Alternative Investment Management Association

Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002, Basel
Switzerland

Sent by email to: fsb@bis.org
cc: Rupert.Thorne@bis.org

17 May 2011

Dear Sir / Madam

AIMA's response to the paper Shadow Banking: Scoping the Issues

AIMA welcomes the opportunity to respond to the Financial Stability Board's (the 'FSB') paper Shadow Banking: Scoping the Issues (the 'Paper') and this submission contains our views on the Paper.

AIMA supports the G20 objectives of strengthening the oversight and regulation of the shadow banking system. There are non-bank entities within the financial sector that can become a source of systemic risks, either directly or through their interconnectedness with the regular banking, clearing, payments or settlement systems. AIMA's view, as further outlined in this submission, is that the term shadow banking system must be carefully defined, taking into account the impact of recently or soon-to-be implemented regulatory reform measures. Our concern is that a broad range of asset managers both traditional and alternative may be included in the definition of the shadow banking system as is contemplated in the FSB background note and we would caution against such a broad determination for policy purposes.

AIMA also supports the FSB proposal to improve the global macro and micro monitoring of the shadow and non bank financial system. Improving the quality and global consistency of data collected is an extremely important task. A number of regulatory initiatives to broaden the perimeter of regulation and increase regulatory reporting are currently under way but may not be coordinated in a way which enables an easy, reliable and coherent data aggregation. The introduction of reporting systems with common definitions, where there are gaps today, is therefore crucial.

Finally, AIMA agrees with the FSB view that a single regulatory approach for all components of the shadow banking system is unlikely to be desirable and that differentiation may be required to account for differences in business model, risk characteristics and contribution to systemic risk.

We hope that our response contributes to a better targeting of the risks created in the financial system and show that hedge funds and their managers globally are

- adequately regulated
- subject to extensive reporting to competent authorities
- small in relation to the rest of the financial system
- operating on low levels of leverage
- uniquely capable of managing their liquidity profiles so as to mitigate, not accentuate procyclicality
- " safe to fail" and not in need of official government support.

Hedge funds, individually or collectively, are therefore not systemically important and can be seen as a stabilising as opposed to a destabilising element of the financial system.

Meaning of shadow banking

Banking can be defined as the business of transforming savings into investments, while simultaneously acting as the payments system. This activity has, traditionally, been performed by conventional banks, which take deposits and then turn them into loans or other assets. In recent decades, we have witnessed the development of a financial sector, composed of a number of different actors, which provides many of the same lending and intermediary functions, or sub-components thereof, of conventional banks.

This created considerable competitive pressure on the traditional banking system whose response included large scale purchases of these competing entities. Furthermore, what became clear during the financial crisis is that this system which became labelled as the shadow banking sector, came to share many of the banking system's vulnerabilities, becoming prone to sudden loss of confidence and instability[1]. One of the main policy considerations thus seemed to have focused on specialist funds and off balance sheet vehicles which have been part of the securitisation chain and which have engaged in significant maturity and liquidity transformation while relying heavily on the continued access to short term wholesale market funding. One of the crucial characteristics of the system that warranted the use of the term "shadow banking" involved the "cash-like" characteristics of the products which were at its centre.

Money market funds transformed "risky, long term loans (subprime mortgages, for example) into seemingly credit-risk free, short-term, money-like instruments, such as the $1, stable net asset value (NAV) shares [which] are *"withdrawable" on demand, much like a demand deposit at a bank."*[2] Furthermore, securitisation vehicles relied on liquidity back-stops from parent financial institutions in order to guarantee the continued operations of the vehicles in times of funding difficulties.

Regulatory arbitrage also played an important role in the expansion of the shadow banking sector. In particular, a number of financial institutions were keen on exploiting various inconsistencies and distortions of the legislative and regulatory framework. As Poszar et al. (2010) point out, there were several features of the financial system which incentivised a greater exploitation of the shadow banking entities:

"(1) cross-border regulatory systems arbitrage, (2) regulatory, tax and economic capital arbitrage, and (3) ratings arbitrage. These arbitrage opportunities emerged from the fractured nature of the global financial regulatory framework; the dependence of capital adequacy rules (Basel II) on credit ratings; and a collection of one-off, uncoordinated decisions by accounting and regulatory bodies."[3]

[1] As Paul A. McCulley to whom the invention of the term shadow banking is attributed pointed out in his famous article: "unregulated shadow banks fund themselves with uninsured commercial paper, which may or may not be backstopped by liquidity lines from real banks. Thus, the shadow banking system is particularly vulnerable to runs—commercial paper investors refusing to re-up when their paper matures, leaving the shadow banks with a liquidity crisis—a need to tap their back-up lines of credit with real banks and/or to liquidate assets at fire sale prices.", published by Pacific Investment Management Company LLC, http://europe.pimco.com, September 2007.

[2] Shadow Banking, Zoltan Pozsar, Tobias Adrian, Adam Aschraft and Hayley Boesky, Federal Reserve Bank of New York, Staff Reports no. 458, July 2010, p. 14.

[3] Shadow Banking, Zoltan Pozsar, Tobias Adrian, Adam Aschraft and Hayley Boesky, Federal Reserve Bank of New York, Staff Reports no. 458, July 2010, p. 29-30.

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The most prominent features of the shadow banking sector therefore seem to have included a very specific form (not just any form) of credit, liquidity and maturity transformation involving the creation of financial instruments whose main characteristics were that they were treated as information-insensitive, much the same way bank demand deposits are. The extensive use of these securities as collateral in the repo markets and the rapid increase in haircuts following the subprime shock resulted in a serious destabilisation of the financial system as *"increases in repo haircuts are withdrawals from securitized banks—that is, a bank run"*.[4] This was all the more destabilising since many of these financial instruments were directly or indirectly on the balance sheets of institutions which operated on levels of financial leverage which were unprecedented.

