

Castle Calls for Protection of Pensions Invested in Hedge Funds -- July 12, 2007

Washington, DC -- Delaware Congressman Mike Castle, Senior Member of the House Financial Services Committee, yesterday highlighted the vulnerability of pension funds that are currently invested in the \$2 trillion hedge fund industry. Institutional investors, like pension funds, now constitute more than half of investments in hedge funds.

The Committee held a hearing yesterday to question representatives from the President's Working Group on Financial Markets on how the Group monitors systemic risk pertaining to hedge funds. While the Working Group had previously recommended that the very largest hedge funds be required to disclose information, yesterday representatives told Members of the Committee that market discipline, together with statutory limitations restricting access, can sufficiently mitigate industry risks.

"I am uncertain why the Treasury Department is less cautious today, than in 1999, when the industry has grown by nearly 400% in that time. Hedge funds are riskier investments and have been speculated to represent as much as 50% of trading in financial markets today. While the President's Working Group recognized that investors should understand the fund's 'strategies, terms, conditions and risk management,' hedge funds are not legally required to disclose this information. I am concerned with this lack of transparency, because the manager of a pension fund cannot fulfill their fiduciary duty and may not understand the risk of their investments to perform due diligence before committing funds," Castle said.

"Pensions can be a substantial source of retirement income for many middle income Americans and are becoming more common investments in hedge funds. To protect individuals who may not know that their pensions are invested in hedge funds, I introduced legislation to require defined benefit plan sponsors to disclose their investments in hedge funds. It seems to me that greater disclosure of this industry is necessary to further enhance market discipline and investor confidence.

"Hedge funds can also lose money very quickly, and I am concerned that the failure of a large hedge fund could necessitate a taxpayer-funded bailout if a considerable amount of pensions were lost. My bill would provide regulators with pertinent information regarding hedge fund investments to ensure that pension fund sponsors of defined benefit plans are fulfilling their fiduciary duties and managing pension money in a prudent manner. This is a good first step towards increased disclosure of the industry," Castle said.

Rep. Castle's
Pension Security Act of 2007 will:

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Require the disclosure of investments in hedge funds in annual reports;

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Provide the Department of Labor with information regarding these investments to further ensure that pension fund sponsors are fulfilling their fiduciary duties and managing pension money in a prudent manner;

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Help regulators quantify the portion of pension assets that are being invested in hedge funds; and

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Provide greater transparency and disclosure in this high-stakes investment tool.

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