U.S. Securities and Exchange Commission

Annual Staff Report Relating to the Use of Data Collected from Private Fund Systemic Risk Reports

This is a report of the Staff of the Division of Investment Management
of the U.S. Securities and Exchange Commission.

The Commission has expressed no view regarding
the analysis, findings, or conclusions contained herein.

July 25, 2013

Executive Summary

The Dodd-Frank Act provided the Commission with new authority, and directed it to use this authority to require registered investment advisers to maintain records and file reports regarding the hedge funds, private equity funds and other private funds they advise. The Commission implemented this aspect of the Dodd-Frank Act in 2011 when it adopted a new form (Form PF) that requires certain registered investment advisers that advise private funds to report information to the Commission.

While the primary aim of this provision was to create a source of data for the Financial Stability Oversight Council ("FSOC") to use in assessing systemic risk, the Commission is using the information to support its own regulatory programs, including examinations, investigations and investor protection efforts relating to private fund advisers. The Dodd-Frank Act also required that the Commission report annually to Congress on how it has used the data to monitor the markets for the protection of investors and the integrity of the markets. This is the first annual report submitted to Congress to satisfy this obligation.

Since the adoption of Form PF, the Commission's staff has focused its efforts on (i) implementing an electronic filing system for use by Form PF filers; (ii) resolving technical aspects of data security, collection and delivery; (iii) answering questions and providing filer assistance; (iv) establishing and overseeing Commission-wide protocols regarding how Form PF data is accessed and protected internally; and (v) providing FSOC, through the Office of Financial Research, access to the data collected.

Due to the rolling compliance dates the Commission adopted for Form PF, the Commission has only recently received a complete set of initial filings. Commission staff has begun to assess the quality of the data collected — including evaluating the consistency of filer responses and differences in approaches or assumptions made by filers — and has used the data on occasion to obtain information regarding a specific or small number of private funds. In addition, a number of uses of the information have already been identified across various Commission Divisions and Offices. In particular, the Division of Economic and Risk Analysis has successfully incorporated Form PF data into its proprietary analytical tool; the Division of Investment Management's Risk and Examinations Office is working to develop analytics using Form PF information that will allow it to monitor the risk-taking activities of investment advisers to private funds; and the Office of Compliance Inspections and Examinations anticipates using the information collected on Form PF in conducting pre-examination due diligence and in risk identification. In addition, the Commission staff intends to provide certain aggregated, non-proprietary Form PF data to the International Organization of Securities Commission (IOSCO) regarding large hedge funds so IOSCO has a more complete overview of the global hedge fund market for a report that will be shared with the Financial Stability Board. In the coming months the staff will continue to assess data quality, and will develop data analytics incorporating Form PF data to further the Commission's mission.

I. Introduction

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("***Dodd-Frank Act***")[1] Section 404 directed the U.S. Securities and Exchange Commission ("***Commission***") to establish reporting requirements for investment advisers to private funds as necessary and appropriate in the public interest and for the protection of investors or for the assessment of systemic risk by the Financial Stability Oversight Council ("***FSOC***").[2] The Dodd-Frank Act specifies that such reporting must include certain information about private funds, including but not limited to the amount of assets under management, use of leverage, counterparty credit risk exposure, and trading practices for each private fund managed by the adviser.[3]

On January 26, 2011, in a joint release with the Commodity Futures Trading Commission ("***CFTC***"), the Commission proposed a new rule and a new reporting form designed to implement the Dodd-Frank Act Section 404 mandate.[4] The Commission adopted, on October 31, 2011, new Form PF and Advisers Act rule 204(b)–1 that established filing requirements for private fund advisers regarding information for the assessment of systemic risk.[5]

The Commission is required to submit an annual report to Congress regarding how the Commission has used the data collected regarding private funds under the Dodd-Frank Act to protect investors and the integrity of the markets.[6] This report is being submitted to Congress in satisfaction of that requirement. This is a report of the Staff of the Division of Investment Management and the Commission has expressed no view regarding the analysis, findings, or conclusions contained herein.

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1 Public Law 111-203, 124 Stat. 1376 (2010).

