

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates 1 - 2 November 2006

Question: sbt 71(ASIC)

Topic: Hedge Funds

Hansard Page: E39

Senator SHERRY asked:

You may want to take this question on notice. Hedge funds have been in the media a lot recently—the issue surrounding hedge fund activity. Perhaps you could let us know whether you have some information about any ASIC concerns, regular industry compliance issues in that area.

Mr Lucy—We will take that on notice.

Answer:

ASIC has no immediate concerns in relation to hedge funds in Australia. However, given their increasing activity in our market and their high level of investment by retail investors, ASIC has begun to intensify its scrutiny of these funds to ascertain whether they pose any significant risks, or different risks to those posed by other managed funds.

One difficulty in this area is the definition of a hedge fund. Commonly, hedge funds would be regarded as those funds that target ‘absolute returns’, rather than performance against a particular benchmark. Many of the other characteristics commonly associated with hedge funds, such as using leverage and charging performance fees, are no longer the preserve of these absolute return funds.

ASIC has assembled a specialist team with expertise in regulation of hedge funds and trading experience, including in OTC-market related products, as well as some of our most experienced staff to conduct both research and targeted surveillance on this market segment and identify any unique issues. The primary areas of focus at this stage are disclosure to retail investors, including in relation to strategies, risks and fees, valuations of illiquid instruments, conflicts of interest and the impact of trading activity being engaged in by these funds.

None of this should be taken to suggest that ASIC has encountered any particular reason to be concerned about these issues at this stage.