Characteristics of the hedge fund sector

Regulation, oversight and reporting

Hedge funds are operated by sophisticated asset managers using a broad range of strategies, techniques and instruments to deliver superior risk adjusted returns to their investors (increasingly institutions). Hedge fund asset managers are now subject to strict regulation in all major jurisdictions around the world. Further, EU hedge fund managers will shortly be subject to increased regulatory scrutiny following the entry into force of the new Alternative Investment Fund Managers Directive (AIFMD). Similar regulations will apply for US hedge fund managers pursuant to the Dodd-Frank Act. Importantly, all major jurisdictions are introducing a detailed and mandatory systemic risk reporting regime which is based on the template created by the International Organization of Securities Commissions (IOSCO)[5]. A summary of the existing regulatory framework for hedge fund managers in Hong Kong, Singapore, USA and Europe is outlined in **Annex 2**.

Strategies, liquidity and maturity transformation

Hedge fund strategies are extremely diverse and constantly changing over time. The majority of the strategies do not involve a focus on the fixed income or credit markets (see Fig. 1). It is also important to point out that hedge funds generally do not engage directly in credit transformation where credit transformation is defined as the enhancement of the credit quality of debt issued by the intermediary through the use of priority of claims. Hedge funds do routinely engage in maturity and liquidity transformations but as the data below point out, the transformations often run in the opposite direction from what would be expected for a 'shadow banking' institution. From a risk management view, hedge funds use sophisticated risk management systems to ensure their long term success, and managers are incentivised to succeed over the long term by reason of co-investment of their own money with the investors. Consequently, there exist strong incentives for managers to ensure that asset and liability mismatches are well managed.

The most recent survey data obtained by the FSA shows that the hedge fund liability profile is the opposite that of a bank – i.e. the funding maturity is longer than the liquidity of the risk portfolio. The sources and the terms of hedge fund borrowings are also a relevant factor. The latest FSA survey found evidence that the sector is becoming less reliant on short term funding:

"Portfolio and investor liquidity remains largely unchanged relative to the April 2010 Hedge Fund Survey. In contrast, the term of financing has been 'pushed out' in aggregate, with a reduction in short-term financing of between 5 and 30 days and an increase in financing terms of 31 to 180 days. By pushing out the financing terms, hedge funds have potentially reduced the risk of a sudden withdrawal of finance from their leverage providers (usually prime brokers)."[6]

[4] Haircuts, Gary Gorton and Andrew Metrick, Federal Reserve Bank of St. Louis Review, November/December 2010, 92(6), pp. 507-19, p. 515.

[5] http://www.iosco.org/news/pdf/IOSCONEWS179.pdf

[6] *http://www.fsa.gov.uk/pubs/other/hf_survey.pdf, p. 8.*

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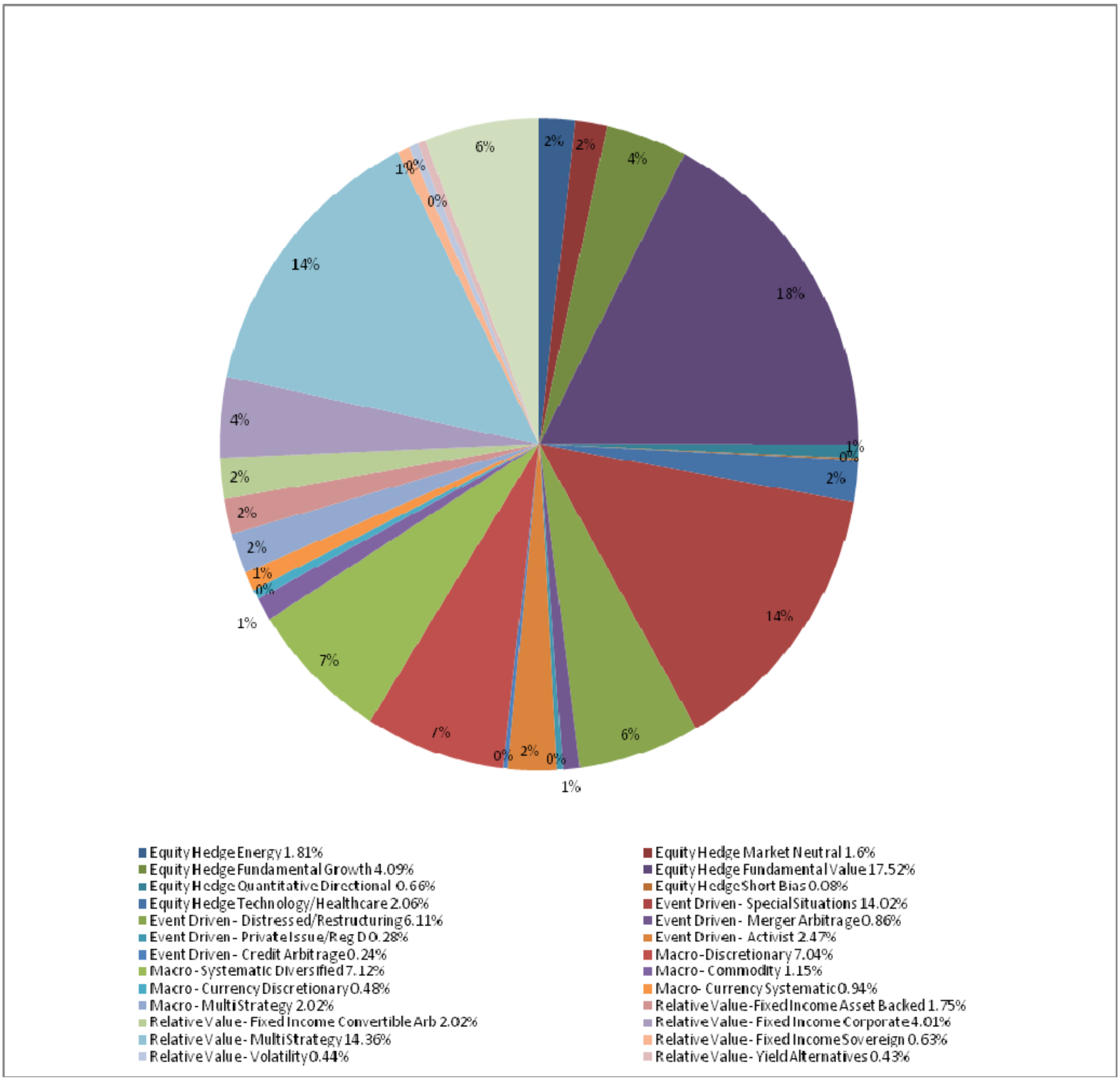
Figure 1: Hedge fund strategies as percent of global AUM Q1 2011



