

Workshop 7 – Financial innovation

By EU Reporter

The hedge fund and private equity industries have been badly hit in the past 12 months and their activities have been blamed for the severity of the global downturn. The public image of the banking sector is bad, but private equity and hedge funders have become everybody's favourite whipping boys. The question is do these sectors have a future apart being put in the stocks?

“The hedge fund industry should not be so vilified, as one bad case makes the headlines and the examples of good behaviour have been forgotten, said Richard Wilson, president of the US-based Hedge Fund Group. “We have been blamed for all the ills of the present market including short selling and financial malfeasance.”

However, he did recognise that the systemic shock had led to hedge funders to accept that “investors should be better advised”.

Hans Aasnaes, managing director of Norwegian investment company Storebrand admitted mistakes were made; “As an industry we did not keep our promises. There was too easy an access to money and this created an investment and led to fraud by some.”

One reason for this was that the banking industry veered away from original practices, said Tayfun Bayazit, CEO of the Turkish bank Yapi Kredi. “A lot of products were new and the best principles were not adhered to and the advice to the boards should have been better.”

As for the future Stefano Pierantozzi, director, head of fiduciary oversight & research at banking group Citi, believed that regulation was inevitable.

“It depends on several things, but in the last year regulators have realised their studies have thrown up some very esoteric issues, as these are difficult issues to understand,” he said, “and it takes time to make sense of them.”

Aasnaes added that the two industries should also from now on should consider more open styles of investment and go back to basics.

“The regulatory regime should open the books and the black box on what has been going on,” he said. “Better regulation that allows for more transparency would be good for the market and good for investors.”

Wilson warned however that regulation along the lines of the US's Sarbanes-Oxley act on compliance would not be welcome by the industry.

“However, the hedge fund industry would like to get on board with regulation and in the next year we will be happy to work with the EU and the SEC [Securities and Exchange Commission],” he said.

Yapi Kredi supported the calls for more clarity. “Incentives for risk taking and incentives for good performance should always be there. There should be more transparency and more disclosures.”

There was also a prediction that the industry would improve in the next year as it moved into different markets such as construction. “We are seeing requests for finance from realtors and property companies as they find it very difficult to raise capital from banks at the moment,” said Wilson. “We will become stronger as we diversify our strategies.”