2013 YEAR IN REVIEW

MANAGED FUNDS ASSOCIATION
The Voice of the Global Alternative Investment Industry
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The frenetic pace of global financial regulatory reform and implementation again defined the industry landscape in 2013. MFA continued to thrive in this environment, meeting a number of challenges and bolstering its record and reputation as a positive, constructive partner to regulators and policy makers. An enhanced committee structure allowed the Association to welcome a greater number of members into policy discussions and decisions, which added more perspective and weight to MFA’s views. The stronger member engagement was incredibly helpful in a year full of significant debates and important rulemakings – all occurring around the world.

This year MFA was particularly focused on the SEC’s implementation of the JOBS Act. Members and staff were actively engaged with the SEC as it considered how to amend Regulation D. MFA also worked throughout the year to help managers complete Form PF, the systemic risk reporting form for private fund managers, and secured relief from the SEC that permitted managers to respond in a manner consistent with their previous filings. MFA was also very active on the issue of investment advisers being subject to registration and regulation as broker-dealers.

OTC derivatives rulemakings demanded a great deal of our attention in 2013, and MFA worked closely with regulators on CTA/CPO regulation, CFTC rules on enhancing customer protections, full physical segregation of collateral, and U.S. cross-border issues.

MFA was called upon by Congress to testify and provide our views on CFTC reauthorization, market structure and regulation, and a number of derivatives issues. Staff also closely monitored the progress of tax reform efforts, including the potential for changes to the treatment of enterprise value and carried interest. Additionally, the Association actively participated in legal and industry-wide developments potentially affecting creditor rights and participated in the preliminary stages of bankruptcy reform discussions.

Members and staff spent a significant amount of time in Europe this year advocating our positions with officials from the European Commission, European Parliament, Council of the European Union, European Securities and Markets Authority (“ESMA”), as well as individual EU Member State regulators in the United Kingdom and France. We expressed views on MiFID/MiFIR, the financial transaction tax, shadow banking, and continued to work with regulators on implementation of AIFMD and EMIR. MFA also remained engaged with Australian officials regarding their draft Investment Manager Regime legislation.

These issues and others will be our global advocacy focus in the year ahead. However, our Association is only as good as those who participate, so we encourage you to join us at our conferences and forums, on our committees, and at our many educational events. MFA is respected around the world for its thoughtful views, powerful advocacy, and valuable educational outreach. As 2013 demonstrated, these attributes are essential to our success and we look forward to refining and improving upon them in order to meet the industry’s needs in the years ahead.
This past year marked a strong return of investor confidence in the hedge fund industry. Inflows are at record levels and total industry assets under management are solidly above the pre-crisis watermark. Deutsche Bank noted this past fall that the hedge fund industry has grown 12% annually over the past five years and Preqin reported last year that 80% of hedge fund investors planned to increase or maintain their hedge fund allocation in 2013.

The industry has evolved to its most transparent, regulated state of existence. Hedge fund advisers in the U.S. are fully registered as a result of the Dodd-Frank Act, and many of those must also make systemic risk reports. EU advisers will soon be complying with a fund marketing directive, and authorities in Asia and other global regions are beginning to focus more regulatory attention on the industry. Transparency will spread further still once advisers determine how best to take advantage of the removal of the ban on general solicitation – allowing them to communicate more freely with potential investors, media, and their peers in public settings.

The evolution of our industry has invited more and more institutional investors to seek out hedge fund investment to create reliable, risk-adjusted returns. The trust and confidence of these investors conveys a great deal of responsibility for the people, organizations, and causes to which the majority of those investors are accountable. The industry has already made great strides in demonstrating its commitment to these investors, to policy makers, and to regulators by embracing financial regulatory reforms, but we must continue to engage on these and other issues.

In meetings with policymakers around the world there is growing awareness of the industry’s links to and benefits for local pension funds, endowments, foundations, and even in brick-and-mortar community projects. Our connection to Main Street has become more evident to those who had previously not seen the relevance of our industry to their home district, state, or charitable cause.

Through continuing effort MFA will seek to strengthen our relationships with policy makers and regulators, where our collaborative approach has been well received. As the pages that follow demonstrate, MFA has undertaken a great task in educating those who were not previously familiar with our industry and its value. That work will continue through 2014 and beyond, and although it is clear that there is a very long road ahead of us, we have established a good platform from which we can speak for the industry and meet any challenge. The data all indicate the industry has matured, and MFA will continue growing right alongside it – our focus throughout will remain as: being the most effective advocate and voice of the alternative investment industry.
General Solicitation Under the JOBS Act

Since Congress enacted the JOBS Act in April 2012, MFA actively has engaged with the Securities and Exchange Commission (“SEC”) as it considered how to amend Regulation D and remove the prohibition on general solicitation. In its communications, MFA has encouraged the SEC to adopt rules in a manner that fulfills the intent of the JOBS Act and promotes robust capital formation, greater transparency, and more competition.

In 2013, MFA continued to discuss implementation of the JOBS Act with the SEC, and submitted letters to the Commission on March 22 and June 20. In the letters, MFA described the extensive regulatory framework applicable to hedge fund managers following enactment of the Dodd-Frank Act, and explained that implementation of the JOBS Act will lead to greater transparency because hedge fund managers will be able to publicly disclose information about funds they manage, such as by submitting performance information to publicly available databases. MFA also responded to recommendations by the SEC’s Investor Advisory Committee about implementation of the JOBS Act, in which MFA expressed support for certain recommendations, and opposed other recommendations. MFA’s senior leadership also discussed these issues with incoming SEC Chair, Mary Jo White.

On July 10, the SEC approved a final rule implementing Section 201(a) of the JOBS Act. The final rule maintains the proposed “facts and circumstances” approach for firms to take steps to verify that purchasers are accredited investors. The rule also includes a non-exclusive list of methods which an issuer may use to verify that purchasers are accredited investors, and includes language indicating that firms can rely, at least in part, on minimum investment amounts as part of their verification process. In general, the final rule is consistent with many of MFA’s recommendations, including the “facts and circumstances” approach and the non-exclusive list of verification methods. The final rule became effective on September 23rd and hedge fund managers are permitted to conduct offerings with general solicitation in compliance with the rule.
Capitol Hill Engagement on the JOBS Act – Throughout the year, MFA continued to engage House Financial Services Committee and Senate Banking Committee Members and their staff to discuss issues related to the regulation and oversight of private investment advisers and the implementation of provisions of the JOBS Act that removed the ban on general solicitation. On May 13, Senators John Thune (R-SD) and Pat Toomey (R-PA), as well as House Republican Whip Kevin McCarthy (R-CA), were among those who wrote to incoming SEC Chair Mary Jo White as key sponsors of the legislation, “to urge prompt implementation of the Regulation D general solicitation provisions of the JOBS Act.” When the rule was finalized and the SEC released a companion proposal, MFA met with Senate staff on the issue to discuss MFA’s comments on the proposed additional rulemaking, discussed below.

The JOBS Act and CFTC Regulations – MFA continued to meet with regulators to advocate for consistent regulation by the SEC and Commodity Futures Trading Commission (“CFTC”) of hedge funds and their managers, including amending CFTC regulations to be consistent with the JOBS Act and SEC regulations. In July of 2012, MFA petitioned the CFTC for rulemaking, requesting that the CFTC amend its regulations to be consistent with the JOBS Act and SEC regulations with respect to the elimination of the ban on general solicitation and general advertising for managers of private pools. CFTC Regulation 4.13(a)(3), the de minimis trading exemption from CPO registration, as a condition to the exemption, prohibits marketing to the public. CFTC Regulation 4.7, an exemption from certain disclosure requirements for a registered CPO of a private pool, requires that a CPO only offer and sell pool units/shares to qualified eligible participants. MFA has requested that the CFTC eliminate the public marketing ban in Regulation 4.13(a)(3) and provide interpretive relief that a CPO may market or advertise a private pool without violating Regulation 4.7. MFA met with Commissioners and staff at the CFTC at various times throughout 2013 and discussed the importance of this issue.

SEC Chair Mary Jo White discusses the importance of adviser registration and transparency at MFA’s Outlook 2013 conference in New York.
> MFA Comments to SEC on Additional JOBS Act Proposals – In July, concurrent with its approval of the final rule implementing the JOBS Act, the SEC published a set of additional proposed rule amendments that would apply to firms that seek to engage in general solicitation activities. The proposals would, among other things, require firms to file an Advance Form D, disqualify a firm from relying on Rule 506 for one year if it did not comply with the filing requirements, require the use of legends in written general solicitation materials, and require firms to submit general solicitation materials to the SEC for two years. On September 23, MFA submitted a letter to the SEC in explaining that SEC-registered hedge fund managers are subject to a comprehensive regulatory framework following the Dodd-Frank Act, and many of the proposed requirements are unnecessary or duplicative as a result of this framework. The letter indicated that the proposed requirements would create legal uncertainty that would deter firms from engaging in general solicitation. MFA made a number of recommended changes that would achieve the objectives of the rule amendments while enabling firms to engage in general solicitation. Following the submission of the letter, MFA actively engaged with SEC Commissioners and senior staff as it considers how to implement the proposals in light of comments from market participants.

Advisers Act Advertising Rules

MFA continued its proactive agenda to address member concerns related to the advertising rules in Section 206 of the Investment Advisers Act of 1940 (“Advisers Act”). Although the SEC and its staff have provided guidance on the various advertising limitations, uncertainty remains as to the scope and application of these limitations to private fund advisers. MFA feels that it is important for the SEC to reconsider the advertising limitations created by the Advisers Act due to the JOBS Act’s elimination of the ban on general advertising and general solicitation for offers and sales made pursuant to revised Rule 506 of the Securities Act of 1933. In 2013, MFA continued to have informal discussions with SEC staff regarding member concerns with the advertising rule. In particular, SEC Commissioners and staff indicated that the SEC was considering proposing a new advertising rule that would apply solely to private fund advisers and solicited MFA’s input on what such a new rule should contain. In response to staff’s invitation, MFA’s working group finalized a preliminary proposal for a new advertising rule for private fund advisers, and will engage staff to obtain their views on MFA’s recommendation.

Adviser Registration / Regulation

MFA strongly supports the approach taken in the Dodd-Frank Act to subject managers of private pools of capital to oversight by the SEC as investment advisers under the Investment Advisers Act of 1940. MFA contacted House Financial Services Committee Members and their staffs in advance of congressional hearings to review MFA’s legislative priorities such as concern about the establishment of a self-regulatory organization (“SRO”) for investment advisers.
Bad Actor Rules

In July, the SEC finalized rules to implement Section 926 of the Dodd-Frank Act, to ban certain bad actors from conducting private placements under Rule 506 of Regulation D under the Securities Act. MFA advocated extensively on the proposed rule and the final rule reflects MFA’s policy views on a number of key issues, most notably reversing the SEC’s prior position that the Dodd-Frank Act required the SEC to apply the disqualification provisions retroactively. Specifically, the SEC amended the “bad actor disqualification” rule required under Dodd-Frank in several key respects: (1) the final rule disqualifies issuers only with respect to covered violations occurring after the September 23 effective date of the rule; however, issuers must disclose to investors all otherwise disqualifying events that occurred prior to the effective date of the rule and the failure to disclose such events would disqualify an issuer from relying on Rule 506; (2) waivers from disqualification may be granted by the staff, rather than requiring an SEC order, which will facilitate the waiver process for affected issuers; (3) narrows the scope of “covered persons” under the rule to “executive officers” rather than all officers, which will facilitate compliance for funds using large financial institutions as distributors; (4) includes investment managers to investment funds within the scope of “covered persons;” and (5) expands the scope of disqualifying events with respect to the federal securities laws and CFTC orders, but not with respect to foreign laws or other state or regulatory orders. MFA also is working on seeking additional guidance from SEC staff on key implementation questions identified by members.

