MEDIA RELEASE

International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

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International regulators publish systemic risk data requirements for hedge funds

The International Organization of Securities Commissions' (IOSCO) Technical Committee has published details of an agreed template for the global collection of hedge fund information which it believes will assist in assessing possible systemic risks arising from the sector. The template was developed by the Task Force on Unregulated Entities (Task Force) following requests from the Financial Stability Board (FSB) as well as from IOSCO members.

The purpose of the template is to enable the collection and exchange of consistent and comparable data amongst regulators and other competent authorities for the purpose of facilitating international supervisory cooperation in identifying possible systemic risks in this sector. IOSCO believes that participants are best monitored through their trading activities, the markets they operate in, funding and counterparty information, amongst others.

Kathleen Casey, Chairman of the Technical Committee, said:

> "IOSCO believes that regulators should seek to develop a comparable and consistent set of data to be collected from local hedge fund managers and advisers to monitor systemic risks and prevent gaps in regulatory reporting requirements.
>
> We recognise that the legislative process is ongoing in many jurisdictions and their outcomes could further influence the information needed to monitor systemic risk in the hedge fund sector, as well as who collects the data. Nonetheless, setting out these categories of information may

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help regulators in the assessment of systemic risk and help to inform the relevant legislative debates."

Data Reporting Categories

The intention behind the IOSCO template is to allow regulators to gather comparable and consistent data from managers and advisors about their trading activities, the markets they operate in, funding and counterparty information, amongst others. There are 11 proposed categories of information which incorporate both supervisory and systemic data and build on the data collection recommendations set out in its final report on *Hedge Fund Oversight.*

The template is not a comprehensive list of all types of information and data that regulators might want and so regulators are not restricted from requiring additional information at a domestic level. IOSCO is publishing the template now to help inform any planned legislative changes being considered in various jurisdictions, as well as providing securities regulators the type of information authorities could gather. The Task Force has recommended that the first data gathering exercise should be carried out on a *best efforts* basis (given pending legislation in many jurisdictions) in September 2010.

1. General manager and adviser information

This is supervisory information that regulators would generally have available about hedge fund managers they have authorised and may be obtained via other mechanisms separate from any systemic risk survey.

- Key principals, registered address, number of employees, number of funds, name of compliance officer, overseas offices, regulatory status, related affiliates, equity owners, relevant information about the financial health of the asset management company including, if applicable, any guarantees or agreements with parent companies; and

- Key service providers:
    - PBs, custodians
    - Auditor
    - Fund administrator and/or independent valuer
    - Outsourcing and delegation arrangements
    - Names of key funds managed and predominant investment strategies
    - Location of overseas offices and approximate split of assets between these offices.

2. Performance and investor information related to covered funds

- Recent performance details (net and gross);
- Recent investor redemptions/subscriptions;
- NAV vs. High Water Mark;
- Investor classifications (Institutional, fund of funds, high net worth); and
- Primary marketing channels.

3. Assets under management

- Group wide assets under management i.e. Total AUM and HF AUM;

4. Gross and net product exposure and asset class concentration

- For the manager's aggregate hedge fund assets detail the material positions in various asset classes e.g. split:
    - For securities: Value of Long and short positions in Equities/unlisted equities/Corporate bonds/sovereign bonds/Convertible bonds/loans/securitised credit products/other structured products; and
    - For Derivatives: Long and short CDS positions and the gross value of FX, Interest rate and other derivatives. There should be an indication of the geographic split of assets within some of these products e.g. equities;

- For significant individual HFs run by the manager detail the material positions in various asset classes e.g. split: as above but with more granularity.

5. **Gross and net geographic exposure**
   - High level regional *investment focus*: e.g. US, Europe, Asia ex-Japan, Japan, Global, Global EM; and
   - Split of aggregate assets by the underlying currency of the assets held i.e. this is not the same as *currency exposure* which could be obscured by FX hedging.

6. **Trading and turnover issues**
   - Turnover in various asset classes;
   - Clearing mechanisms for balance sheet instruments e.g. OTC vs. exchange traded; and
   - Derivative clearing mechanisms e.g. CCP vs. bilaterally.

7. **Asset/liability issues**
   - Liquidity of assets;
   - Investor liquidity demands, short of suspension i.e. all gates enforced but assuming funds have not suspended redemptions;
   - Extent of term financing;
   - Use of side pockets; and
   - Ability to gate or suspend funds and any restrictions currently in place.

8. **Borrowing**
   - Value of borrowings by source (PB, repo, stock lending, off balance sheet, unsecured); and
   - Borrowing from regulated vs unregulated entities.

9. **Risk issues**

- Unencumbered cash;
- Various risk measures used by hedge fund managers, e.g DV01, CS01, Equity delta – which are examples of a portfolio's sensitivity to movements in interest rates, credit spreads and equity markets; and
- Description of mechanisms to assess tail risk e.g. stress tests.

10. Credit counterparty exposure

- Net credit counterparty risk, identifying primary counterparties and identities and locations of those counterparties; and
- Extent of rehypothecation (% of net equity rehypothecated) and contractual limits to rehypothecation.)

11. Other issues

- Complexity e.g. gross size of options book, Number of open positions; and
- Concentration e.g. Top 10 positions as a % of gross market value.

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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. 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 100 jurisdictions and its membership is steadily growing.

3. The Technical Committee, a specialised working group established by IOSCO's Executive Committee, is made up of 18 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.

4. 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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