Source: Hedge Fund Research, Chicago

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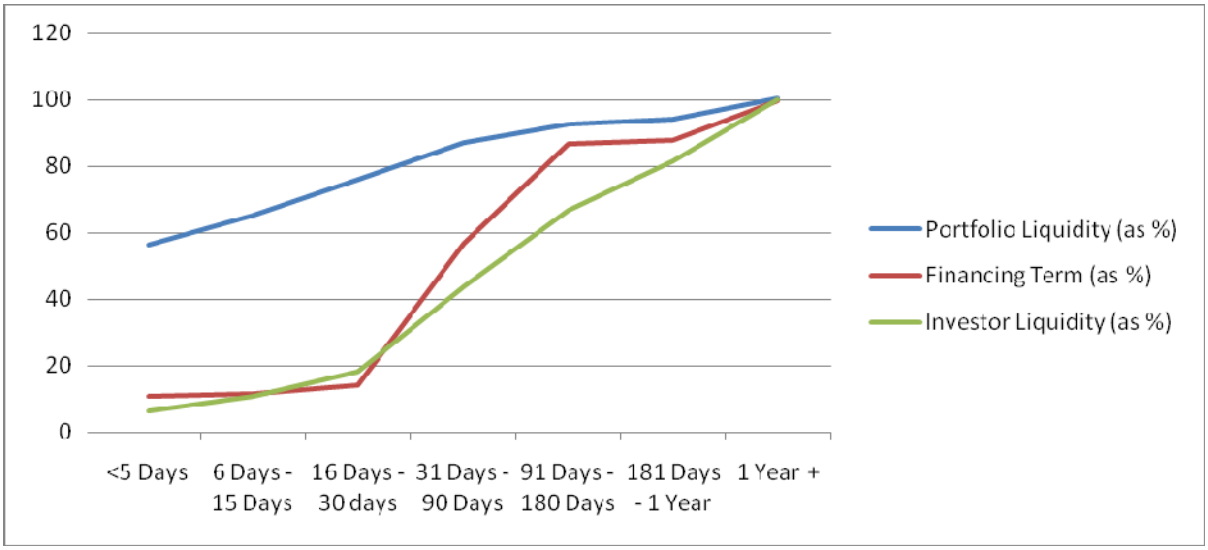
Figure 2: Liquidity transformation in hedge funds



Source: Financial Services Authority, Hedge Fund Survey 2011

Ability to manage the liability profile

The graph above shows that assets of hedge funds could normally be liquidated in a shorter timeframe than the period after which their liabilities (to investors and finance providers) would become due. Assets held by hedge funds could naturally be contractually long in maturity. The risks involved in this transformation, for both individual hedge funds and the whole financial system, are only mitigated by market liquidity to the extent that markets can be assumed to stay liquid in stressed conditions.

But hedge fund structures are also designed to deal with stressed market conditions and are normally able to restrict investor redemptions through gates, side-pockets, suspensions or as otherwise allowed by their prospectuses or offering documents. A more detailed description of redemption restrictions is outlined in **Annex 1**. The reliance on short-term liabilities, as for banks, to fund illiquid long-term assets is not generally relevant for hedge funds and the risk for bank-like runs should be limited. Maturity/liquidity transformation in hedge funds should therefore not be subject to systemic risk concerns to the same extent as for those institutions or structures whose liability profiles are extremely short term.

What is also important is the alignment of investor expectations as regards the underlying liquidity of investments. The annual survey of 528 hedge fund investors that collectively manage more than $1.34trn in hedge fund assets conducted by Deutsche Bank (2011) underscores this important feature of the hedge fund market. Investors routinely accept extremely long initial lock-up periods whereby the invested funds cannot be redeemed before the lock-up period expires. The vast majority of hedge fund investors also accept quarterly or longer redemption periods (see Figure 2).

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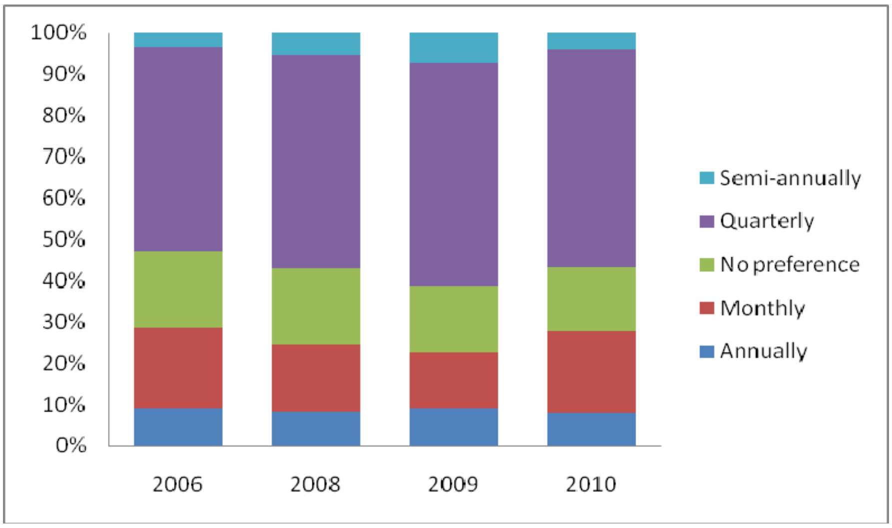
Figure 2: What is the longest lock-up that you will accept on new hedge fund investments?