2 Section 404 of the Dodd-Frank Act (codified at Section 204(b) of the Investment Advisers Act of 1940, as amended ("***Advisers Act***")). FSOC was created pursuant to the Dodd-Frank Act to monitor risks to the U.S. financial system. *See* Dodd-Frank Act sections 111 and 112.

3 Section 404 of the Dodd-Frank Act.

4 *See* Reporting by Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors on Form PF, Investment Advisers Act Release No. 3145 (January 26, 2011), 76 FR 8068 (February 11, 2011) ("***Proposing Release***"). Section 406 of the Dodd-Frank Act required that the Commission and the CFTC jointly promulgate the private fund adviser reporting form.

5 *See* Reporting by Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors on Form PF, Investment Advisers Act Release No. 3308 (October 31, 2011), 76 FR 71128 (November 16, 2011) ("***Adopting Release***"). In 2012, the CFTC adopted rule 4.27 under the Commodity Exchange Act to implement systemic risk reporting requirements for registered commodity pool operators ("***CPOs***") and commodity trading advisors ("***CTAs***"); the rule also permits CPOs and CTAs registered with the CFTC that are registered with the Commission as investment advisers to file Form PF with the Commission in lieu of filing certain systemic risk reports with the CFTC. *See* Commodity Pool Operators and Commodity Trading Advisors: Amendments to Compliance Obligations, 77 FR 11252 (February 24, 2012).

6 Section 404 of the Dodd-Frank Act.

II. Background

A. Purpose of Form PF

The Commission adopted Form PF to obtain, on behalf of FSOC, data that FSOC will use to monitor systemic risk in U.S. financial markets. Form PF was designed with the help of FSOC members and will provide FSOC and the Commission with important information about the operations and strategies of private funds. The Commission expects that FSOC will use the information collected on Form PF, together with market data it obtains from other sources, to help FSOC monitor systemic risk. To date, FSOC has issued guidance and standards that it will use to determine which nonbank financial companies will be designated as "systemically important"[7] and has indicated that it will use Form PF data to consider whether to establish additional sets of metrics and thresholds tailored to evaluate whether any private fund adviser or private fund is systemically important.[8] In addition to the primary purpose to assist FSOC in its assessment of systemic risk, the Commission stated that it would use the information collected on Form PF in its regulatory programs, including examinations, investigations, and investor protection efforts.[9]

B. Form PF Data Reporting System

To implement systemic risk reporting requirements, the Commission has developed an electronic filing system, the Private Fund Reporting Depository ("***PFRD***") through which advisers submit the information required by Form PF to the Commission. PFRD is operated under contract with the Financial Industry Regulatory Authority ("***FINRA***") as an extension of the existing Investment Adviser Registration Depository ("***IARD***") system (the online reporting platform advisers use to register on Form ADV with the Commission).[10] The selection of FINRA and the use of the IARD platform for PFRD were the subject of a notice and order in conjunction with the Form PF rulemaking.[11] Since July 2012, investment advisers have successfully electronically filed Forms PF, and amendments to those forms as required, with the Commission on the PFRD.

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7 *See* Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, Financial Stability Oversight Counsel Release (April 3, 2012), 77 FR 21637 (April 11, 2012).

8 *Id*.

9 *See* Adopting Release at Section II.

10 *See* Adopting Release at Section II.E. *See also* Approval of Filing Fees for Exempt Reporting Advisers and Private Fund Advisers, Investment Advisers Release No. 3297 (September 30, 2011), 76 FR 62100 (October 6, 2011) ("***Notice of Intent***"). *See* also Order Approving Filing Fees for Exempt Reporting Advisers and Private Fund Advisers, Investment Advisers Release No. 3305 (October 24, 2011), 76 FR 67004 (October 28, 2011) ("Order"); Proposing Release.

11 *See* Notice of Intent and Order.