Capital Formation

During the first session of the 113th Congress, policy makers continued efforts to modernize securities laws, while maintaining strong investor protections, in response to technological innovations and the evolving manner in which investors, issuers, and other market participants interact. MFA was closely involved in a number of these initiatives.

> Accredited Investor Standard – The Dodd-Frank Act (Section 413(b)(2)(A)) directed the SEC conduct a review of the definition of accredited investor, with analysis expected sometime in 2014. Policy makers have raised the issue in hearings and letters to the SEC. On October 30, during a Senate Banking Committee hearing on JOBS Act implementation, Members of the Committee also discussed the SEC’s ongoing study and the prospects of updating the definition of “accredited investor.” Separately, House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises Chairman Scott Garrett (R-NJ) and Subcommittee on Oversight and
Investigations Chairman Patrick McHenry (R-NC) wrote a letter to the SEC regarding a July 2013 Government Accountability Office (“GAO”) report on the “accredited investor” standard, offering suggestions for possible changes to the definition and previewing likely further Congressional oversight on the subject in 2014. MFA met with the staff for the House Financial Services Committee and Senate Banking Committee to discuss MFA’s views on the issue.

> JOBS Act 2.0 – On October 23, the House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises held a hearing on legislation, marked up by the full Committee on November 14, which potentially could be part of “JOBS Act 2.0.” legislation. The group of bills included H.R. 3448, the Small Cap Liquidity Reform Act of 2013, Representative Sean Duffy’s (R-WI) tick size pilot program legislation. MFA met with Representative Duffy’s staff to discuss MFA’s views about a tick size pilot program at the SEC. The SEC has held a Roundtable discussing the idea of a tick size pilot program for small-cap stocks and whether a bigger tick size increment would encourage liquidity or have an impact on IPOs. MFA is generally supportive of a tick size pilot program and believes it could be helpful in testing an approach to improving liquidity of stocks of smaller companies. MFA does not believe, however, a pilot program would prove useful as a means for assessing the impact of tick size on the sell-side research following of these stocks or on the number of initial public offerings. MFA also met with House Financial Services Committee staff following the hearing to discuss potential elements of a potential “JOBS Act 2.0.”

Market Structure and Market Regulation

MFA continued to engage legislators, regulators, exchanges, and other market participants on market structure, risk controls, and system safeguards as policy makers grapple with addressing marketplace risks in an electronic trading environment. On the securities-side, MFA submitted comments to, and met with, the SEC on its proposed Regulation Systems Compliance and Integrity (“Reg SCI”), which requires exchanges and certain other entities to have policies, procedures and controls to ensure that their systems have levels of capacity, integrity, resiliency, availability, and security to maintain their operational capacity.

The CFTC issued a concept release on risk controls and system safeguards for automated trading environments and indicated that it would propose regulation in 2014. MFA advocated that to protect market integrity and prevent market disruptions, the CFTC should address risk controls and system safeguards with respect to all electronic trading and not just automated trading or so-called high frequency trading.

Dodd-Frank Progress: Of the law’s 398 total rulemaking requirements:

- 111 have not yet been proposed
- 122 have been proposed and yet to be finalized
- 165 finalized rules

Davis Polk Dodd-Frank Progress Report, December 2, 2013
MFA advocated to both the SEC and CFTC that operational, infrastructure, and security risks should be addressed by centralizing risk controls at the trading platform and intermediary levels; and that risk controls and system safeguards at such entities will protect market participants and the markets by acting as gateways that monitor activity for market participants and block inappropriate or erroneous orders from the markets.

MFA also remained engaged with House Financial Services Committee and Senate Banking Committee Members and their staff to discuss issues related to equity market structure. Specifically, MFA worked to discourage policy makers from conflating algorithmic trading and low-latency execution techniques from high frequency trading and to discuss how electronic advancements have improved many aspects of equity markets.

Tax Policy

Discussions about comprehensive tax reform, the federal deficit, and the debt continued to be among the main issues discussed on Capitol Hill during the first session of the 113th Congress. Senate Finance Committee Chairman Max Baucus (D-MT) and House Ways and Means Committee Chairman Dave Camp (R-MI) traveled together for a “roadshow” throughout the U.S. to get input from Americans and build support for comprehensive tax reform. Both chairmen unveiled significant discussion drafts, although their respective approaches to drafting legislation on tax reform within their Committees differed in several areas. MFA engaged Administration officials, House and Senate Leadership and their staff, and senior Members of the tax-writing Committees to discuss MFA’s tax priorities and proposals that would affect the alternative investment industry.
Enterprise Value and Carried Interest Tax – On February 11, Senators Carl Levin (D-MI) and Sheldon Whitehouse (D-RI) introduced legislation, the Cut Unjustified Tax Loopholes Act, that includes the enterprise value and carried interest tax proposals, among others, and was estimated to raise $189 billion in revenue to replace the impending sequester. The legislative text of the enterprise value and carried interest tax proposal was identical to prior legislation introduced by House Ways and Means Committee Ranking Member Sander Levin (D-MI) in February 2012, though Ranking Member Levin did not reintroduce that legislation in the 113th Congress.

The Administration also participated in the debate as the Council of Economic Advisers (“CEA”) annual “Economic Report of the President” included text calling carried interest an “unfair and inefficient tax break” and proposed “taxing carried interest as ordinary income and subject that income to self-employment taxes.” On April 10, President Obama sent to Congress his budget proposal for FY14. As in past budgets, the President’s budget proposal included an enterprise value and carried interest tax proposal.

During the year-end Budget Conference Committee negotiations, a document released by Chairman Patty Murray’s (D-WA) staff highlighted closing so-called “tax loopholes,” and included enterprise value and carried interest tax proposals among its targets. Ultimately, tax reform was left out of the deal. Throughout the year, MFA continued to meet with the staff of the tax-writing Committees to express MFA’s concerns regarding enterprise value provisions in the carried interest tax proposal and delinking enterprise value from the carried interest tax proposal, and to emphasize that changes to the taxation of carried interest should only be considered in the context of comprehensive tax reform.

UBIT - On May 21, the Senate Judiciary Committee approved immigration reform legislation, S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act, after a number of days of debate and over 200 amendments filed. Among the amendments was a measure introduced by Senator Charles Grassley (R-IA), which would restrict 501(c)(3) organizations from receiving a grant under the Act if, among other things, it holds money in offshore accounts for the purpose of avoiding paying unrelated business income tax (“UBIT”). As a consequence of this language, covered tax exempt entities effectively could be excluded from investing in offshore hedge funds, to the extent those entities wish to be eligible to receive grants under the Act. MFA remains engaged on the issue and continues to monitor the prospects of the legislation in the House.

MFA Engagement: In anticipation of the possibility that tax proposals, including enterprise value and carried interest, could be introduced in the 113th Congress, MFA members and the Government Relations team held a “Tax Hill Day” in January and met with both the Majority and Minority staff of the House Ways and Means Committee to discuss technical provisions related to the enterprise value and carried interest tax proposals and the Association’s tax priorities. Following MFA’s outreach efforts, the author of prior carried interest tax proposals, Ways and Means Committee Ranking Member Sander Levin (D-MI), publicly indicated that he would be willing to examine the legislation’s treatment of “goodwill when there is a sale of a management interest.”
Net Investment Income Tax Rules –
On November 30, 2012, the IRS released a proposed rule to implement the 3.8% tax on certain Net Investment Income (“NII”) above the statutory threshold amounts. On March 5 of this year, MFA submitted a comment letter to the IRS in response to the proposed rule. In the letter, MFA encouraged the IRS to amend the proposed rules to better ensure that gains and losses derived from the trade or business of trading in securities or commodities can be netted against each other and permit net operating loss carryforwards with respect to eligible items, subject to appropriate tracking, among other recommendations. MFA encouraged the IRS to make these changes to better achieve the statutory objective of taxing the net investment income of taxpayers subject to the rules by permitting taxpayers to subtract appropriate expenses, losses, and deductions from their investment income. In November 2013, the IRS issued final rules implementing the net investment income tax. The final rule provides greater flexibility for taxpayers to net gains and losses across different categories of income subject to the tax, limiting the likelihood of the tax being imposed on a gross basis; provides greater flexibility in carrying forward losses, including with respect to net operating losses; and, provides funds the ability to make certain tax elections as the fund level, avoiding the potential recordkeeping burdens that would result if the elections had to be made at the individual taxpayer level, as originally proposed. Taken together, the changes made in the final rule provide significant improvements over the earlier proposed rule and are responsive to concerns that MFA raised in its comment letter.

IRS Form 8949: Sales and Exchanges of Capital Assets – Earlier this year, the IRS determined that all taxpayers, including investment funds, should complete Form 8949, disclosing all sales and exchanges of capital assets. In April, the IRS revised its instructions to Form 8949 to provide that partnerships and corporations could report summary totals, rather than all transactions. MFA expressed concern, however, that even with summary reporting, funds would still have to reconcile their transactions to a 1099 statement from their brokers, which would impose significant burdens on funds and likely would not provide useful information to the IRS. On June 18, MFA submitted a comment letter to the IRS asking the IRS to consider exempting investment funds from Form 8949. In the letter, MFA noted that IRS’s instructions
allow funds and other entities to report summary information instead of detailed information on all capital transactions. On July 25, MFA members and staff met with IRS staff to discuss the concerns identified in the letter and various approaches to completing the Form that would address the industry’s concerns. In response to MFA’s advocacy efforts, in late August the IRS issued revised instructions to Form 8949 that will significantly reduce the amount of work and cost for investment funds when completing their tax returns.

> Dividend Equivalent Swaps: Proposed Rules Under 871(m) – In 2012, the IRS issued temporary and proposed rules, which under Section 871(m) of the Tax Code, impose withholding taxes on non-U.S. persons entering into certain derivatives and other contracts that include payments determined by reference to payments of dividends from U.S. sources. The temporary rules established a four-factor test to determine what contracts are specified notional principal contracts for purposes of the Rule that are subject to withholding tax. MFA encouraged the IRS to extend the time period of the temporary rule and submitted a number of comments on the 2012 rule proposal. In December 2013, the IRS extended the time period that market participants may continue to use this four-factor test for two years. In addition to the final rule extending the four-factor test, the IRS withdrew its 2012 proposal and re-proposed the rule. MFA will be reviewing the re-proposed rule and submitting additional comments, as appropriate.

> FATCA – In January, the IRS and Treasury Department issued final rules on FATCA for foreign financial institutions (“FFIs”). The final rules provided some important changes to the earlier proposals that can help facilitate FATCA compliance for hedge funds, though key issues with respect to implementation remain. During the year, MFA continued to monitor developments with respect to the implementation of FATCA, including delays in FATCA implementation deadlines, draft FFI agreements, the opening of the FFI registration portal, as well as updates when Treasury entered into intergovernmental agreements with key non-U.S. jurisdictions for hedge funds. MFA also is working with members to identify areas in which further guidance from Treasury and the IRS would be beneficial to the industry.

MFA Engagement: FSOC/OFR – MFA continued to monitor developments with respect to the Financial Stability Oversight Council and the Office of Financial Research as they consider areas for potential systemic risk regulation. In particular, MFA is closely following FSOC and OFR pronouncements regarding securities lending and repo markets, which are areas that the Financial Stability Board also is considering recommending further regulation. MFA also continues to closely monitor OFR’s review of Form PF data as well as any further developments arising out of OFR’s report on the asset management industry.
Form PF
Throughout the year, MFA staff worked to help managers’ understanding of Form PF, the systemic risk reporting form for private fund managers, and engaged with regulators on systemic risk issues. In May, MFA staff contacted SEC staff and indicated that many firms would be unable to collect data in a manner prescribed by the SEC’s guidance, and requested that firms should instead be permitted to respond in a manner consistent with their previous filings. In response, SEC staff provided the requested relief to MFA members, and later formally adopted the guidance.

