



Newsletter – June 2019

In this month's newsletter:

- *Cyber Security Seminar in London*
- *Standards Corner: Handling of Redemptions in Situations of Liquidity Distress*
- *Insurance Linked Strategies Working Group: Phase 2 – Side-Pocketing*
- *Toolbox: Open Protocol Update – latest update*
- *Overview of the SBAI Working Groups and Initiatives*
- *Upcoming Events*

Cyber Security Seminar in London

Following the recent publication of the SBAI [Cyber Security Memo](#), the Standards Board hosted a cyber security seminar this month in London.

The seminar focused on small to medium-sized managers and what constitutes a realistic cyber posture. Key areas covered include:

- The current cyber threat environment for alternative investment managers
- Basic “cyber hygiene implementation” – how have expectations evolved?
- Due Diligence of outsourced IT providers, software as a service, and the cloud - what can due diligence realistically uncover? Can you ever gain comfort?
- Cyber security testing options – what’s needed (as a function of a firm’s cyber maturity)?

Nicolas Miller, Founder of Aedile Consulting said: “Cyber security as a topic is often presented with unnecessary complexity and is used to mask the simple truth that effective cyber security is far more easily achieved through a few, basic steps rather than acquiring a vast array of expensive cyber security solutions and products. The advice from the SBAI helps firms of all sizes focus on low cost and effective steps and better understand the firms’ postures and the associated risks”.

The recently published SBAI [Cyber Security Memo](#) addresses the above-mentioned questions and offers a range of practical tools managers can consider.

The SBAI would like to thank the speakers from Aedile Consulting, CDAM, Context IS, Marshall Wace and Winton for their invaluable contribution to the discussion.



Standards Corner: Handling of Redemptions in Situations of Liquidity Distress

The handling of liquidity risks in open-ended (retail) investment funds has come to the forefront of the debate again with recent cases of funds experiencing investor runs and subsequent suspensions of redemptions. Other examples in the recent past include the suspension of redemptions of seven major UK commercial property funds following the Brexit vote ([please see Standards Corner 06/2017](#)).

Liquidity risk management always has been an area of major focus in the alternative investment industry, and it is extensively covered by the [Alternative Investment Standards](#). As early as 2009, the Standards Board held a [special consultation to improve the Standards](#) to address concerns about handling of redemptions in times of liquidity distress.

In normal conditions, liquidity risk management would ensure that the liquidity of the portfolio matches with the contractually agreed redemption terms. However, in periods of stress, market liquidity can suddenly dry up. In combination with significant outflows (investor redemptions), this can lead to situations where non-redeeming investors may fear being left with the illiquid remainders of a portfolio, while redeeming investors are paid off from the proceeds of the sale of the liquid portions of a portfolio. This can result in all investors “rushing to the exit” by redeeming, which creates the classic “prisoners’ dilemma”, with no incentive for individual investors to hold back.

There are a range of solutions to address this “negative externality”, including:

- Tools to suspend or slow down the redemption process (gating) in situations of distress (and, critically, disclosure thereof to investors) – Alternative Investment Standard 2.1
- A solid approach to liquidity risk management and handling of redemptions, including stress testing (and disclosure of the risk framework to investors) – see Alternative Investment Standards 9-16, 1.5
- Governance/oversight arrangements designed to protect investors in the fund (and disclosure thereof to investors) – Alternative Investment Standard 21.6; [SBAI Standardised Board Agenda](#)

All these measures help to improve investor trust and to prevent unfair treatment of investors in times of fund/market distress, thereby reducing the risk of runs on funds. As a general principle, redemptions should be honoured as long as fair treatment of investors can be ensured.

Institutional alternative investment funds often exhibit much longer lock-up periods compared to retail funds, significantly reducing the risk of runs on funds. In addition, some investments are structured in closed-ended vehicles, where investors cannot redeem until



underlying assets have been sold (e.g. private equity and certain types of alternative credit funds), thereby eliminating entirely the risk of unfair treatment and runs.

The SBAIs' Alternative Credit Working Group currently is focusing on topics such as conflicts of interest and choice of fund structure, and the SBAI's ILS Working Group is currently exploring the topic of Side-Pocketing in ILS Funds.

Insurance Linked Strategies Working Group: Phase 2 – Side-Pocketing

We reported last month that the Standards Board's ILS Working Group completed and published its Memo on valuation arrangements of [Insurance-Linked Funds](#).

The Working Group has started working on Phase 2 – to explore side-pocketing in ILS Funds. The work is expected to be completed by Q1 2020 and the results will be published then.

Please contact us at info@sbai.org, if you are interested in participating.

Toolbox: Open Protocol Update – latest update

We are pleased to report that Version 4.0 of the [OP template](#) (October 2018) has been updated: Jefferies LLC has been added to the list of counterparty names similarly to the xml schema and can be selected in tab 11 'Counterparty' exposure in section 11.4 'Trading assets by size of assets at counterparty'.

If you have any questions, please email info@sbai.org. Please also visit [the FAQ webpage](#).

Overview of the SBAI Working Groups and Initiatives

The SBAI's working groups and initiatives bring managers and investors together to collaborate to agree practical and responsible standards and Toolbox guidance in key areas relevant to alternative investment managers and institutional investors.

Alternative Credit Working Group

- Conflicts of interest
- Transparency
- Valuation
- Choice of fund structure

Governance

- Update of the Standardised Board Agenda
- Governance case studies
- Manager committees



Standard Investor Profile Template

- Standardising subscription, KYC and AML processes for investors via a standard data structure

Insurance Linked Funds

- Valuation of ILS Funds ([just published](#))
- Side-pocketing practices

Culture and Diversity in Asset Management

- Roundtable series with focus on critical business and strategic issues

Factor Investing

- Back-testing practices
- Broker dealer practices

China Working Group

- Comparing Chinese standards and practice to international practice

Japan Working Group

- Comparing Japanese standards and practice to international practice

Upcoming Events

- 16 September 2019, Singapore: SBAI Institutional Investor Roundtable
- 26 September 2019, London: SBAI Annual General Assembly
- 15 October 2019, Chicago: SBAI Culture & Diversity in Asset Management Roundtable
- 21 October 2019, Philadelphia: SBAI Institutional Investor Roundtable (at Albourne Annual Conference)
- 19 November 2019, Washington D.C.: SBAI Institutional Investor Roundtable
- 20 November 2019, Toronto: SBAI Culture & Diversity in Asset Management Roundtable
- 21 November 2019, Montreal: SBAI Institutional Investor Roundtable
- December 2019, New York: SBAI Institutional Investor Roundtable
- 5 December 2019, Shanghai: SBAI Institutional Investor Roundtable

The full event schedule is available [here](#).



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