OPENING STATEMENT OF
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SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE AND GOVERNMENT SPONSORED ENTERPRISES

HEARING ON PERSPECTIVES ON HEDGE FUND REGISTRATION

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During the past two years, our markets have experienced tremendous turmoil as an economic tidal wave crashed down and resulted in the loss of trillions of dollars for investors, the drowning of several companies, and the disappearance of some products and industries. Because we need to decrease the likelihood of similar situations occurring again in the future, regulatory reform has become a topic for considerable debate in Washington.

Today, we will examine one sector of our markets in need of greater oversight: hedge funds. Our singular focus on hedge funds at this hearing, however, should not be taken to mean that we will not revisit the need for oversight of other pools of unregulated capital, including private equity and venture capital. We must also recognize that hedge funds are not villains as some might seek to infer, although there are almost certainly a very small number of bad ones.

As has happened many times before, this latest financial crisis has revealed that our system of capitalism cannot thrive without a responsible and thoughtful degree of transparency. The question before us today is how Congress can wisely improve hedge fund oversight. We must not regulate for the sake of regulation. Moreover, we should refrain from adding layers to an antiquated, patchwork structure that has become -- in some instances -- counterproductive.

In my current view, hedge funds deserve a narrowly tailored regulatory treatment. If they want to continue to swim in our capital markets, they must, at a minimum, fill out the forms and get an annual pool pass. In this regard, Congressmen Capuano and Castle have drafted a good bill to accomplish the goal of registering hedge fund investment advisers. Registration generally makes sense, although we may need to customize the rules to treat small firms differently from big ones. We can best achieve this objective by providing the Securities and Exchange Commission with some flexibility in the implementation of a hedge fund registration law.

As we work to put in place a system to obtain greater transparency for the hedge fund industry, we must also make other important decisions about who will monitor them and how. Because of their sophistication, we should allow hedge funds to continue swimming in the deep end of the pool. However, we also do not want to see them drown, especially in some future financial crisis. As such we need to determine whether they need a lifeguard on watch at all times or whether they can merely follow some general behavioral rules posted on a wall.

Moreover, we must consider how to protect less experienced swimmers in our markets who might be overwhelmed by the wave created when one hedge fund jumps into the pool with a cannon ball dive. Hedge fund activities directly affect the fortunes of pension funds and institutional investors. Indirectly, teachers and other hard-working Americans are heavily invested in hedge funds, but many of them were unaware of the risks involved until this crisis.

When the market soars and hefty returns are made, no one really cares. But business cycles happen, and fortunes can fade fast. We need a system that better protects individuals' retirement funds. We must ensure that nest eggs do not disappear as a result of excessive risk taking by pension managers. We have painfully witnessed enough of that last year.

In sum, investors need to regain trust and confidence in our markets, and legislation aimed at shining a light on a previously unregulated, $1.5 trillion corner of the market will help to accomplish that end. Striking a balance on all of these complicated questions is the task before us. I look forward to working in a bipartisan manner with other Members to design an effective, transparent regulatory system to govern hedge funds going forward.