MEMO# 24925

January 31, 2011

SEC Proposes Private Fund Systemic Risk Reporting Rule

[24925]

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TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 8-11
INVESTMENT ADVISER MEMBERS No. 5-11
SEC RULES MEMBERS No. 24-11 RE: SEC PROPOSES PRIVATE FUND SYSTEMIC RISK REPORTING RULE

The Securities and Exchange Commission has proposed Rule 204(b)-1 to require advisers to private funds, including hedge funds, “liquidity” funds (i.e., unregistered money market funds), and private equity funds, to report information for use by the Financial Stability Oversight Council in monitoring risk to the U.S. financial system. [1] The proposal creates a new reporting form (Form PF) to be filed periodically by SEC-registered investment advisers who manage one or more private funds. The Commodity Futures Trading Commission also has proposed a rule that would require private fund advisers that are registered with the CFTC as commodity pool operators or commodity trading advisors to file Form PF to comply with certain reporting obligations that the CFTC would impose. Information reported on Form PF would remain confidential.

Proposed Reporting Requirements

Under the proposed reporting requirements, private fund advisers would be divided by size into two broad categories—large advisers and smaller advisers. The amount of information reported and the frequency of reporting would depend on the group to which the adviser belongs.

Large private fund advisers would include:

- Advisers managing $1 billion or more in hedge fund assets under management;
- Advisers managing a liquidity fund and having combined liquidity fund and registered money market fund assets of at least $1 billion; and
- Advisers managing $1 billion or more in private equity fund assets under management.

Large private fund advisers would file Form PF on a quarterly basis and would provide more detailed information than smaller advisers. The focus of the reporting would depend on the type of private fund that the adviser manages:

- Large hedge fund advisers would report on an aggregated basis information regarding exposures by asset class, geographical concentration, and turnover. In addition, for each managed hedge fund having a net asset value of at least $500 million, these advisers would report certain information relating to that fund’s investments, leverage, risk profile, and liquidity.
- Large liquidity fund advisers would provide information on the types of assets in each of their liquidity fund’s portfolios, certain information relevant to the risk profile of the fund (e.g., market-based net asset value per share, weighted average maturity, and weighted average life) and the extent to which the fund has a policy of complying with all or aspects of Rule 2a-7.
- Large private equity fund advisers would respond to questions focusing primarily on the extent of leverage incurred by their funds’ portfolio companies, the use of bridge financing, and their funds’ investments in financial institutions.

Smaller private fund advisers would file Form PF only once a year and would report only basic information regarding the private funds they advise. This would include information regarding leverage, credit providers, investor concentration, and fund performance. Smaller advisers managing hedge funds also would report information about fund strategy, counterparty credit risk, and use of trading and clearing mechanisms.

For each of these categories, the SEC requests comment on the proposed information. For example, the SEC requests comment on whether there is information that it requires to be reported for registered money market funds on Form N-MFP that the SEC should require to be reported on Form PF for liquidity funds.

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endnotes

[1]SEC Release No. IA-3145 (January 26, 2011). Proposed Rule 204(b)-1 would implement Sections 404 and 406 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Comments are due 60 days after publication in the Federal Register.