In December, MFA staff and members worked with SEC staff to better understand the Form and identify areas for potential improvement. The SEC staff is contemplating whether further clarification or guidance would enhance the ability of firms to complete to the Form.

MFA will continue its efforts to obtain feedback from regulators on the filing requirements and to look for ways to minimize the regulatory burden without sacrificing the utility of the form.

Broker-Dealer Registration of Investment Advisers
MFA was very active on the issue of investment advisers being subject to registration and regulation as broker-dealers under the Securities Exchange Act of 1934, as amended (“Exchange Act”). MFA began to focus on this issue following an April 5 speech by David Blass, Chief Counsel of the SEC’s Division of Trading and Markets, where he raised issues pertaining to the extent to which a private fund adviser may rely on the non-exclusive safe harbor from broker-dealer registration under the Exchange Act. MFA continuously engaged SEC Commissioners and staff on this matter and urged them to ensure that, if they chose to provide any guidance or no-action relief, it would be useful and instructive to the entire private funds industry. MFA also coordinated with various other trade associations and organizations, including the American Bar Association (“ABA”), which is working with the SEC staff on a no-action letter to resolve concerns and provide clarity. MFA has consulted members and provided feedback on the draft through the ABA.
CFTC Reauthorization

Throughout the year, the Senate Agriculture Committee and House Agriculture Subcommittee on General Farm Commodities and Risk Management held a series of hearings on CFTC Reauthorization. MFA remained engaged with policy makers on both Agricultural Committees to discuss the Association’s views on various issues including: customer collateral, a residual interest requirement, streamlining and reducing unnecessary duplication of the regulatory oversight of CPOs and CTAs; amending the Commodity Exchange Act to adopt “Dodd-Frank-like” protections for confidential, sensitive, and intellectual property of asset managers; encouraging a thoughtful approach, including the use of data-driven determinations, regarding the imposition of position limits; disclosure of Futures Commission Merchant information to customers; and, harmonization of global regulation impacting areas under the jurisdiction of the CFTC and the oversight of the Agriculture Committees.

OTC Derivatives
Oversight and Regulation

MFA remained actively engaged with SEC and CFTC Commissioners and staff, as well as key Members and staff on the House Agriculture Committee, Senate Agriculture Committee, House Financial Services Committee, and Senate Banking Committee regarding key over-the-counter (“OTC”) derivatives rulemakings related to Title VII of the Dodd-Frank Act. MFA communicated its views through a number of comment letters, meetings, and other educational outreach initiatives with the goal of encouraging regulators to take a thoughtful and logical approach on a variety of derivatives issues. In addition, MFA developed a number of proactive agenda items that it sought to have regulators address as set forth below.

> CFTC Rules on Enhancing Customer Protections – The CFTC proposed rules on enhancing customer protections. The CFTC proposed these rules, in part, in response to MF Global and Peregrine’s misappropriation of customer assets, and provided for enhanced disclosures.
The impact on customers of the FCM residual interest requirement, and provided suggestions for how the CFTC could modify the proposal to prevent customers from having to pre-fund their margin obligations or meet intraday margin calls. On October 30, the CFTC approved its final rule on enhancing customer protections, which incorporated many of MFA’s recommendations on both the disclosure and residual interest elements.

> **Full Physical Segregation of Collateral**

MFA continued to support and address issues related to segregation of customer collateral to ensure adequate protection and portability of customer assets and positions. In light of the MF Global and Peregrine events, MFA worked toward a full physical segregation solution for cleared swaps. In 2012, in response to members’ concerns, MFA established a joint trade association working group consisting of buy-side members and staff from MFA as well as the Alternative Investment Management Association (“AIMA”), the Investment Adviser Association, SIFMA Asset Managers Group, and the Investment Company Institute. In 2013, the working group continued its efforts to facilitate the buy-side’s agreement on a full physical segregation model for cleared swaps in the U.S. The working group had its first discussion with CFTC Commissioners and staff about possible full physical segregation and options and began joint discussions with clearinghouses and dealers around proposed model. As part of this process, the working group also began developing language to amend the Bankruptcy Code, and MFA began engaging the Hill on potential amendments.
> **U.S. Cross-Border Issues** – MFA continued to encourage global coordination among the SEC, CFTC, and other international regulators on issues related to the extraterritorial application of the various international derivatives reforms. MFA feels strongly that, given the global nature of the OTC derivatives market, coordinating the scope, implementation, and substituted compliance regimes of the different regulations is necessary to avoid duplicative regulation. On July 12, the CFTC issued its final guidance on the cross-border application of its swap rules, which reflect some of MFA’s key comments on the “U.S. person” definition. In addition, the CFTC also finalized an exemptive order to phase in compliance with the guidance. On August 21, MFA submitted a joint comment letter with AIMA, in response to the exemptive order. In the letter, MFA and AIMA explained how the intersection and sequencing of the final guidance, exemptive order and the CFTC’s final reporting rules would create problems for funds because, for certain swaps with non-U.S. dealers, it would unintentionally cause funds, rather than dealers, to be responsible for reporting those swaps.

Separately, on May 1, the SEC issued proposed rules on the cross-border application of Title VII of the Dodd-Frank Act to securities-based swaps activities, which contained some substantive differences from the CFTC’s guidance due to widespread concern about the breadth of the CFTC’s proposal. On August 19, MFA and AIMA submitted a letter in which the Associations recognized the differences between the SEC proposed Rules and the CFTC guidance. The letter urged continued SEC harmonization with the CFTC and other regulatory authorities with respect to the extraterritorial scope of all these regimes, and asked the SEC to provide greater flexibility with respect to market participants’ ability to seek substituted compliance in respect of all applicable requirements.

> **MFA Engagement with CFTC on SEF Onboarding Concerns** – In 2013, the CFTC provisionally registered new regulated trading platforms, known as swap execution facilities (“SEFs”). MFA has been very active on issues related to buy-side onboarding to SEFs, i.e., transitioning swap trading activities to SEFs. MFA members have been concerned with the individual trader liabilities and other problematic issues in SEF rulebooks that still need to be resolved. There are also operational readiness issues, such as pre-trade credit checks at the SEFs for swaps that are intended to be cleared, that need to be resolved and tested. MFA also filed a comment letter in response to the SEF “made available-to-trade” or MAT submissions of Javelin, trueEX, and Tradeweb that proposed a phase-in approach by product and transaction type for the rates asset class, beginning with stand-alone fixed-to-
floating interest rate swaps in U.S. Dollar and Euro currencies at the benchmark tenors, with progressive phase-in to include additional currencies, tenors, and forward start dates, among others. MFA's letter also recommended a similar phase-in to cover package transactions, which involve the simultaneous and contingent execution of two or more financial instruments. Javelin and Tradeweb SEFs both amended their MAT submissions after MFA filed its comment letter. Their amended submissions largely conform to the product scope that MFA recommended for Day 1 SEF trading under MFA's phase-in approach. MFA expects that Day 1 SEF trading will begin in mid-February 2014, which means that the CFTC's MAT-approved interest rate swaps and credit default swap (“CDS”) indices must be traded on SEFs or designated contract markets (“DCMs”).

**MFA Engagement:** On September 12, the White House Office of Management and Budget (“OMB”) submitted to Congress a proposal that would impose a fee on derivatives transactions to cover the cost of funding the CFTC. MFA met with Members of the House and Senate Agriculture Committees to discuss the proposal and was able to determine that the Congress was unlikely to take up the measure, though the Senate Agriculture Committee expressed interest in doing staff briefings on user fees as part of a broader review of various options for reforming the funding of the CFTC.
CDS Customer Portfolio Margining

– In 2013, MFA formed a coalition with other buy-side trade associations to address concerns with the SEC’s customer margin levels and required broker-dealer (“BD”)/FCM initial margin models for the cleared CDS customer portfolio margin program. The MFA coalition has urged the staff of the SEC’s Division of Trading and Markets to adopt the ICE Clear Credit CDS portfolio margin program for customer margin. The SEC Staff initially proposed requiring most buy-side firms to post two-times the ICE margin model as a temporary matter and then planned to require each BD/FCM to develop its own unique margin model. On June 7, SEC Staff provided a six-month customer margin level based on the ICE plus CFTC 10% model, cutting the margin requirements essentially in half. The SEC Staff acted in response to the MFA coalition’s concerns. Unfortunately, the SEC Staff remains committed to having each BD/FCM adopt unique margin models, rather than the uniform ICE plus CFTC 10% model. In early November, MFA’s coalition urged the SEC Staff to make the ICE plus model permanent. The coalition also renewed opposition to individual BD/FCM models. MFA recently learned that SEC Staff has extended the current margin relief to January 31, 2014. MFA coalition members are very concerned that any extension is not sufficient, and that the current relief should be made permanent to provide market participants with the certainty they need to clear single-name CDS and participate in the CDS customer portfolio margin program.

Capital Charge for Segregated Customer Collateral Under Tri-Party Custody Agreements

– During 2013, MFA engaged with SEC staff in the Division of Trading and Markets and Investment Management to explain the key control and access provisions in tri-party control agreements. In these discussions, MFA demonstrated that the SEC’s proposed capital charge for such arrangements is both unnecessary and contrary to Dodd-Frank’s customer protection goals, a
view shared by a wide range of market participants. Although SEC staff has not promised to eliminate the capital charge, they indicated that they may consider such a change for tri-party agreements meeting certain minimum contractual standards as specified in their final rules. MFA has been coordinating with other financial trade associations on their respective advocacy efforts with SEC Staff to encourage the SEC to drop the proposed capital charge. MFA plans to continue its engagement on this issue with SEC Staff in 2014.

**CPO & CTA Regulation**

As a result of the Dodd-Frank Act and CFTC regulatory changes in recent years, many of MFA’s members are either registered or exempt from registration as a CPO and/or CTA. As such, the CFTC has become a primary regulator of hedge fund managers. MFA spent significant time seeking regulatory and interpretive relief with respect to CPO and CTA regulation. MFA also sought CFTC and NFA guidance with respect to systemic risk reporting in 2013.

> **CFTC Forms CPO-PQR, CTA-PR, and NFA Rule 2-46 Quarterly Reporting** – MFA continued to seek guidance from the CFTC and NFA on forms CPO-PQR, CTA-PR, and NFA Rule 2-46 quarterly reporting requirements and help facilitate the filing process with regulators. MFA developed a list of questions and comments for the CFTC regarding its systemic risk forms. MFA also developed a list of technical concerns and recommendations with respect to the filing of such forms through EasyFile; as well as engaged both CFTC and NFA on technical amendments to Form CPO-PQR. MFA engaged NFA on its new Rule 2-46 quarterly reporting requirement for CTAs and submitted comments and recommendations to help clarify questions on quarterly form PR.

> **Fund-Of-Funds** – With the rescission of § 4.13(a)(4), an exemption that provided a CPO of a private pool with relief from registration, many CPOs sought to qualify under the CFTC’s § 4.13(a)(3) *de minimis* trading exemption from registration. In response to MFA’s request for no-action relief, on November of 2012, the CFTC granted a delayed compliance date for fund-of-funds (“FOFs”) operators and certain single manager hedge funds from registration until six months after the CFTC issued FOFs guidance. The CFTC is contemplating how FOF operators and other managers should calculate commodity interest trading in investee pools. MFA met with regulators in 2013 and discussed FOF operations. We raised the concern that investor funds do not receive monthly, let alone real-time, position, margin or notional value information from their underlying investments; and that without an alternative methodology for complying with § 4.13(a) (3) many pools with a *de minimis* level of commodity interest exposure would need to have their CPO register with the CFTC. We recommended that the staff adopt a limited non-look through provision in its guidance for fund-of-funds.

