

# IMS Consulting

## The Leading Compliance Consultancy

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The threatening spectre of increased regulation seems to grow ever larger, looming ominously over the alternative investments industry, and bringing with it the added worry of enhanced compliance requirements. The whole issue of compliance has been causing furrowed brows amongst the hedge funds community on both sides of the Atlantic, as regulators and lawmakers seek new ways to bring funds to heel.

The burden of compliance need not be the perceived mountain of red tape that some managers no doubt fear: IMS, the London-headquartered specialist compliance consultancy and professional financial services group, now under new ownership, is keeping its clients abreast of the constantly changing regulatory landscape while at the same time expanding its plans for the future. Now backed by private equity buy and build specialists Sovereign Capital, IMS is gearing up for more growth, leveraging off its market-leading position. The firm needed to grow, and the founder of the company decided it needed someone to take it to the next level

and put in place a layer of professional management; enter new Group Chief Executive Michel Van Leeuwen. A private equity partner also gives IMS the financial clout to power the growth of the business which already advises over 600 top names in the world of hedge fund investing and private equity. "Our objective now is to significantly build on the talent and industry experience we offer the market to maintain our reputation as a market leader," explains Van Leeuwen.

"Sovereign Capital recognised that big changes in the way alternative investment funds are regulated were on the way, a scenario of everlasting change," he adds. "They could see that for this industry, consultants would always be needed. In addition, firms in this market tend to outsource their compliance needs."

As well as alternative managers IMS advises a wide range of other clients, including family offices, pension fund managers, brokers and investment banks amongst others, and while its largest clients

have hundreds of billions in assets, it also caters for small to mid-size firms too.

