

The Alternative Investment Management Association's

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The SEC's Form PF data usage

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The law requires the US Securities and Exchange Commission to report annually to Congress on how it has used the data it has collected from Form PF filings. The latest release of the [US SEC Annual Staff Report Relating to the Use of Data Collected from Private Fund Systemic Risk Reports](#)¹ is the first report of its kind. Despite the size of regulatory assets under management and the number of funds reporting, SEC experience with Form PF data is still relatively new. As various agencies within the commission gain expertise and understanding, the uses of the data will expand, providing more safety and protection for the economy, individual investors and the entire industry.

In a recent keynote presentation to an AIMA event in New York, March 2014, Norm Champ, the SEC Director of the Division of Investment Management, explained that the purpose of providing the data on Form PF is primarily to provide the SEC with the data necessary to analyze systemic risk that could lead to economic instability.

But the SEC has also found the information useful for a variety of metrics and additional programs for investor protection efforts, investigations, examinations and helping to evaluate and ensure overall market integrity. The collection of this information is also promoting international collaboration amongst regulators who collect similar data for their countries. The International

Organization of Securities Commissions (IOSCO) has played an instrumental supporting role in promoting collaboration.

While the SEC adopted Form PF in 2011, the implementation of the reporting requirement was staggered so that it is only recently that the SEC has a full set of data covering all required advisors and funds. The SEC has spent the time between the first Form PF submissions and the completion of the first full set of data determining how to use the data in the best way to improve performance against its own charter and to augment and support existing and proposed programs.

For example, the SEC has provided Form PF data to the Treasury Department's Office of Financial Research (OFR), which supports the Financial Stability Oversight Council (FSOC) in monitoring risk. FSOC also uses the data in investigations, examinations and investor protection. Prior to releasing the Form PF data to FSOC, the Form PF Steering committee and senior officials from Treasury met to agree on security and confidentiality measures.

The SEC expects the second full set of data to become available later this year and it will include more information that will help the SEC spot economic risk. Within the boundaries of security and confidentiality imposed by the law, the SEC will share the data with other U.S. agencies and in addition, the Commission plans to share the data with international regulatory bodies, particularly IOSCO members.

As the SEC gains more insight into the provided data and its potential, it may uncover even

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¹ U.S. Securities and Exchange Commission, *Annual Staff Report Relating to the Use of Data Collected from Private Fund Systemic Risk Reports (July 25, 2013)* <http://www.sec.gov/reportspubs/special-studies/im-annualreport-072513.pdf>



more uses for the information, but information security and adviser and investor anonymity are two of the commission's key objectives for the data. Senior SEC officials sit on a Steering Committee whose role is to develop a consistent and agency-wide approach to accessing, using and sharing Form PF data, along with protecting and enforcing strict confidentiality and data security procedures.

Since Form PF's implementation, the Commission has focused on providing electronic methods for filing the form and resolving technical issues for data security collection and delivery while establishing reporting protocols that define protection of and access to Form PF data. Fund managers can now file electronically through FINRA, part of the office of the SEC's [Investment Adviser Registration Depository or IARD](#)². While paper filing is still possible and allowable, electronic filing streamlines and simplifies the process.

It's important to note that Form PF does not require advisors to report specific holdings, but merely to report classes of holdings. In addition, the SEC never uses or publishes any individually identifiable information. All analysis and output uses aggregated data that cannot be traced to a specific adviser or fund. Several additional groups with the SEC have found Form PF data useful in carrying out their objectives.

For example, the Risk and Examination Office, known as REO, is a subsidiary group within the SEC that has benefited immensely from analyzing the available data. Created in 2012, REO consists of a team of experts with quantitative and qualitative financial analysis skills. They

use the data to analyze strategically important investment advisers and their specific funds and investment offerings and products. This enables REO to identify trends and potential risks and to take or recommend steps necessary to protect investors and the overall economy.

In his AIMA keynote, Mr Champ, who heads up REO, noted that REO works with individual fund advisors to identify areas where the rules of the Advisors Act don't conform to current business practices. This has enabled REO to make recommendations for changes that enhance the quality of the data provided while simplifying the process for fund advisors.

Working with the industry on the reporting process and the survey form itself, the SEC has been able to establish clearer definitions and guidelines to streamline and simplify the reporting process. The Custody Ruling is a recent example of the changes brought about by the industry and the SEC working together.

Many advisors had difficulty ensuring timely and proper reporting for paper certificates under the original guidelines, particularly for private stock or funds. The new guidelines spell out how to report custody of paper certificates and private equity holdings, reducing uncertainty and guesswork when filing and improving the quality and consistency of the data used in the Commission's analyses.