C. Form PF Data Reporting Requirements

Investment advisers registered with the Commission that have at least $150 million in private fund regulatory assets under management ("***RAUM***") are required to periodically file Form PF with the Commission. Both the amount of information required to be reported and the frequency with which Form PF must be filed depend on the amount of the adviser's RAUM and the types of private funds managed. Most advisers are required to file Form PF once a year, and report only basic information regarding the private funds they advise. This annual filing requirement includes general data such as the types of private funds that an adviser advises (*e.g.*, private equity or hedge funds), and information relating to such funds' size, leverage, types of investors, liquidity and performance. Advisers managing hedge funds must also report information about fund strategy, counterparty credit risk, and the use of trading and clearing mechanisms.

Large private fund advisers, however, must provide more detailed information. The content and frequency of this more detailed reporting is different depending on the type of private fund the large adviser manages:

- Advisers with at least $1.5 billion in hedge fund RAUM must file Form PF quarterly with respect to their hedge funds. Information required to be reported generally includes aggregate information on such funds' exposures, geographical concentration, and turnover by asset class (not position-level information). For each Qualifying Hedge Fund (*i.e.*, $500 million or more in net assets), additional information relating to each fund's exposures, leverage, risk profile, and liquidity is required.

- Advisers with at least $1 billion in combined liquidity fund and registered money market fund RAUM must file Form PF quarterly with respect to their liquidity funds. Information required to be reported generally includes each such fund's exposures, geographical concentration, and turnover by asset class (not position-level information), and direct and indirect forms of leverage and liquidity.

- Advisers with at least $2 billion in private equity fund RAUM must file Form PF annually with respect to their private equity funds. Information required to be reported generally relates to each such fund's use of direct and indirect leverage (*e.g.*, use of financing) and investments in financial institutions.

In adopting Form PF, the Commission was sensitive to the costs to advisers to file while appreciating the statutory mandate to collect a broad, representative set of systemic risk data regarding the private fund industry for FSOC.[12] As a result, the Commission made a number of modifications from proposal to adoption of Form PF that were designed to mitigate concerns expressed by commenters. For example, the final rule does not require advisers that have less than $150 million in private fund assets under management to file Form PF. The Commission

[12] *See* Adopting Release at Section II.A.

also increased the thresholds for advisers to be categorized as large private fund advisers (and consequently be required to report additional details of the private funds they manage) from $1 billion to $1.5 billion for hedge funds and from $1 billion to $2 billion for private equity funds.

D. Total Filer Population

Table 1 below provides the aggregate number of filers and the number of private funds for which they are filing as well as when the Form PF filing is required. This data is as of May 15, 2013.[13]

Table 1: Total Filer Population:

	Timing of Filing	Number of Advisers	Number of Funds
Smaller Advisers ($150 million private fund RAUM)	120 days from fiscal year end	1,662	9,963
Large Liquidity Fund Advisers ($1 billion combined liquidity fund and money market fund RAUM)	15 days from a quarter end	25	51 (liquidity funds)
Large Hedge Fund Advisers ($1.5 billion hedge fund RAUM)	60 days from a quarter end	482	4,189 (hedge funds)
Large Private Equity Fund Advisers ($2 billion private equity RAUM)	120 days from fiscal year end	171	1,931 (private equity funds)
Total		**2,305**[14]	**18,015**[15]

13 All eligible filers were required to make initial Form PF filings no later than April 30, 2013.

14 The total number of advisers does not count multiple times those 33 large advisers that advise more than one type of private fund (liquidity fund, hedge fund or private equity fund). Therefore, the sum of the four categories will result in a larger total.

15 The total number of private funds includes 1,881 additional private funds that are not otherwise included in this column because these private funds are (a) advised by large private equity advisers and are not private equity funds, (b) advised by large hedge fund advisers and are not hedge funds or (c) advised by large liquidity fund advisers and are not liquidity funds.

E. Form PF Data Reporting

Below sets forth certain initial aggregate data regarding the filings, as of May 15, 2013.