No lock up is acceptable	10.1%
Less than 6 months	6.0%
Less than 1 year	7.0%
1 years soft lock up	15.9%
1 years hard lock up	18.8%
2 years soft lock up	13.7%
2 years hard lock up	9.6%
3 years soft lock up	4.0%
3 years hard lock up	3.6%
3 or more years	5.1%
NA/Prefer not to answer	6.3%

Source: Deutsche Bank Alternative Investment Survey (2011)

Figure 3: What liquidity do you require? Historical



Source: Deutsche Bank Alternative Investment Survey (2011)

Leverage

The FSB note states that the leverage built up within the shadow banking system can amplify procyclicality. Hedge funds employ much lower levels of leverage than banks. The UK FSA estimated in February 2010 that the average hedge fund managed from the UK was leveraged at 2 or 3 times its net equity compared with banks which are currently leveraged around 15 or 30 times their equity (down from 40 or even 60 times equity prior to the crisis).

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Figure 4: Leverage analysis of large complex financial institutions (LCFIs) versus hedge funds

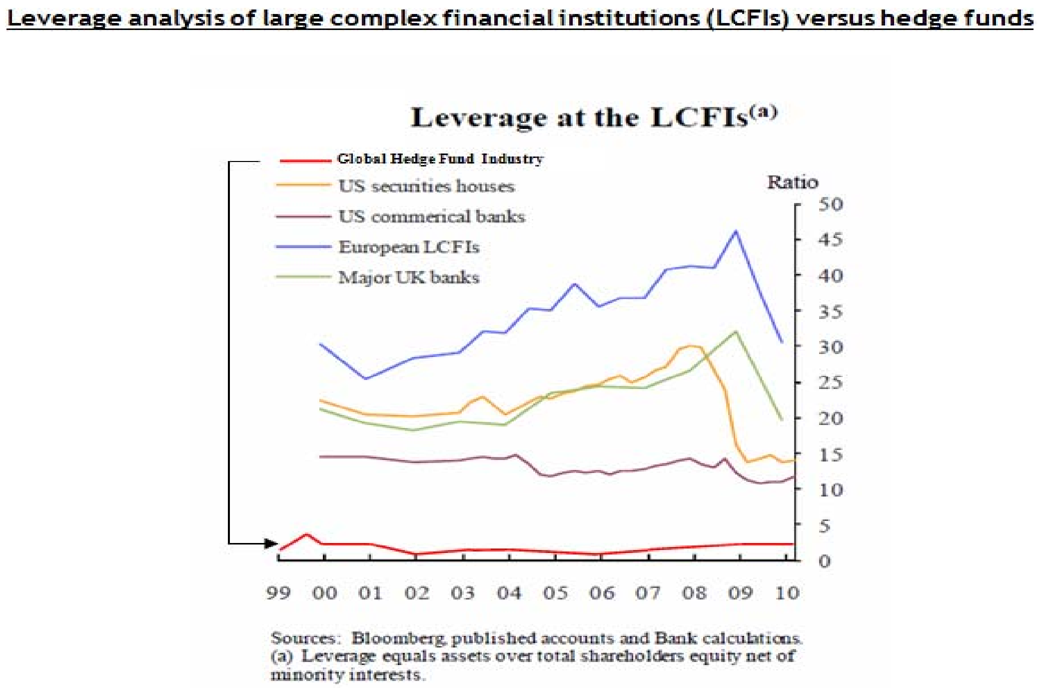
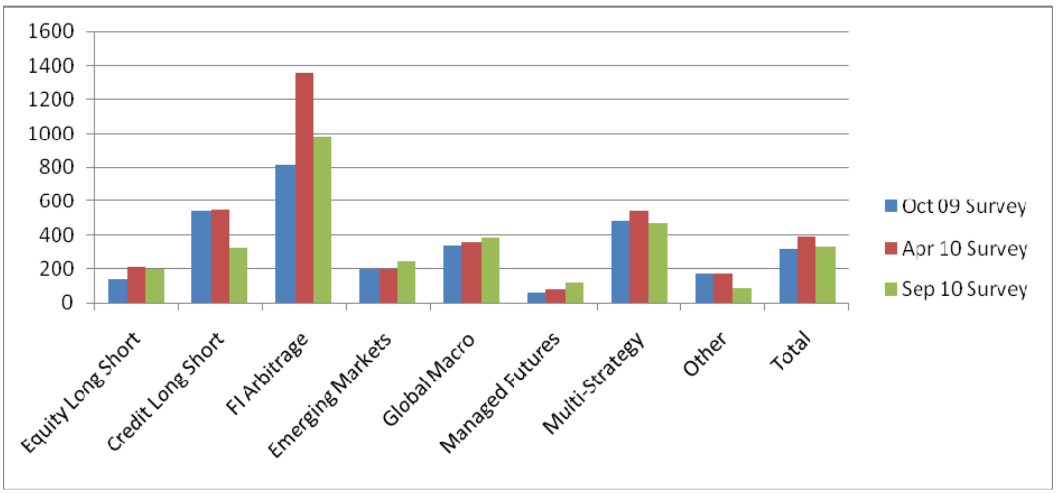


