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May 23, 2007

The Honorable George W. Bush
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President,

I am writing to urge that when you meet with your G-8 colleagues in Heilligendamm next month that you will ask them to embark on an examination of the issues raised by the rapid increase in the number of and size of private pools of capital operating as hedge and private equity funds. In a few short years these institutions have transformed capital markets in all of the G-8 countries, as well as in many other OECD members. We all need a more sophisticated understanding of how these institutions operate and the consequences of their operations on our economies and financial markets. There are, as you are well aware, a number of concerns that have been raised by market participants, academics, labor unions and parliamentarians throughout the G-8; and two of those strike me as especially important. First, what are the consequences of going private on the firms that are acquired and on the workers – does the financial and operational restructuring that is central to the process materially alter the new firm's ability to make the investments in people and products that are needed for long term success? Second, does the introduction of substantial amounts of additional leverage raise systemic risk concerns in our capital markets?

The enormous growth of hedge funds and private equity funds poses a new challenge to our societies. Private equity and hedge funds have, in a short period, become owners and movers of vast pools of financial capital, with significant influence on the real economy, employment and long-term competitiveness for our companies. Private equity transactions accounted for over a quarter of all mergers and acquisitions in the US and the EU in 2005. Private equity buy-outs have expanded their reach to very large companies, industries and even companies linked to public services. Hedge fund transactions account for a third to a half of daily trading volumes on main stock exchanges. These alternative funds, particularly PEs, are highly "leveraged" and are exempt from many of the regulations that apply to traditional collective investment schemes, to banks and to insurance-companies, notably in the areas of prudential oversight and reporting requirements.

An important question to explore is whether the high rates of return required to finance private equity debt-driven buy-outs can jeopardize the long-term interests of target companies and the provision of decent employment conditions and employee security. We are troubled by those cases in which rather than corporate restructuring for the purpose of shared productivity gains and increased competitiveness, numerous private equity funds now appear to be looking at extracting maximum value over a short period before re-selling the company. This poses the risk that employees will be disadvantaged in a fashion that would not have happened without the acquisition.

The picture is the same in Europe, the US and in many OECD countries. In order to ensure a transparent, efficient financial market and effective long-term financing, including hedge funds and private equity funds, we call on heads of state and government, to take the following first measures:

1. To take all appropriate steps to establish full transparency, disclosure and accountability in the international financial markets. There needs to be a level playing field between the alternative funds and other collective investment schemes with regard to transparency and reporting on performance, risk-management and fee structure.
2. To take all appropriate steps to uphold workers' rights to collective bargaining, the education and training of workers and related social issues. Worker information, consultation and representation are essential to ensuring positive outcomes in these areas. This is also an important mechanism to promote the long-term interests of private equity-backed companies.
3. To take all necessary steps to establish an international task force, charged with presenting recommendations on further appropriate regulatory action in relation to the international financial markets. The ILO should be represented in such a task force.

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