

# 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

IOSCO/MR/015/2008

Madrid, 06 October 2008

## **IOSCO consults on regulatory standards for Funds of Hedge Funds**

The International Organization of Securities Commissions (IOSCO) has published today for public consultation [\*Proposed Elements of International Regulatory Standards on Funds of Hedge Funds Related Issues Based on Best Market Practices\*](#), which is aimed at funds of hedge funds' managers to address regulatory issues of investor protection in light of the increased involvement of retail investors in hedge funds through funds of hedge funds.

These proposals were developed following IOSCO's June 2008 *Report on Funds of Hedge Funds*, which identified the issues in the two following areas:

- the methods by which funds of hedge funds' managers deal with liquidity risk; and
- the due diligence processes undertaken by managers prior to and during the life of an investment.

The proposed international regulatory standards would cover the following areas:

### **Liquidity Risk**

In dealing with liquidity risk the fund of hedge funds' manager should:

- make reasonable enquiries in order to be in a position to consider if the fund of hedge funds' liquidity is consistent with that of the underlying hedge funds, particularly in order to meet redemptions;
- prior to investing, and during the investments' lifetime, consider the liquidity of the types of the financial instruments held by the underlying hedge funds;

Calle Oquendo 12  
28006 Madrid  
ESPAÑA  
Tel.: (34.91) 417.55.49 • Fax: (34.91) 555.93.68  
mail@oicv.iosco.org • www.iosco.org

# 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

- if introducing limited redemption arrangements, consider whether these are consistent with the fund of hedge funds' aims and objectives. Moreover, their operation should comply with the conditions defined in the proposals; and
- before and during any investment, consider whether conflicts of interest may arise between any underlying hedge fund and any other relevant parties.

## Due Diligence Processes

These should be carried out prior to any investment being entered into and on a continuous basis following the commitment. They can be divided up into the following areas:

- *Elements requiring constant monitoring and analysis by the funds of hedge funds' managers:*
  - establishing and implementing appropriate due diligence procedures;
  - assessing the specific legal and regulatory requirements applicable in the hedge fund's jurisdiction; and
  - carrying out appropriate due diligence on the underlying hedge fund whenever it is considered necessary.
- *Adequate resources, procedures and organizational structures:*
  - documented and traceable procedure for selecting hedge funds;
  - appropriately skilled staff and adequate technical resources to implement the due diligence procedures;
  - capability within the organization to deal with any anomalies identified by due diligence system;
- *Regularly assess if selection procedures have been properly met; and*

# 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

- *Outsourcing Due Diligence*
  - If a fund of hedge funds' manager wishes to outsource any aspect of its due diligence it should:
    - ensure that any conflicts of interest are adequately addressed; and
    - assess the extent that outsourcing of due diligence is consistent with the *IOSCO Principles on Outsourcing of Financial Services for Market Intermediaries*.

The deadline for responses to this consultation paper is 5 January 2009.

## NOTES FOR EDITORS

1. IOSCO's Technical Committee Consultation Report [Proposed Elements of International Regulatory Standards on Funds of Hedge Funds Related Issues Based on Best Market Practices](#) is available on its website.
2. IOSCO is recognized as the leading international policy forum for securities regulators. The organization's wide membership regulates more than 90% of the world's securities markets and IOSCO is the world's most important international cooperative forum for securities regulatory agencies. IOSCO members regulate more than one hundred jurisdictions and the Organization's membership is steadily growing.
3. The [Technical Committee](#), a specialised working group established by IOSCO's Executive Committee, is made up of fifteen 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. Mr. Christopher Cox, Chairman of the US Securities and Exchange Commission is the Chairman of the Technical Committee. The members of the Technical Committee are Australia, France, Germany, Hong Kong, 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;

# 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

- 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.

## MEDIA ENQUIRIES

David Cliffe + 34 91 787 0419  
Outside office hours + 34 679 969 004  
Email: [d.cliffe@iosco.org](mailto:d.cliffe@iosco.org)  
Website: [www.iosco.org](http://www.iosco.org)