Types of Private Funds Advised by all Filers

6,683 – Hedge Funds ($4.061 trillion cumulative RAUM)
5,928 – Private Equity Funds ($1.603 trillion cumulative RAUM)
2,922 – Other Private Fund Type ($698 billion cumulative RAUM)
1,121 – Real Estate Funds ($299 billion cumulative RAUM)
966 – Securitized Asset Funds ($338 billion cumulative RAUM)
329 – Venture Capital Funds ($23 billion cumulative RAUM)
66 – Liquidity Funds ($258 billion cumulative RAUM)

Private Fund Regulatory Assets Under Management Reported by all Filers

$7.280 trillion

Parallel Managed Accounts[16] *Reported by all Filers*

$1.78 trillion

Qualifying Hedge Fund Population[17] *Reported by all Filers*

1,169 Qualifying Hedge Funds advised by 420 filers

Qualifying Hedge Fund Regulatory Assets Under Management Reported by all Filers

$3.279 trillion

Liquidity Funds Following 2a-7 as Reported by Large Liquidity Fund Advisers

26 (51%) liquidity funds advised by Large Liquidity Fund Advisers reported that they are managed in compliance with all of the risk limiting conditions of Rule 2a-7 of the Investment Company Act.

Aggregate Gross Value of Controlled Portfolio Companies[18] *as Reported by Large Private Equity Advisers*

$6.020 trillion

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16 A Parallel Managed Account is any managed account advised by a filer that pursues substantially the same investment objective and strategy and invests side by side with a filer's private fund.

17 A Qualifying Hedge Fund is a hedge fund with a net asset value of at least $500 million.

18 A Controlled Portfolio Company is a portfolio company that is controlled by the private equity fund, either alone or together with the private equity fund's affiliates or other persons that are part of a club or consortium including the private equity fund.

III. Data Use

The Dodd-Frank Act provides specific confidentiality protections for proprietary information of investment advisers collected by the Commission for the purposes of assessing systemic risk of private funds. Consistent with the enhanced confidentiality provisions established under the Dodd-Frank Act, Commission staff has designed and implemented controls and systems for the handling of Form PF data across the agency. Senior officials from various Divisions and Offices within the Commission are members of a Steering Committee that is tasked with developing a consistent and agency-wide approach to accessing, and the using, sharing, and security of, Form PF data.

The Steering Committee also works with other federal agencies that request Form PF data to address the confidentiality obligations under the Dodd-Frank Act. Significantly, in accordance with the Dodd-Frank Act, Form PF data has been made available to FSOC through the Treasury Department's Office of Financial Research ("***OFR***"), which was established under the Dodd-Frank Act[19] to support FSOC in fulfilling FSOC's purposes and duties. Prior to the delivery of Form PF data to OFR,[20] the Steering Committee and OFR representatives agreed to principles for the use and protection of Form PF Data and the Steering Committee worked with OFR to assess OFR's information technology policies and procedures.[21]

As noted above, although the information collected on Form PF is primarily intended to assist FSOC in its systemic risk monitoring obligations under the Dodd-Frank Act, the Commission is using information in its regulatory programs, including examinations, investigations, and investor protection efforts relating to private fund advisers.[22] To that end, Commission staff is actively developing data analytics incorporating Form PF data to further the Commission's mission.

Due to the rolling compliance dates the Commission adopted for Form PF, the Commission has only recently received a complete set of initial filings. It is anticipated that the utility of the private fund data collected on Form PF will develop as the staff's experience with the information evolves. A number of uses of the information have already been identified across various Commission Divisions and Offices.

The Division of Economic and Risk Analysis ("***DERA***") has successfully incorporated Form PF data into its proprietary analytical tool. DERA also is actively working with various experts across the Commission to develop and deliver more complex analytics (e.g., aberrational performance, systemic trend and peer analysis) using Form PF data and other data sources. For

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19 *See* section 152 of the Dodd-Frank Act.

20 *See* section 153 of the Dodd-Frank Act.

21 Pursuant to the Dodd-Frank Act, other federal departments or agencies, or self-regulatory organizations may request Form PF data for purposes within the scope of their jurisdiction. Each recipient of Form PF data is required to maintain the confidentiality of that information consistent with the heightened level of confidentiality established by the Dodd-Frank Act. *See* section 404 of the Dodd-Frank Act (codified at section 204(b) of the Advisers Act). At this time, Form PF data has not been provided to other agencies.