Figure 5: Qualified fund footprint as a percent of NAV



Source: Financial Services Authority, Hedge Fund Survey (2010)

The relative size and systemic importance of the hedge fund sector

Hedge funds are significantly smaller players in the market compared with banks. The global hedge fund industry is estimated to have assets under management of around $2 trillion, whilst the global banking industry is now estimated to have well over $100 trillion of assets on its books. Furthermore, the proportion of credit-related strategies in the hedge fund universe is estimated

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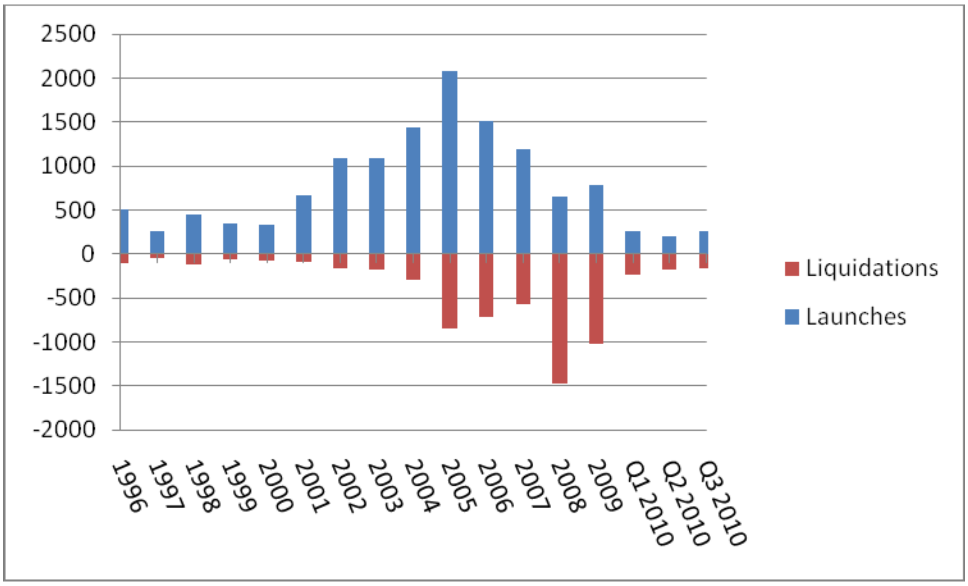
somewhere between 15 to 30 percent of global AUM. The movement of assets to the hedge fund industry should not cause additional concern either, as it is gradual (forecast to reach $2.25trn by the end of 2011). Moreover, the hedge fund market is both well-managed in terms of risks and subject to increasing oversight by the regulators, including under the new AIFMD (although for many years hedge funds have already been required to be registered with the UK's FSA) and the Dodd-Frank Act. During the financial crisis hedge funds frequently closed and liquidated in an orderly manner as evident from the figure below, but there was little or no impact on the system and there was no burden placed on taxpayers.

Figure 6: Launches and liquidations of Hedge Funds



Source: HFR (2010)

Besides what has been described above as regards hedge funds and hedge fund managers, there are well established differences between hedge fund managers, banks and shadow banks as we would understand them:

- Investors of asset managers actively seek particular risk exposures (bank depositors or money market fund investors generally do not seek exposures to the bank loan, trading portfolio or other risk portfolio);
- Hedge funds can control, manage and change their liquidity profiles ex ante by aligning their redemption policies with the liquidity profiles of the funds and ex post by potentially limiting or even suspending redemptions (and therefore lengthening their liability profile) depending on the market liquidity situation;
- Hedge funds can create bespoke liquidity conditions for particular funds or even groups of investors which then match the liquidity profiles of the invested instruments (managed accounts, single investor funds);
- Hedge funds do not offer a guarantee or do not hold themselves out in such a way as to give an impression to guarantee the redemption of the original investment at par or at a pre-specified time.

- The majority of the hedge fund investor base is now composed of sophisticated institutional investors

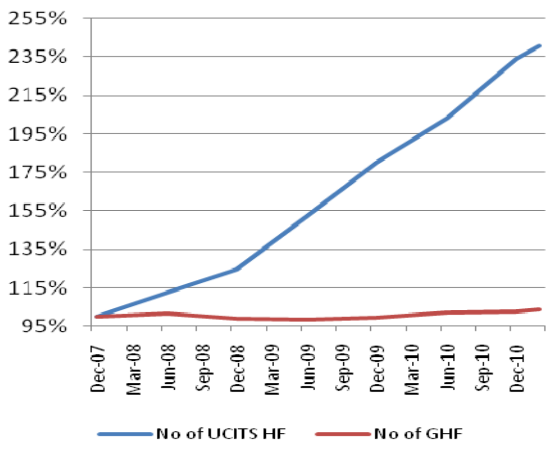
The definition of 'shadow banking' too broad

AIMA is of the opinion that the definition of 'shadow banking system', proposed by the FSB, is too broad and may capture a broad spectrum of asset managers. As AIMA understands, institutions that use leverage (whether through borrowing or derivatives exposure) and credit in their investment activities may be deemed as part of the shadow banking system. A consequence of this would be that most asset managers would be captured by the definition, even such asset managers providing products which may be available to retail clientele.

For example, 'UCITS managers' under the EU's Undertakings for Collective Investment in Transferable Securities (UCITS) Directive often provide daily liquidity in their funds (as a minimum they must provide bi-monthly liquidity), are able to invest in a virtually unlimited range of long dated credit products (subject to certain diversification and risk concentration rules) and are also able to increase their exposure or leverage via derivative instruments or borrowing. As of the end of 2010 the UCITS industry managed roughly 3.4 trn euros in bond funds, money market funds and balanced funds[7] which could potentially meet the criteria of credit intermediation, leverage, liquidity and maturity transformation in the FSB definition of shadow banking.