> **CPO Registration – Delegation of Rights and Obligations** – MFA has been engaged with the CFTC staff all year on the issue of delegating CPO rights and obligations. With the CFTC’s repeal of Rule 4.13(a)(4), the exemption from registration for CPOs of privately-offered pools, the CFTC applied the definition of CPO to many entities, multiplying the registration requirement to many associated entities.
While MFA members understood, and relied on, the CFTC’s guidance that a CPO could delegate its rights and obligations to a registered CPO and, thus, not have to register, the CFTC staff advised that it never intended that an entity delegating its rights and obligations to a registered CPO did not also need to obtain an individual CFTC Staff No-Action letter permitting the affiliated entity not to register. MFA has met with the CFTC on several occasions to discuss providing interpretive relief to the industry.

**New Recordkeeping Requirements for CTAs as Members of SEFs** – On December 10, MFA submitted a joint letter to the CFTC with the Asset Management Group of SIFMA, requesting interpretative guidance and relief on the application of the CFTC’s new oral and written communications recordkeeping requirements under final amended Rule 1.35(a)(1) to asset managers that are members of SEFs or designated contract markets (DCMs). On December 20, CFTC staff issued responsive no-action relief from compliance with the oral recordkeeping requirement for CTAs that are members of SEFs or DCMs. The no-action relief expires on May 1, 2014, and has no conditions. Without such relief, CTAs that are members of SEFs would have had to come into compliance with the oral recordkeeping requirement on December 21, which obligates such CTAs to keep records of all oral communications that lead to the execution of transactions in commodity interests and related cash or forward transactions. The oral communications recordkeeping requirement does not apply to CPOs, nor to any member of a DCM or SEF that is not registered or required to be registered with the CFTC in any capacity.

**Bankruptcy & Creditor Rights**

MFA has actively participated in legal and industry-wide developments potentially affecting creditor rights and/or impacting the efficient allocation of capital to companies in bankruptcy or distress. MFA’s efforts have included:

- **American Bankruptcy Institute (“ABI”) Initiatives** – The ABI formed a Commission to study the reform of Chapter 11 with the goals of providing reform recommendations to Congress at the end of its study. MFA members have engaged in the ABI Commission process to provide an investor perspective to the reform discussions and meet with ABI Commissioners periodically to discuss differences in view with respect to bankruptcy reform.

- **Rulemaking** – MFA continued to engage the U.S. Trustee Program (“USTP”), a component of the Department of Justice responsible for overseeing the administration of bankruptcy cases and private trustees, on issues to promote and enhance the integrity, efficiency, and operations of the bankruptcy system. In particular, MFA submitted a request to the U.S. Trustee, urging it to promulgate rules as directed by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 to require debtors in possession and trustees to file periodic reports on uniform forms in Chapter 11 cases under the Bankruptcy Code. MFA believes that
greater, uniform disclosures by debtors in possession and trustees will enhance the effectiveness of the bankruptcy process and maximize value for the benefit of all stakeholders, including creditors, shareholders, and employees. MFA recommended that the USTP consider the federal securities laws as a source of guidance for the types of disclosures in a periodic report that would be meaningful to interested parties in Chapter 11 cases.

FINRA New Issue Rule

Since the adoption of FINRA Rule 5131 (New Issue Allocations and Distributions) in 2010, MFA has explained to FINRA that hedge fund managers have had difficulty obtaining, tracking, and aggregating information from funds regarding indirect beneficial owners, such as participants in funds of funds. As a result, firms have had difficulty determining an account’s eligibility for the de minimis exception, and in some cases have restricted the allocations of new issues in a manner that was not intended by the Rule.

In a series of letters, MFA explained that due to hedge funds’ structure, diversified range of investors, and investment activity of allocating capital across a broad portfolio of assets, there is a significantly reduced risk of spinning through an investment in a hedge fund. Accordingly, MFA recommended that FINRA consider providing additional guidance that would better allow funds to confirm they meet the requirements of the de minimis exception. In September, FINRA filed a proposed change to Rule 5131 that is designed to provide relief to firms seeking to comply with the anti-spinning provision in the context of funds of funds. The proposed change is consistent with the type of guidance that MFA recommended, and in September MFA submitted a letter to the SEC in support of the proposed change. In the letter, MFA also suggested a minor adjustment to the guidance to ensure that it did not unintentionally exclude certain firms. In November, FINRA further amended the proposed guidance in a manner consistent with MFA’s recommendation. The SEC has approved the proposed change to FINRA Rule 5131 on an accelerated basis.
Volcker Rule

In December, the SEC, the CFTC, and banking regulators finalized the Volcker Rule. MFA engaged on a limited scope of issues with respect to the Volcker Rule, primarily engaging constructively with regulators to ensure the Volcker Rule is implemented in a manner that does not impede two important intermediary functions of banks and broker-dealers, market making functions in various assets, and markets and distribution platforms for customers to invest in third-party private investment funds. MFA also encouraged the regulators to ensure that, to the extent banks and broker-dealers are not investing their own capital, but are facilitating customer access to hedge funds, these activities should be outside of the scope of the Volcker Rule prohibition on banks investing in hedge funds. MFA was cited a number of times in the final rule, indicating that regulators found MFA’s comments constructive and meaningful.

Regulation of Wash Trades

This year both the CME Group and FINRA submitted proposed regulation to the CFTC and SEC, respectively, regarding prohibited wash trades. MFA urged regulators to take an even-handed approach in preventing the occurrence of inadvertent self-matches; and clarify that inadvertent self-matches by independent decision makers would not trigger wash trade liability. MFA also urged SROs further to enhance anti-self-matching functionality through the development of greater configurability and accessibility of such functionality to accommodate the varied trading needs among market participants.

Protection of Non-public, Sensitive & Proprietary Information

MFA became concerned over inspector general and press reports describing the gaps in internal controls at regulators to protect non-public information, and the improper use of private, sensitive data that certain regulators collected for regulatory purposes. In response, MFA developed a white paper on the protection of non-public, sensitive, and proprietary information, and submitted it to each member of FSOC. MFA expressed that it strongly supports intelligent, well-informed, and data-driven regulation of the U.S. securities and derivatives markets; and that MFA also consistently has endorsed the notion that regulators need appropriate levels of information about markets and their participants to make thoughtful policy decisions. MFA expressed that, in light of new Dodd-Frank Act authorities and information-sharing duties and obligations, MFA believes it is appropriate and necessary for regulators to review their existing policies, practices,
and controls and to coordinate with fellow FSOC members now before an inadvertent leak occurs or a malicious attack is carried out. MFA's white paper provided a series of recommendations that are relevant to all members of FSOC, calling for increasing the robustness of policies and controls over sensitive, non-public information collected or shared as part of a regulator’s oversight of financial market participants and/or financial stability.

**Tick Size Pilot Program**

In February, the SEC held a Roundtable on Decimalization, discussing the idea of a tick size pilot program for small-cap stocks and whether a bigger tick size increment would encourage liquidity or have an impact on IPOs. Members of the House Financial Services Committee have also focused on introducing legislation on a tick size pilot program and MFA has engaged with those policy makers, noting that decimalization has been an enormous success as it has dramatically reduced transaction costs for investors—especially for retail investors who typically trade at the national best bid or offer. MFA is generally supportive of a tick size pilot program and believes it could be helpful in testing an approach to improving liquidity of stocks of smaller companies. MFA does not believe, however, a pilot program would prove useful as a means for assessing the impact of tick size on the sell-side research following of these stocks or on the number of initial public offerings. The link between these broader objectives is too tenuous and too dependent on inefficient cross-subsidies to make a pilot program on tick size effective as a test of means for achieving these goals.

The SEC has discussed the idea of a tick size pilot program for small cap stocks.

Representative Sean Duffy (R-WI) introduced H.R. 3448, the Small Cap Liquidity Reform Act of 2013, tick size pilot program legislation.
In 2013, as a uniform global regulatory framework continued to evolve, MFA remained committed to the underlying objectives of financial reform, specifically initiatives that seek to create a more transparent, vibrant, and stable financial system. Outside of the U.S., this included responding to international regulatory consultations, remaining engaged with policy makers and regulators, sponsoring international conferences, and collaborating with international trade associations.

Markets in Financial Instruments Directive (“MiFID”)  

In October 2011, the European Commission issued a proposal on the Markets in Financial Instruments Directive (MiFID) and Markets in Financial Instruments Regulation (MiFIR) in order to reform certain aspects of market structure and OTC derivatives trading, especially as they relate to new technology in the markets. In 2013, after months of negotiations, the European Commission, European Parliament, and Council of the European Union continued their negotiations on the dossiers first under the Irish, then under the Lithuanian Presidency. Negotiators identified a number of potentially problematic issues, including 500 millisecond minimum holding periods for high frequency trading, the potential third country registration, and position limits, among others. MFA raised concerns with some of those issues, such as the inclusion of minimum holding periods on high frequency trading; the equivalency requirements needed for third country advisers to perform certain services; and, correct management of position limits, among others.

MFA spent a significant amount of time in Europe this year advocating positions with officials from the European Commission, European Parliament, Council of the European Union, European Securities and Markets Authority (“ESMA”), as well as individual EU Member State regulators in the United Kingdom and France. MFA developed white paper...
papers detailing our concerns, including a comprehensive white paper on position limits. European officials are expected to finalize an agreement on MiFID/MiFIR in early 2014, and MFA will continue its advocacy in 2014 during the Level 2 implementation stage.

Financial Transaction Tax ("FTT")

European policy makers, led primarily by the French and German governments, continued to discuss the implementation of an FTT in Europe. During the first half of 2013, 11 European Union Member States officially approved the proposal to implement an FTT in their respective countries. Discussions among EU Member States remained stalled during the second half of the year as Member States awaited the final results of the German election and the subsequent plans from the Coalition German Government. During this time, there appeared to be a shift in support for the FTT, as a number of EU policy makers and regulators understood the potential negative effects the FTT could have on the EU economy. In late November, the German Coalition Government included the FTT among its top priorities, and shortly after, negotiations among Member States resumed.

The EU FTT has remained an important issue to MFA since initial discussions on the topic emerged in early 2011. MFA remains engaged with policy makers and regulators both in Europe and in the United States, educating policy makers to potential negative effects an FTT will have on all investors – including pension funds – the cost of capital, job creation, and the broader economy.

UK Consultation on Tax Issues Related to Partnerships

On August 9, MFA submitted comments to Her Majesty’s Revenue & Customs ("HMRC") in response to HMRC’s consultation document on certain tax aspects of partnerships. In the letter, MFA encouraged HMRC to: (1) adopt a single test to determine when a member of an LLP would be deemed a “salaried member,” specifically the test proposed by HMRC that focused on the economic rights relevant to a determination of an individual’s membership status; (2) eliminate the additional proposed test that would create an ambiguous and uncertain test for determining when an individual is a “salaried member;” (3) provide additional guidance on how HMRC plans to interpret and implement the test and how HMRC plans to implement associated anti-avoidance rules; (4) clarify that rules related to allocation of profits and losses will not prevent partnerships from engaging in arrangements that have a legitimate business rationale; and (5) apply its rules in a manner that avoids double taxation and
that permits taxpayers to reclaim taxes paid on amounts that are never received. As UK regulators have moved forward with their consideration of the proposed tax rules as well as remuneration rules under the AIFMD, they have indicated that regulators will coordinate regulatory deferral rules and the tax treatment of such deferrals, a positive and important development.

