

# **Global Risk Management Advisors Form PF Update**

December 11, 2012

## What Are Form PF Filers Doing Now?

At the end of November, hedge fund managers with Regulatory Assets Under Management (“RAUM”) of \$5 billion or more made their second Form PF filing. We at Global Risk Management Advisors (“GRMA”) want to update you on our recent experience working with some of the largest first filers, as well as with managers that will be making their initial filings early next year (“second and third filers”).

***First Filers:*** we observed that “first filers” (managers with RAUM of \$5 billion or more) are still struggling with properly interpreting the questions and with developing assumptions and methodologies for various risk calculations. Pinning these areas down has been difficult for managers, in part because the SEC has issued FAQs shortly before both filings to date. In our view, the SEC will continue to issue FAQs over the coming months. We have found that first filers are beginning to think about their regulatory preparedness around Form PF, as well as how to disclose information from their Form PF filings, given that institutional investors have begun requesting to see these filings.

***GRMA’s Recent Work with First Filers:*** we focused our work with first filers for the recent November 29<sup>th</sup> filing in three areas: 1) improving workflows to make their Form PF process more efficient; 2) putting in place enhanced documentation and regulatory audit trails; and 3) implementing reconciliations and other controls to make their process more sound and sustainable. In addition, because of the legal, regulatory and investor implications arising from Form PF, funds have found it very beneficial to engage GRMA to carry out our review, check and audit services for them before they submit their filing to the regulators.

## What Are Form PF Filers Doing Now? (*continued*)

**Second Filers:** many “second filers” (hedge fund managers with RAUM between \$1.5 billion and \$5 billion) are, remarkably, still evaluating how they should proceed with Form PF and which service providers to engage to assist them. This lack of progress is particularly troubling because, relative to first filers, second filers generally need greater assistance from service providers. Second filers that have engaged their administrator or a Form PF software provider are now discovering, to their dismay, that these vendors can only provide a partial solution.

**GRMA’s Recent Work with Second Filers:** our second filer clients typically fall into two camps:

1. **Soup to Nuts:** many second filers that have limited internal resources want GRMA to assist with their entire form PF process, including: project management for data aggregation and production of the XML upload file; interpretation, assumptions, risk methodologies/calculations and answers for Form PF questions; process and controls; and our review, check and audit of their filing before submission.
2. **Heavy Lifting:** second filers that are working with an administrator or a Form PF software provider want GRMA to assist with the “heavy lifting” of Form PF: interpreting the questions on Form and developing assumptions, risk methodologies/calculations and answers, as well as performing our review, check and audit of their filing before submission to the SEC.

**Third Filers:** hedge fund managers with RAUM between \$150 million and \$1.5 billion have, in many cases, just begun to focus on Form PF. Although third filers only have to complete Section 1 of Form PF, we found that many of these managers are significantly underestimating the amount of time needed to develop a sound and sustainable process for Form PF reporting.

**GRMA’s Recent Work with Third Filers:** even though third filers are only required to complete Section 1 of Form PF, they are finding that they would benefit from GRMA’s guidance in interpreting the more complex questions and developing assumptions and answers for these questions. In addition, like first and second filers, third filers want GRMA to perform an independent review, check and audit of their filings before submission because they recognize the substantive and optical value of our review. They consider this service to be invaluable and inexpensive insurance, given the regulatory and investor-related risks arising from Form PF.

## What Are Form PF Filers Doing Now? (*continued*)

**“Test Filing”:** we have noticed that many second filers have been misled into doing a “dry run” of their Form PF filing with their administrator before they have developed an approach and process for Form PF. From our extensive experience, we found that it is crucial that a manager determine the interpretations, assumptions and methodologies needed to develop valid Form PF answers before attempting to do a test filing. Fund administrators do not have expertise in these aspects of Form PF and do not want the liability associated with making those decisions for a manager. They simply help populate the form and produce the XML upload file -- after a fund has developed appropriate interpretations and assumptions and valid answers for Form PF questions.

Some administrators will, in certain instances and on a no-names basis, provide feedback as to interpretations, assumptions and/or methodologies being used by their other clients. We strongly advise managers that it is unwise to rely on such “blind” comparisons with other funds. The regulators have been clear that decisions regarding interpretation, assumptions and methodologies belong to the fund manager and should be made based on diligent analysis of what is appropriate for its funds.

We believe a manager’s first and foremost objectives should be to get the Form PF content right and to develop a sound, sustainable and repeatable process with appropriate documentation and regulatory audit trails. An administrator or a Form PF software provider cannot provide these services — only GRMA provides these services.

## “Heavy Lifting” for Form PF

There is a common misconception that Form PF is just about data aggregation. The “heavy lifting” for Form PF goes beyond just data aggregation and includes:

- ***Interpretation*** – interpreting the questions in Form PF in the manner intended by the regulators.
- ***Assumptions, Risk Methodologies/Calculations and Answers*** – developing key assumptions, risk methodologies and calculations and answers required for the complex and ambiguous questions on Form PF.
- ***Project Management*** – managing the process of extracting, normalizing, aggregating and transforming the data required to develop answers for the questions on Form PF and producing the final Form PF XML upload file.
- ***Sound Risk Approach and Processes*** – ensuring a fund’s risk management approach and processes are sound and will “show well” to regulators and investors.
- ***Consistent Risk Representation*** – ensuring that a fund represents its risk consistently across its external-facing documents (e.g., Form PF, PPM, DDQs, investor communications).
- ***Final Review*** – reviewing the final Form PF submission file to ensure that it reasonably and accurately reflects the risk profile of the fund and does not raise any regulatory or investor “red flags.”

## Why GRMA?

What sets GRMA apart for Form PF is that we combine our extensive risk management expertise and thought leadership on Form PF with leading Form PF data aggregation technology\* to provide our clients with:

- ***Complete and Cost-effective Solution*** – a complete and cost-effective initial and ongoing solution for Form PF that is sound, repeatable and sustainable.
- ***Interpretation*** – expertise to provide much needed interpretation and guidance for the questions in Form PF.
- ***Evaluation/Development of Assumptions, Risk Methodologies/Calculations and Answers*** – experience to evaluate and/or develop key assumptions, risk methodologies & calculations and answers required by Form PF.
- ***Project Management*** – expert project management to provide a “general contractor” for the entire Form PF process.
- ***Enhanced Risk Management*** – enhanced risk management as it relates to Form PF.
- ***Consistency*** – more consistent risk representation across all fund documents.
- ***Essential Final Review*** – an independent final review, check and audit of a Form PF filing before submission to the SEC.
- ***Independence*** – substantive and optical value for investors and regulators, from our role as independent risk experts.

\* Data aggregation technology provided in conjunction with one of GRMA’s software partners or a fund’s administrator.

## GRMA's Advisory and Implementation Services for Form PF

For a complete description of GRMA's Advisory and Implementation Services for Form PF, [Click Here](#).

## GRMA Thought Leadership on Form PF

For some examples of GRMA's thought leadership around Form PF, please read:

- [Form PF Lessons Learned by Hedge Fund Managers from the August 2012 Initial Form PF Filing](#) (Published November 15, 2012 - *The Hedge Fund Law Review*)
- [Operational, Investor and Regulatory Risk in Connection with Form PF: An Interview with Samuel K. Won of Global Risk Management Advisors](#) (Published October 11, 2012 - *The Hedge Fund Law Review*)
- [Form PF: Operational Challenges and Strategic, Regulatory and Investor-Related Implications](#) (Published January 26, 2012 – *The Hedge Fund Law Report*)