

Press release

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Ref no: 40/2005E

29 November 2005

FSF meets with the hedge fund community and their counterparties

The Financial Stability Forum (FSF) recently convened two informal workshops of senior members of the hedge fund community, their counterparties, and financial authorities. The first workshop took place in London on 22 November, hosted by the UK Financial Service Authority; the second took place in New York on 28 November, hosted by the U.S. Securities and Exchange Commission.

The rapid growth of the hedge fund sector in recent years has attracted attention in markets and in the official community. In light of this, the FSF arranged these meetings, chaired by Roger W. Ferguson, Jr., the FSF Chairman, with the immediate aim of improving mutual understanding between the official sector and the private sector and the ultimate objective of maintaining sound and efficient financial markets.

The workshops discussed trends in the hedge fund sector, risks in the present market environment, risk-management challenges for hedge funds and their counterparties, and a range of operational issues. Participants noted growing institutional investor interest in the hedge fund sector. This has brought increased investor scrutiny, with expectations of greater professionalism and more disciplined management practices to the sector. With regard to risks in the current environment, participants observed that the recent benign conditions, particularly positive credit conditions and ample financial market liquidity, may not endure. They therefore recognized the importance of stress testing and carefully assessing market liquidity conditions. Against this background, the hedge funds and their counterparties underscored the critical importance of adequate counterparty risk management practices, including appropriate haircuts and other collateral management techniques. In addition, a number of operational issues are receiving attention, notably with regard to credit derivatives markets. Industry participants are working to reduce documentation backlogs, improve assignment procedures, and facilitate settlement of credit derivatives. While work is under way in the financial industry to improve the market infrastructure for these transactions, further progress is required to enhance market stability.

The FSF will continue to monitor the hedge fund industry as an element of its ongoing responsibility to understand global financial markets and institutions on behalf of the Group of Seven (G7) industrial nations and to share the international experience and perspectives of its members.

Notes for editors. The FSF brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. It was established by the G7 finance ministers and central bank governors in February 1999 to promote international financial stability through enhanced information exchange and international cooperation in financial market supervision and surveillance. It meets regularly to assess issues and vulnerabilities affecting the functioning, integrity and stability of financial markets and institutions and to identify and oversee actions to address them. The FSF is chaired by Roger W. Ferguson, Jr., Vice Chairman of the Board of Governors of the Federal Reserve System. The FSF's Secretariat is based at the Bank for International Settlements in Basel, Switzerland. For further information on the FSF, its membership and its activities, visit the FSF website at www.fsforum.org