In addition to the vast number of the UCITS retail products which could be caught by too broad a definition, many hedge fund managers have started using the UCITS structure to create new investment products. The size of the UCITS hedge fund industry has grown rapidly both in terms of asset under management and number of funds but it is still miniscule in comparison with the more traditional UCITS industry which is predominantly retail oriented. As at end February 20011, Eurekahedge[8] estimated there to be 719 unique managers with assets of nearly USD 200 billion. The figure below shows the growth in UCITS hedge funds since December 2007.

Figure 7a-7b: Growth of UCITS hedge funds relative to global hedge funds



[7] http://www.efama.org/index.php?option=com_docman&task=cat_view&gid=72&Itemid=-99

[8] Eurekahedge is the world's largest independent data provider and research house dedicated to the collation, development and continuous improvement of alternative investment data.

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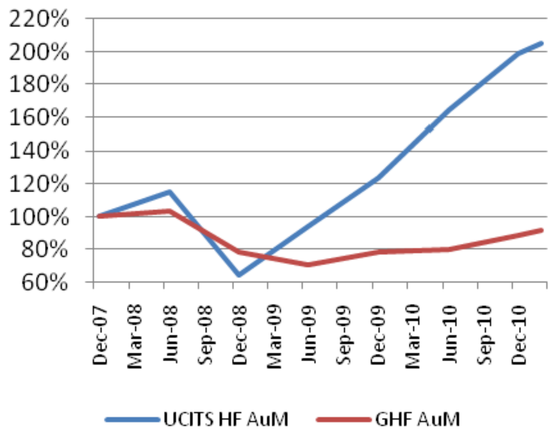
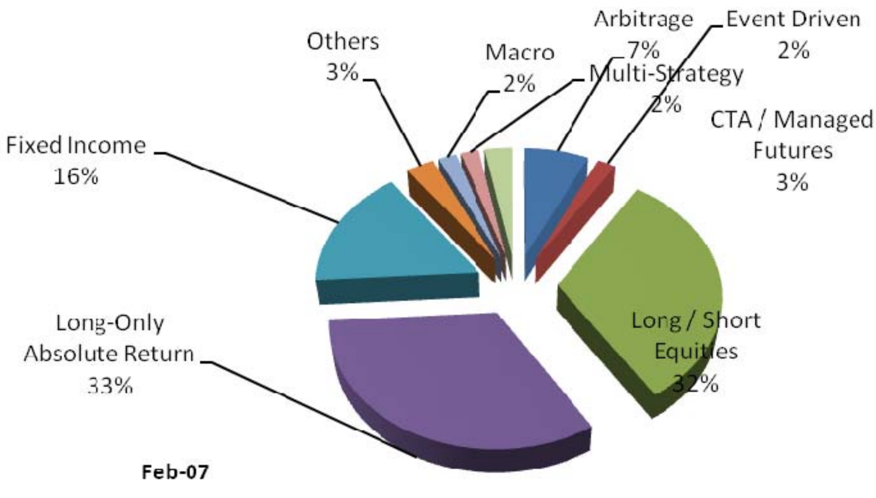


Source: Eurekahedge

Strategies used by hedge fund managers have also shifted as a result of the UCITS Directives. There is now greater diversity in the UCITS hedge funds sector in terms of asset classes and strategies employed. At the start of 2007, the industry was dominated by equity investing funds and the top 2 investment mandates accounted for 65% of the funds. Since 2007, there has been a major shift away from long-only absolute return strategies, although long/short equities mandates remain highly popular. Nearly 50% of the funds launched in 2009 and 2010 employ the long/short equity mandate. The figure below shows the changes in the strategic mix of UCITS hedge funds by asset under management.

Figure 8a-8b: Changes in the strategic mix of UCITS III funds by AUM



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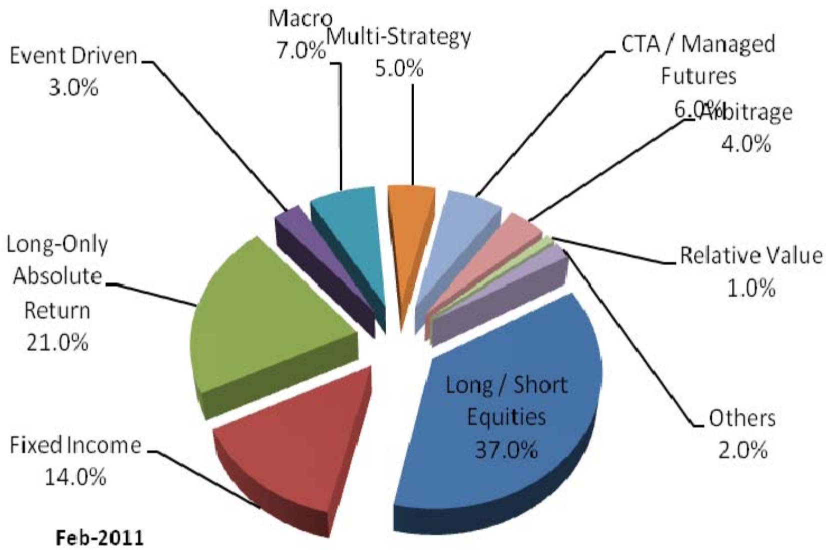

Source: Eurekahedge

Notwithstanding the recent popularity of the UCITS product with some managers and investors, the vast majority of hedge fund managers globally do not use a UCITS structure for their products.

