



31st Annual Conference of
The International Organization of Securities Commissions (IOSCO)

8th June 2006
Hong Kong

Panel 2: Hedge Funds – How Far is it Necessary to Regulate?

Peter R. Fisher

Chairman, BlackRock Asia
Managing Director, BlackRock, Inc., USA

Outline of Remarks
Peter R. Fisher
Managing Director, BlackRock

IOSCO Conference Panel
Hong Kong, 8 June 2006

*Hedge Funds: How far is it necessary
to regulate?*

Introduction

- **My personal views**
- **Focus: Regulation should be tailored to an intelligible purpose.**
 - What's the problem we're trying to solve?
- **Distinguish: the general deregulation of financial industry.**
 - Decline of functional and geographic barriers.
 - Increasing number of agents and the amount of capital that arbitrages the entire capital structure.
 - Hedge funds are just one example.
- **Distinguish: the endemic problem of liquidity illusions.**
 - Underlying issue with LTCM; again, not limited to hedge funds.
 - Especially with new instruments (short volatility histories).
 - Less capital/less sustainable vs. multiplicity of agents/more resilience.
- **Distinguish: the "European" issue.**
 - Is it desirable to have a market in corporate control?

Licensing

- **Fit & proper licensing is appropriate and desirable.**
 - But note: creates barriers to entry.
- **Purpose: prevent fraud, bad actors.**
- **If take on licensing regime, regulators carry a heavy burden:**
 - Must actually do it: determine who is fit and proper.
 - And whether they remain so.

Independent Audit & Valuation

- **If a licensing regime: does the regulator validate:**
 - The independence of audit?
 - The accuracy of books & records?
- **“Aggressive” marks:**
 - Should auditors give more specific attestation of valuation?
 - Not mere “reasonableness”?

What transparency of risk taking?

- **Disclosure of risk-taking tactics, position reporting, a poor idea.**
 - Purpose to “control risks” unlikely to be fulfilled; impractical.
 - Same transparency for others? Banks? Insurance companies?
 - Drives business to un-licensed entities.
- **Summary risk data: e.g., VaR, tracking error.**
 - Disclosure to creditors/prime brokers & investors.
 - Regulators? Public? For what purpose?
 - Too much leverage? Too much risk?
 - A safety net for hedge fund investors?
- **What differences do we want in investment vehicles?**

What form of regulation is most effective?

- Public regulation or private?
- Problem of “prime brokers” who don’t see whole picture.
- Fund of funds industry a form of private regulation?
- What’s the best mix?