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New Monthly Compliance Job

CCOs Advised On Form SLT

Daniel Hunter

Advisers can accurately fill out Form SLT and track it systematically every month by using a "three-bucket" approach to tally investment vehicles and cross-border transactions, according to Daniel Hunter, partner with Schulte Roth & Zabel.

The U.S. Department of the Treasury rule that requires firms to complete the form covers advisers when the combined value of securities issued by U.S. funds managed by the IA to foreign residents, and the value of foreign issuer securities owned by U.S. funds managed by the IA, total at least $1 billion. Hedge fund firms have faced challenges filling out the form, with some compliance officials complaining they were unsure whether they met the $1 billion threshold (Complianceintel.com, 9/28).

Covered firms must, in the form, report the fair market value of those securities and the country of residence of foreign issuers whose securities feature in the adviser's portfolio. Firms were required to submit Form SLT to the Federal Reserve Bank of New York for each of the last two quarters of 2011 and monthly beginning this month.

Advisers to master-feeder hedge fund complexes—which are set up for tax purposes and generally involve a U.S. feeder fund and a foreign master fund—are required to file the form if the feeder's investment in the non-U.S. master fund exceeds $1 billion and is not held by a qualified U.S. custodian.

Hunter told CI that some hedge fund firms are still struggling with the form, so he has told them to begin by trying to figure out what their U.S.-sponsored entities are. "They are used to the notion of U.S. clients, which is a [Securities and Exchange Commission] concept, but the Treasury doesn't have that concept," he said. "The Treasury just cares about U.S. boxes that you've formed, and who is the closest person to that box to be doing the filing, whether or not they're a client."

The next step is to determine whether any foreigners are allowed into the U.S.-sponsored vehicles. As most hedge funds don't allow foreigners into their U.S. entities, that answer is often none. But, for instance, if there is $500 million from a French investor that goes into one of the adviser's domestic vehicles, he tells advisers to write that number down using a spreadsheet. That number should go in what Hunter called Bucket One (see box).

For Bucket Two, advisers should look at any actual portfolio transactions between their U.S. vehicles and foreign long-term securities. Hunter pointed to a custody issue here that has been a point of confusion. This bucket would include, for instance, a Delaware limited partnership that owns shares in a foreign bank, but only if it's not held by U.S. custodians.

"A lot of times people are custodying through [for example] Goldman Sachs, but it's Goldman Sachs International out of London. The Treasury, as it turns out, took a very literalist approach. So if our prime brokerage agreement is literally with Goldman Sachs of New York, then we're off the hook and Goldman Sachs has to file that," he said. "But if we've literally contracted with Goldman Sachs International, then we're on the hook."

Into Bucket Three, Hunter said, go cross trades, onshore to offshore—the $1 billion going from the domestic vehicle into the Cayman vehicle. "That trips up a lot of people and takes them a while to figure out, especially if you're a big fund with lots of little subsidiaries, all of those cross-border transactions," he said. "If you're a simple fund, even if you're huge, you may not have very many, but you usually pick up at least your Delaware feeder fund into your Cayman master fund and they intend for us to include that."

If all three buckets equal or exceed $1 billion, then the adviser must file Form SLT. Advisers would need to check those three numbers every month to determine whether they meet the threshold, Hunter said.

COMPLIANCE TIP:

Form SLT

Firms may use a series of buckets to determine whether they meet the $1 billion reporting threshold.

- Bucket One: Foreign investments allowed in U.S.-sponsored vehicles
- Bucket Two: Portfolio transactions between U.S. vehicles and foreign long-term securities not held by U.S. custodians
- Bucket Three: Onshore to offshore cross trades