



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release

Monday, Oct. 16, 2006

Grassley Seeks Multi-Agency Response on Lack of Hedge Fund Transparency,
Expresses Alarm at Risk to Pension-holders

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today asked all federal agencies of jurisdiction to report to him on any transparency requirements facing hedge funds, and whether their agencies could require more transparency. Grassley expressed alarm that millions of pension-holders are in the dark about their exposure to hedge fund losses because transparency appears so inadequate.

As chairman of the Senate committee with jurisdiction over tax policy, including investment tax policy, Grassley appears to be the most senior member of Congress to solicit specific recommendations to increase hedge fund transparency.

“We recently enacted pension reforms to increase transparency for pension-holders about how their money is invested,” Grassley said. “Now we’re learning hedge funds pose huge risks to pension-holders. It’s disturbing that we can’t even come close to understanding the extent of the risks because hedge funds operate in such a secretive way. We need to get a handle on this situation before more hedge funds go belly up and leave rank-and-file investors in the ditch.”

The text of Grassley’s letter to Treasury Department Secretary Henry Paulson, Labor Department Secretary Elaine L. Chao, Chairman Christopher Cox of the Securities and Exchange Commission, Chairman Reuben Jeffery III of the Commodity Futures Trading Commission, and Vincent K. Snowbarger, interim director of the Pension Benefit Guaranty Corporation, follows here. Grassley sent the same letter to each recipient.

October 16, 2006

The Honorable Henry M. Paulson, Jr.
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Paulson:

I am deeply concerned about the lack of publicly available information regarding hedge funds, and am writing to ask for your assistance in identifying the scope of this problem and appropriate ways to remedy it. I am particularly concerned that tens of millions of Americans may be unwittingly

exposed to hedge fund investments through their participation in public and private pension plans, and yet would have no way of knowing it.

Today, the hedge fund industry is comprised of over 9,000 hedge funds that manage over \$1.1 trillion in assets. In spite of this major presence in our financial markets and our economy as a whole, hedge funds are not subject to disclosure and transparency rules that apply to other financial intermediaries, and are permitted to operate almost completely unfettered by government oversight or regulation. In recent years, news reports have alerted the public to a number of high-profile collapses of large hedge funds. In many cases, these collapses have been accompanied by criminal activity. Most recently, it has been reported that the well-known hedge fund, Amaranth Advisors, had collapsed, leaving behind billions of dollars in losses for investors.

It is often suggested that hedge funds are only available to very wealthy or sophisticated investors. However, this ignores the fact that tens of millions of Americans are exposed to the risk of hedge funds through intermediaries such as pension funds, endowments, and other investment pools. In particular, the potential for significant losses at our nation's pension funds due to hedge fund investments could put the retirement security of American workers in jeopardy. Such hedge fund investments also pose the risk of further losses to the government pension insurance agency, the Pension Benefit Guaranty Corporation.

After learning of the events at Amaranth Advisors, I became concerned about the impact that Amaranth's collapse may have on public and private pension funds and the American workers and retirees who rely on prudent investment of their pension funds. I asked my staff to report back to me on major pension fund holdings in Amaranth and other energy-focused hedge funds. This information was not available either through public records or even through the various federal agencies that oversee our financial and energy markets. Not only was this information not publicly available, it also was impossible to even determine the identity of the largest energy-focused hedge funds.

I would appreciate if you would provide to me what information, if any, hedge funds are required to report to your department. I also would appreciate your views on how Congress could improve hedge fund transparency.

Thank you in advance for your response. I look forward to your views.

Sincerely,

Charles E. Grassley
Chairman

cc: The Honorable Elaine L. Chao, U.S. Department of Labor
The Honorable Christopher Cox, U.S. Securities and Exchange Commission
The Honorable Reuben Jeffery III, Commodity Futures Trading Commission
Mr. Vincent K. Snowbarger, Pension Benefit Guaranty Corporation
The Honorable Max Baucus, Senate Committee on Finance
The Honorable Richard Shelby, Senate Committee on Banking, Housing and Urban Affairs
The Honorable Paul Sarbanes, Senate Committee on Banking, Housing and Urban Affairs

The Honorable Michael Enzi, Senate Committee on Health, Education, Labor and Pensions
The Honorable Edward Kennedy, Senate Committee on Health, Education, Labor and Pensions
The Honorable Arlen Specter, Senate Committee on the Judiciary
The Honorable Patrick Leahy, Senate Committee on the Judiciary