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Plenary 3

Hedge Funds – New Regulatory Challenges

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Head of Man Group Compliance

12 April 2007

in depth in focus **in front**



IOSCO 2007 Annual Conference – Mumbai, India



Hedge Funds – New Regulatory Challenges
Robert Aitken – Head of Man Group Compliance

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A member of the Man Group

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AGENDA

1. IOSCO VALUATION PRINCIPLES FROM AN INVESTOR PERSPECTIVE
2. HARD TO VALUE INSTRUMENTS IN CONTEXT
3. OTHER VALUATION AGENT ISSUES
 - CAPACITY
 - STAFFING ISSUES
 - USE OF ESTIMATES
 - TRANSPARENCY

Background to Man Group plc

- Traces origins back to 1783
- Listed on the London Stock Exchange and a constituent of the FTSE 100 index
- Financial services company with two core functions
 - Alternative asset management (Man Investments)
 - Brokerage (Man Financial)
- More than 3,000 employees operating in 15 countries
- Market capitalisation approximately USD 20 billion with funds under management at approximately \$60 billion

THE IOSCO NINE PRINCIPLES FROM AN INVESTOR PERSPECTIVE

- SUPPORTIVE OF THE PRINCIPLES IN PARTICULAR
 - The need for pricing policies that should be reviewed
 - The need for independence of pricing where possible
 - The need for a policy regarding overrides
 - The need for ongoing due diligence – on site visits, regular feedback meetings

HARD TO VALUE INSTRUMENTS IN CONTEXT

- According to the AIMA Survey 2005 around 16% of Portfolio Holdings and 11% of Hedge Fund Strategies are Hard to Value
- Latest AIMA estimates are that around 23% of Hedge Fund assets are hard to value – principally Distressed Securities, Relative Value Arbitrage and Convertible Arbitrage

OTHER VALUATION AGENT ISSUES

- CAPACITY
 - Systems and Resources
 - Disaster Recovery
 - System security
 - Controls around systems development
 - Increasing Volumes
 - Leading to de minimis levels rising
 - Set up Lead Time

OTHER ISSUES

- STAFFING ISSUES
 - High Staff Turnover
 - Loss of pricing and processing knowledge
 - Resource availability
 - Key Man Risk
 - Risk to quality and timelines due to absence
 - Scalability
 - Ability to Attract Quality Staff

Thus:

- (1) the need for a detailed and scaleable succession plan
- (2) the need for a pro-active plan to reduce staff turnover
- (3) the need for on going training

OTHER ISSUES

- USE OF ESTIMATES
 - Need for Timely Valuations
 - Growing use of Estimates
 - Need for a Policy around such usage
 - Monitoring of Estimates against final (tolerance checks)

OTHER ISSUES

- TRANSPARENCY
 - Need for Adequate Disclosure regarding the pricing policies
 - Need for Adequate Disclosure regarding who is responsible for pricings
 - Disclosure regarding the Manager's involvement in pricing