Alternative Investment Management Association

AIMA Journal

The Global Forum for Alternative Investment Management

April 2004 www.aima.org No. 61

AIMA ANNOUNCES SINGAPORE CHAPTER

Asian Presence Grows; Members Active in 43 Countries

AIMA is pleased to announce the formation of its Chapter in Singapore, adding to the group's strong Asian presence with established Chapters in Japan, Hong Kong and Australia. The new Chapter launches with more than 20 corporate members -- including fund managers, service providers, and institutional investors -- totalling 76 individuals.

AMAN CAPITAL MANAGEMENT PTE LTD
APS ASSET MANAGEMENT PTE LTD
ARTRADIS FUND MANAGEMENT PTE LTD
BERMUDA TRUST (SINGAPORE) LIMITED
CARGILL INVESTOR SERVICES (SINGAPORE) PTE LTD
CITIGROUP ALTERNATIVE INVESTMENTS INC
DBS ASSET MANAGEMENT LTD
EUREKAHEDGE LTD
FERRELL ASSET MANAGEMENT PTE LTD
GFIA PTE. LTD
INTERNATIONAL MEZZANINE FUND MANAGEMENT LIMITED
KENRICH PARTNERS PTE LTD
MAESTRO CAPITAL MANAGEMENT PTE LTD
NIB CAPITAL BANK LTD
PACIFIC ASSET MANAGEMENT (S) PTE LTD
PRICEWATERHOUSECOOPERS
SINGAPORE EXCHANGE LIMITED
STANDARD CHARTERED BANK

"The new Chapter is being formed in response to strong growth in the industry in Singapore", said Peter Douglas, chairman of AIMA Singapore and principal of GFIA Pte. **"Singapore is one of the most amenable financial centres globally for skill-based asset management, and local institutional investors are at the forefront of Asian interest in alternative assets. AIMA has more than 20 corporate members in the Republic and the new Chapter will enable the Association to serve those members better and provide a unified voice for the industry here."**

"The growing interest in both managing assets and investing in Asia has led to this welcome addition of a new Chapter," said Christopher Fawcett, Chairman, AIMA, and director of Fauchier Partners Ltd. **"The Singaporean community has demonstrated its dedication to the alternative investment industry and we are looking forward to working with all parties to achieve key objectives in the coming years."**

Chapters of AIMA are 'mini-AIMAs', comprising their own elected Executive Committee and a formalised structure. The Singapore Chapter has been approved by the Registrar of Companies and Businesses, as a locally-registered branch of AIMA under the name of The Alternative Investment Management Association Limited (Singapore branch).

1 This listing of AIMA Singapore Chapter Members excludes those member companies who prefer to have their details withheld.

AND . . .

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ISSN 1479-0971

CONFLICTS OF INTEREST: INTERNATIONAL DEVELOPMENTS AFFECTING HEDGE FUNDS AND THEIR PRIME BROKERS

By Simon Firth and Alix Prentice, Wilmer, Cutler& Pickering, London

Introduction

A plethora of publications from a variety of international regulatory bodies over the last 12 months point to a change in their approach to the management of conflicts of interest which will directly affect hedge fund managers and providers of prime brokerage services.

EU Forum Group Principles and Recommendations on Financial Analysts, IOSCO's equivalent paper, and the FSA's Consultation Papers ("CPs") 171 and 205 on conflicts of interest in investment research and issues of securities, proposed amendments to the Investment Services Directive and technical implementing measures suggested by the Committee of European Securities Regulators on best execution. Coupled with the FSA's CP 176 on soft commission and bundled brokerage, these various papers suggest a move away from managing conflicts of interest through Chinese walls and disclosures, towards prescriptive limitations on the situations where conflicts may be allowed to subsist.

UK Developments in the Regulation of Soft Commission

Concern that, when directing brokerage business, fund managers have in the past been incentivised by the availability of additional services rather than securing the most favourable trade execution terms for their clients, led the FSA to publish CP 176 in April, 2003. The CP concluded that bundling and softing do lead to conflicts of interest between fund managers and their customers, and that a fund manager's best execution obligations are best served by focusing on achieving the optimum overall result for the customer, including from a cost perspective.

The FSA's concrete proposals to mitigate conflicts of interest it perceives inherent in soft commission arrangements involve limiting the goods and services, beyond trade execution, which may be bought by excluding those for which demand is reasonably predictable. In addition, the FSA is consulting on measures to limit the cost to customers' funds of acquiring bundled and softed services. This would be achieved by requiring managers to determine the cost of those services additional to trade execution purchased with customers' commission, and rebate an equivalent amount to the funds. Whilst not quite unbundling, the FSA's intention is to limit the automatic pass-through of commission to customers' funds to the cost of trade execution.

