price meadows incorporated

the voice of experience in hedge fund administration℠

October 5, 2007

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F St., NE
Washington, DC 20549-1090

Re: File Number S7-18-07: Revisions of Limited Offering Exemptions in Regulation

Dear Ms. Morris:

On behalf of Price Meadows Incorporated ("PMI"), I am pleased to present certain views on the proposals (the "Proposals") set forth August 3, 2007.

Background

PMI acts as a third-party administrator to approximately 200 hedge funds, private equity funds, and funds-of-funds, involving investment advisors located in over 30 states. The firm administers both domestic and offshore funds.

The principals of PMI have been participants in various capacities in the hedge fund industry for 25 years. Having formed a hedge fund just after Reg D came into being in 1982, managed funds-of-hedge-funds from 1985 through 1994, and built a nationally acclaimed administration business since then, we believe that we have a reasonable perspective on the industry and its changes over the last quarter century.

Observations and Recommendations

A. New Rule 507. The Proposals note that:

> "pooled investment vehicles that rely on the exclusion from the definition of 'investment company' provided by Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act would not be able to take advantage of the limited advertising proposed to be permitted under Rule 507."

While PMI applauds the "large accredited investor" concept, the Commission should endeavor to apply such a rule change to 3(c)(1) and 3(c)(7) funds. Permitting limited advertising for some private funds but not others, based on their investment holdings, seems likely to create unintended consequences. Since the vast majority of 3(c)(1) and 3(c)(7) funds hold marketable securities, report monthly or quarterly valuations and permit quarterly or annual liquidity, is it in the public interest to provide a marketing edge for other types of private funds that do not share those characteristics?

We would recommend a "level playing field" where the "large accredited investor" concept be applied to all privately offered funds.

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B. The alternative "investments-owned" accredited investor test. We note that, since cash and equivalents are included in this proposed test, it may be assumed that it is not intended as a measure of investor sophistication. Rather, it would appear to be a test of financial wherewithal and the ability bear potential losses. The inherent problem with the proposed investments-owned test is that modern assets are remarkably fluid. Assets can be mortgaged; mortgages paid off, cash moved from small businesses into the hands of their owners and back again. Accordingly, we would suggest that the simplest and most accurate test of financial wherewithal is net worth.

Moreover, the proposed investments-owned test would appear unnecessary because it affects only 0.22% of households. In the words of the Proposal:

> "We do not believe these amendments would substantially change the number of investors now eligible for accredited investor status."

Noting that the investments-owned test is not a replacement, but an alternate test, if, as is stated in the Proposal, the existing rule encompasses 8.47% of households and the two tests together encompass 8.69%, it follows that there are only 0.22% of households meeting the investments-owned test that do not also meet the net worth test. Accordingly, we believe that the new test is an unnecessary complexity, with little practical effect.

In the event that an alternative investments-owned test is deemed necessary, we would endorse the notion of a shorter, more "principles-based" definition. The current proposed investments definition exceeds 400 words, not counting the notes. In keeping with our comments above regarding the fluid nature of investments, we believe such a definition should be crafted to exclude only primary residence.

C. Other thoughts on investor qualification standards. A brief review of the accredited investor proposal of December 27, 2006 (File Number S7-25-06) and the public comments in response reveals two themes regarding who should be permitted to invest in a private offering:

- There is some sufficient level of net worth that permits recovery from investment mistakes or, at least, insulates the investor from drastic consequences.
- Some persons and their advisors are more sophisticated than others and may be better able to evaluate the risks of potential investments.

Unfortunately, both the current net worth test and the proposed investments-owned test address only the first theme. Many commenters pointed out their belief that net worth or investments are only indirectly linked to sophistication. Some persons suggested a different approach to protection: an investment size limit equal to some percentage of net worth.

Since we agree that sophistication is not easily measured, we would be interested to see the size limit test considered as an alternative. Thus, the two themes would be:

- There is some sufficient level of net worth that permits recovery from investment mistakes or, at least, insulates the investor from drastic consequences. Accordingly, a net worth test would be appropriate.
- There is some limit in terms of proportion of net worth that limits the consequences of a poor investment choice. Therefore, for investors not meeting the net worth test, a specified percentage of net worth would be a proper limit.

Of course, there would be many details (including the percentage), but we would be interested to hear proposals from the Commission and the public that aimed directly at those assumptions.

D. Joint Investments. The Proposals set forth the following new definition of "joint investments:"

> "(1) In the case of a purchase binding on both spouses and where both spouses sign the investment documentation, the aggregate of their investments held individually and their investments held jointly or as community property or similar shared ownership interest; or
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> "(2) In the case of a purchase made by an individual spouse or where only an individual spouse signs the investment documentation, the aggregate of the investments held individually by the purchaser and 50 percent of any investments held jointly with the individual's spouse or as community property or similar shared ownership interest."

We would recommend against this change. The requirement for a signature and binding commitment from both spouses fails to recognize that there are bona fide reasons within a family – for estate planning and other purposes – to separate the ownership of marital assets.

PMI appreciates the opportunity to comment to the Commission on this issue and would welcome further discussion. If you or your staff have questions or seek amplification of our views, please feel free to contact Kelley Price by phone at (425) 454-3770 or by e-mail at kelley.price@price meadows.com.

Sincerely,

Price Meadows Incorporated

By:_____
M. Kelley Price, Vice President