Shadow Banking

European policy makers continued their review and analysis of the potential need for additional regulation of shadow banking (i.e., banking activities from non-bank entities). Specifically, in late August, the Financial Stability Board released its reports on the topic, and in particular issued a consultative report on the effects of securities lending and repos. On November 28, MFA responded to the report encouraging the FSB, and other relevant policy makers, to consider existing regulatory reporting requirements and to tailor the scope of reporting to investors in light of the level of risk from a fund’s securities lending or repo activities, among other points. As a follow up to the letter, on December 16 in London, MFA members met with representatives from the FSB to continue discussion on our views of the regulation of shadow banking.

Earlier in the year, on April 3, MFA also met with FSB representatives in New York to assist them with their work stream on shadow banking entities, discussing the activities of hedge funds, the existing regulation of hedge funds, and why MFA believes that hedge funds are not engaged in shadow banking activities nor do they present systemic risks. MFA’s presentation focused on the facts that hedge funds are increasingly subject to an extensive regulatory framework and reporting of their activities; are smaller and less leveraged than most assume; and they play a legitimate and important role in the global economy, helping investors (increasingly institutions) achieve their financial goals.

MFA also discussed shadow banking during its meetings with EU policy makers in Brussels, in light of policy makers viewing shadow banking as a priority area for regulatory consideration. MFA met with technicians responsible for shadow banking in the European Commission, as well as those involved in drafting opinions for the European Parliament. During these meetings MFA advocated its positions and provided policy makers with relevant studies and data.

Transatlantic Trade and Investment Partnership

The U.S.-EU Free Trade Agreement, called the Transatlantic Trade and Investment Partnership (“TTIP”), seeks to remove trade barriers in a wide range of economic sectors to make it easier to buy and sell goods and services between the two economic areas. Preliminary negotiations began this summer in Washington, D.C. and the third round was completed in December. While it is assumed that most businesses will fall under the scope of the agreement, a decision to include financial services has not yet been made.

The European Commission has been outspoken in its support for the inclusion of financial services, stating that doing so is necessary given the extent of the agreement. The U.S. however, has not yet been supportive of the inclusion of financial services for fear that doing so could disrupt the year of work that have gone into producing and implementing the Dodd-Frank Act. However, recent discussions have seen U.S. negotiators warm to the issue.
MFA is monitoring the TTIP negotiations, scheduling meetings with representatives in the European Commission’s Directorate General for Trade and relevant Parliamentarians and European Member State representatives, and attending stakeholder meetings in Washington, D.C. with top Treasury and State Department officials. MFA expects the TTIP negotiations to continue throughout 2014 and beyond. Additionally, MFA expects that Congress will take begin to consider Trade Promotion Authority next year in order to expedite the consideration of this agreement and others once the final negotiations are complete. MFA remains committed to monitoring theses various proceedings and to assisting policy makers on issues that could impact the alternative investments industry.

Alternative Investment Fund Managers Directive (“AIMFD”)

In 2013, European regulators continued their implementation of the AIFMD at the EU Member State level, and were expected to have transposed the Directive into national law by mid-July. In particular, MFA’s focus during 2013 remained on implementation of the AIFMD in the UK. MFA submitted four letters to UK officials (HM Treasury and the UK Financial Conduct Authority) commenting on how they should treat the scope, remuneration, and transition periods, among other aspects of the Directive. Importantly, the UK and a number of other key EU jurisdictions adopted a one-year transition period for all AIFMs, including non-EU AIFMs, which was a key issue advocated for by MFA with EU regulators.

MFA also remained engaged with ESMA as it completed its work on guidelines for the AIFMD, including those on key concepts, remuneration, and reporting, notably submitting a comment letter to ESMA on July 1. Prior to that, on June 11, MFA participated in a hearing at ESMA’s offices on guidelines on reporting obligations under Articles 3 and 24 of the AIFMD. MFA also engaged those in the European Commission responsible for developing the dossier. In particular, MFA stressed the need for harmonized implementation across the European Union as each Member State begins to transcribe the Directive into national law.

European Markets Infrastructure Reform (“EMIR”)

Throughout 2013, European policy makers and ESMA continued to work on Level 2 regulatory technical standards (“RTS”) and implementation of the European Markets Infrastructure Reform (“EMIR”). As a result, MFA engaged the European Commission, ESMA and the U.K. Financial Conduct Authority (“U.K. FCA”) on key EMIR issues and submitted a number of comment letters in response to consultations issued for public comment.
ESMA Questions and Answers on EMIR Implementation – With respect to implementation of EMIR, ESMA has periodically published an updated “Questions and Answers” document to respond to questions and issues that arise. Members have begun to comply with certain EMIR requirements and are preparing for compliance with others, and that process has revealed a number of key issues on which MFA has sought guidance from ESMA. On March 12, MFA and AIMA jointly submitted a letter to ESMA with a list of questions and answers (“Q&As”) on key member areas of uncertainty in EMIR, including the correct classification of alternative investment funds (“AIFs”) under EMIR and market participants’ ability to rely on a European Commission determination that a third country’s laws are equivalent to EMIR.

Despite ESMA issuing periodic new or modified Q&As in response to industry questions, MFA and AIMA’s outstanding joint questions remained unanswered. As a result, on September 23, MFA and AIMA submitted a follow-up letter to ESMA, which reiterated questions from our March 12 letter related to the correct classification of AIFs and reliance on a third country’s equivalent regulations. In addition, in the letter, MFA and AIMA raised new questions related to, among other things, the upcoming starting date for reporting of exchange-traded derivatives, application of EMIR to foreign exchange contracts, and portfolio reconciliation and portfolio compression requirements. At various times throughout the year, MFA has raised these questions during in-person meetings with representatives and staff of the European Commission, ESMA, and the FCA.

EMIR Clearing Obligation – Implementation of the clearing obligation is one of the key requirements outstanding with respect to EMIR. As a result, on July 12, ESMA issued a discussion paper on the EMIR clearing obligation for public comment in order to obtain input that will help ESMA develop draft RTS for submission to the European Commission. MFA has consistently been supportive of clearing, and in response to the discussion paper, sought to encourage ESMA to move forward with clearing while also providing constructive suggestions on the scope and timing of implementation. Therefore, on September 12, MFA and AIMA submitted a joint letter to ESMA on the discussion paper, in which the Associations reiterated support for implementing clearing in Europe. In particular, MFA and AIMA supported clearing in Europe of those derivatives contracts that are already subject to mandatory clearing in the U.S., and recommended that ESMA provide at least a 3-month phase-in before requiring market participants to clear any new class of contracts. The Associations also objected to the possible retroactive application of the clearing obligation (i.e., “frontloading”).

ESMA RTS on Contracts with a “Direct, Substantial and Foreseeable Effect” within the EU – In 2013, the extraterritorial scope of EMIR remained an issue of concern, especially in light of the concerns expressed with the CFTC’s cross-border guidance by various regulators and market participants throughout the world. ESMA determined to provide certain answers to the extraterritorial application of EMIR by issuing, on July 17, a consultation paper with draft RTS on contracts with a direct, substantial, and foreseeable effect within the European
Union. Although the scope of the consultation paper was such that it had limited applicability to MFA members, on September 16, MFA and AIMA submitted a joint letter to ESMA outlining a desire for ESMA to clarify when a fund is permitted to rely on an equivalence determination with respect to a third country regime. The Associations also requested that ESMA adopt a simple and clear test to determine evasion of EMIR requirements that is criteria-based and non-prescriptive. The Associations also provided comments on how an EU entity’s guarantee of a third country entity should factor into ESMA’s determination on whether the contract has a sufficient EU nexus.

On November 15, ESMA issued its final report for approval by the European Commission. The final report reflects some of MFA’s recommendations from its September 16 joint letter with AIMA. Although ESMA did not address MFA’s inquiry regarding reliance on a third country’s equivalent regime, ESMA did simplify the final evasion test from what it proposed. ESMA also agreed with MFA’s position on application of EMIR to third country entities guaranteed by EU entities and incorporated certain modifications in the final report in response.

Resolution and Recovery of Financial Market Infrastructures

Due to the systemic significance of certain entities, such as central counterparties (“CCPs”), securities depositories, trade repositories, and securities settlement systems (collectively, financial market infrastructures or “FMIs”), European regulators have devoted increased attention of the principles that govern such entities. In April 2012, the Committee on Payment and Settlement Systems (“CPSS”) and the Board of the International Organization of Securities Commissioners (“IOSCO”) issued its final principles for financial market infrastructures, which addressed all aspects of the stability and viability of these entities. However, market participants requested additional guidance on the principles that would apply during the recovery or resolution of an FMI. Therefore, on August 12, CPSS and IOSCO issued a consultative report on FMI recovery.

On September 9, CPSS and IOSCO held a stakeholder meeting in New York to obtain market participants’ preliminary views on the substance of the FMI Recovery Report. CCPs and dealers had been providing feedback to CPSS and IOSCO on these issues for a while, but the buy-side had not communicated its views, and thus, MFA felt it important to provide its perspective. Certain MFA members and MFA staff participated in the meeting and focused on the issue of CCP recovery, and in particular, preventing CCPs from failing as well as the possible use of initial margin (“IM”) or variation margin (“VM”) haircutting as a loss allocation tool. As a follow-up to the meeting, on October 11, MFA and AIMA submitted a joint comment letter to CPSS-IOSCO, in which we noted that the most effective regulatory framework to address the prospect of CCP failure is one that focuses on preventing CCP failure ex ante. The Associations expressed concern with the possible use of margin haircutting as a CCP loss allocation tool, but recommended that, where such haircutting is necessary, the CCP should limit such use to VM haircutting on a gross basis only.

As a corollary to the CPSS-IOSCO report on FMI recovery, on August 12, the Financial Stability Board issued a consultative document on resolution regimes for non-bank financial institutions, which discussed resolution of FMIs. The FSB consultation addressed many of the same issues as the CPSS-IOSCO report. As a result, on October 15, MFA and AIMA submitted a joint letter to the FSB in response to its consultation that was substantively identical to the October 11 letter that MFA and AIMA submitted in response to the CPSS-IOSCO report.
For more information on these and other EU Issues visit MFA’s Comment Letter Database: AIFMD, EMIR, MiFID and Short Selling Regulation.
New European Commission takes Office

05.22.14 – 05.25.14
European Parliament elections

2013
EMIR reporting deadline

2014
AIFMD transitional period ends. AIFMs to be authorized under AIFMD

The European Commission to continue work on Shadow Banking (expected)

2015
AIFMD Marketing passport for non-EU Alternative Investment Funds (potential)

2016
Conclusion of European Commission’s Review of the European Short Selling Regulation
European Short Selling and CDS Reform

2013 marked the first full year of the implementation of the European Short Selling Regulation ("SSR"), and MFA remained engaged with European regulators, including those from ESMA, on the progression of the dossier. Notably, during the first quarter of 2013, MFA submitted two letters to ESMA. The first letter on February 8 addressed issues arising from EU Member State emergency short selling bans. The second letter on March 15 responded to ESMA’s call for evidence ahead of its evaluation of the effect of the SSR. The overarching theme of both of the letters was the need to ensure harmonization of short selling in the European Union under one set of rules, in a clear and efficient manner. During subsequent visits to ESMA, MFA reinforced its views, which ESMA received favorably.

Comment Letters and Meetings

MFA developed 27 comment letters, presentations, and other materials for distribution to members, policy makers, and regulators, including an informational slide deck on European Regulation.

Also, MFA organized 6 rounds of meetings in Europe with policy makers and regulators, including representatives from ESMA, various European Union Member State competent regulators, Members of the European Parliament, Financial Services and Fiscal Attachés from various European Union Member States, and technicians from the European Commission. MFA held over 100 meetings, thus ensuring that European policy makers were aware of MFA’s legislative and regulatory priorities, and establishing MFA as a reliable resource for European officials on U.S. issues.

