AIMA steers towards a good result at the G-20 Summit

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It's certainly not the end of the matter – it's probably only the end of the beginning. More registration, reporting and oversight requirements for hedge funds now seem inevitable. Yet, following the recent G-20 Summit in London, it seems that these new requirements are likely to be more sensible, proportionate and appropriate – maybe even beneficial to the long-term health of the industry – and not the kind of drastic, sweeping overreaction many had feared.

The devil, of course, is in the details. But it appears that the major restrictions on hedge funds called for ahead of the G-20 by world leaders like President Nicolas Sarkozy of France and Chancellor Angela Merkel of Germany have been averted, at least for now. What those restrictions would have been is far from clear. But in a febrile political atmosphere with public opinion inflamed by the scale of the global financial crisis – and the perceived stupidity and avarice of bankers – some unpleasant outcomes were distinctly possible.

Various factors have made the fate of hedge funds in this political cauldron quite precarious. One was an assumed guilt by association – with hedge fund managers widely viewed as part of the same culture of greed as the bankers, gorging from the same trough. This caricature may not have been completely fair, but it contained enough grains of truth to make another factor potentially devastating: the secrecy of hedge funds and the associated chronic inability of the industry to get across any sort of positive message about itself to the wider public.

There is still lots to fight for on the details of whatever new regulatory requirements are proposed, but the G-20 meeting in London did not have the disastrous result for hedge funds that some had feared

In any event, the Alternative Investment Management Association – the international trade body for hedge funds – seems to have proved up to the task of getting the G-20 to steer in the right direction. AIMA, criticized by some in the past for not being able to give the industry a clear and powerful voice, appears to have responded to the imminent dangers just in the nick of time. Led by chief executive Andrew Baker and new chairman Todd Groome, who was previously with the International Monetary Fund, AIMA marshalled its arguments effectively at the London conference.

Viewed from the outside, it's not hard to see why hedge fund managers and bankers have been tarred with the same brush in the public mind. Many hedge fund people have come out of the investment banking world, and the relationship between the industries – through execution, clearing, prime brokerage and so on – has been symbiotic, at least to some extent. For the public, therefore, it's only a small leap to conclude that hedge funds, like bankers, have simply found clever (in other words covert and illicit) ways of making themselves rich in return for delivering little or nothing of value to the economy.

Of course, too many hedge fund managers have raked in huge fees for performance in previous years – only to have their investors lose those previous gains and more in the treacherous markets of the past year.

However, it is a very big step from there to conclude that hedge funds were somehow to blame for the global crisis. Hedge funds as a bloc deploying leverage may have exacerbated the bubble in credit and certain other assets. And there may be some substantive ongoing problems with fraud affecting the industry – which was demonstrated most spectacularly in the Madoff case. But it is clear that the banks did not make huge losses by lending to hedge funds.

As AIMA was able to argue, the industry's role in the economic crisis has been marginal. AIMA's statement welcoming the G-20 communiqué added: "Last year was the worst year on record for the world's hedge fund industry and of course our members want stability returned to the global economy as much as everyone else."

The G-20 proposals on hedge funds – for enhanced oversight of funds that are "systemically significant" – do not appear to require much from the industry. The vast majority of hedge funds are, of course, much smaller than banks, and also use much less leverage.

G-20's proposals on so-called tax haven domiciles also seem comparatively mild at this stage. Although there was a longish gray list of domiciles that need to take further actions to comply with the major economies, only four places were on the initial blacklist – none of which are used much, if at all, by hedge funds – and all of them responded quickly to say they too would comply.

That said, it seems likely that major hedge funds will seek to do more in onshore products and structures – such as funds compliant with UCITS III rules in the European Union – as some big European firms like BlueCrest and Brevan Howard have already been doing. A hedge fund industry that emerges from this crisis bigger, stronger, more transparent, more regulated and more onshore does not seem such a bad thing. ar