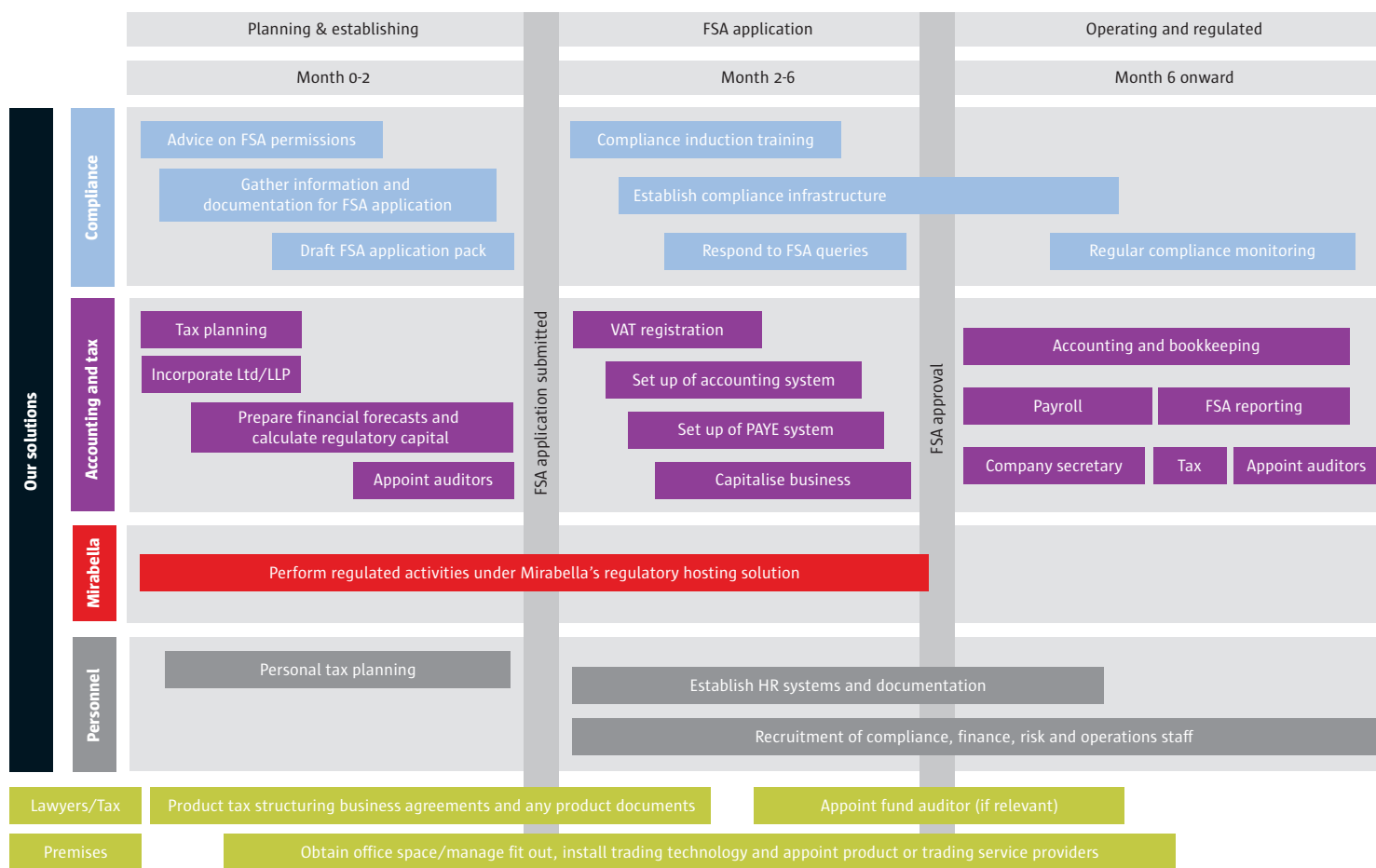
### Strong growth in hedge funds

Van Leeuwen says he anticipates strong growth in the hedge funds industry this year as more talent streams out of investment banks and into hedge funds. The pressure is on the investment banks to change their business models and the way they remunerate, and the days of large cash bonuses for talented traders are coming to an end. In hedge funds, however, remuneration is still more flexible, and this is bound to attract many investment bank traders seeking to put their talents to use elsewhere.

IMS is seeing new funds being set up by bankers with their own money, institutional money as well as investment from a network of friends and other contacts, and is called in at a very early stage of the new firm's development. "We take clients on at the start of their fund," explains Van Leeuwen. "We help them with the FSA registration process and as such we are able to build long-term relationships with

Fig.1 Timeline for a new FSA authorisation

Source: IMS



our clients, as once they become authorised we then provide ongoing compliance monitoring and services to them. We have seen many of our clients grow from small start-ups to top 50 hedge fund managers. Our intention now is to continue to add other services to those that IMS already offers.”

### Continuing market leadership

IMS is expanding organically and by acquisition. Although IMS only announced the investment from Sovereign Capital last November, it is already expanding its expertise-base to the ultimate benefit of its clients, and the acquisition of other compliance firms is increasing its client-base. IMS is not resting on its laurels: if anything, it is increasing its leadership in the market. It has acquired MMS Regulatory Solutions, a well-regarded regulatory consulting firm in the UK hedge fund sector, and is looking at further acquisitions to not only enhance the quality of its service offering to UK-based firms, but also build out its consulting market share in the UK to more than 40%.

IMS’ ambitions stretch beyond the UK, however. It recognises that many of its clients are global businesses with international regulatory exposure: the aim is to build a 20% market presence in the US via key acquisitions, and probably 20% in Asia too. “We also want to be able to deliver our services in an offshore context,” explains Van Leeuwen. He names Dublin, Luxembourg, and Cayman as areas of interest for expansion. “And not only in compliance; we also have an interest in delivering accounting, risk management, IT and recruitment services to our client base. Compliance remains our core service, but IMS should be able to provide the other services when our clients request these from us.”

The ancillary services that have grown up around the compliance hub at IMS have historically been client-driven: where there has been a demand from clients, the firm has moved to address that demand. For example, its recruitment activities have centred upon the hiring of experienced compliance officers for alternative investment funds. It became clear that clients were having difficulty finding appropriately qualified compliance officers to handle the internal compliance function, and informally at first IMS was able to tap its own network for potential candidates. This has now grown into a formalised, full service recruitment business. IMS also offers alternative fund managers just starting out in London a hosted permissions platform. Mirabella Financial Services LLP was purchased by IMS in 2010. It is authorised and regulated by the Financial Services Authority and has permission to manage investments. Mirabella enables a fund manager that is in the process of setting up in the UK to work under the Mirabella name and, under its supervision, market and manage the fund while waiting for its own FSA application to be approved. “For the right client we can take care of

the compliance and the risk management, and enable them to develop their business” says Van Leeuwen. As well as firms working through the FSA authorisation process this service has proved popular with managers who are operating in the UK temporarily and marketers from outside the UK looking to establish a presence in London.

