



## MFA March 2015 Policy Brief

### **Strengthening Capital Markets to Work for All Investors**

Richard H. Baker, President and CEO of the Managed Funds Association, this week published an op-ed on CNBC.com that outlined the important role the hedge fund industry plays in strengthening capital markets. Mr. Baker pointed to four key investor-driven principles to preserve and strengthen the resiliency of capital markets:

- Enhance market transparency and promote meaningful disclosure
- Give all investors impartial access to newly mandated trading platforms
- Continue strengthening investor protections in the marketplace
- Global harmonization of new rules

[Richard H. Baker's Full Op-Ed](#)

### **MFA Discusses EU Capital Markets Union Proposal and Meets with Commissioner Jonathan Hill**

The European Commission recently released its proposal for a Capital Markets Union, which is intended to alleviate impediments to cross-border investments in the European Union, develop a more diversified financial system by complementing bank financing, and provide greater investment incentives in the 28-Member region.

Following the proposal's release, MFA President and CEO Richard H. Baker applauded the Commission's work and noted that the thoughtful implementation of a CMU can help set the stage for the EU's economic resurgence. MFA has identified *Keys to Modernizing Europe's Capital Markets*, which state:

- Capital markets must be deep, broad, and liquid to ensure that all companies, including small and medium enterprises, have regular access to efficient, affordable financing.
- Capital market infrastructure should promote fair competition and fair access.
- Effective markets should have capital from a variety of sources and types of investors.



In the week after the proposal's release, MFA hosted a breakfast roundtable in New York with members and Commissioner Jonathan Hill, the European Commissioner for Financial Stability, Financial Services, and Capital Markets Union to further discuss it. This roundtable discussion took place during Commissioner Hill's inaugural trip to the U.S. and following meetings with key U.S. policy makers and regulators including Treasury Secretary Jacob J. Lew, Securities and Exchange Commission Chair Mary Jo White, Commodity Futures Trading Commission Chair Timothy Massad, and Senate Banking Committee Chairman Richard Shelby, among others.

[Richard H. Baker's statement on the Capital Markets Union Proposal](#)  
[MFA Statement on meeting with Commissioner Hill](#)

## MFA Participates in ESMA Hearing, Voices Support for Strong, Safe, Transparent and Fair Financial Markets in ESMA MiFID Response

MFA's General Counsel Stuart Kaswell recently participated in an open hearing with the European Securities and Markets Authority (ESMA) regarding the regulator's latest consultation paper on the Level II implementation of Markets in Financial Instruments Directive (MiFID) and Regulation (MiFIR).

During the hearing, MFA provided ESMA with feedback on how the new proposed regulations would affect investment activities both across the EU and globally, specifically discussing position limits, best execution, straight-through processing, and derivatives transparency. MFA later submitted its formal response to ESMA.

"MFA and our members support ESMA's overall objectives of establishing safer, sounder and more transparent financial systems," Kaswell noted recently. "That's why we welcome the opportunity to provide input on ways to benefit investors, strengthen the economy and work toward the sensible implementation of new regulations."

[MFA's Comment Letter](#)

[MFA Remarks at ESMA Hearing](#)



## MFA Releases Report Showing Hedge Fund Industry Adapting to Grow and Attract New Investors

The hedge fund industry is transforming. Managers are increasingly focused on customized products and solutions, new investors, and emerging markets, according to a joint Managed Funds Association report titled "*Growing Up: The new environment for Hedge Funds.*"

MFA President and CEO Richard H. Baker said of the report, "The days of hedge funds simply being an investment tool for high-net worth individuals are over. Institutional investors like pension plans, university endowments, and charitable organizations now make up nearly 65 percent of the industry's assets. These diverse partnerships help local economies and underscore the important role alternatives play at both the macro and micro levels."

The report, developed in conjunction with MFA Strategic Partner KPMG and the Alternative Investment Management Association (AIMA), surveyed more than 100 global hedge fund managers representing approximately \$440 billion of assets under management and highlights the shifts occurring in the hedge fund industry. The main areas of change are:

- **A Shift to Institutional Investors:** The report finds further evidence that the growth of the hedge fund industry is being driven today largely by institutional investors rather than individuals.
- **New Strategies Highlight Customization, New Markets:** Nearly two-thirds of managers said there is increased demand for custom solutions from their investors. Geographically, most capital invested in hedge funds still comes from North America and Europe, but the research suggests that the greatest percentage increases in inflows are coming from Asia Pacific, the Middle East and Africa. More than four in ten managers expect to change the markets where they invest – with more than a third of those targeting emerging and frontier markets.
- **Limiting Factors to Industry Expansion:** Increased cost and complexity associated with running a hedge fund management firm will limit growth of the industry over the next five years, according to the research, with more than three-quarters saying the number of hedge fund managers will decrease or stay the same. Regulation, cited by more than three-quarters of managers, is seen as the biggest threat to growth of the hedge fund industry.

[Joint MFA Report Overview](#)

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