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For Immediate Release  
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Grassley seeks hedge fund registration, says Congress needs to bring about transparency

WASHINGTON — Sen. Chuck Grassley today introduced legislation that would require hedge funds to register with the Securities and Exchange Commission.

“The goal of my initiative is to make our financial markets more transparent,” he said. “Openness is key to trust in those markets.”

Grassley said Congress needs to act because the D.C. Circuit Court of Appeals last year overturned a regulation imposed by the Securities and Exchange Commission requiring hedge funds to register. The federal courts said the Securities and Exchange was going beyond its statutory authority.

“My bill – the Hedge Fund Registration Act – would enable the Securities and Exchange Commission to do what it was already trying to do,” Grassley said. “The bill gives members of Congress the opportunity to say there should be greater transparency with hedge funds.” Some estimates say that hedge funds today control over \$1.2 trillion in assets.

Grassley has been making the case for greater transparency requirements for hedge funds since last year, following passage of the Pension Protection Act of 2006. “I worked very hard for passage of these new pension protections,” he said. “Now I want to make sure that what Congress achieved with my pension legislation isn’t undone by hedge fund secrecy. A lot of pension holders are in the dark about their exposure to hedge fund losses because transparency is so inadequate.”

Grassley surveyed federal agencies about hedge fund transparency last October. Earlier this year, he joined in requesting a review by the Government Accountability Office of the scope of public and private pension plan investments in hedge funds and what returns and risks are likely for worker retirement funds. In March, Grassley filed legislation similar to the legislation introduced today as an amendment to S.4, the 9-11 homeland security legislation.

Grassley also has been conducting a review of how the Securities and Exchange Commission handled allegations of misconduct by agency regulators investigating a hedge fund.

A copy of the Hedge Fund Registration Act is attached to this message in a pdf. Here is the text of Grassley's floor statement on the legislation.

Floor Statement of U.S. Senator Chuck Grassley of Iowa  
Hedge Fund Registration Act  
Tuesday, May 15, 2007

Mr. President, I'd like to introduce an important piece of legislation aimed at closing a loophole in our securities laws. This bill, "The Hedge Fund Registration Act" is pretty simple. It's only two pages long. All it does is clarify that the Securities and Exchange Commission (SEC) has the authority to require hedge funds to register, so the government knows who they are and what they're doing.

Technically speaking, this bill would amend section 203(b)(3) of the Investment Advisers Act of 1940. It would narrow the current exemption from registration for certain investment advisers. This exemption is used by large, private pooled investment vehicles, commonly referred to as "hedge funds". Hedge funds are operated by advisors who manage billions of dollars for groups of wealthy investors in total secrecy. They should at least have to register with the SEC, like other investment advisers do.

Currently, the exemption applies to any investment adviser who had fewer than fifteen clients in the preceding year and who does not hold himself out to the public as an investment adviser. The Hedge Fund Registration Act narrows this exemption and closes a loophole in the securities laws these hedge funds use to avoid registering with the SEC and operate in secret.

Much has been reported during the last few years regarding hedge funds and the market power they yield because of the large amounts of capital they invest. In fact, some estimates are that these pooled investment vehicles account for nearly 30% of the daily trades in U.S. financial markets. The power and influence of that amount of volume is not some passing fad. It represents a new element in our financial markets. Congress needs to ensure that the SEC knows who is controlling these massive pools of money to ensure the integrity and security of the markets.

The failure of Amaranth and the increasing interest in hedge funds as investment vehicles for public pension money means that this isn't just a high stakes game for the super rich. Hedge funds affect regular investors. They affect the markets as a whole.

My recent oversight of the SEC has convinced me that the Commission and the Self-Regulatory Organizations (SROs) need much more information about the activities of hedge funds in order to protect the markets from institutional insider trading and other potential abuses.

This legislation is one small, simple step toward greater transparency. All it does is require that hedge funds register and tell the regulators who they are. This is not a burden. It's just common sense. Organizations that wield hundreds of billions of dollars in market power every day need to register with the agency that Americans rely on to regulate the financial

markets.

The SEC has already attempted to do this by regulation. Congress needs to act because of a decision made last year by a federal appeals court. In 2006, the D.C. Circuit Court of Appeals overturned an SEC administrative rule that required registration of hedge funds. That decision effectively ended all registration of hedge funds with the SEC, unless and until Congress takes action.

The Hedge Fund Registration Act would respond to that court decision by narrowing the current registration exemption and bring much needed transparency to hedge funds.

Most people say the devil is in the details. Well here they are. This bill would authorize the SEC to require all investment advisers, including hedge fund managers, to register with the SEC. Only those that meet all four of the following criteria would be exempt: (1) managed less than \$50 million, (2) had fewer than fifteen clients, (3) did not hold himself out to the public as an investment advisor, and (4) managed the assets for fewer than fifteen investors, regardless of whether investment is direct or through a pooled investment vehicle, such as a hedge fund.

The Hedge Fund Registration Act is a first step in ensuring that the SEC simply has clear authority to do what it already tried to do. Congress must act to ensure that our laws are kept up to date as new types of investments appear.

That said, this legislation didn't have many friends the last time I introduced it as an amendment. These funds don't want people to know what they do and have fought hard to keep it that way. Well, I think that's all the more reason to shed some sunlight on them to see what they're up to.

I urge my colleagues to co-sponsor and support this legislation, as we work to protect all investors, large and small.