

The NED

Independent intelligence on fund director issues

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Governance risk: stay away from the US

Much effort has gone into trying to improve governance standards of offshore funds since the market crisis. Some US investors have played a prominent role in this, especially with regard to Cayman. But there is one jurisdiction, well above any other, that investors should stay away from if alternative governance risk is a concern: the US.

The NED is in the process of compiling a report on alternative fund governance risk standards by jurisdiction. Governance risk is significantly higher in the US than offshore mainly because of the lack of any independent governance structure for most alternative funds and, in particular, as a consequence of the way that many partnership agreements are drafted.

It is doubtful that US alternative governance standards have been compared to those in the international fund domiciles before. If they had then the emerging debate in the US about how to implement reform to domestic partnership structures might have made more progress.

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SEC's private fund unit swings into action

The SEC's new unit to examine practices at private fund partnerships has already swung into action. The first public manifestation of the unit's work is an unprecedented attack on governance standards at private equity funds. Following a preliminary round of investigations the SEC's Andrew Bowden has said that the unit has found a "remarkable" level of law-breaking and cheating. (The NED report in April on this unit which is dedicated to examining practices of US hedge fund and private equity partnerships.)

Speaking at a private equity conference earlier this month he said that just 150 private equity partnership structures had been inspected so far but that many were guilty of possibly deceitful behaviour. Half of the examinations uncovered what Bowden called "violations of law or material weaknesses in controls."

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Grosvenor	SEC
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KB Assoc	USS
Legg Mason	Weaving
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New Steam	

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