Domestically, MFA also hosted meetings with EU regulators and policy makers at its offices in Washington, D.C. and New York. On June 3, in our Washington, D.C. office, MFA hosted U.S.-based representatives from the French Ministry of Economy. Days later, on June 17, in our New York office, MFA hosted top regulators from the German market regulator, BaFin to discuss issues relating to MiFID, and high frequency trading. Additionally, on April 19, some of MFA’s European-based members hosted a meeting in London with visiting U.S. Treasury officials to discuss the effects of international financial regulation.

Events

On February 9, for the third consecutive year, MFA co-sponsored the 11th Annual European Financial Services Conference in Brussels, which was attended by over 450 high-level thought leaders in the financial services industry, including regulators, policy makers, and industry. At the conference, Past MFA Board Chair Darcy Bradbury spoke on a panel titled “EU Banking Union and the Single Financial Market,” which focused on closer fiscal, economic and financial markets integration of the European Monetary Union, and its impact on non-Eurozone European states. Ms. Bradbury was joined on the panel by Vitor Constâncio, Vice-President, European Central Bank and Nadia Calviño, Deputy Director General, DG Internal Market & Services, European Commission, among others.
Michel Barnier, European Commissioner for Internal Market and Services, speaks at the 11th Annual European Financial Services Conference in Brussels. (Copyright Forum Europe Ltd.)

Verena Ross, Executive Director, European Securities and Markets Authority, speaks at the 10th Annual European Financial Services Conference in Brussels. Past MFA Chair and current Board member William R. Goodell (second from right) also spoke on the panel. (Copyright Forum Europe Ltd.)
Australia – In addition to Europe, MFA continues to follow and comment on legislation and regulation in the Asia-Pacific region. In particular, MFA has remained engaged with Australian officials regarding their draft Investment Manager Regime legislation ("IMR3"), submitting two letters outlining our views on the issue. In the first letter, submitted on April 26, MFA, along with AIMA expressed support for the Australian government’s objectives of encouraging foreign investment in Australia by providing clarity with respect to the tax treatment of foreign investment funds investing in Australian securities. MFA and AIMA also suggested amendments to the draft legislation that we believe are necessary for the IMR3 to achieve these objectives. On September 13, MFA and AIMA submitted a second joint letter in response to the Australian Treasury’s second draft of the IMR3. Notably, the Associations explained the typical structure, ownership, and compensation arrangements used in the hedge fund industry and why the IMR3 draft legislation likely would exclude many hedge funds from its scope, contrary to the Australian Government’s intention in drafting the legislation. MFA and AIMA expressed support for the Government’s intended objectives and encouraged the Australian Treasury to further consider the concerns raised in our letter, as well as the concerns raised in prior joint letters submitted by MFA and AIMA regarding the investment manager regime. MFA expects to remain engaged throughout 2014 as Australian officials continue to develop and implement the IMR3.
Hong Kong – MFA remains engaged on issues affecting trading in Asia. In particular, due to new Hong Kong ("HK") electronic trading regulations, MFA members have been receiving requests for electronic trading attestations and/or the completion of questionnaires from their HK broker-dealers. As HK regulators have not released any guidance on the issue, and in an effort to assist members with streamlining representations to dealers with respect to electronic trading services, MFA developed a client electronic trading services representation template for members to consider using in lieu of responding to multiple questionnaires.

Singapore - MFA actively monitors financial regulatory events in Singapore as the island nation continues its financial regulatory reform on such topics as derivatives contracts. Notably, the Singapore Exchange (SGX) became the first Asian derivatives clearing organization to be authorized under the CFTC. In addition, given the increased collaboration among global regulators, Singapore has recently entered into a number of other international agreements. Notably, in May, Singapore signed the Convention On Mutual Administrative Assistance In Tax Matters, which expanded the country’s exchange of information partners by 13 jurisdictions, including Brazil and the United States. Singapore also entered into cooperation agreements with the majority of European Member States to help them supervise efficiently the way alternative fund managers comply with the rules of the AIFMD.
Throughout 2013, MFA continued to build out its communications capabilities. A newly redesigned website – optimized for mobile users; a series of easy-to-understand infographics on industry issues; a video interview series; and a host of new presentations explaining the industry and its priorities were just some of the additions to MFA’s award-winning educational efforts. MFA continued to successfully engage with mainstream and trade media to ensure industry views were represented in stories covering Dodd-Frank implementation, derivatives and swaps regulation, bankruptcy reforms, tax issues, European and Asian financial regulatory reform – including EMIR, and many other significant topics. Other highlights of 2013 included:

MFA Digital

In October of 2013, MFA launched a newly redesigned website, optimized for mobile browsers and offering a cleaner look and feel that is easier to navigate. A prominent feature of the new website is its responsive design, allowing users to navigate the site seamlessly on tablets, smartphones, and other mobile browsers. The new site offers members a more user-friendly design, featuring better architecture, to make it easier to find content, and a cleaner presentation of material. The site has seen a significant increase in daily traffic since the redesign was launched, with users viewing more content and staying longer on the site. MFA maintains two digital properties, the main website www.managedfunds.org and a microsite dedicated to educational content, www.hedgefundfundamentals.com.
> **Multimedia Content** – MFA’s web-based multi-channel communications efforts included continued engagement on Twitter and new additions and updates to the award-winning website:

- **Mary Jo White Outlook 2013 Remarks Videos**: Following her appearance at MFA’s Outlook 2013 conference in New York, MFA released nine videos featuring clips from the remarks of SEC Chair Mary Jo White. The videos feature Chair White discussing a variety of topics of interest to the global hedge fund industry. Topics featured in the videos include: the JOBS Act and changes it has brought about; recent regulatory changes brought on by the Dodd-Frank Act; the importance of the hedge fund industry and regulators working together; the value of the hedge fund industry in the financial marketplace; the growing importance of hedge fund transparency and registration; recent regulatory transformation of the hedge fund industry; MFA’s leadership in hedge fund registration; the value of openness in the hedge fund industry; and the new alternatives marketplace.

- **Hedge Fund Basics Video Series**: MFA released eight educational videos as part of a multimedia campaign focused on the hedge fund industry, featuring Richard H. Baker. The videos explain the basics of hedge funds, regulation of the industry, and other aspects of the global hedge fund industry. Topics in the video series included: *What is a Hedge Fund?*, *How Do Hedge Funds Help Pensions Meet Their Obligations?*, *How Do Hedge Funds Manage Risk?*, *What Does AIFMD Mean for the Hedge Fund Industry in Europe?*, *How Are Hedge Funds Regulated in the United States?*, *What is Short Selling and How Does It Benefit Investors?*, *How Are Hedge Funds Relevant to the Daily Lives of the General Public?*, and *What Does the Future Look Like for the Hedge Fund Industry?*
- **U.S. Attorney Preet Bharara Video from Compliance 2013**: Late in the year, MFA released a video clip from U.S. Attorney Preet Bharara’s appearance at the recent Compliance 2013 conference. U.S. Attorney Bharara’s remarks focused mainly on the importance of culture at corporate institutions, as well as the significance of integrating compliance and ethics within the entire company.

**MFA’s YouTube videos have been viewed nearly 4,000 times by users in 56 different countries.**

- **MFA on Twitter: @MFAUpdates** is now approaching 1,500 curated followers on Twitter. The social media outlet has evolved to become a major driver of traffic to the MFA website, and the Association continues using this tool to promote its myriad educational content, blog entries, and news stories of note for the industry. Followers of the account include notable Members of Congress, influential journalists, European and Asian policy makers, fund managers, and other significant figures in the alternative investment community.

- **The Facts About Managed Futures**: MFA released a new factsheet and webpage that provides a concise description of the function and benefits of managed futures, while also explaining the typical fee structures in public and private pools – a focus of the media this past year. The factsheet answers the basic questions about managed futures funds and also works to dispel some of the general myths about how they operate and how their fee structures are set and communicated to investors.
- **Electronic Trading: A Primer:**
  Developed exclusively for the MFA website, this presentation provides an overview of the evolution of electronic trading, provides clear definitions of often misused terms, and demystifies electronic trading strategies like high frequency trading. Among the topics discussed in this presentation: the modernization of our financial markets using electronic trading; definitions of electronic trading, algorithmic trading and high frequency trading; the SEC and high frequency trading; the CFTC and high frequency trading; and, the regulatory framework in place to safeguard investors who invest in markets where electronic trading is prevalent.

> **Interactive 50 State Investor Map and iPad Application** – The interactive map is a unique educational tool that offers a comprehensive look at the institutional hedge fund investor landscape in the U.S. The map contains customized institutional hedge fund investor information for all 50 states as well as related news and research, presented through a user-friendly interactive experience. The map includes access to investor-specific facts and national news, the latest global hedge fund industry research and data, links to MFA’s blog and Twitter content, and individually downloadable state fact sheets. The news feeds and Twitter content present on each state’s factsheet are updated in real time – providing users with the most up-to-date allocation stories, fund hiring, and personnel changes at the institutional investors. MFA updated the map data in 2013 and added new data throughout the year. The App continues to garner significant numbers of downloads each month, expanding its user base and global audience.
Expanded Digital Content on Hedge Fund Fundamentals – MFA added to the content offered on the microsite www.hedgefundfundamentals.com, which was created to promote materials with less complex explanations and messaging so as to be accessible to a more general audience. The site features a number of shareable Power Point presentations, infographics, factsheets, and multimedia.

New content added to Hedge Fund Fundamentals website during the year include:

- **Hedge Funds and Pensions**: Explains the growing connection between pension investments and hedge funds – examining the many reasons why public and private pension plans invest with hedge funds, including portfolio diversification, risk management, and reliable returns.

- **Hedge Fund Strategies Infographic**: Offers users a straightforward view into the many strategies that hedge funds utilize to provide portfolio diversification, risk management, and reliable returns to their investors. Included among the strategies featured in the infographic: long/short equity funds, global macro, event driven, relative value, credit funds, quantitative funds, multi-strategy funds, and managed futures (CTAs).

- **How Hedge Funds Are Structured**: Offers a simple guide to learning the basic structure of hedge funds, covering topics such as hedge funds’ typical partnership structure; organizational structure at many hedge funds; the role of portfolio managers; typical role of general counsels, auditors, and administrators at hedge funds; how prime brokers interact with hedge funds; executing brokers and their role in the industry; and, fee structure at hedge funds.
- **Structuring Offshore Hedge Funds**: Discusses how hedge funds are structured, the composition of hedge fund investors, reasons why investors choose offshore hedge funds, the various domiciles in which hedge funds operate, and how hedge funds accommodate the needs of various investors.

- **CTA/CPO 101**: Gives users a snapshot of this vital section of the global hedge fund industry. It explains how investors, businesses, and commodity producers use futures, options, or forwards to trade commodities that include gold, lean hogs, wheat, and currencies, among others. The presentation also describes how commodity trading advisors and commodity pool operators manage money and advise investors in up to 150 global futures markets, managing funds in public and private commodity pools that are open to different levels of investors. This presentation can also be found on the managed futures web page at [www.managedfunds.org](http://www.managedfunds.org). This page is a repository for multimedia, fact sheets, academic research and other educational materials about the CTA/CPO community.