The Commission also issued guidelines to private investors on methodologies for aggregating their private fund holdings to maintain investor and fund privacy while still adhering to the letter and spirit of the regulations.

The Division of Economic and Risk Analysis (DERA) has begun using Form PF data in its analytical tool that calculates aberrational

² Division of Investment Management: Electronic Filing for Investment Advisers on IARD <http://www.sec.gov/divisions/investment/iard.shtml>

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performance, systemic trend and peer analysis in due diligence and enforcement.

REO and DERA are also working together to monitor and analyze risk-taking activity and to provide periodic reports on the private fund industry and particular market segments. REO also shares its analysis with IOSCO as part of that agency’s global hedge fund industry research.

The Commission’s Office of Compliance Inspections and Examinations (OCIE) expects to begin using Form PF information to improve exam scoping and provide better insight into funds managed by a particular adviser to help in risk assessment.

OCIE will also provide periodic reports across multiple filers to identify trends and potential emerging risks. The expectation is that this analysis will help the agency home in on examination priorities while allocating resources better and improving its industry training programs.

OCIE is also in the process of developing a series of standardized metrics that will trigger examinations at specific firms or firms engaged in similar activities or with similar holdings.

The table below shows the scope of the information collected in the first full year as of 15 May 2013 -

Filer/Fund Description	Number of Funds	Cumulative RAUM
Hedge Funds	6,683	\$4.061 trillion
Private Equity Funds	5,928	\$1.603 trillion
Other Private Funds	2,922	\$698 billion

Real Estate Funds	1,121	\$299 billion
Securitized Asset Funds	966	\$338 billion
Venture Capital Funds	329	\$23 billion
Liquidity Funds	66	\$258 billion
Private Fund Regulatory Assets Under Management Reported by all Filers		\$6.02 trillion

International Reporting

IOSCO, the International Organization of Securities Commissions, works with the G-20 and international standards boards on the global reform agenda and its membership regulates more than 95% of the world’s security markets. IOSCO has created a Task Force to review major regulatory issues related to international securities and futures transactions and to coordinate global responses to the issues.

IOSCO’s mission is to promote global regulatory standards to maintain efficient and stable markets, to unite efforts to establish consistent standards and reporting mechanisms and to provide mutual assistance in market regulation through rigorous enforcement of those standards through the secure and confidential exchange of information regarding markets and standards.

The IOSCO Task Force co-chairs include CONSOB (Italy) and FCA (United Kingdom). IOCO membership includes representatives from all over the world. ASIC (Australia), AMF (France), BaFin (Germany), CNMV (Spain), FSA (Japan), OSC (Ontario), SEC and CFTC (United States), SFC (Hong Kong), FINMA (Switzerland), CVM

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(Brazil), AFM (Netherlands), MAS (Singapore) are all members, while the CNBV (Mexico) is an observer.

The first IOSCO hedge fund survey took place in September 2010. However, due to legal constraints relating to sharing data, the information was not complete. Nonetheless, the survey data yielded interesting information regarding hedge fund risks.

IOSCO's second survey occurred in September 2012, and included data from Australia, Brazil, Canada, France, Germany, Hong Kong, Italy, Japan, Luxembourg, Netherlands Singapore, Spain, UK and US agencies³.

One of the key constraints on the usefulness of the IOSCO survey data was the consistency and accuracy of the reported data. Some survey participants conducted a data cleansing exercise while others did not, so it is impossible to ensure the accuracy of the report or any inferences or conclusions based on its information.

Respondents varied widely in their interpretations of the questions and definitions, which resulted in widespread divergences in responses, particularly as relates to counterparty credit data, collateral, certain derivatives data, trading and clearing data for derivatives and borrowing. IOSCO expects survey data quality to improve as hedge fund managers become accustomed to the reporting requirements and more familiar with the survey questions, definitions and calculation methods.

To that end, IOSCO's intention is to continue its

efforts to agree on common global definitions and standardized interpretations of all questions. Some respondents may be constrained by local regulations, so IOSCO notes that it may require several iterations of the survey before the data yields insights that are more consistent.

As managers complete more regulatory filings and regulators build processes and structures to facilitate sharing of data amongst agencies they can expect uses of the data will multiply. Insights into the risk-taking activities of alternative investing not possible before 2012 should offer more transparency into investment and speculation activities, thereby improving pellucidity of one segment in financial services that contributes to the risk inherent in global financial markets.

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³ *The Board Of The International Organization Of Securities Commissions, Report on the second IOSCO hedge fund survey (October 2013) <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD427.pdf>*



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