

Hedge Fund Regulatory Framework from IOSCO

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Outline of Presentation

1. The financial crisis and hedge funds
2. Role of hedge funds
3. IOSCO's hedge fund regulatory framework
4. Japan's current regulatory framework
5. Cross-border harmonization

1. The financial crisis and hedge funds

- “Did hedge fund activity cause the current financial crisis?”
- Response of market regulators
 investor protection

2. Role of hedge funds

- Benefits of hedge funds
 - liquidity
 - price efficiency
 - risk distribution
 - global integration of financial market
- Cross-border activities
 - Co-operation across multiple jurisdictions

3. IOSCO's hedge fund regulatory framework (1)

- The Six high level principles on the regulation of hedge funds
 - An agreement reached among the G-20 members on the need to introduce regulation for hedge funds
 - Published in June 2009

3. IOSCO's hedge fund regulatory framework (2)

- The Six high level principles on the regulation of hedge funds
 - i. Hedge funds and/or hedge fund managers/advisers should be subject to mandatory registration.
 - ii. Hedge fun managers/advisers which are required to register should also be subject to appropriate ongoing regulatory requirements relating to:
 - a. Organisational and operational standards;
 - b. Conflicts of interest and other conduct of business rules;
 - c. Disclosure to investors; and
 - d. Prudential regulation.

3. IOSCO's hedge fund regulatory framework (3)

- The Six high level principles on the regulation of hedge funds (continued)
 - iii. Prime Brokers and banks which provide funding to hedge funds should be subject to mandatory registration / regulation and supervision. They should have in place appropriate risk management systems and controls to monitor their counterparty credit risk exposures to hedge funds.
 - iv. Hedge fund managers / advisers and prime brokers should provide to the relevant regulator information for systemic risk purposes (including the identification, analysis and mitigation of systemic risks).

3. IOSCO's hedge fund regulatory framework (4)

- The Six high level principles on the regulation of hedge funds (continued)
 - v. Regulators should encourage and take account of the development, implementation and convergence of industry good practices, where appropriate.
 - vi. Regulators should have the authority to co-operate and share information, where appropriate, with each other, in order to facilitate efficient and effective oversight of globally active managers/advisers and/or funds and to help identify systemic risks, market integrity and other risks arising from the activities or exposures of hedge funds with a view to mitigating such risks across borders.

3. IOSCO's hedge fund regulatory framework(5)

- EU and US
 - under discussion by parliament and congress

◆ **registration of hedge fund managers**

◆ **report to authorities on their managed assets on an on-going basis**

4. Japan's current regulatory framework(1)

- Current regulation

- Under the FIEA, fund managers located in Japan are classified as investment management business operators, and are divided into

- (i) discretionary investment managers**

- (ii) investment trust managers**

- (iii) collective investment schemes (self-managed)**

4. Japan's current regulatory framework(2)

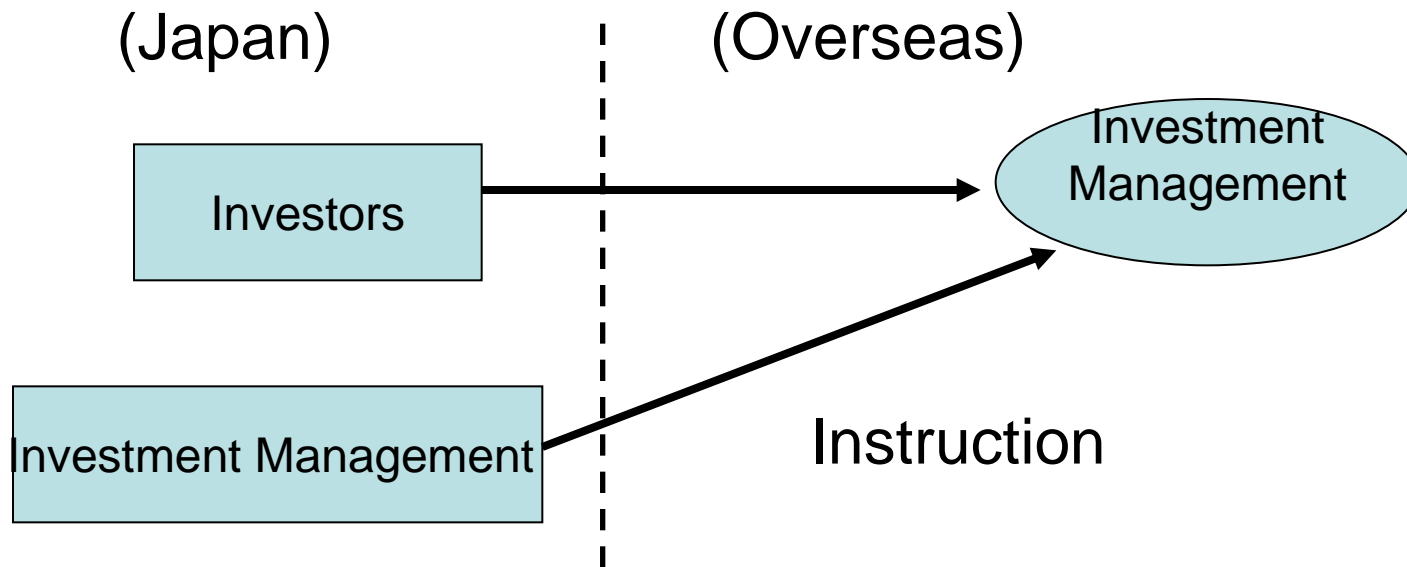
- Current regulation (continued)
 - (i) discretionary investment managers
 - (ii) investment trust managers
 - both regulated under a registration system*
 - (iii) collective investment schemes (self-managed)
 - In principle, regulated under the registration system*

Regulations are in place in Japan which are equivalent to the international standard of “registration.”

4. Japan's current regulatory framework (3)

- New response

The FIEA do not cover the investment management below:



Cross-border harmonization (1)

- FSA, Japan
 - supervises hedge funds located in Japan appropriately Under the FIEA.
 - expects cross-border cooperation with supervision regime reinforcement and information exchange regarding the hedge fund managers and custodians outside Japan.

Cross-border harmonization (2)

- Reports made by hedge fund managers to the authorities
 - in view of international discussion
 - the actual condition of investment management
 - the items to be reported, including ongoing reports to the authorities on the risk management of managed assets

☆ **Necessity to be expanded in collaboration with other counties.**

Thank you very much for your
kind attention.