Arque & Co.
Incorporated

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March 7, 2007

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Re: File No. S7-25-06: Prohibition of Fraud by Advisers to Certain Pooled Investment Vehicles; Accredited Investors in Certain Private Investment Vehicles

Dear Ms. Morris,

Our Firm, Arque & Co., Inc., is a Registered Investment Advisor that provides wealth management services to individual investors. The majority of our client's funds are invested in private limited partnership programs.

We would like to comment on the two main provisions of the Commission's proposed rule changes.

We support the proposed anti-fraud rules under the Advisers Act, and believe that the implementation of these rules needs to provide clear and simple guidelines. We are most concerned about:

- Performance Disclosure Requirements need to be defined: the requirements across all classes of investment options, including mutual funds and private placements, should be made consistent.

    1. Hedge funds usually provide potential investors with time series of past monthly performance *net* of all fees in all of their monthly reports. We strongly endorse this practice and believe it should be extended to mutual funds.

    2. Hedge funds should be required to report performance and assets under management of *only* their pooled investment vehicles. We have recently seen one hedge fund report performance of a commingled program… this included the performance of the pooled vehicle and separate accounts and served to generate highly misleading performance statistics of what the underlying pooled vehicle executed.

- "Side agreements" that have provided different terms to different classes of investors, need to be disclosed.

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On the need to raise the minimum net worth standard, we are highly opposed to this proposed rule change. In fact, we would argue that the minimum net worth standard should be lowered to allow more investors to benefit from investing in hedge funds available to investors only through private offerings.

- The economic benefits of investing in "hedged" or "downside protection" strategies are of higher value to investors with lower net worth. These investors have less ability to bear the risk of loss most clearly evident with systematic returns that go in one direction.

- The traditional offerings that many smaller investors can access, such as mutual funds and "wrap fee" programs, characterize their success by besting a benchmark. This is perverse. Individual investors want positive returns along with capital preservation, not "benchmark" exceeding returns. Hedge funds provide this service.

- Our clients are much more comfortable giving up some of the appreciation potential in their portfolios in exchange for reduced losses when markets are declining. To paraphrase one of our clients, investors "do not wish to earn the money twice." It has been proven that systematic, naïve long-only investing can be extremely costly, as was evidenced in the bear market years of 2001 and 2002.

- Most of the "hedged" mutual funds registered with the Commission, which can look and feel like unregistered hedge funds, are extremely expensive for smaller investors. While the regulatory cost partially contributes to higher expenses in these programs, management fees are high mainly because providers are less likely to earn profit sharing arrangements under current regulations. Profit sharing or incentive fees are better for clients because investor interests are aligned with those of the manager. If managers perform well, they are rewarded with a proportionate increase in compensation and investors benefit from an increase in the value of their interests in the fund. If managers perform poorly, the incentive fee is not collected until they "regain lost ground," and investors benefit from a reduction in total fees extracted from their diminished assets.

- Finally, contrary to their portrayal in the media, the vast majority of hedge funds are relatively small pools of capital ($25 million or less) run by small start-up investment management firms, containing only a few full-time employees. These smaller funds have lower minimum investment requirements because they must rely on any amount of capital they can receive from investors, who are most likely to be high-net worth individuals as opposed to the institutional investors that larger funds are able to attract. If the minimum net worth standard is increased, it will have the affect of significantly limiting the amount of capital available to smaller funds, forcing many of them out of business and discouraging new funds from being started. This in turn will reduce the amount of competition and the amount of available investment options in the US hedge fund universe. It will also have the affect of forcing more funds to locate offshore, which would be a loss for the US financial industry and economy.

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Thank you very much for your consideration of these issues.

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