September 15, 2004

Mr. Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Re: S7-30-04

Dear Mr. Katz:

We wish to provide the following comments in response to the Securities and Exchange Commission’s (“SEC”) request for comments on the proposed rule and rule changes entitled “Registration Under the Advisers Act of Certain Hedge Fund Advisers”.

Our firm, Millrace Asset Group, Inc. (“Millrace”) is an investment advisor for one client, Millrace Fund, LP (the “Fund”). The Fund has 45 limited partners with total partner’s equity of approximately $40 million. Millrace’s two shareholders are also the principals of the general partner of the Fund. Millrace employs two in addition to the company’s owners.

Most of the investors in the Fund know the owners of Millrace personally. The remainder of the investors are non-profit organizations, foundations and fund of funds where the endowment committee, investment committee or investment advisors have conducted due diligence on the Fund including obtaining the audited financial statements and contacting the Fund’s prime broker. These procedures severely limit the opportunity for a hedge fund to exaggerate their return record or assets under management. Every potential investor can easily perform these steps.

One of the primary concerns expressed by the majority of the SEC in favor of the proposed rule and rule changes was valuation problems which enabled fund managers to commit fraud. Our Fund is a straight-forward long/short equity fund invested in publicly traded securities. The valuation of the Fund is made daily by the Fund’s prime broker, Goldman Sachs & Co. There is no opportunity to “monkey around” with the valuation of the Fund.
The commissioners in favor of the proposed rule and rule changes cite the recent mutual fund late trading and market timing incidents as examples of activities that would not occur if hedge fund advisors were registered investment advisors. The fallacy of this line of thinking is that the mutual funds are already under specific SEC rules and SEC scrutiny and those rules and scrutiny did not deter the mutual funds from initiating and facilitating these activities. As the largest part of the burden of guilt in these activities rests with the mutual funds the SEC has failed to deter fraud in entities it already regulates closely.

We agree with the SEC commissioners in the minority that it is not yet clear what the majority intends to do with the additional information the SEC will collect and how enforcement resources can be stretched still further to examine all the new advisors which will register. Further analysis of the costs to the SEC and the investment advisors and benefits to investors is warranted.

We anticipate the need to hire an additional individual to fulfill the proposed compliance requirements. This 25% increase in staffing would appear to be a significant burden which would not contribute significant rewards to the limited partners of the Fund. We invite the SEC or its staff to visit our offices to gain a better understanding of how our straightforward business model works.

Sincerely,

Daniel J. Hammond
Chief Financial Officer