



FACT SHEET

Private Fund Systemic Risk Reporting

**SEC Open Meeting
Oct. 26, 2011**

The Securities and Exchange Commission is considering the adoption of a rule to require certain advisers to hedge funds and other private funds to report information for use by the Financial Stability Oversight Council (FSOC) in monitoring risks to the U.S. financial system.

The rule, which implements Sections 404 and 406 of the Dodd-Frank Act, requires SEC-registered investment advisers with at least \$150 million in private fund assets under management to periodically file a new reporting form (Form PF).

Information reported on Form PF will remain confidential.

Background

The Dodd-Frank Act established FSOC for the purpose of monitoring risks to the stability of the U.S. financial system.

Working with other regulators, FSOC will gather information from many sectors of the financial system for this purpose. In order to assist FSOC in this process, the Dodd-Frank Act directs the Commission to collect information from advisers to hedge funds and other private funds as necessary for FSOC's assessment of systemic risk. The SEC will vote on whether to adopt Form PF to implement this requirement.

Form PF is a joint effort of the SEC and the Commodity Futures Trading Commission (CFTC). In designing the form, SEC and CFTC staff also consulted extensively with staff representing other members of FSOC, including staff from the Treasury and the Federal Reserve.

SEC staff also consulted with staff of the U.K.'s Financial Services Authority and other members of the International Organization of Securities Commissions. The resulting Form PF is similar in many respects to the European Securities and Markets Authority's proposed private fund reporting template and surveys of large hedge fund advisers conducted by foreign financial regulators.

The CFTC is expected to vote on jointly adopting these reporting requirements within the next week. If the CFTC approves the joint reporting, private fund advisers required to file Form PF and also registered with the CFTC as commodity pool operators or commodity trading advisers would file Form PF to comply with certain reporting obligations that the CFTC may adopt in the future. In addition, such advisers would be permitted to report on Form PF regarding commodity pools that are not “private funds” to comply with certain reporting obligations that the CFTC may adopt in the future, allowing these advisers to consolidate certain of their reporting regarding private funds and non-private fund commodity pools.

Reporting Requirements

Under the new reporting requirements, only SEC-registered advisers with at least \$150 million in private fund assets under management must file Form PF. These private fund advisers are divided by size into two broad groups – large advisers and smaller advisers. The amount of information reported and the frequency of reporting depends on the group to which the adviser belongs.

“Large private fund advisers” are:

- Advisers with at least \$1.5 billion in assets under management attributable to hedge funds.
- Liquidity fund advisers with at least \$1 billion in combined assets under management attributable to liquidity funds and registered money market funds.
- Advisers with at least \$2 billion in assets under management attributable to private equity funds. All other respondents are considered smaller private fund advisers.

The SEC anticipates that most private fund advisers will be regarded as smaller private fund advisers, but that the relatively limited number of large advisers providing more detailed information will represent a substantial portion of industry assets under management. As a result, these thresholds will allow FSOC to monitor a significant portion of private fund assets while reducing the reporting burden for private fund advisers.

Smaller Private Fund Advisers

Smaller private fund advisers must file Form PF only once a year within 120 days of the end of the fiscal year, and report only basic information regarding the private funds they advise. This includes limited information regarding size, leverage, investor types and concentration, liquidity, and fund performance. Smaller advisers managing hedge funds must also report information about fund strategy, counterparty credit risk, and use of trading and clearing mechanisms.

Large Private Fund Advisers

Large private fund advisers must provide more detailed information than smaller advisers. The focus and frequency of the reporting depends on the type of private fund the adviser manages.

- Large hedge fund advisers must file Form PF to update information regarding the hedge funds they manage within 60 days of the end of each fiscal quarter (instead of 15 days in the rule proposal). These advisers must report on an aggregated basis information regarding exposures by asset class, geographical concentration, and turnover by asset class. In addition, for each managed hedge fund having a net asset value of at least \$500 million, these advisers are required to report certain information relating to that fund's exposures, leverage, risk profile, and liquidity. Large hedge fund advisers are not required to report position-level information.
- Large liquidity fund advisers must file Form PF to update information regarding the liquidity funds they manage within 15 days of the end of each fiscal quarter. These advisers must 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, and the extent to which the fund has a policy of complying with all or aspects of the Investment Company Act's principal rule concerning registered money market funds (Rule 2a-7).
- Large private equity fund advisers must file Form PF annually within 120 days of the end of the fiscal year. They must 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.

Relationship to Recent Amendments to Form ADV

In June, the SEC adopted amendments to Form ADV that, among other things, expand the information collected regarding private funds. On Form ADV, private fund advisers will report basic organizational and operational information about each fund they manage, general information about the size and ownership of the fund and the identity of five categories of "gatekeepers" that perform critical roles for advisers and the private funds they manage (such as auditors, prime brokers, custodians, administrators and marketers).

The Form ADV information is designed to help identify practices that may harm investors, deter advisers' fraud and facilitate earlier discovery of potential misconduct. This information complements the information that will be collected on Form PF, helping FSOC fill out a broad picture of the private fund industry.

Unlike information reported on Form PF, the private fund information reported on Form ADV will be available to the public.

What's Next?

There will be a two-stage phase-in period for compliance with Form PF filing requirements.

Most private fund advisers will be required to begin filing Form PF following the end of their first fiscal year or fiscal quarter, as applicable, to end on or after December 15, 2012.

However, the following advisers must begin filing Form PF following the end of their first fiscal year or fiscal quarter, as applicable, to end on or after June 15, 2012:

- Advisers with at least \$5 billion in assets under management attributable to hedge funds.
- Liquidity fund advisers with at least \$5 billion in combined assets under management attributable to liquidity funds and registered money market funds.
- Advisers with at least \$5 billion in assets under management attributable to private equity funds.