Conclusion and policy proposals

AIMA agrees that a deeper scrutiny of the shadow banking sector is required. The starting point of any policy reflections should be a well defined scope of the inquiry. The definition of the shadow banking sector as proposed by the FSB would potentially include large parts of the global asset management industry, including some portions of the hedge fund industry. Available evidence shows that the size, leverage and maturity/liquidity profile of the industry is such that it does not generate the same level of systemic risk as other parts of the financial system. Furthermore, the level of regulation and oversight of the industry should ensure that were there to be a build up of systemic risk in the hedge fund sector, competent authorities should have all the available data and tools to contemplate appropriate intervention.

We propose to clarify the focus of the definition so that concrete market failures and appropriate policy responses may be better identified. We believe that the definition and the regulatory focus in relation to shadow banking should broadly include three categories of entities or activities:

1. Entities which are controlled by banks or are within banking groups and which may be created for the purpose of regulatory arbitrage.

The rapid expansion of the shadow banking sector is often explained as a result of incentives in the bank regulations to move risk exposures off the bank balance sheets where they attracted smaller, sometimes negligible capital charges. Adequate capital constraints should therefore be introduced in order to prevent a potentially limitless expansion of the sector.

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2. Entities which are not banks but provide the services or products which are akin to deposit taking where the clients of such institutions expect full liquidity of their investments and no exposure to market risk.

The one common characteristic of the banking sector is that it is centred around the provision of highly liquid information-insensitive demand deposits. There are a number of entities which issue securities or financial products which are intended to provide investors similar if not the same characteristics. The crisis has shown that these deposit-like instruments are prone to runs and have therefore required official liquidity backstops.

3. Entities and processes at the centre of credit transformation which are not yet subject to regulatory oversight.

The process of securitisation and credit transformation has proven to be flawed. Perverse incentives in the originate-to-distribute model, lack of transparency around the underlying risk pools as well as incorrect correlation assumptions by credit rating agencies have led to a generally undetected increase of systemic risk.

In short, it is clear that the hedge fund sector does not operate outside the regulatory perimeter and does not engage in quasi-banking activities. It is therefore difficult to find evidence to justify their inclusion in the complex called the 'shadow banking sector'. AIMA would therefore encourage the FSB to focus on the largest risks in the next stage of the work by narrowing the scope of the shadow banking definition.

Yours faithfully,

Andrew Baker

Andrew Baker
Chief Executive Officer

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Annex 1

Common redemption limitations

There are a variety of strategies potentially available to hedge funds for handling redemptions requests and requests for payment. Such strategies may include:

- **Reliance on a 'lock-up' or 'lock-in' period**: Requires that new investors agree to a minimum period of time during which their money invested in the hedge fund is committed and cannot be withdrawn. The length of lock-up period may depend on the quality and reputation of the fund, as well as the liquidity of the underlying investment portfolio. Some funds may allow investors to redeem during a lock-up period if they pay a penalty (redemption fee), for example 3% to 5% of the amount of capital they are seeking to redeem.

- **The alteration of provisions as to redemption notice periods, redemption dates, or their frequency:** Redemption requests are conditioned upon a requirement to give notice (generally 45 to 120 days) to the manager that the investor wishes to redeem all or a portion of its capital account on the given redemption date. These notices are generally irrevocable once delivered and are unconditional.

- **The suspension of determination of the hedge fund's Net Asset Value (NAV), along with a suspension of subscriptions and redemptions:** Redemptions may be refused if the fund manager reasonably believes that the NAV of the fund investments cannot be fairly ascertained, the redemption or realisation of the fund's investments cannot, in the managers opinion, be effected at normal prices or normal rates of exchange, or if there are negative tax consequences of the redemption.

- **The suspension of the date of payment of the redemption proceeds:** Full suspensions or other restrictions can be imposed at the manager's discretion or subject to certain preconditions.

- **The imposition of a 'gate' on redemptions:** This mechanism is used by hedge fund managers to limit the percentages of capital that can be withdrawn on the fund's scheduled redemption date, or to delay or suspend withdrawals altogether where there is a possibility of a "run" on the fund's capital. Redemption gates are often imposed at the discretion of the fund governing body to investors, for any reason, from removing any but a portion of their original stake in a fund over a period of time or delay the payment of redemption proceeds to investors. Other gates are drafted as non-discretionary mechanism exercisable only in specified circumstances.

- **The creation of a 'side pocket' or a special purpose vehicle ('a synthetic side pocket') for illiquid investments:** Under this strategy, the hedge fund creates a special purpose vehicle (SPV) to which it conveys the hedge fund's illiquid assets in return for shares or security interests, thereby separating illiquid assets from other more liquid assets. It then transfers those shares or security interests to its redeeming investors as payment 'in kind' of the redemption price that is owed to those investors. The SPV would liquidate the illiquid assets at some point in the future, when market conditions are more favourable and it is able to do so, and then distribute the proceeds to the SPV's shareholders or beneficial owners. A type of account used in hedge funds to separate illiquid assets from other more liquid investments. Once an investment enters a side pocket account, only the present participants in the hedge fund will be entitled to a share of it. Future investors will not receive a share of the proceeds in the event the side pocket's assets get realised. Investors who leave the hedge fund will still receive a share of the side pocket's value when

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it gets realized. Usually only the most illiquid assets, such as delisted shares of a company, receive this type of treatment, because holding illiquid assets in a standard hedge fund portfolio can cause a great deal of complexity when investors liquidate their position.

In addition to the alternatives described above, a fund manager may also be able to use strategies such as the restructuring of the hedge fund or voluntary or compulsory liquidation of the hedge fund.

The availability or suitability of any of these strategies will depend on the terms of each hedge fund as further outlined in the offering documents, and the facts and commercial considerations of each particular case.

