

## Hedge Fund Column -- September 2006

By: Congressman Mike Castle

Investing one's savings is one of the most important financial decisions a person can make and it is absolutely critical that everyone goes into these decisions with their eyes wide open about the potential benefits and risks. This most certainly applies to people investing large amounts of money into hedge funds, which have a substantial impact on the U.S. economy. In fact, hedge funds are now a \$1.2 trillion industry and can be high-risk, high stake investments. While usually targeted to wealthy investors, hedge funds are seeing an increase in ties to pension plans and consequently, the financial earnings of millions of Americans. For that purpose, I think it is necessary that regulators explore hedge funds and the potential risks they pose to financial markets and investors.

Recently, I introduced the "Hedge Fund Study Act" which would require the President's Working Group on Financial Markets to conduct a study on the hedge fund industry and examine the changing nature of hedge funds. I believe this is a good first step towards determining what type of disclosure hedge funds should provide to regulators and will provide the needed transparency in our financial system that is important for market discipline and investor confidence. As part of the study, regulators would be required to look at:

- The changing nature of hedge funds and what characterizes a hedge fund;
- The growth of hedge funds within financial markets;
- The growth of pension funds investing in hedge funds;
- Whether hedge fund investors are able to protect themselves adequately from risk associated with their investments;
- Whether hedge fund leverage is effectively constrained;
- The potential risks hedge funds pose to financial markets or to investors;
- Legislation relating to appropriate disclosure requirements for hedge funds;
- The type of information hedge funds should disclose to regulators and the public;
- The type of oversight members of the President's Working Group should have over the hedge fund industry.

This study will come at a good time, as there is much recent discussion over the

Securities and Exchange Commission's ruling that required hedge fund advisors to register with the SEC and undergo routine inspections. This ruling was rejected by the U.S. Circuit Court of Appeals for the District of Columbia and thrown out partly because the court called hedge funds "notoriously difficult to define". If we can't even decide on a definition of hedge funds, how can we regulate them? It is time to take a closer look and my legislation will provide the needed answers.

I am sure that this issue will continue to be prevalent in the news and in the minds of investors throughout the country.

For that reason, I will work hard to see that this study is carried through and consequently, the recommendations that will ensure greater transparency and disclosure in this high-stakes investment tool.