## MFA and AIMA Submit Joint CFTC Comment Letter on Cross-Border Exemptive Order:

In August, MFA and AIMA submitted a letter to the Commodity Futures Trading Commission (CFTC) in response to its "Exemptive Order Regarding Compliance With Certain Swap Regulations."

In the letter, MFA and AIMA detailed how the intersection and sequencing of the CFTC's final cross-border interpretive guidance creates 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 entered. Specifically, MFA and AIMA urged the CFTC to "provide appropriate guidance or relief with respect to "reporting party" obligations that, in certain limited circumstances, inadvertently fall upon commodity pools, pooled accounts, collective investment vehicles and funds (collectively, "Funds") and would complicate unnecessarily achieving the goals of the Reporting Rules."

Read the full text of the MFA and AIMA comment letter on the cross-border exemptive order.

## Basel-IOSCO Document Outlines Margin Requirements for Non-Centrally Cleared Derivatives:

The Basel Committee on Banking Supervision (Basel) and the International Organization of Securities Commissions (IOSCO) recently released a document outlining their final framework of minimum margin requirements for non-centrally cleared derivatives. The framework aims to "reduce systemic risks related to over-the-counter derivatives markets" according to a Basel-IOSCO press release. The regulators also noted that the framework was designed to "provide firms with appropriate incentives for central clearing while managing the overall liquidity impact of the requirements."

A key principle in the final policy framework includes the requirement that all financial firms and systemically important non-financial entities that engage in non-centrally cleared derivatives must exchange initial and variation margin as appropriate to the counterparty risks posed by the transactions. The assets exchanged for initial and variation margin must be highly liquid and be able to hold their value in a time of financial stress.

The new regulatory framework also intends to manage the liquidity impact of the margin requirements on market participants. "In particular, the requirements allow for the introduction of a universal initial margin threshold of €50 million below which a firm would have the option of not collecting initial margin," the press release said.

The new framework provides for a phase-in period, allowing market participants time to adjust to the new requirements.

Read the regulators' press release here.

Read the regulators' final framework document online here.

## AIFMD Rules Absent in 16 EU Member States:

In the last week of August, 16 Member States of the European Union had yet to fully implement the Alternative Investment Fund Managers Directive (AIFMD), and only 12 Member States had the directive implemented by the July 22 deadline. KPMG research shows that some Member States "still face a long road to full implementation of…AIFMD."

Austria, Croatia, Cyprus, Denmark, Germany, Ireland, Latvia, Luxembourg, Malta, the Netherlands, Sweden, and the United Kingdom were the only EU Member States that implemented the AIFMD by the July deadline. According to the *Financial Times*, Member States that have yet to implement AIFMD risk damage to their own alternative fund industries. If AIFMD has not been transposed to a Member State's rule books, fund managers "will be unable to register themselves under the regime and so could be limited in terms of the states they passport funds into."

In July, data provider Preqin noted that only 22% of fund managers had reached AIFMD compliance. Many managers highlighted that they are still waiting on guidance from their local authorities. On the other hand, the European Securities and Markets Authority (ESMA) has advised fund managers that AIFMD-compliant funds can be marketed in any state, regardless of the compliance status of the EU Member State itself.

Read the full text of the *Financial Times* article.

## Australian Regulator Finds Hedge Funds Pose No Systemic Risk:

The Australian Securities & Investments Commission (ASIC) released a report recently that concluded that Australian hedge funds "do not currently pose systemic risk to the Australian financial system or the wider economy."

The survey was reported by the *Financial Standard*. ASIC's survey highlighted the fact that the average time in which surveyed funds can liquidate 92% of their portfolio is less than 30 days. The regulator also found that hedge funds are mainly utilized by wholesale investors including superannuation funds.

ASIC cited other reasons why hedge funds do not pose a systemic risk, including: the depth and liquidity of the markets in which they have their greatest exposures; their low levels of leverage; and their use of multiple prime brokers.

Read a report about the survey from the *Financial Standard*.
The full ASIC report on hedge funds and systemic risk can be viewed and downloaded here.
Read the full speech given by Greg Tanzer, an ASIC Commissioner, on the survey's findings.

## World's Top 300 Retirement Plans See Assets Rise in 2012:

Assets for the world's top 300 retirement plans increased 9.8% in 2012. This marks the fourth consecutive year in which assets for these funds increased, bringing the total to $14 trillion. According to an estimate by Towers Watson, the funds represent about 47% of the total global pension assets.

The results, reported by *Pensions & Investments*, showed that equity was the largest driver of growth. Alternative investments also played a large role in boosting assets for the top 300 funds. Last year the HFRI Fund Weighted Composite index grew by 6.16%. Carl Hess, global head of investments

at Towers Watson, told the publication that 2012 was a good year for growth, driven mostly by equity. He said equity, "was the single biggest risk taken by pension funds."

The survey also showed that defined benefit plans, which represent 68.5% of the total worldwide assets, grew by 7.6%, while defined contribution plans grew 12.4%. Defined contribution plans are estimated to be about 20.2% of the total, while reserve funds account for 10.6%.

Read the full *Pensions & Investments* article detailing the rise in pension assets.

## The Hedge Fund Industry in California is Robust and Has Room to Grow:

The hedge fund industry has a large presence in California, second only to New York in terms of both the number of investors and hedge fund managers based in the state. According to new research released by industry data provider Preqin, California currently boasts one of the largest pension funds in the country, the California Public Employees' Retirement System (CalPERS), which manages over $262 billion in assets. CalPERS is also the largest non-fund of fund investor in California, totaling $5.3 billion in the hedge fund industry.

Preqin also noted that, "Although there [is] a large number of management groups in California with assets in excess of $1 billion, just two of the hedge funds in the state…feature in the top 20 largest hedge fund managers in North America." Add to that the fact that 45% of California-based investors remain under their target allocations for hedge funds. These two facts help demonstrate, according to Preqin, "that there is room for further expansion on the West Coast."

Another statistic of particular note is that 64% of California-based hedge fund investors are institutional investors, including foundations, endowments, and public and private pension funds.

Read Preqin's Hedge Fund Spotlight featuring California's hedge fund industry.

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