

Newsletter
September 2014

Dear All,

Below is our September report on the developments at the HFSB.

Signatories

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

- **Majestic Asset Management LLC (Canada)**

North American Annual Stakeholder Forum – New York

On 23 September 2014 we held our Annual North American Stakeholder Forum and Institutional Investor Roundtable. Our event was hosted by Bloomberg at their Headquarters in New York City. The event was opened by Bloomberg Chairman Mr Peter Grauer and Dame Amelia Fawcett. **The opening address was made by Mr Drew Bowden, Director of the US SEC's Office of Compliance Inspections and Examinations (OCIE).** He provided an overview of the current priorities of the SEC's National Exam Program (NEP), provided **examples of deficiencies discovered** while examining the registered entities, and gave an outlook for 2015. He highlighted that **"investors play a critical role in improving the industry and the HFSB created a helpful platform for collaboration between managers and investors."**

The programme of the Forum also included case study presentations by Ionic Capital Management (John Richardson) and Unigestion (Brad Stehle), exploring **how managers can use their HFSB conformity in regulatory interaction**, specifically in SEC compliance inspections. The presenters also talked about the latest **due diligence findings on conflicts of interest and issues embedded in fund documentation** in relation to gating/distribution mechanisms, performance fees and cash handling. The event concluded with a panel discussion, moderated by Thomas Deinet, and with the participation of Cerberus Capital Management (Andrew Kandel), Three Bridges Capital (Mark E. Ahern) and New Holland Capital (Nick Rontiris).

We would like to take this opportunity to thank Bloomberg for their tremendous hospitality and ensuring the smooth running of our event. We also would like to thank all our speakers for their informative, engaging and thought-provoking presentations.

IOSCO

Thomas Deinet presented the HFSB activities at the IOSCO Annual Conference in Rio de Janeiro following the acceptance by IOSCO of the HFSB as an Affiliate Member. His presentation to the private session of the Affiliated Members highlighted the role of the HFSB in addressing many regulatory concerns through its Standards and the Toolbox, and he noted that the HFSB is well positioned to support IOSCO in its standard setting efforts, and to inform the global regulatory debate and offer credible solutions.

In the context of the conference, Dame Amelia Fawcett hosted an HFSB dinner with senior global regulators from the Americas, Europe and Asia. **The guest of honour was Mr Arminio Fraga, the former governor of the Central Bank of Brazil and the founder of Gavea Investimentos, the first HFSB signatory from Brazil.**

In his wide-ranging opening remarks, Mr Fraga highlighted that "the work of the HFSB is incredibly important at a time when we see the limitations of conventional regulation". The guests at the dinner also discussed the regulatory efforts (particularly in the context of recent FSB initiatives) to address shadow banking risks and how the HFSB can be of help in this process.

Standards Corner

Conflicts of interest

Conflicts of interest can arise between managers and their investors, and between investors. Addressing such situations can be challenging for large diversified institutions. Smaller firms also need to introduce procedures and control mechanisms to eliminate or manage such conflicts. Regulators have addressed these issues as well: e.g. [FCA Principles 6 & 8](#), FCA Handbook [COBS 11.3.1 \(3\)](#), [SYSC 10.1](#). The US SEC OCIE has looked at conflicts of interest as a separate area of focus in its [Examination Priorities for 2014](#) (p.4).

[The Hedge Fund Standards](#) review conflicts of interest in great detail, including:

- 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, including disclosure of conflicts of interest to investors (Std. 3)
- Enterprise risk management, including risk framework, segregation of functions (Std. 9.1, 11, 15.1, 17a).

The HFSB would like to encourage managers to review their approach to handling conflicts of interest from time to time in light of evolving regulatory requirements and revisit these Standards. In particular in situations where organisational changes are made or where new funds or products are added, it is important to revisit existing arrangements and **take a proactive approach to informing investors about relevant developments** (Standard 1.5). As part of its ongoing review of the Standards and in collaboration with its stakeholders, the HFSB will review this areas in greater detail over the next few months.

APPENDIX

Majestic Asset Management

Majestic Asset Management is a Canadian-based firm specialized in the management of exchange traded derivative products. Majestic is registered with the National Futures Association (NFA) as a Commodity Trading Advisor (CTA) and with the Ontario Securities Commission as a Commodity Trading Manager (CTM). MAJESTIC offers private and institutional investors the opportunity to diversify their portfolio with alternative investment strategies that are non-correlated to traditional asset classes such as equities, bonds and real estate.

The firm offers investors exposure across a wide range of sectors and commodities such as grains, food and fibres, meats, energy products, metals, currencies, stock indices and global bonds. MAJESTIC manages an average of \$75 million in notional value on global futures markets in its various alternative investment funds.