22 *See* Adopting Release at Section V.A.

example, the Commission's Asset Management Unit of the Division of Enforcement is working collaboratively with DERA to develop analytic tools to integrate Form PF data into research and due diligence related to investigative work and other enforcement matters.

The Division of Investment Management's Risk and Examinations Office ("***REO***") is also working with DERA to develop analytics that will allow REO to monitor the risk-taking activities of investment advisers to hedge funds and other private funds as part of REO's risk monitoring program, as well as to provide internal periodic reports regarding the private fund industry generally and with respect to particular market segments. The Division of Investment Management also will use Form PF data to inform policy and rulemaking with regard to private funds, and intends to use aggregated, non-proprietary data in its consultative work with other securities regulators on issues of mutual interest. For example, certain aggregated, non-proprietary Form PF data (as detailed in Appendix A) is expected to be shared with IOSCO, in conjunction with its survey of the global hedge fund industry.

The Commission's Office of Compliance Inspections and Examinations ("***OCIE***") anticipates using the information collected on Form PF in several ways. For examination teams conducting pre-examination research and due diligence, Form PF data will provide greater insight into the activities of the fund(s) managed by an adviser and result in better exam scoping and risk identification. OCIE has also begun work with DERA to develop periodic reports that analyze data across a wide spectrum of filers to help identify trends and possible emerging risks in the private fund industry. This effort could enhance the development of examination priorities, resource allocation and training-related initiatives. OCIE also is working to develop a series of analytics and metrics that will allow staff to identify possible red flags at firms, which could trigger examinations. Similarly, thematic examinations also could be initiated as a result of this analysis.

As noted above, the Commission's experience with Form PF data is in its early stages and the utility of the data collection will develop as the collective experience with the information evolves. Of critical importance to expanding the utility of the data is confidence in the information provided by filers. Commission staff also is proactively trying to improve data quality by, for example, issuing FAQs on interpretive issues that commonly arise from filers. In addition, Commission staff has performed an initial analysis of Form PF Data and identified certain data anomalies attributable to filer error. Commission staff has begun, and will continue to contact filers to inform them of the anomalous data and request that advisers submit curative amendments to their Form PF filings. Data quality also is expected to improve as filers become more familiar with the Form's requirements and the methods of calculation.

IV. Conclusion

Each investment adviser registered with the Commission that has at least $150 million in private fund RAUM recently completed an initial Form PF filing. The information collected on Form PF is intended to primarily support FSOC and the assessment of systemic risk. Since adoption of the new reporting requirement, the Commission staff has implemented the new electronic form filing requirement, established internal protocols regarding access to the data collected and provided FSOC, through OFR, access to the PF Data. The information collected on Form PF will also support the Commission's regulatory programs relating to private fund advisers. Commission staff has begun to assess the quality of the data collected and in the coming months the staff will develop and refine data analytics incorporating Form PF data to further the Commission's mission.

Appendix A

IOSCO has requested that the Commission share certain aggregated, non-proprietary Form PF data in order for IOSCO to draft a report to the Financial Stability Board. The Task Force on Unregulated Financial Entities was launched by IOSCO in response to the financial crisis and directed to develop recommended regulatory approaches to mitigate risks associated with the trading and traditional lack of transparency of hedge funds. One such recommendation was to encourage regulators to share data related to systemic risk.[1] Commission staff intends to provide IOSCO with the following aggregated, non-proprietary Form PF data regarding Qualifying Hedge Funds so IOSCO has a more complete overview of the global hedge fund market for a report that will be shared with the Financial Stability Board. In addition, Commission staff intends to provide IOSCO with information explaining in detail what Form PF requires advisers to report and qualifications regarding this data set in light of international comparability issues. Pursuant to IOSCO's request, all of the below information is from Form PF data filed between October 1, 2012 and December 31, 2012. During this time, only advisers with at least $5 billion in assets under management attributable to hedge funds were required to file Form PF.

