



### Overview

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### New Stakeholders

The HFSB is delighted to welcome two new stakeholders to its Signatory and Investor Chapter families:

#### Signatory:

- Rockhampton Management Ltd (Hong Kong)

#### Investor Chapter:

- Victorian Funds Management Corporation (VFMC) (Australia)

### HFSB Cyber Security Seminar: "Cyber Security basics every manager needs to get right"

Last month, HFSB held a Cyber Security Seminar in London where over 40 representatives from hedge fund managers and investors gathered to discuss the following topics:

- **Anatomy of a breach:** how and why breaches occur
- **Illustration of attack paths:** what hedge fund managers should do to protect themselves
- **Service provider oversight and IT outsourcing:** key requirements for providers.

The panel started out by discussing the spectrum/types of attacks that can occur:

- Some basic cyber security measures can help protect against untargeted "smash and grab" style attacks (such as "crypto lockers"). These measures include restricting user administrative privileges, regular patching of applications/operating systems and user training/awareness
- While these measures provide some protection against more sophisticated/targeted ("Italian Job" style) attacks, it was acknowledged that most firms may not be in a position to protect against an attack by a "nation-state sponsored actor".

The panellists also explored how an external attack unfolds, from delivery (e.g., via an email), over malware installation (e.g., to activate a crypto locker) to actual exfiltration of internal data. Issues highlighted include:

- Many technical solutions can only provide protection in certain sections of this particular attack path; there is no singular all-encompassing solution
- Process/maintenance aspects (such as patching, restricting user privileges, etc.) can be very efficient and are easy to implement, particularly for small organisations
- Importance of improving detection/situation awareness and focussing on reducing the amount of time it takes to detect a breach
- User training and culture ("cyber threat consciousness") as key success factors
- Tool to check for email account breaches: <https://haveibeenpwned.com>.

The panellists included leading cyber security specialists from Marshall Wace (Conor Kiernan), Brevan Howard (Nicholas Miller); Winton Capital (Ed Millington); ContextIS (Stuart McKenzie) and Stroz Friedberg (Bill Trent). The event was the third one in the Cyber-Attack Simulations series held by the HFSB: the first was in London (Dec 2015) and the second in New York (Mar 2016). Additional information can be found in the [HFSB Toolbox](#) online.

The HFSB would like to take this opportunity to thank Stroz Friedberg for hosting the event and making their intellectual contribution to the panel discussion.

### **Keynote Remarks by Ashley Alder at HFSB Roundtable in Hong Kong**

We reported last month on the HFSB's latest Institutional Investor Roundtable in Hong Kong (22 June), which brought together **60 representatives** from hedge fund managers and institutional investors and focused on institutional investor priorities and how alignment between managers and investors can be improved.

Ashley Alder, CEO of the Securities and Futures Commission of Hong Kong and the new Chairman of IOSCO, made the opening remarks. Mr. Alder provided an overview of the current domestic and international regulatory priorities, including cyber security and conflicts of interest; he also commented on the important role of neutral standard-setters and investors and hedge funds working together. Here are some of the highlights of his speech:

*"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.*

*And when the industry evolves its own robust conduct standards, **particularly through an organisation like the HFSB where funds and investors come together, the chances are that the laws and rules we enforce are less likely to be breached.** This is of obvious value to members as well as the regulators.*

*At the same time, we are not normally in a position to formally endorse industry standards as part of our formal framework of regulation. For one thing, we cannot do so when rules have not gone through the usual legislative or consultative process. **But more importantly, we should not fetter or formalise the HFSB's own freedom to develop its standards without too much interference from us.**"*

The full speech is available at [http://www.sfc.hk/web/TC/files/ER/PDF/Speeches/Ashley\\_20160622.pdf](http://www.sfc.hk/web/TC/files/ER/PDF/Speeches/Ashley_20160622.pdf).

### **Standards Corner: Handling of Redemptions in Situations of Liquidity Distress**

Seven major UK commercial property funds suspended redemptions following the "Brexit" vote in June. The decision to leave the EU has caused a combination of reduction of investment in the sector and a rush by some investors to redeem their investments, resulting in insufficient liquidity in the funds. The illiquidity of the underlying investments prevents funds from quickly liquidating the portfolio.

The temporary suspension of redemptions is a tool to manage such situations of liquidity distress in an orderly manner and specifically address conflicts of interest between redeeming and non-redeeming investors, ensuring fair treatment of investors.

A number of these areas are addressed in the [Hedge Fund Standards](#) including:

- Upfront disclosure of exit terms in offering documents with sufficient prominence (indicating circumstances in which normal redemption mechanics may be suspended, as well as other material measures, including gating, side pocketing, etc.) [Std. 2.1]
- Upfront disclosure of approach to risk management [Std. 16]
- On-going risk disclosures (including notification of a material increase in hard-to-value-assets) [Std. 8]
- On-going liquidity risk management, including stress testing [Std. 12].

The governance of funds also comes under the spotlight in such situations, including on-going monitoring by the fund governing body and the specific handling of situations of liquidity distress. The [HFSB Standardised Board Agenda](#) provides an overview of issues and topics that should be covered during fund board meetings, including:

- Fund liquidity profile against investor liquidity
- On-going subscriptions/redemptions
- Valuation issues
- Consideration of conflicts of interest between the manager, the fund and the investors in the fund
- Handling of situations of liquidity distress, including decision to suspend or gate the fund.

In the hedge fund sector, it is common for funds pursuing less liquid strategies to have longer lock-ups to align investor liquidity and underlying asset liquidity in order to mitigate the risk of unfair treatment of investors in situations of liquidity distress.

From an investor perspective, it is important to assess any (potential) asset liability mismatches in funds and the mechanism in place to manage such distress situations to ensure fair treatment of investors. The Hedge Fund Standards provide a blueprint for conducting such due diligence in areas such as liquidity risk management, handling of redemptions, valuation and fund governance. These Standards are not limited to hedge fund managers and are equally applicable to other sectors of the asset management industry.

### HFSB Upcoming Events

- **8 Sep 2016:** Annual General Assembly, London
- **27 Sep 2016:** Institutional Investor Roundtable, Chicago
- **29 Sep 2016:** Institutional Investor Roundtable, Washington, D.C

### APPENDIX

<p><b>Rockhampton Management Ltd</b></p>	<p>Rockhampton is an investment management firm founded in 2003 which specializes in Japan-focused long-short strategies. The team of sector specialists based in their Tokyo and Hong Kong offices analyzes and researches companies and industries to identify mispriced investment opportunities in Japan. It also researches other Asian markets for investment opportunities and to enhance its Japan sector specialist research and knowledge.</p> <p>Rockhampton’s disciplined, catalyst-driven and risk-controlled approach endeavors to provide investors with non-correlated, low-volatility positive returns through any market cycle.</p>
<p><b>Victorian Funds Management Corporation (VFMC)</b></p>	<p>VFMC was established under the Victorian Funds Management Corporation Act 1994. VFMC is a public authority and body corporate governed by an independent Board of Directors whose members are appointed by the Governor in Council. The Chairman is appointed by the Treasurer.</p> <p>VFMC’s role is to provide investment and funds management services to Victorian public authorities in a commercially effective, efficient and competitive manner. To invest with VFMC, clients must be a Public Authority as defined under the Victorian Funds Management Corporation Act 1994. VFMC managed investments of A\$51.4 billion at 31 March 2016 for 24 Victorian public sector and related organisations. Further information on VFMC is available at <a href="http://www.vfmc.vic.gov.au">www.vfmc.vic.gov.au</a></p>