Both these proposals are evidently going to have a significant effect on fund managers and how they go about obtaining and charging customers for services beyond trade execution. A fresh CP, without rules, is expected in the coming months, with rules for consultation slated for the last quarter of this year.

U.S. Regulatory Developments in Soft Dollars

The SEC has recently announced that its Market Regulation and Investment Management Divisions are conducting a joint review to *"explore the problems and conflicts inherent"* in soft dollar arrangements. Part of this review will cover the scope of the safe harbour set out in Section 28(e) of the Securities Exchange Act of 1934. Currently, this Act requires fund managers to obtain best execution of client transactions and prohibits the use of client assets for the fund manager's own benefit. Section 28(e) provides that it will not be a breach of a manager's fiduciary or other legal obligations to pay more than the lowest available commission if the manager determines, in good faith, that the commission is reasonable in relation to the value of brokerage and any additional research services included. "Research" is generally construed widely, and may include such services as research hardware and software, news services and credit-rating products.

The U.S. approach to bundled brokerage is markedly different to that of the FSA. As no distinction is made whether services are provided in-house or by a third party provider, bundled brokerage arrangements are not distinguished from soft dollars. Any changes enacted as a result of the SEC's review of soft dollars will therefore affect both types of arrangement, and have a similarly profound effect on how fund managers acquire additional services. Also of note is the Baker Bill, which passed the House of Representatives by a significant majority. If enacted, this Bill will require, among other things, annual reports from fund advisors to the fund's board on soft dollar arrangements and disclosure of these reports to shareholders, as well as fund board review and approval of soft dollar arrangements.

The SEC Takes a Look at Capital Introductions

Long-anticipated, the SEC has, earlier this year, requested information from brokerage firms concerning their capital introduction services. Whilst this "review" is in its early stages, it appears that the regulators are interested in capital introductions in the context of their inquiries into soft dollar arrangements - i.e., whether and how hedge funds compensate securities firms which have made introductions with their trading business. The SEC's inquiries have come despite the industry's clear message that securities firms cannot, and do not, act as "placement agents" for particular funds when effecting capital introductions.

The European Approach to Soft Commission

Currently, the Investment Services Directive stipulates that Member States' rules of conduct must comply with a general "best interest" rule. Proposals from the Committee of European Securities Regulators, or CESR, on the harmonisation of EU conduct of business rules have taken this a step further and propose that investment firms should only offer or receive inducements where they can assist the firm in providing services to its customers. Further, any inducements received should be disclosed to the customer. Whilst the CESR proposals do not go as far as or further than those of the FSA, the EU position should always be watched and considered when thinking about developments in the regulation of conflicts of interest.

Analysts and Conflicts of Interest: CP 205

CP 205, published in October 2003, sets out revised consultation rules as well as made text on how firms are required to manage the conflicts of interest inherent in having an in-house investment analysis function, as well as those conflicts which arise when acting as an issuer of securities.

Because application of the rules and proposed rules is to the publication or distribution of research (as defined), the scope of the FSA's rules and proposals is very wide. It goes well beyond investment banking to include asset managers who produce research done by their own analysts to clients or potential clients. "Research" in the context of these conflicts management rules includes coverage of all or any securities regulated by the FSA. The cumulative effect, then, of the width of this application is that even where a fund manager is providing examples of its analysts' work to clients or potential clients in order to demonstrate the quality of their work, rather than influence any investment decisions, a conflict of interest is still presumed.

Once this presumption is in play, the asset manager will be required, where appropriate, to put in place conflicts management policies and wall-off their analysts. This latter aspect includes an FSA suggestion in CP 205 that analysts be prohibited from contributing to pitches. In the case of buy-side research analysts, this would include attending client meetings when pitching for new mandates,

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even where the fund manager is, through necessity or otherwise, also acting as provider of the investment analysis.

The SEC staff report on hedge funds proposed registration of hedge fund advisers. Should that recommendation be implemented, extensive disclosures of conflicts of interest in a fund's offering memorandum would be required. Whilst this is standard practice for well drafted offering memoranda, European managers caught by the SEC's new requirements (if they come to pass) will need guidance on specific U.S. disclosure requirements.