### A more demanding world

“We only want to work with clients who take their regulation burden seriously,” says Van Leeuwen. “Hedge funds buy security and peace of mind when they buy IMS. We deliver quality and work hard to influence how the industry meets its obligations, both in terms of our work and in our engagement with trade bodies and regulators.” The firm works with a wide range of hedge fund clients, across numerous strategies, but it is serious about fund managers taking their compliance seriously, and has been known to turn away managers it thinks lack the credentials, experience or acumen.

The FSA is aware of the increased interest from traders leaving investment banks to start a hedge fund. There is a growing contingent of them contemplating the launch of a fund, but at the same time, these funds are opening for business in a regulatory environment that is tighter and more demanding than ever. Traders fresh off the dealing floor of an investment bank are going to require expert advice to ensure they can operate properly, and will be cut no slack by a regulator that is itself being watched carefully by Westminster. Other regulatory challenges swirl ahead, particularly the Dodd-Frank Act in the US, which will require quite a few UK-based funds to be either dual-registered or to become SEC “exempt-reporting advisers”. It seems as if there should be plenty of work ahead for IMS and its compliance consultants.

### Getting started

IMS is already very used to working with brand new hedge fund firms and indeed established US names looking to set up a London operation. It assigns a compliance consultant to each new client. It ensures all its consultants are experienced compliance advisors, and that they are limited to approximately 20 clients per consultant. This way firms get the high-touch level of advice and expertise they require. The IMS consultant will work closely with the client firm, visiting them on a daily basis when needed. In addition, the IMS client relationship team meets with fund managers on a regular and more prolonged basis to assess their needs.

Each IMS consultant runs their own book of business drawing on the additional support and resources which IMS can offer. This can include help with portfolio risk management, tax planning, recruitment, and IT when needed, as well as additional compliance support.

One of the key factors behind IMS’ market leading status is the 15 years it has been in business, and the high degree of familiarity it enjoys with FSA requirements and the way things are done and structured. For example, the Gabriel online regulatory reporting system set up by the FSA holds no challenges for IMS, which files hundreds of times a year using it. This ensures that the fund manager retaining IMS should experience smooth interactions with the regulator.

### Playing an active role

Van Leeuwen is not intimidated by the new regulatory environment for hedge funds: he explains that consultants are playing an active role with regulators in both the UK and US, as well as in Europe, to bring into being the next generation regimes that are workable, applicable, and will not simply drive the alternative investments business into the arms of another jurisdiction. Even Brussels, for all its anti-hedge fund rhetoric, is aware that making the pan-European regime too tough for hedge funds will only serve to benefit the US and Asia.

“It boils down to whether politicians and regulators want to keep persecuting the industry, or whether they become more reasonable again, by working with it to solve any issues productively,” Van Leeuwen says of the European Commission’s efforts. “Do they want the tax dollars hedge funds pay to stay in European coffers, or to go somewhere else? I think you’ll find they’ll be sensible, they cannot tax or regulate that which they have chased out of the jurisdiction.”

That said, IMS is seeing more regulatory action than before, and this is not likely to go away. But, based on the company’s 15 years in the business, its CEO feels the firm is equipped to meet the new environment’s requirements and ensure its clients are properly advised. In all this, the consultants will have a role to play. They ‘operationalise’ regulation and develop practical ways of delivering the outcomes that regulators want, often defining market practice. They also provide important support for firms that have existing in-house compliance resources, but still require an additional pair of eyes from outside the business for those times when the compliance burden mushrooms.

The days of the part-time in-house compliance officer are fading. Hedge fund COOs who used to double as CROs and indeed compliance officers are shortly to be things of the past. The compliance function within a firm is becoming more sharply defined, a full-time role with substantial new responsibilities. The tougher regulatory regime means hedge funds are looking to external partners like IMS to help them navigate the new maze. [THFJ](#)