Number of Qualifying Hedge Funds[2] reported on Form PF

823 Qualifying Hedge Funds

Domicile of Qualifying Hedge Funds reported on Form PF[3]

Domicile	Percent
CAYMAN ISLANDS	45%
UNITED STATES	41%
BRITISH VIRGIN ISLANDS	3%
LUXEMBOURG	3%
BERMUDA	2%
IRELAND	2%
OTHER	4%

Domicile of Qualifying Hedge Funds reported on Form PF by net asset value[4]

Domicile	Percent
CAYMAN ISLANDS	51%
UNITED STATES	35%
BRITISH VIRGIN ISLANDS	7%

[1] *See* IOSCO Final Report on Hedge Funds Oversight, Recommendation 6 *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD293.pdf.

[2] A Qualifying Hedge Fund is a hedge fund with a net asset value of at least $500 million.

[3] This data was calculated using Form PF and Form ADV data.

[4] This data was calculated using Form PF and Form ADV data.

LUXEMBOURG	2%
IRELAND	1%
BERMUDA	1%
OTHER	3%

Aggregated Net Asset Value of All Qualifying Hedge Funds reported on Form PF

$1.47 trillion

Aggregated Regulatory Assets Under Management of Investment Advisers Reporting Qualified Hedge Funds on Form PF[5]

$10.05 trillion

Qualifying Hedge Fund Number Breakdown by Investment Adviser Location[6]

Investment Adviser Country Location	Number of Qualifying Hedge Funds
UNITED STATES	735
UNITED KINGDOM	59
BRAZIL	14
GUERNSEY	6
AUSTRALIA	4
BERMUDA	2
BAHRAIN	1
JERSEY	1
SINGAPORE	1

Aggregated Dollar Amount of Parallel Managed Accounts[7] *related to Qualifying Hedge Funds reported on Form PF*

$275 billion

5 This data was calculated using Form PF and Form ADV data.

6 This data was calculated using Form PF and Form ADV data.

7 A Parallel Managed Account is any managed account advised by a filer that pursues substantially the same investment objective and strategy and invests side by side with a filer's private fund.

Aggregated Dollar Amount of Borrowings[8] of Qualifying Hedge Funds reported on Form PF

$1.06 trillion

Number of Qualifying Hedge Funds reported on Form PF having a single primary strategy or multi-strategy

- 569 single primary strategy
- 252 multi-strategy
- 2 did not report

Percent of Aggregated Qualifying Hedge Funds reported on Form PF portfolios capable of being liquidated within:

Percent of Net Asset Value	Time Period
27%	1 day or less
53%	7 days or less
71%	30 days or less
80%	90 days or less
85%	180 days or less
89%	365 days or less
100%	365 days or more

Aggregated Number of Qualifying Hedge Funds reported on Form PF that provide investors with withdrawal or redemption rights in the ordinary course.

- 603 provide withdrawal/redemption in the ordinary course
- 220 do not provide withdrawal/redemption in the ordinary course

Percent of Aggregated Qualifying Hedge Funds reported on Form PF Net Asset Value that may be withdrawn or redeemed

- 15% of Qualifying Hedge Funds' aggregated net asset value is not available for withdrawal/redemption in the ordinary course
- 77% of Qualifying Hedge Funds' aggregated net asset value may be subjected to a suspension of investor withdrawal/redemptions by an adviser or fund governing body
- 52% of Qualifying Hedge Funds' aggregated net asset value may be subjected to material restrictions on investor withdrawals/ redemptions (e.g., "gates") by an adviser or fund governing body

[8] Borrowings include the secured and unsecured borrowings of a fund, but do not include other significant methods of incurring leverage, such as the inherent leverage associated with a fund's use of derivatives. *See* Form PF Frequently Asked Questions, *available at* http://www.sec.gov/divisions/investment/pfrd/pfrdfaq.shtml.

- 1% of Qualifying Hedge Funds' aggregated net asset value is subject to a suspension of investor withdrawals/redemptions
- 3% of Qualifying Hedge Funds' aggregated net asset value is subject to a material restriction on investor withdrawals/redemptions (e.g., a "gate")

Percent of Aggregated Qualifying Hedge Funds reported on Form PF net asset value investors are capable of liquidating within:

Percent of Net Asset Value	Time Period
7%	1 day or less
9%	7 days or less
24%	30 days or less
43%	90 days or less
59%	180 days or less
74%	365 days or less
100%	365 days or more