TURN KEY HEDGE FUNDS, INC.

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Please Reply to Florida Office

February 19, 2007

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

Re: **Proposed SEC Rule (File # S7-25–06) Prohibiting Fraud and Revising the Definition of Accredited Investor**

Dear Ms. Morris:

On behalf of Turn Key Hedge Funds, Inc., I am pleased to present our views on the Commission's proposed regulations of December 27, 2006.

Turn Key serves as a third-party administrator for hedge funds and has provided launch and administration services since 2001. Turn Key wishes to offer its perspective as an experienced service provider in the hedge fund industry by commenting on the proposed regulations.

<u>Proposed Rules 509 and 216</u>

1. Requiring a minimum of $2,500,000 in investments in addition to the net worth and income standards is not an appropriate approach for ensuring that investors are financially sophisticated and knowledgeable. Reducing the number of eligible investors beyond the 1982 levels is not a reasonable approach for several reasons.

As the Commission notes, at least part of the increase in the number of individuals qualifying for "accredited" status is due to an increase in the actual wealth of investors, which is not solely attributable to an increase in home values. It is not clear that hedge fund strategies and fees have become so complex and incomprehensible as to be a reasonable justification for such an increase. Regarding fees, most hedge funds have a clear asset based management fee plus an "incentive allocation," both of which are disclosed to the investor. A more practical solution to the Commission's concern about the complexity of fees would be to require certain disclosures to investors as to how fees will affect performance.

One effect of the regulation may be a shrinking of the universe of hedge funds, and an effective limit on the growth of small hedge funds because of the scarcity of accredited investors. Another result may be an increase of systematic risk created by having more investors and more capital concentrated in fewer funds and fewer investments, which is opposite of the aim of the regulations.

2. The Commission should not adopt a new standard based on investments. The Commission should take a different approach to accomplish its goals. Although the Commission seeks an objective measure of investor sophistication and knowledge, raising the suitability requirements beyond a certain point for an accredited investor does not increase the level of investor financial knowledge and sophistication. Using the value of investments as an objective test will always include many types of investments not necessarily indicative of financial sophistication. For instance, an investor's money that is being managed by a stock broker would not necessarily indicate financial sophistication, yet it is still counted as an investment. Having these types of assets may increase the ability to bear economic risk, but that alone is not sufficient justification when juxtaposed with the Commission's stated purpose of limiting investor participation to "sophisticated" and "knowledgeable" persons.

3. The proposal would decrease competition among 3(c)(1) funds. Investors are not attracted to a particular hedge fund because of low fees. They are attracted to a particular fund because of the prospect of performance. It is for this reason, and not because of lack of competition, that investors are willing to pay relatively high fees. In fact, the proliferation of hedge funds since the Regulation D was issued in 1982 is evidence of increased competition, as the increase in the number of hedge funds has far exceeded the increase in accredited investors. As the Commission notes, the proposal will reduce the universe of hedge funds available for an investor to choose from. Fewer hedge funds will be started, and many existing funds will shut down. Thus, it is by no means certain that reducing the number of available investors will result in a more favorable market, because there will be a corresponding reduction in hedge funds to choose from.

4. Current accredited investors should be grandfathered in so they can continue to make investments into funds where they have their assets. There is no reason to think that prohibiting formerly accredited investors from adding capital while allowing their existing capital accounts to remain at risk, will result in any significant protection to those investors. Preventing capital contributions from those investors will have the effect of limiting the flexibility of the fund. In addition, the lack of a grandfathering provision creates a situation where investors who were non-accredited under the old standards would still be allowed to add capital, but formerly accredited investors would not. This would increase the proportion of capital in a fund from those investors least able to bear the economic risk.

5. Pool employees should not be required to meet the accredited investor standard. Employees already have sufficient guarantee of being sophisticated by virtue of their participation in trading activities or management of the fund. Employees involved in the trading activities or management of a fund do not require an added level of protection. The fund manager and the investors rely on the fact that an employee actively participating in the fund is financially sophisticated. The regulation would protect the employee from investing only in a non-existent situation: where an employee is not financially sophisticated enough to invest in a fund in which he is actively participating in the trading activities. The whole fund would be at risk, but the regulations would only protect the employee by preventing him from investing in the fund. In other words, if an employee is financially sophisticated enough to actively participate in trading activities, that is sufficient indication that he is sophisticated enough to invest in the fund. The employee does not need the extra protection of the proposed regulation.

Hedge fund funds play an important role in the market at large. Hedge funds provide a benefit to investors in that they offer the prospect of high returns and an opportunity to diversify their portfolios. Hedge funds often employ strategies that can produce profits even as security markets are falling, and thus provide a way to reduce downside risk. While it might be unwise for an investor allocate his entire portfolio to a given hedge fund, funds provide an important way to diversify a portfolio. The proposed rules would effectively prevent many investors from availing themselves of these benefits.

Turn Key appreciates the Commission's consideration of these comments and would welcome further discussion on this issue.

Sincerely,

Turn Key Hedge Funds, Inc.
By: Joshua Atlas, Staff Attorney