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International Organization of Securities Commissions
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IOSCO publishes principles for hedge funds regulation

The International Organization of Securities Commissions' (IOSCO) Technical Committee has today published [Hedge Funds Oversight: Final Report](#) which contains six high level principles that will enable securities regulators to address, in a collective and effective way, the regulatory and systemic risks posed by hedge funds in their own jurisdictions while supporting a globally consistent approach.

The report, which was prepared by the Task Force on Unregulated Entities (Task Force), recommends that all securities regulators apply the principles in their regulatory approaches.

The six high level principles are:

1. Hedge funds and/or hedge fund managers/advisers should be subject to mandatory registration;
2. Hedge fund managers/advisers which are required to register should also be subject to appropriate ongoing regulatory requirements relating to:
 - a. Organisational and operational standards;
 - b. Conflicts of interest and other conduct of business rules;
 - c. Disclosure to investors; and
 - d. Prudential regulation.
3. Prime brokers and banks which provide funding to hedge funds should be subject to mandatory registration/regulation and supervision. They should have in place appropriate risk management systems and controls to monitor their counterparty credit risk exposures to hedge funds;

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4. Hedge fund managers/advisers and prime brokers should provide to the relevant regulator information for systemic risk purposes (including the identification, analysis and mitigation of systemic risks);
5. Regulators should encourage and take account of the development, implementation and convergence of industry good practices, where appropriate;
6. Regulators should have the authority to co-operate and share information, where appropriate, with each other, in order to facilitate efficient and effective oversight of globally active managers/advisers and/or funds and to help identify systemic risks, market integrity and other risks arising from the activities or exposures of hedge funds with a view to mitigating such risks across borders.

Kathleen Casey, Chairman of the Technical Committee, said:

“Securities regulators recognise that the current crisis in financial markets is not a hedge fund driven event. Hedge funds contribute to market liquidity, price efficiency, risk distribution and global market integration. Nevertheless the crisis has given regulators the opportunity to consider the systemic role hedge funds may play and the way in which we deal with the regulatory risks they may pose to the oversight of markets and protection of investors.

“The application of these principles, in a collective, cooperative and efficient way, can provide regulators with the tools to obtain sufficient, relevant information in order to address the regulatory and systemic risks posed by hedge funds.”

The Task Force was chaired by the CONSOB of Italy and the Financial Services Authority of the United Kingdom. It was established in November 2008 to support the initiatives undertaken by the G-20 to restore global growth and achieve reforms in the world’s financial systems.

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The Task Force will continue to work to support the implementation of these standards by its members and to deal with future regulatory issues that may arise in relation to hedge funds. It will act as the contact point with prudential regulators and banking standards setters, as well as other regulatory bodies such as the Joint Forum and the hedge fund industry in relation to the development and implementation of industry standards of best practice.

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NOTES FOR EDITORS

1. Hedge Funds Oversight – Final Report of the Technical Committee of IOSCO is available on IOSCO's website.
2. [Hedge Funds Oversight](#) – Consultation Report of the Technical Committee of IOSCO was published on 30 April 2009.
3. IOSCO is recognized as the leading international policy forum for securities regulators. The organization's membership regulates more than 95% of the world's securities markets in over one hundred jurisdictions and its membership is steadily growing.
4. The [Technical Committee](#), a specialised working group established by IOSCO's Executive Committee, is made up of eighteen agencies that regulate some of the world's larger, more developed and internationalized markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns. Ms. Kathleen Casey, Commissioner of the United States Securities and Exchange Commission is the Chairman of the Technical Committee. The members of the Technical Committee are the securities regulatory authorities of Australia, Brazil, China, France, Germany, Hong Kong, India, Italy, Japan, Mexico, the Netherlands, Ontario, Quebec, Spain, Switzerland, United Kingdom and the United States.
5. IOSCO aims through its permanent structures:
 - to cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets;
 - to exchange information on their respective experiences in order to promote the development of domestic markets;
 - to unite their efforts to establish standards and an effective surveillance of international securities transactions;
 - to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.

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Greg Tanzer
Direct Line + 34 91 417 5549
Email: g.tanzer@iosco.org
Website: www.iosco.org