Monthly Update for our Members

This update includes:
-June Luncheon Recap
-RSVP info for the July Summer Social – in New York City!
-Upcoming educational webinars – Discounted price available
-Request for ideas for the next newsletter topic – what should be our next interview topic?

June Luncheon Recap:

Our June luncheon featured a presentation from Patricia Watters and Mason Snyder, co-founders of Catalina Partners, titled "Operational Risk Measurement: Identifying and Capturing Meaningful Business Risk Measures."

The presentation outlined the business risks the hedge fund community has been dealing with, and best practices in doing so, including assessments, testing and reports.

While the list of business risks is growing, becoming more overwhelming as we consider more than simply the back office, Valuation was especially singled out as a hot topic. It is more important than ever to have your valuation independently reviewed.

Mason briefly reviewed the President's Working Group guidelines, and pointed out that about 50% of the guidelines are consistent with the SEC or are commonly accepted as good business practices; another 25% are something to aspire to; the last 15% are those practices the majority of firms have not yet implemented, but are certainly indicative of the future of the hedge fund industry. Of the core 50% of the guidelines, Mason reviewed 6 groups:

- The executive summary
- Disclosure and investor protection
- Valuation
- Risk Management
- Trading and business operations
- Compliance, conflicts and business practices

Then Mason & Pattie covered what a risk assessment actually involves, and the triggers that determine how often you should conduct a risk review.

A risk assessment should include:

- Identifying and prioritizing issues and conflicts that may create risk to the interests of the firm or its clients
- Consideration of the firm's vulnerable areas (leverage vs. non-leveraged a specific example)
- Review of the firm's documents and processes surrounding identified risk areas
- Verification, including sample tests, interviews, site visits

While a risk assessment should definitely be incorporated into the annual review, some firms do this more frequently and certain triggers necessitate a risk assessment, such as changes to business lines or recent legal or regulatory developments.

When assessing risk, Pattie suggested asking these key questions:

- What could go wrong?
- What are the potential threats to the interests of the firm and its clients?
- How are conflicts of interest mitigated? Disclosed?
- Are the sources and uses of the firm's payments and profits appropriate?
- What are the risks highlighted in enforcement or civil actions against other advisors?

When conducting a stress test, there are certain goals to keep in mind:

- Provide an understanding of how effectively a firm has implemented its compliance policies and procedures
- Identify activities or transactions that have fallen short of or breached related policies and procedures

Mason and Pattie also shared tips when conducting a stress test:
- focus on higher risk areas first
- Report as necessary
- Document the review process

Pattie suggested forming a risk committee and also stressed the importance of having independent experts review the risk management program.

Of course, the important part after assessing and testing risk is to demonstrate that you're actually managing that risk. Some risk you just can't get rid of and, in this case, Patti stressed: document, document, document.

To document the risk assessment process, Patti suggests:

- Describe the policy and its objective
- Risk assessment
    - List identified risks, describe the risk assessment and indicate risk levels and monitoring schedule
    - Specify procedures and mitigation measures, such as controls
    - Summarize testing and results
- Highlight material problems identified by the assessment and resolutions and corrective actions
- Include reviews by independent experts, legal counsel, and/or auditors

Save the Date for the July Summer Social!

All HFBOA members are invited to join us for our summer social and networking event, July 30th in New York City. Join the executive board and other members for a casual, meet-and-greet event.

Time:
5:00 pm – 7:00 pm Eastern

Location:
Beer Bar at Café Centro
200 Park Ave
New York NY 10166
(at 45th and Vanderbilt Ave)

Cash Bar

MARK YOUR CALENDAR!

Educational Events and HFBOA Networking functions:

- July 7, 2009: WEBINAR: Avoiding Tax Traps within Passive Foreign Investment Companies
- July 9, 2009: WEBINAR: Avoiding Legal and Tax Issues Related to Redemptions
- July 27, 2009: WEBINAR: Debt Repurchases, Exchanges and Tenders
- July 28, 2009: WEBINAR: Understanding Section 28(e) and Client Commission Arrangements
- July 29, 2009: WEBINAR: Effective Use of Your Risk Assessment System
- July 30, 2009: WEBINAR SERIES: A Complete Guide to Successful Hedge Fund Tax Strategies
- July 30, 2009: ATLANTA, GA: Timberland Investors' Forum
- The 4th Annual Meeting of the HFBOA Membership & Educational Conference – Join Us September 24-25, 2009 in NYC!

To see our calendar of events: http://www.hfboa.org/calendar.aspx

And don't forget the HFBOA's exclusive pricing option – 15% off all educational and networking events offered by Financial Research Associates. To claim your discount, reference priority code FAO1327 when registering for any FRA event.

ASSOCIATION UPDATES:

Your suggestions are welcome – What should our next newsletter cover?

The HFBOA will conduct interviews with industry players, providing multiple perspectives on the issues and topics that matter to you most. Email krodriguez@hfboa.org with your suggestions for topics. What would you like to hear more about?

If you haven't already, be sure to download our 1st Newsletter of 2009, a compilation of interviews focused on Treasury Management today.
Visit: http://www.hfboa.org/newsletter.aspx and click on "May 2009 newsletter" to view.

Connect with us on LinkedIn! Use this open platform to network with other HFBOA members around the globe. We encourage all members to:

- Post interesting articles
- Discuss recent events
- Share best practices and ask for suggestions from other fund managers and ops execs

We look forward to connecting with you online!