

Corporate & Financial Weekly Digest

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FSA Hedge Fund Surveys' Conclusions Published

On February 28, the UK Financial Services Authority (FSA) produced its latest biannual report, "Assessing Possible Sources of Systemic Risk from Hedge Funds." This report sets out the FSA's key findings from two hedge fund surveys conducted in September and October 2010—its hedge funds as counterparties survey (HFACS) and its Hedge Funds Survey (HFS). The FSA conducts these surveys every six months to assist it in understanding potential sources of systemic risk in the hedge fund sector. (See the [February 26, 2010](#), and [August 13, 2010](#), editions of Corporate and Financial Weekly Digest for reports on previous HFS and HFACS.)

The February 2011 report's findings include the following:

- The "footprint" of surveyed hedge funds remains small within most markets and leverage is largely unchanged. Therefore, risks to financial stability through the hedge fund market channel seemed limited at the time of the latest surveys.
- Counterparties have increased margin requirements and tightened other conditions on their exposures to hedge funds, increasing their resilience to hedge fund defaults.
- Some risks to hedge funds remain, particularly if they are unable to manage a sudden withdrawal of liabilities during a crisis period.
- Counterparty credit exposures to hedge funds remain concentrated among a small number of banks.

The FSA stated that it intends to repeat the HFS and HFACS in March 2011. It also intends to work closely with the International Organization of Securities Commissions and other national regulators on a global approach to systemic risk data requirements for hedge funds.

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