



Via Email

April 11, 2011

Elizabeth M. Murphy, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Re: File Number S7-05-11—Reporting by Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors on Form PF<sup>1</sup>

Dear Ms. Murphy:

The Council of Institutional Investors (Council) is a non-profit association of corporate, public and union pension funds with combined assets in excess of \$3 trillion. Member funds have a duty to protect the retirement assets of millions of American workers. We appreciate the opportunity to comment on the above referenced proposal, which would require private fund advisers to periodically report data in confidence to the Financial Oversight Stability Council (FSOC) for the purpose of monitoring systemic risk.

In 2009 the Council and the CFA Institute co-sponsored an independent, blue-ribbon task known as the Investors' Working Group (IWG). The IWG's final report<sup>2</sup> makes clear the potential for private funds to threaten the soundness of the overall financial system:

Unencumbered by leverage limits, compliance examinations or full disclosure requirements, many hedge funds and private equity funds operate under the radar. Their ability to take on enormous leverage, in particular, enables them to hold huge positions that can imperil the broader market. If market trends move against a hedge fund or private equity fund and it is forced to liquidate at fire-sale prices, prime brokers, banks and other counterparties could be subject to significant losses. Even market participants who have no direct dealings with the fund could be battered by the resulting plunge in asset prices and liquidity squeeze.<sup>3</sup>

Among other recommendations, the IWG's final report includes an appeal for all investment managers to provide regulators with the information they need to monitor systemic risk:

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<sup>1</sup> Available at <http://www.sec.gov/rules/proposed/2011/ia-3145.pdf>.

<sup>2</sup> Investors' Working Group, U.S. Financial Regulatory Reform: The Investors' Perspective (July 2009). The full text of the report is available at <http://www.cii.org/iwglinfo>. The Council membership has officially endorsed the report.

<sup>3</sup> Ibid. at 15.

Because of the potential systemic risks associated with investment managers, and their interconnections with other systemically important financial institutions, the IWG believes that all investment managers should have to disclose their positions to regulators on a confidential but real-time basis. This would allow regulators to recognize large and growing exposures and take steps to limit their impact.<sup>4</sup>

We note that the IWG report advocates a broad approach to the determination of which entities should be subject to systemic risk reporting. Advisers to both hedge funds and private equity funds are included in the IWG's umbrella of investment managers.

With regard to the depth of information reported in confidence to regulators, we acknowledge that the IWG report does not prescribe specific disclosure requirements aside from funds' positions. The IWG report suggests that systemic risk oversight be guided by the findings of the Financial Crisis Inquiry Commission, which made clear that when the last financial crisis emerged, "policy makers did not have a clear grasp of the financial system they were charged with overseeing."<sup>5</sup>

Consistent with the IWG report recommendations, the Council voices its general support for the SEC's proposed rule. In concert with the Commodities Futures Trading Commission's proposed rule 4.27(d) of the Commodity Exchange Act, we believe the SEC's proposal will facilitate FSOC's ability to promote the soundness of the U.S. financial system.

If you have any questions regarding the Council's position, please do not hesitate to contact me at [glenn@cii.org](mailto:glenn@cii.org) or 202-261-7097.

Sincerely,



Glenn Davis  
Senior Research Associate  
Council of Institutional Investors

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<sup>4</sup> Ibid. at 16.

<sup>5</sup> See Financial Crisis Inquiry Report (January 2011) [hereinafter "FCIC report"] at *xxi*. The full document is available at [http://fcic-static.law.stanford.edu/cdn\\_media/fcic-reports/fcic\\_final\\_report\\_full.pdf](http://fcic-static.law.stanford.edu/cdn_media/fcic-reports/fcic_final_report_full.pdf).