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New Signatories

The HFSB is delighted to welcome new additions to its signatory family:

- **Islandbridge Capital Limited (UK)**
- **Quantica Capital AG (Switzerland)**

Upcoming HFSB Events

- 24 Nov: Institutional Investor Roundtable, Beijing
- 9 Dec: Nordic Institutional Investor Roundtable, Helsinki
- 10 Dec: Swiss Institutional Investor Roundtable, Geneva
- 15 Dec: Table Top Cyber-Attack Simulation Panel, London

Amendments to the Standards

We are pleased to announce that following a successful public consultation, the new amendments to the Hedge Fund Standards have been finalised and will be published next week. The HFSB Signatories will be notified separately.

Cyber Security

Cyber security attack simulation exercise

Following the publication of the [HFSB Cyber Security Memo](#) in September, the HFSB will hold a Cyber Security Roundtable for managers on 15 December in London. The event will include a **table top cyber-attack simulation exercise**, involving a panel of hedge fund cyber security experts, who will respond collaboratively to an unfolding attack scenario. The event will be repeated in New York in Q1 2016.

Cyber Security Survey Findings

The IOSCO Affiliate Members Consultative Committee (AMCC), of which the HFSB is a member, has conducted a survey of cyber security practices in the asset management sector. Over 110 asset managers (including HFSB signatories) have responded to the survey. 32% of responses were from hedge fund managers, 31% mutual funds, 37% other (incl. pension funds). Some of the key findings include:

- 74% of firms conduct periodic risk assessments to identify cybersecurity threats, vulnerabilities and potential business consequences, while 12% are considering conducting such assessments. Of those who conduct the assessment, 55% do so annually, and 23% do so bi-annually or quarterly.
- 63% of firms require all employees to undergo information security training, while 20% are considering doing so.
- There is mixed perspective on cloud-based file sharing applications: 38% of respondents use them, 56% don't, 5% are considering.
- 91% of firms use intrusion detection at their Internet connection.
- 90% of firms conduct a periodic inventory of all physical devices, software and applications.

This is the first detailed global survey of cyber security practices in the asset management sector.

The HFSB also has presented its [Cyber Security Toolbox Memo](#) at the mid-year IOSCO AMCC Regulatory Staff Training Seminar in Zurich. **The presentation slides are available upon request.**

HFSB in Canada

Following the [appointment of Poul Winslow](#) of Canada Pension Plan Investment Board to the HFSB Board of Trustees last month, the HFSB continues its engagement with the Canadian investor and manager community, as well as the Canadian authorities.

The HFSB Reception in Montreal

The HFSB held a reception in Montreal, which was hosted by Caisse de depot et placement du Quebec. Speakers included Mario Therrien (Sr. VP, External Portfolio Management – Public Markets Caisse de dépôt et placement du Québec), Dame Amelia Fawcett (Chairman, HFSB), Thomas Deinet (Executive Director, HFSB) and Jon Morgan (Principal, Sound Fund Advisors). The event was attended by over 70 investors and managers where the presenters discussed the results of the HFSB consultation on conflicts of interest and the latest developments in fund governance.

HFSB at Annual Albourne Conference

Dame Amelia Fawcett, Chairman of the HFSB, spoke at the Albourne conference held in Montreal, highlighting the important role the Hedge Fund Standards can play on the regulatory landscape. She noted: “There’s a realisation among supervisors that regulation alone cannot always achieve desired outcomes, nor can they always do it in a cost-effective way. There’s an important role for standards complementing regulation and filling the gaps where desired outcomes can best be achieved by methods other than regulation.”

HFSB at the [Canadian Securities Administrators \(CSA\)](#) conference

Thomas Deinet, Executive Director, spoke at the CSA Compliance Committee Fall Conference held in Quebec City, where he talked about the Hedge Fund Standards, specifically about liquidity risk management and mitigation of conflicts of interest (summary available upon request). The CSA is an umbrella organisation of Canada’s provincial and territorial securities regulators whose objective is to improve, coordinate and harmonise regulation of the Canadian capital markets.

Poul Winslow, the newly appointed Trustee of the HFSB said: "I am impressed with the knowledge and the format the HFSB offers to investors and managers to engage with the supervisory community."

HFSB at the IFSWF Annual Meeting

This month the HFSB was again invited to participate in the International Forum of Sovereign Wealth Funds (IFSWF) Annual Meeting held in Milan. Some of the discussions focused on building better long-term partnerships between investors and their managers. David Neal, Managing Director of the Future Fund and former Trustee of the HFSB, made the following statement on the importance of 'firm culture': “There are many ways to address the issues that can arise in principal-agent relationships, but a good 'culture' gives you the best chance that a manager will do the right thing in situations of conflict or distress. The financial sector still has a long way to go to address concerns about culture. The good news is that initiatives such as the Hedge Fund Standards Board are great platforms for investors to engage with managers to build trust and improve culture and standards.”