The U.S. mutual fund industry has been under intensive investigation during the last months over permitting market timing and late trading. These activities have apparently been facilitated for the benefit of hedge funds. In the UK, the FSA is also looking into this matter, and, with a large regulated UK hedge fund manager population, it will be interesting to see if any criticism is directed not only to unit trust and OEIC managers, if at all, but also to the UK hedge fund industry.

Managing conflicts of interest in financial services firms has become a dominant theme of regulation and the trend is increasingly to work round conflicts rather than wall them off and disclose. Hedge fund managers and brokers alike will need to be alert for developments[1] in this area.

1 This article reflects the position, at the time of writing (mid March 2004), of the various international regulatory bodies covered, in relation to the subject matter of conflicts of interest.

INTERNATIONAL FINANCIAL REPORTING STANDARDS - IMPLICATIONS FOR HEDGE FUNDS

By Michael Hartwell, Deloitte, Ireland

The introduction of International Financial Reporting Standards ('IFRS') will have far reaching consequences for all companies that are required to adopt IFRS. In June 2002 the Council of the European Union adopted an 'IAS Regulation' requiring all European listed companies to prepare consolidated accounts in accordance with International Financial Reporting Standards ('IFRS') for financial periods commencing 1 January 2005. It is hoped that the introduction of a single accounting standard across Europe will ensure company accounts throughout the EU are reliable, transparent, and comparable. Member States have the option of extending the requirements of the Regulation to unlisted companies and to the production of individual accounts.

The IFRS are those adopted by the International Accounting Standards Board (IASB). IFRS currently consist of 41 standards, which deal with virtually all areas of financial reporting. UK and Irish GAAP are currently undergoing a convergence process with the aim that they will be made consistent with IFRS.

The purpose of this article is to highlight significant effects on the financial reporting of investment funds, and in particular hedge funds, under IFRS.

IAS 32 – Treatment of Unit Holders Interests in a Hedge Fund

Puttable instruments are defined in IAS 32 as instruments issued by an entity which give the holder the right to put the instrument back to the issuer in return for cash (or another financial asset). IAS 32 requires that in instances where investors have the right to redeem shares for their proportionate share of the net asset value of an entity then the instrument, despite its legal form, is a liability and should be presented as such.

The current practice is to account for units issued by a fund as equity. Under the revised IAS 32, which was issued in December 2003, outstanding shares in a fund are classed as 'net assets available to unit holders' on the balance sheet and as 'changes in the net asset value available to unit holders' on the face of the income statement. Examples contained in IAS 32 provide illustrations on how investors' share of funds may be shown in the income statement and balance sheet.

It has been strongly argued that the presentation of unit holders' equity as a liability will reduce clarity in financial reporting of funds. It should be noted that IAS 32 does not preclude the use of additional disclosures to show the composition of the investors' interest in the fund, which may provide clarity for the users of the financial statements.

IAS 39 – The Use of Bid/Offer Pricing

IAS 39 requires that for investments listed on a stock exchange, for which there is an active market, long positions should be valued using 'Bid' prices and short positions should be valued using 'Offer' prices.

Current practice is for hedge funds to adopt valuation methods that are set out clearly in the funds' prospectus. Typically, hedge funds have adopted either mid-market or last traded as the basis for the fair valuing of investments. The application of bid/offer pricing will often result in the NAV, calculated for the financial statements, differing to that using the method contained in the funds' prospectus. The additional burden of having to value the investments of the funds on a basis that is not consistent with that set out in the prospectus may lead to further administration for the fund and confusion for the readers of the financial statements.

IAS 1 – Comparatives

IAS 1, 'Presentation of Financial Statements', requires that comparative information should be disclosed in respect of the previous period for all numerical information in the financial statements.

Currently comparative information is required in the primary statements and notes contained in the financial statements. However, comparatives are generally not disclosed for the detailed investment portfolio which some funds are required to produce. The requirement to add comparative portfolio information would, in many cases, result in the financial statements becoming significantly more voluminous, whilst not contributing any additional relevant information. It should be noted that unlike some other accounting standards, IFRS does not require a detailed portfolio statement to be included in or attached to the financial statements.

IAS 7 – Cash Flow Statements

IAS 7 requires that all IFRS compliant financial statements contain a cash flow statement. IAS 7 prescribes the definition of cash, the method of calculating the cash flow – either the direct or indirect method is allowed - and the format of the cash flow statement.

Under both U.S. GAAP and UK GAAP there are provisions available to most funds which exempt them from producing a separate cash flow statement. It can be argued that the requirement to produce a cash flow statement provides little additional meaningful information.

IAS 14 – Segmental Reporting

IAS 14 requires that segmental information should be provided by business and geographical segments.

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