- **Short Selling: An Important Tool for Price Discovery and Liquidity in the Financial Marketplace**: Gives users valuable information about how hedge funds and other investors participate in the equities, commodities, and debt marketplace through short selling. As many news stories highlight short selling as a negative force in our markets, the new presentation explains how short selling can be a way for investors to communicate their view on the price of an asset, while also explaining many of the other vital benefits short selling provides to investors and the marketplace.
- **How Are Hedge Funds Regulated in the European Union?** Infographic: This infographic gives a brief overview of regulatory action taken in the EU over the last few years. Highlights include the creation of ESMA, and the first financial services regulation undertaken, the AIFMD. The infographic explains how these steps established an EU regulator, as well as robust, harmonized regulatory standards for all fund managers operating or marketing to investors in the EU.

- **How Are Hedge Funds Regulated in the U.S.?** Infographic: Explains how hedge funds have been regulated at the federal, state, and local levels since their inception in the 1940s, and how hedge funds are subject to the same trading and reporting requirements as other investors in traded securities. The infographic also illustrates the multiple regulators overseeing the hedge fund industry or its activities in the U.S., including federal regulators at the SEC and the FSOC, and industry self-regulatory organizations like the NFA.

- **Understanding the Managed Futures Industry** Infographic: This infographic mirrors the existing presentation on the basics of CTAs and CPOs using graphics, statistics, and easy-to-digest explanations of the terms and concepts central to these managers. It also aims to explain how these managers operate in the futures and options markets and how they are regulated on a basic level. Available on [hedgefundfundamentals.com](http://hedgefundfundamentals.com) and on the Managed Futures page on [managedfunds.org](http://managedfunds.org), this infographic is designed to communicate the complex world of managed futures in more understandable language and concepts in order to reach and educate the general public seeking information on this vital segment of the industry.
- **Hedge Fund Performance:** Drawing on recent data on the performance of hedge funds, the new document outlines the benefits of hedge funds as an investment tool and also provides data on their returns and risk management features. When returns are measured using the Sharpe Ratio, hedge funds have consistently outperformed the S&P 500 Index over the past three years (starting in 2010). Utilizing data from J.P. Morgan and Preqin, the resource explains that hedge funds still easily outperformed the S&P 500 Index, cumulatively, over a fifteen-year time period, including the financial crisis.

- **Hedge Fund Due Diligence:** In light of potential public advertisements by hedge funds, the presentation is designed as an educational tool with basic information about who can invest in hedge funds as well as some potential red flags regarding investment fraud. The presentation notes, however, that despite these advertisements being accessible to the general public, only accredited investors can invest in hedge funds.
Media Outreach Initiatives

Targeted Media Outreach – MFA commented on and gave numerous background briefings to all the leading global print publications throughout the year, offering views on Dodd-Frank Act implementation, tax issues, derivatives and bankruptcy reforms, European and pan-Asian regulatory efforts, and hedge fund industry trends and controversies. MFA’s views were represented in The New York Times, The Wall Street Journal, The Financial Times, Bloomberg, Reuters, as well as a number of significant trade publications such as Pensions & Investments, Institutional Investor, Alpha, HFMWeek, and Hedge Fund Alert, among others. Building on a successful collaboration forged last year, Richard H. Baker offered quarterly commentary in HFMWeek, sharing his views on a number of important topics in the global hedge fund industry. Additionally, Executive Vice President and Managing Director D. Brooke Harlow authored commentary for Institutional Investor’s Alpha on marketing and branding in the post-JOBS Act era.”
Whitepaper: “The Cost of Compliance”: MFA, along with KPMG International (“KPMG”) and the Alternative Investment Management Association (“AIMA”), released a report, “The Cost of Compliance,” at MFA’s Outlook 2013 conference. The report, including one of the largest global surveys of hedge fund managers, explored the significant investments firms have made in infrastructure to comply with new regulatory requirements, the effects those costs have had on different segments of the industry, and innovation that has resulted from the new regulatory landscape. Furthermore, the addition of new resources and sharpening of focus on regulatory compliance and risk management suggests that hedge fund managers around the world are committed to meeting regulatory requirements as well as the increased demands of institutional investors. The report was covered by the Wall Street Journal, Financial Times, and numerous trade publications.

Member Publications – This year, MFA continued to streamline its online publications to ensure members received the most important information through the most convenient mechanisms for delivery.

> Daily: Our Industry in the News
  News clips offering members an easily digestible run-down of the relevant news stories that will drive the day’s conversation.

> Weekly: Inside the Beltway
  A weekly schedule of events in Washington, D.C. and abroad that pertain to the global hedge fund industry.

> Weekly: The Week in Review
  A weekly summary of legislative, regulatory, and policy developments, events, and news that influence the industry and its issues.

> Monthly: MFA Policy Brief
  A monthly newsletter highlighting the most significant actions taken by MFA or events and news that have a unique relationship to the industry and MFA members.

> As needed: Briefing Book news alerts
  Timely summaries and analysis of events relevant to the alternative investment industry, including global legislative and regulatory actions where MFA members may desire to become involved.
As the trade association for the global alternative investment community, MFA represents the interests of our members – professionals in hedge funds, funds of funds, and managed futures funds – and their investors. MFA attempts to create content that enables those new to our industry to understand the many roles our industry plays in the global financial system.

According to research firm Preqin, 66% percent of global hedge fund assets are held by institutional investors – public and private pensions, university endowments, and non-profit foundations. As part of our outreach, MFA provides educational resources for policy makers, regulators, professionals, investors, and the media.

**Hedge Funds 101**

MFA’s introduction to hedge funds offers background information on the industry and its investors.

**U.S. Regulation 101**

Learn how the hedge fund industry is regulated in the United States with this primer.

**EU Regulation 101**

The hedge fund industry in the European Union faces a number of regulations – learn more about them with this presentation.
Understanding Managed Futures: CTA/CPO 101
This resource covers the basics of managed futures trading – CTAs and CPOs using graphics, statistics, and easy-to-digest explanations of the terms and concepts central to these managers. It also explains how these managers operate in the futures and options markets and how they are regulated.

Evolution of Hedge Fund Investors & Beneficiaries
The hedge fund industry has evolved significantly. Find out who invests now with this useful infographic.

Hedge Fund Due Diligence
Completing due diligence research is an important part of any investment process. Find out how it is done and why.

Electronic Trading: A Primer
As electronic trading comes more into the mainstream, it is important to know how this market evolution works and how it benefits investors.

Understanding RAUM
Gain insight into the SEC’s new metric of measuring hedge fund assets.

Managed Futures Facts Webpage
Building on the content in the Managed Futures Fact sheet that was released late last year, this new page features MFA educational content detailing the managed futures industry, multimedia content, and related blog posts.
MFA’s reputation as the leading education and advocacy voice of the global alternatives industry was bolstered again in 2013 as membership increased for the ninth successive year. Nearly 4,000 individuals now hold membership in the organization. MFA’s continued involvement in the European Union, Asia, and the U.S. demonstrated to members the importance of belonging to the global trade association of the alternative investment industry.

MFA also expanded its representation of the total assets managed by the largest 100 firms in the global hedge fund and managed futures industry. The Association now represents 80% of the assets on that list, including members who constitute MFA’s Founders Council and Sustaining membership. These leading members play an important role in MFA’s enhanced committee structure and in policy decisions. Basic and Capital members contributed to MFA’s deliberations and successes as the new committee structure encouraged more participation among those thousands of MFA members.

Outreach to global markets remained an important issue for MFA this year. Trips to Europe, Brazil, and the West Coast of the United States represented leading opportunities for MFA to extend its reach to new areas and to attract new members from emerging capital centers. MFA continued its outreach to emerging managers, working to grow its representation among this vital part of the industry. The new Emerging and Mid-Size Manager Forum offered an excellent opportunity for discussion, feedback, and exchange of ideas with members of this segment of the industry, and MFA will continue to utilize the group as a resource in the coming year.
The past year offered MFA more opportunities to deepen its connection and engagement with the CTA/CPO community, the founding membership of MFA. MFA’s annual Forum conference in Chicago offered the managed futures industry the chance to network and learn through educational sessions. Other events throughout the year were also geared to the specific needs of the industry.

MFA’s continued focus on international regulation and legislation is connected with the Association’s concerted effort to engage new member firms from around the world. As global regulatory reform continues and the need for global harmonization of regulations becomes more apparent, MFA’s broad and engaged membership gives the Association tremendous credibility as the true voice of the global hedge fund and managed futures industry.

MFA currently represents nearly 80% of the assets managed by the largest 100 firms in the global hedge fund and managed futures industry.
MFA made great strides in engaging a larger number of investors – bringing them to MFA events and involving them in discussions of the broader issues and priorities of the industry. MFA added more public pension investors to its Institutional Investor Advisory Council and engaged with representatives from the labor union pension funds. MFA will continue to expand its engagement with the institutional investor community in 2014 and beyond.

Institutional Investor Advisory Council (IIAC)

The IIAC has grown, year over year, since it was established in 2010. This select group conducts calls and meetings designed to give MFA a perspective on institutional investor priorities and views on the issues relevant to the alternatives space. Many members of the IIAC attended and spoke at MFA’s conferences throughout the year and also engaged with MFA’s Board at a dinner hosted at MFA’s Outlook conference in October. Over the course of the year the IIAC discussed the prospects for tax reform in the U.S. and the implementation of the AIFMD in the EU. Members of the Council also shared their perspectives on the finalization of the JOBS Act rules governing general solicitation and the SEC Division of Investment Management Review of various relevant rules. The IIAC also discussed operational due diligence and reporting mechanisms. The IIAC has plans to continue to engage on these and other issues in 2014 and act as a sounding board for MFA’s leadership.

Institutional Investor Network

MFA counts over 9,000 individuals as members of its investor network. This group receives regular updates from MFA on the policy issues the Association is focused on, relevant news and trends in the industry, and MFA’s monthly Policy Brief newsletter. The individuals who...
Investor Relations and Business Development Forum

The heads of marketing and investor relations from MFA member firms attended quarterly meetings at MFA’s New York office to discuss current industry regulations, trends and issues facing the industry and its investors. In 2013, this group discussed the progress of the general solicitation rules and the final rule on the SEC’s “Bad Actor” provision. They also discussed development of ‘40 Act fund offerings, marketing in the EU under AIFMD, compliance issues, and Form PF, among many other topics.
MFA’s conferences and events provide unique opportunities for managers, asset allocators, and industry participants to come together for educational sessions and business development. MFA provides four major conference experiences each year, connecting industry leaders, allocators, regulators, and global thought-leaders for discussions about the critical issues impacting alternative investment strategies and for networking opportunities among industry participants and institutional investors.

Network 2013

MFA’s signature business development conference, is the hedge fund industry’s premier event for networking. With the highest attendance of any MFA event in 2013, Network brought together a one-to-one ratio of investors and allocators for a robust educational agenda in the mornings and ample time for business development meetings all afternoon. The morning program agenda provided panel presentations featuring seasoned professionals to discuss risk management, product innovation and new distributions models. The afternoon agenda offered an open architecture of small roundtable meetings and one-on-one meetings in Meet the Manager Booths and hospitality suites. At Network 2013, MFA introduced PowerSessions – roundtable discussions led by asset allocators, including pensions, endowments, and family offices, to discuss their investment criteria and due diligence processes in front of a small group of managers. The PowerSessions proved to be a very popular format for education and networking, and immediately distinguished the conference as one providing lasting value to delegates.
Conference delegates at Network 2013 participate in one of the many popular PowerSessions that allowed for small group roundtable discussions with investors.

James J. Dunn, Vice President and Chief Investment Officer, Wake Forest University speaks with Network 2013 delegates during his PowerSession, An Endowment’s Criteria for Investing in Alternatives.