Redemption restrictions may be declared during:

a) any period (other than ordinary holiday or customary weekend closings) when any market is closed which is the main market for a significant part of the investments, or when trading thereon is restricted or suspended;

b) any period when any emergency exists as a result of which disposal by the fund of investments which constitute a substantial portion of its assets is not practically feasible;

c) any period when for any reason the prices of a material portion of the investments of the fund cannot be reasonably, promptly or accurately ascertained by the fund;

d) any period when due to conditions of market turmoil or market illiquidity it is not possible, in the opinion of the Directors, to determine the fair value of a substantial portion of the assets of the fund;

e) any period when remittance of monies which will, or may be, involved in the realisation of, or in the payment for, investments of the fund cannot, in the opinion of the fund's governing body, be carried out at normal rates of exchange;

f) any period when proceeds of the sale or redemption of the Shares or Management Shares cannot be transmitted to or from the fund's account;

g) any period when the business operations of the Manager, the Investment Manager, the Administrator (or any delegate thereof) in relation to the operations of the fund are substantially interrupted or closed as a result of or arising from acts of war, terrorism, revolution, civil unrest, riot, strikes or acts of God;

h) any period when, in the reasonable opinion of the Investment Manager the realisation of assets by the fund to fund redemptions would result in unreasonable losses to the fund; and

i) any period when a conclusive valuation of the fund is not possible for any other.

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Regulatory framework - Authorisation and reporting requirements for hedge funds and hedge fund managers **Annex 2**

Country	Authorisation requirements - Hedge Funds	Authorisation requirements - Hedge Fund managers	Reporting requirements in relation to competent authorities
United States	Hedge funds may either be authorised or non-authorised. Authorised hedge funds pursuant to the Securities Exchange Act of 1934 may offer its interests to any number of investors while non-authorised hedge funds may only offer its interests to certain investors. Authorised hedge funds are under she supervision of the Securities & Exchange Commission ('**SEC**').	Hedge fund managers may register with the SEC under the Investment Advisers Act 1940. Hedge fund managers that makes use of futures and options to execute trades are also obliged to be registered by the Commodities & Futures Trading Commission. Under the newly adopted Dodd-Frank act, hedge fund managers/advisers will be obliged to register with the SEC or the CFTC.	Authorised hedge fund managers are required to report, *inter alia*, fund's holdings of financial instryments and risk measurement. Under the Dodd Frank Act the U.S. regulatory agencies have broad powers to request regular reporting requirements from hedge fund managers and advisors. This will likely include data about their size, risk exposures and leverage. The reporting regime is likely to be based on the IOSCO template.
EU	Fund structures and establishment remains in the domain of national law of EU Member States.	National European legislation pertaining to hedge fund managers is being replaced with the newly adopted Alternative Investment Fund Managers Directive. All hedge funds with assets under management of more than 100 million euros will have to be authorised by Member State competent authorities.	Managers will have to report a large set of data about themselves, their size, strategies, their risk exposures and leverage to their respective competent authorities. The reporting regime is likely to be based on the IOSCO template.
France	Hedge funds (except for contractual funds) are subject to authorisation requirements by the Autorité des marchés financiers ('**AMF**') pursuant to the French Monetary and Financial Code.	Management companies are authorised by and placed under the supervision of the AMF.	Hedge fund managers are required to report, *inter alia*, key information as to holdings and exposures of hedge funds.

Hong Kong	Hedge funds sold to the public in Hong Kong are subject to authorisation requirements by the Securities and Futures Commission ('**SFC**') pursuant to the Securities and Futures Ordinance ('**SFO**') and the SFC's Code on Unit Trusts and Mutual Funds.	Any asset management activity conducted in or from Hong Kong, whether in relation to a retail or a privately placed fund, or other forms of securities and/or futures contracts management, requiers the fund manager/adviser to obtain a SFC licence pursuant to the SFO.	Hedge fund managers are required to report, *inter alia*, key information as to holdings and exposures of hedge funds.
Germany	Hedge funds are subject to authorisation requirements by the Bundesanstalt für Finanzdienstleistungsaufsicht ('**BaFin**') pursuant to the German Investments Act.	Hedge fund managers are subject to authorisation requirements pursuant to the German Banking Act.	Hedge fund managers are required to report, *inter alia*, key information as to holdings and exposures of hedge funds.
Singapore	Hedge funds are subject to authorisation requirements by Monetary Authority of Singapore ('**MAS**') pursuant to the Securities and Futures Act ('**SFA**').	Hedge fund managers are subject to authorisation requirements pursuant to the SFA.	Hedge fund managers are required to report, *inter alia*, key information as to holdings and exposures of hedge funds.
Luxembourg	Hedge funds (UCITS or non-UCITS) are subject to authorisation requirements by the Commission de Surrveillance du Secteur Financier (**'CSSF**') pursuant to the part II of the act of 20 December 2002 (**'UCI Act 2002**') or the act of 13 February 2007 ('**SIF Act 2007**').	Hedge fund managers are subject to authorisation requirements by the CSSF pursuant to UCI Act 2002 or SIF Act 2007.	Hedge fund managers are required to report, *inter alia*, key information as to holdings and exposures of hedge funds.
Sweden	Hedge funds (UCITS or non-UCITS) are subject to authorisation requirements by the Finansinspektionen (**'FI**') pursuant to the Swedish Investment Funds Act (**'LIF**').	Hedge fund managers are subject to authorisation requirements by the FI pursuant to the LIF.	Hedge fund managers are required to report, *inter alia*, fund's holdings of financial instryments and risk measurement.
United Kingdom	Hedge funds may either be authorised or non-authorised. Hedge funds that are regulated must comply with the provisions of the FSA Handbook. Under the UK regulatory regime, hedge funds are typically non-authorised.	All UK based hedge fund managers must be authorised and, once authorised, then regulated by the Financial Supervisory Authoirty ('**FSA**') pursuant to the Financial Services and Markets Act 2000.	Authorised hedge fund managers are required to report, *inter alia*, fund's holdings of financial instryments and risk measurement.

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