment of investors in times of market distress and contributes to the overall resilience of the financial system.

APPENDIX

BCK Capital

BCK Capital Management, L.P. is an event driven investment manager based in Stamford, CT. The firm was founded in 2015 by Wayne Yu. BCK Capital focuses on liquid equity investments in companies undergoing transformative corporate changes. The firm pursues two complementary and related investment strategies: catalyst-driven and merger arbitrage.

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