Former MFA Chair and current Board member William R. Goodell and President and CEO Richard H. Baker at Network 2013 in Florida.
Forum 2013

MFA's annual event focused on managed futures and macro strategies and, like Network, assembled managers and investors for education and business development. Forum featured a program agenda designed to bring institutional investors to Chicago for the opportunity to meet CTAs and macro managers and learn more about their strategies. The popular Meet the Manager Booths facilitated opportunities for investors to have access to managers and to learn more about their approaches to diversification and risk mitigation. During the conference, The Managed Futures Pinnacle Awards presented by CME Group and BarclayHedge took place, honoring the top CTAs, and MFA featured several of the winners the next day on the program agenda. The popular PowerSessions were provided during the afternoons. Featured speakers included:

> **Mark P. Wetjen**, Acting Chair, U.S. Commodity Futures Trading Commission

> **Adam Cooper**, Senior Managing Director & Chief Legal Officer, Citadel LLC

> **Keith Campbell**, Chairman, Campbell & Company, Inc.

> **Chris Rapcewicz**, Director of Risk and Operations, The Leona M. and Harry B. Helmsley Charitable Trust

> **Peter Willett**, Principal, Investment Consulting, Manager Research, Mercer

> **Chris Solarz**, Managing Director, Cliffwater LLC

> **John M. Barger**, Board of Investments, Los Angeles County Employees Retirement Association (“LACERA”)

> **Tarik H. Dalton**, Investment Management Division, North Carolina Treasurer

> **John Keane**, Executive Director, Administrator, Jacksonville Police & Fire Pension Fund
Outlook 2013

MFA’s hedge fund leadership conference held in New York City, convened the industry’s top thought leaders, institutional investors, policy makers, and foremost industry counterparties and service providers. The Outlook “think-tank” agenda featured forward-looking discussions on the economy, markets, and emerging opportunities for success. Designed by the industry for the industry, Outlook 2013 featured a prestigious and dynamic speaking faculty including:

> The Honorable Mary Jo White, Chair, U.S. Securities and Exchange Commission

> The Honorable Charles Schumer, United States Senator, New York

> The Honorable Josh Mandel, State Treasurer, Ohio

> Thomas P. DiNapoli, New York State Comptroller

> Andrew Feldstein, Co-founder and CEO, BlueMountain Capital Management LLC

> Daniel A. Schwartz, Chief Investment Officer, York Capital Management

> David Haley, President and Managing Director, HBK Capital Management; Vice Chair, MFA

> Dawn Fitzpatrick, Global Head and Chief Investment Officer, O’Connor, UBS Global Asset Management

> Eric R. Dinallo, Partner, Debevoise & Plimpton LLP; Director, MFA

> Jacob Gottlieb, Managing Partner and Chief Investment Officer, Visium Asset Management

> Jason Karp, Chief Executive Officer and Chief Investment Officer, Tourbillon Capital Partners, L.P.

> Philip S. Vasan, CEO, Private Banking Americas, Credit Suisse

> Seema Hingorani, Head of Public Equities & Hedge Funds, Bureau of Asset Management, New York City Office of the Comptroller

> Stephen Nesbitt, Chief Executive Officer, Cliffwater LLC

> Teresa Heitsenrether, Global Head of Prime Brokerage, J.P. Morgan; Director, MFA
MFA's third annual regulatory compliance conference built on the success of last year's event, once again proving to be a sought-after source for education and clarity on the vast number of regulatory reforms and implementation of new rules for the hedge fund industry. Compliance 2013 featured an outstanding roster of speakers including eight regulators, several former regulators, law enforcement officials, and industry leaders from hedge funds and legal and consulting practices. Featured speakers included:

> **Preet Bharara**, United States Attorney for the Southern District of New York, Executive Office for United States Attorneys, United States Department of Justice

> **Norm Champ**, Director, Division of Investment Management, U.S. Securities and Exchange Commission

> **Patricia Cushing**, Director of Compliance, National Futures Association

> **Amelia A. Cottrell**, Associate Regional Director of Enforcement, New York Regional Office, U.S. Securities and Exchange Commission


> **Richard Gabbert**, Senior Special Counsel, Office of Derivatives Policy, Division of Trading and Markets, U.S. Securities and Exchange Commission

> **Sarah E. Josephson**, Director, Office of International Affairs, U.S. Commodity Futures Trading Commission

> **Alistaire Bambach**, Assistant Regional Director, New York Regional Office, U.S. Securities and Exchange Commission

> **Michael C. Neus**, Managing Partner, General Counsel, Perry Capital, LLC

> **Marc D. Powers**, Partner and Chair, Hedge Fund Industry Practice, Baker & Hostetler LLP

> **Mikael Johnson**, Lead Partner, Alternative Investments, KPMG LLP; Director, Managed Funds Association
Seminars, Symposia, and Webinars

Throughout 2013, MFA hosted a number of seminars and symposia, focusing on a variety of topics to offer important updates on issues impacting our members and the industry. Led by MFA members and industry partners, MFA seminars and symposia offered insights on the shifting regulatory environment, international developments, and key drivers impacting growth. These events, smaller than conferences and specifically focused to drill down on vital issues, provided members with insights and analysis in a private, exclusive setting. Highlights from 2013 included:


> **AIFMD Symposium**, February 12, 2013, Co-hosted by Credit Suisse

> **One Down – Two to Go: Coordinating Operational Responses to AIFMD and Forms PF and CPO-PQR**, March 7, 2013, Co-hosted by PricewaterhouseCoopers LLP and AIMA

> **Clearing Readiness Countdown for Category 2 Funds**, April 30, 2013, Co-hosted by CME Group

> **Running a Risk Intelligent Enterprise: How Can Your Hedge Fund Find the Unexpected Before it Finds You?**, May 14, 2013, Co-hosted by Deloitte

> **Collateralized Loan Obligations: Investing, Structuring and Managing**, September 12, 2013, Co-hosted by Schulte Roth & Zabel LLP

> **The Rise of Liquid Alternatives: Offering a 40 ACT Hedge Fund**, September 26, 2013, Co-hosted by Dechert LLP

> **Operational Due Diligence Symposium**, December 5, 2013, Co-hosted by Deutsche Bank
Philip S. Vasan, CEO of Private Banking Americas for Credit Suisse (a member of MFA’s Strategic Partner Leadership Council) moderates the annual ‘Industry Principals’ panel with Andrew Feldstein, Co-founder and CEO, BlueMountain Capital Management LLC and David Haley, President and Managing Director, HBK Capital Management and Vice Chair, Managed Funds Association.

Olivier Zeyssolff, Chief Credit Officer of the Tudor Investment Corporation moderates a panel discussion of best practice solutions for protecting customer assets at Forum 2013 in Chicago.

Olivier Zeyssolff, Chief Credit Officer of the Tudor Investment Corporation moderates a panel discussion of best practice solutions for protecting customer assets at Forum 2013 in Chicago.

The Honorable Thomas P. DiNapoli, New York State Comptroller speaks with Eric R. Dinallo, Partner, Debevoise & Plimpton LLP and an MFA Director at MFA’s Outlook 2013 conference in New York.

The Honorable Thomas P. DiNapoli, New York State Comptroller speaks with Eric R. Dinallo, Partner, Debevoise & Plimpton LLP and an MFA Director at MFA’s Outlook 2013 conference in New York.

Tarik H. Dalton from the Investment Management Division of North Carolina’s State Treasury speaks with Forum 2013 conference delegates in Chicago during one of MFA’s roundtable PowerSessions.

Tarik H. Dalton from the Investment Management Division of North Carolina’s State Treasury speaks with Forum 2013 conference delegates in Chicago during one of MFA’s roundtable PowerSessions.


Turab Mehdi, Director, Advisory Services, KPMG LLP speaks during a panel discussion on OTC derivatives regulation as Richard Gabbert, Senior Special Counsel, Office of Derivatives Policy, Division of Trading and Markets, U.S. Securities and Exchange Commission looks on.

Turab Mehdi, Director, Advisory Services, KPMG LLP speaks during a panel discussion on OTC derivatives regulation as Richard Gabbert, Senior Special Counsel, Office of Derivatives Policy, Division of Trading and Markets, U.S. Securities and Exchange Commission looks on.
Building a Stronger, More Stable Voice for Political Activism

Since its establishment in 1995, Managed Funds Association Political Action Committee (“MFA-PAC”) has supported candidates for Federal offices whose views are consistent with and supportive of the alternative investment industry’s positions on key public policy issues. MFA-PAC gives the alternative investment industry a collective voice in the political process by helping to support the Association’s educational goals regarding the vital role the hedge fund industry and its professionals play in serving the needs of their investors and in the global economy. MFA-PAC takes a balanced, bipartisan approach to supporting candidates, which is reflective of the electoral balance in each Congressional Chamber.

In 2013, at the direction and with the support of MFA’s Board of Directors, the Association initiated the next phase in a multi-year plan intended to revitalize MFA-PAC. MFA began the year with a full review of how MFA-PAC operated, focusing on governance, strategy, staffing, and compliance.

As a result of that review and analysis, the Association responded with the following initiatives:

> In April, MFA hired the Association’s first ever full-time Finance Director and Political Affairs Coordinator to manage the day-to-day operations of MFA-PAC and to develop and execute fundraising strategies;

> In May, a team of MFA members held the first meeting of the newly reorganized MFA-PAC Advisory Board to discuss the state of MFA-PAC and the trajectory the Advisory Board and the Association would follow over the coming months; and,

> In June, the MFA-PAC Advisory Board launched a peer-to-peer outreach campaign, engaging member firms to discuss the importance of supporting MFA-PAC.

These efforts were met by a robust response from the Association’s membership, including a renewed commitment to building the visibility and strengthening the outreach of the alternative investment industry to policy makers on Capitol Hill and throughout Washington, D.C.
Board of Directors: Elected Directors

**John R. Torell, IV**
CHAIR
Managing Director and Chief Financial Officer
Tudor Investment Corporation

**Todd Builione**
SECRETARY
Co-Head of Hedge Funds
Kohlberg Kravis Roberts

**David C. Haley**
VICE CHAIR
President, Managing Director
HBK Capital Management

**Bruce S. Darringer**
Member and Chief Operating Officer
King Street Capital Management GP, L.L.C.

**Howard Altman**
TREASURER
Chairman and Principal-in-Charge of the Financial Services Group
Rothstein Kass

**Michael Gismondi**
Chief Operating Officer
Discovery Capital Management, LLC

**William R. Goodell**
Chief Operating Officer
Maverick Capital, Ltd.
Christopher Greene
Managing Director and Chief
Administrative Officer
Tudor Investment Corporation

Mark Madden
COO & Director
Tyrus Capital S.A.M.

David Harding*
Founder & Chairman
Winton Capital Management Ltd.

Tracy V. Maitland
President and Chief Investment Officer
Advent Capital Management, LLC

Michael A. Harris
President
Campbell & Company, Inc.

Michael Mendelson
Principal
AQR Capital Management, LLC

Keith L. Horn*
Chief Operating Officer
Elliott Management Corporation

Kimberly Summe*
Chief Operating Officer
and General Counsel
Partner Fund Management, LP

Henry Kenner
Chief Executive Officer
Arrowgrass Capital Partners LLP

Steven Wagshal
Chief Operating Officer
Samlyn Capital, LLC

Daniel H. Kochav
Partner and Chief Operating Officer
Tenor Capital Management Company, L.P.

Jeffrey A. Weber
President & Chief Operating Officer
York Capital Management

Timothy I. Levart
Managing Member, Chief Operating Officer
Davidson Kempner Capital
Management LLC

Special Advisor

Paul N. Roth
Founding Partner
Schulte Roth & Zabel LLP

(*denotes a Member of MFA’s Executive Committee)

Board roster continues on the following page.
Board of Directors: Appointed Directors

Barry Bausano
President, Deutsche Bank Securities, Inc.
and Co-Head, Markets Prime Finance
Deutsche Bank

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