



Streamlining Hedge Fund Processes and Compliance



Brand image, regulatory actions and potential fines are forcing fundamental changes in compliance management and business process improvements. Some of these requirements include:

Appointment of a Chief Compliance Officer

Maintenance of records such as form ADV, financial records and marketing collateral

Email retention and archiving

With its Business Solutions Framework for rapidly tailoring content-centric solutions, Livelink ECM – eDOCS enables firms to:

Streamline hedge fund management processes

Deploy end-to-end Anti-Money Laundering solutions

Readily demonstrate and report on business processes for regulatory compliance initiatives

Automate email management and reduce associated costs

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Solving Compliance Issues and Delivering Operational and Process Improvements

Investment management firms and hedge funds continue to respond to existing and new regulations, such as SOX, AML and more recently for the hedge fund industry, SEC regulations and the Investment Adviser Act of 1940.

The Business Challenge

The worldwide hedge fund industry has recently undergone enormous growth and change. Already there are nearly 7000 hedge funds managing nearly \$1 trillion in assets. In the past five years, hedge funds have grown nearly 260% with current investment returns exceeding those of mutual funds and investment levels totaling about 20 percent of mutual funds investment equity. Moreover, it is estimated that hedge funds account for somewhere between 10 and 20 percent of the total equity trading volume in the US.

In October of 2004, the US Securities and Exchange Commission required hedge funds to register under the Investment Adviser Act of 1940 by 2006. This officially went into effect February 1, 2006.

As a result, hedge funds are required to implement proper controls for compliance, provide appropriate disclosures to their investors, and are now subject to regular SEC audits. While funds with less than \$25 million or less than 15 clients will not fall under the ruling, these funds must comply with applicable state laws. In short, compliance is now of chief concern to hedge fund managers.

The Implications of Compliance

According to Paul F. Roye, Director of the Division of Investment Management at the Securities and Exchange Commission (SEC), hedge funds must be registered because of their tremendous growth, the availability and access of hedge funds by the retail market and pensions, and the increased likelihood for fraud across the industry.

Under an amendment to the provisions of the Investment Advisers Act of 1940, hedge funds are now open to SEC scrutiny. Specifically, Section 203(b) enables the SEC to examine records and documents as it sees fit in order to protect the public interest. The clause also mandates that hedge fund financial books and records must be maintained by financial services organizations in a location that is easily accessible for a period of at least five years. The SEC also requires hedge funds to have a Chief Compliance Officer responsible for the oversight of design and execution of a firm's compliance program.

Addressing Hedge Fund Process and Compliance Issues with Livelink ECM – eDOCS™

Addressing the requirements for compliance is just the incentive to get the business processes that surround hedge funds in better order. Compliance is not new to the investment industry and will certainly continue to get tougher over time. The Livelink ECM – eDOCS approach is to offer a solution that not only ensures compliance but also reduces costs and adds business value.

Livelink ECM – eDOCS, powered by its Business Solutions Framework for building tailored solutions that streamline processes and generate competitive advantage, provides the technology and software components that not only solve compliance issues but significantly deliver operational and process improvement for financial services firms.

With Livelink ECM – eDOCS, firms are deploying content-centric solutions that address all four aspects of the Investment Adviser Act pertaining to the hedge fund process:

1. The accuracy of disclosures made to investors, clients and regulatory authorities, including account statements, advertisements and published prior performance
2. The accurate creation of required records and their maintenance in a manner that secures them from unauthorized alteration or use and protects them from untimely destruction
3. Safeguards to protect the privacy of client records and information
4. SEC-registered advisers must keep myriad financial, trading, marketing and client relations, policies and procedures and general records, in most cases for at least five years and in some cases indefinitely

Some of the more pertinent documents and records that SEC Rule 204 applies to in a hedge fund include:

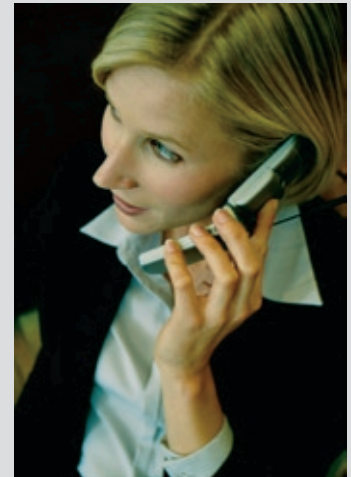
1. Corporate and Financial Records of the Investment Manager and/or the Fund
2. Tax Records of the Investment Manager
3. Regulatory Filings, such as Form ADV and other filing documents
4. Marketing Records
5. Investor Relationship Records
6. Supervision and Compliance Oversight Records

Specifically, Livelink ECM – eDOCS captures and maintains all these records and documents, as well as additional client communication in the form of correspondence and email. These documents are maintained and retained according to internally defined retention schedules and procedures. Relevant content is organized for fast search and retrieval and categorized to add context for decision makers. It is then archived and retained in accordance with firm-defined schedules.

Each hedge fund document type (i.e. filings, relationship records, etc.) has a unique profile associated with it. This profile typically contains specific information (i.e. parties, addresses, dates, etc) associated with that document or class of documents. The profile can also capture important information not directly in the document itself, such as where the document is stored and when it can/must be destroyed. Business and compliance reports can then be quickly run against the profile data to determine the type of documents that have been retained or the number and types of documents scheduled for destruction.

Livelink ECM – eDOCS in Financial Services Firms: Extensibility, Flexibility, and Value

With its Business Solutions Framework, organizations can leverage Livelink ECM – eDOCS to deploy a complete solution for Investment Adviser compliance as well as anti-money laundering and compliance with both the USA Patriot Act and the Bank Secrecy Act. Livelink ECM – eDOCS also includes a business process workflow solution that enables organizations to model any business, documentation and compliance process, and then automate various steps, thereby streamlining the process and aiding in documentation or compliance mandates. Organizational documents and records are fully linked to workflow processes, so information is available where, when and to whom it is designated.



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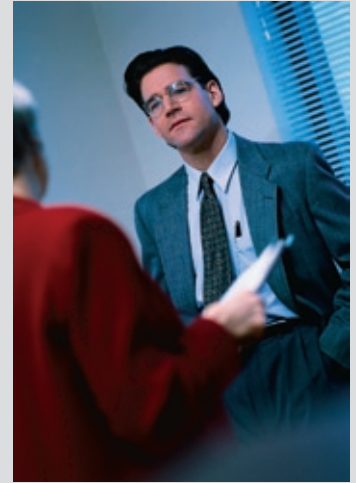
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Livelink ECM – eDOCS is the most flexible Enterprise Content Management solution available today. It works with standard, familiar Microsoft® interfaces, including Windows® Explorer file navigator, Microsoft Office, and Microsoft Outlook®. In short, financial services firms can roll out highly tailored content-centric solutions for hedge fund compliance management, anti-money laundering, and much more, all without training users on new technology because they never have to leave the familiar Microsoft user environment they work in most.

Livelink ECM – eDOCS streamlines the hedge fund lifecycle process by capturing, maintaining, categorizing, indexing and archiving all documents and records associated with it. Leveraging the automation features and content-centric workflow of Livelink ECM – eDOCS, financial services firms can streamline the processes surrounding hedge fund management and ensure compliance with current and future regulations governing hedge funds.



“There is a real question in the minds of many chief compliance officers about whether the independent-minded partners of hedge funds will fully listen to a CCO... This could pose a significant risk to hedge funds facing the increased compliance burden associated with registration.”

William Wechsler,
Consultant, Greenwich Associates

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