Going forward, the HFSB will continue its collaboration with the sovereign wealth fund community and the IFSWF, including making the Standards and the contents of the HFSB Toolbox available to them for their efforts to improve standards and build better long-term relationships.

Liquid alternative funds: regulatory focus on liquidity risk management

Liquidity risk management always has been an area of major focus in the hedge fund industry, and it is extensively covered by the Hedge Fund Standards. As early as 2009, the HFSB held a special consultation to improve the Standards to address concerns about handling of redemptions in times of liquidity distress.

In light of recent concerns about the liquidity in capital markets and the ability of investment funds to deal with liquidity distress, the global regulatory focus has moved to liquidity risk management in investment funds. The [US SEC has proposed reforms to enhance effective liquidity risk management](#) by open-end funds, requiring mutual funds and ETFs to implement liquidity risk management programmes and enhance disclosure regarding fund liquidity and redemption practices.

Key elements:

- classification of the liquidity of the fund (based on the amount of time an asset would be able to be converted to cash without market impact)
- liquidity risk management/periodic review
- Establishment of a “three-day liquid asset minimum” (some Commissioners have expressed concerns about this requirement)
- Board approval and review.

The SEC also will consider introducing a framework for “swing pricing” (to pass on cost of subscription/redemptions to the shareholders associated with that activity) and changes to the registration forms.

Institutional hedge funds usually do not offer daily liquidity, thereby improving the alignment between redemption terms for investors and the liquidity of underlying assets. The [Hedge Fund Standards 9-16](#) make recommendations 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 Hedge Fund Standards set out additional techniques to manage liquidity risk and ensure fair treatment of investors in times of distress:

- 1) **Liquidity risk management** - the Standards emphasise the need for a liquidity management framework to include, amongst other things, stress testing to assess the sensitivity of the portfolio to margin calls, reduction of market liquidity, sudden falls in asset prices, and investor redemptions [Standard 12].
- 2) **Handling of redemptions:** the Standards recommend disclosure of details of any “lock-up” periods during which the investor will be unable to redeem its investment in the fund and any limits on the extent of redemptions on any redemption date (i.e. redemption “gates”); as well as an indication of circumstances in which normal redemption mechanics might not apply [Standard 2.1]
- 3) **Disclosure:** Standard 1.5 covers investment policy and risk disclosure, and requires a manager to make periodic disclosures to investors regarding material developments in the investment strategy, the manager’s business and the fund’s risk profile.
- 4) **Governance:** Review of adherence to by the manager to investment policy and investment restrictions by the fund directors; regular reporting to the fund directors regarding subscriptions and redemptions [Standard 21.6].

Separately, the [HFSB Standardised Board Agenda](#) suggests the following items to be covered in fund board meetings:

- Investment Management Report (2.)
 - Fund risk review, including review of portfolio liquidity against investor liquidity
 - Review of any changes in cash and collateral management policy
- Administrator Report (5.)
 - Investor activity report (review of subscriptions and redemptions)
 - ASC 820 break down (e.g. review of [Administrator Transparency Reports](#))

APPENDIX

Islandbridge Capital Limited

Islandbridge Capital Limited is a London based, FCA regulated investment manager. The Firm is a privately owned, independent and legacy free business operating since October 2008. The team manages investment mandates for a number of family offices, HNWI's and trusts. Clients are able to access the team's skills and expertise through dedicated funds, advisory mandates and managed accounts. The Firm manages two funds, the Islandbridge Multi-Manager Fund (Launched May 2009) and the Islandbridge Opportunities Fund (Launched April 2014).

Quantica Capital AG

Quantica Capital AG is a leading, independent Swiss alternative investment management firm highly specialised in systematic investment management. The objective of the firm is to provide institutional and other qualified investors with high-quality systematic investment strategies to optimise long term risk-adjusted returns. All strategies are managed according to proprietary systematic and quantitative models with a focus on sophisticated data analysis, portfolio construction, execution and risk management techniques.

The investment programs are offered on institutional platforms, within commingled products and in separately managed accounts. Quantica Capital AG is a member of the NFA, and registered as a CTA and CPO with the CFTC. It is also licensed with the Swiss Financial Markets Supervisory Authority FINMA as an Asset Manager of Collective Investment Schemes.