

# Hedge Fund Standards



## Demonstrating Compliance

Confidence in the financial markets has been severely impacted by recent global events. Politicians are calling for tighter regulation of the markets and, in some cases, have questioned the role and continued existence of hedge funds. Moreover, in a flight to safety, many hedge fund investors are increasingly looking for transparency and managers that can demonstrate a systemic control culture. The Hedge Fund Standards Board (HFSB) provides managers with just such a formal means of demonstrating compliance with the highest standards of control prevailing.

### → Background

The HFSB is the result of an industry initiative begun by the Hedge Fund Working Group (HFWG) in June 2007. The HFWG was founded by 14 hedge fund managers who have developed a series of guidance standards through consultation with the industry. This has resulted in the final HFSB standards, which are focused on Disclosure, Valuation, Risk, Fund Governance and Shareholder Conduct.

### → Comply or explain

Managers that sign up to the standards, at a cost of £1,000 per annum (£2,000 p.a. for those managing more than US\$1bn AUM) are expected to “comply or explain”; that is comply with the standards or explain why the manager has chosen not to comply with a specific standard. The Standards do not have regulatory or legal status but, instead, are a voluntary code and a means of demonstrating members’ compliance with best practice. The first opportunity to demonstrate HFSB compliance can be made from 31st December 2008.

### → Standards: a guide to attainment

MMS RSL has monitored the development of the HFWG standards and has been involved in the consultation exercise. In our view, the recent financial turmoil has significantly increased the relevance of the HFSB standards to funds of all sizes. We have reviewed the standards and developed procedures to help managers achieve

compliance with them. The standards should be readily achievable for most well organised managers but we can walk you through them, document the level of compliance and identify areas where controls may need to be developed further. Alternatively we can help you “explain” why you have chosen not to comply.

We can also help manage the HFSB application process and documentation and provide regular guidance updates and annual reminders.

### → Next steps

As a prominent contour on the industry’s regulatory horizon, a response from all hedge funds may well be expected. In an age of increasing regulatory and investor scrutiny, it may also be prudent.

Please contact your consultant if you would like us to guide you through the process and become one of the first to comply by the initial 31st December 2008 deadline.

## It’s our business to protect your business

We strive to provide all of our clients with the service they require in a flexible but structured way. At MMS Regulatory Solutions – one of the UK’s leading compliance consultancies – we want you to relax knowing that your business is protected. If you wish to know more, please do not hesitate to get in touch.

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