



MANAGED FUNDS  
ASSOCIATION

# Press Release

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## HEDGE FUND MANAGERS MAKING SIGNIFICANT INVESTMENTS TO COMPLY WITH GLOBAL REGULATORY CHANGES: INDUSTRY SURVEY

*Majority of Managers Shouldering Costs; Not Passing on to Investors or Funds*

*Bigger Burden on Smaller Firms Could Serve as a Barrier to Entering Markets*

**NEW YORK, October 17, 2013** –A global survey of hedge fund managers reveals that they are making significant investments in their firms' infrastructure to comply with new regulatory requirements. According to *The Cost of Compliance*, a new report produced by KPMG International, the Alternative Investment Management Association (AIMA) and the Managed Funds Association (MFA), the average spend on compliance was at least (US)\$700,000 for small fund managers, \$6 million for medium-size fund managers, and \$14 million for large fund managers.

The survey, which is one of the largest global surveys of hedge fund managers, was conducted between May and August of this year and includes the views of 200 hedge fund managers representing more than \$910 billion in assets under management (AUM). It also included in-depth interviews with managers from North America, Europe and Asia.

The study found that the hedge fund industry has already invested heavily in compliance efforts to meet new global regulations, having spent more than \$3 billion to date on compliance costs. Hedge fund managers were found to be spending anywhere between 5 percent and upwards of 10 percent of their operating costs on compliance technology, headcount and strategy.

The survey found that the cost of compliance is creating a heavier burden on smaller firms and could become a barrier to entering the market. The smaller firms are spending more -- both as a percentage of AUM and relative to operating costs-- than their larger counterparts. In fact, more than a third of hedge fund managers polled with less than \$250 million in assets under management (AUM) said compliance requirements consume more than 10 percent of their total operating costs.

The survey also found that overwhelmingly, managers are shouldering the majority of the costs associated with compliance, and not passing them on to the funds.

The survey provides an inside look at how the industry is responding to the new regulatory requirements.



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“Fund managers around the world are working hard to deal with the challenges of compliance, in terms of capital investments, human resources and time,” said Rob Mirsky, lead partner for KPMG’s global hedge fund practice. “But there is a sense that the investments they are making today will pay off in the future from a competitive standpoint,” he added.

“The results of this global survey show the industry is serious about building its operational infrastructure for regulatory compliance. But it is important that regulation does not raise barriers to entry to the industry. Next generation managers are an important source of new ideas and talent,” said Andrew Baker, CEO of AIMA.

“This study demonstrates our industry’s tremendous commitment to a new era of regulation. In supporting the goals of global financial reform, and reinforcing that support with these investments in compliance, the industry has acted as a willing partner with regulators and policy makers in creating safer, more stable, and efficient markets for investors,” said Richard H. Baker, President and CEO of Managed Funds Association.

North American firms report spending more on compliance measures as a percentage of AUM than those in other regions. In part, this likely reflects the already high compliance requirements in the U.S., which includes Form PF reporting and SEC registration, versus the expected compliance requirements of the soon-to-be implemented AIFMD.

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.

More than half of the respondents believe that recent regulation has improved the strength, transparency and reputation of the market and improved investor protection.

Managers said their compliance costs and the need to outsource are directly related to the complexity of the regulations. The Alternative Investment Fund Managers Directive (AIFMD) and the Foreign Account Tax Compliance Act (FATCA) were the highest in terms of cost, time and need for external support, which is likely due to their complexity and global reach.

More than two-thirds of the respondents said they needed outside help with AIFMD authorization and reporting; 65 percent needed help with FATCA; 63 percent needed help with their SEC registration and reporting; and 62 percent needed external help with their US Commodity Futures Trading Commission (CFTC) registration and reporting. By comparison, less than 25 percent of respondents said they needed outside help with Asia Pacific registration and reporting.



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## **About Managed Funds Association**

The Managed Funds Association (MFA) represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, the Americas, Australia and all other regions where MFA members are market participants.

For more information, please visit: [www.managedfunds.org](http://www.managedfunds.org).

## **About KPMG International**

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 156 countries and have 152,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

## **About AIMA**

As the global hedge fund association, the Alternative Investment Management Association (AIMA) has over 1,300 corporate members (with over 7,000 individual contacts) worldwide, based in over 50 countries. Members include hedge fund managers, fund of hedge funds managers, prime brokers, legal and accounting firms, investors, fund administrators and independent fund directors. They all benefit from AIMA's active influence in policy development, its leadership in industry initiatives, including education and sound practice manuals, and its excellent reputation with regulators worldwide.

AIMA is a dynamic organisation that reflects its members' interests and provides them with a vibrant global network. AIMA is committed to developing industry skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the industry's first and only specialised educational standard for alternative investment specialists. For further information, please visit AIMA's website, [www.aima.org](http://www.aima.org).

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