ONE HUNDRED TENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

MAJORITY (202) 225-5051
FACSIMILE (202) 225-4784
MINORITY (202) 225-5074
TTY (202) 225-6852

http://oversight.house.gov

June 21, 2007

The Honorable Christopher Cox
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Cox:

We are writing out of concern that the proposed initial public offering (IPO) of The Blackstone Group L.P. (Blackstone LP) may present potential investors and the public with new and undisclosed risks, while stripping them of necessary protections. For this reason, we urge you to refrain from accelerating the IPO until Congress has had a chance to hold hearings on this matter.

Blackstone LP would be the first manager of hedge and private equity funds to attempt to go public as a limited partnership. The value of public investors' interests in Blackstone LP would be tied to the performance of the underlying hedge and private equity funds, which have not been considered suitable investments for the general public because of their high risks and speculative nature. While exposing unsophisticated investors to new risks, the Blackstone LP IPO would also apparently deprive them of control over the management of the funds and of many of the protections provided by fiduciary duties typically owed to them by management.

Small investors, in particular, would benefit from more consideration by the Securities and Exchange Commission and Congress of the proposed IPO. Under current law, Blackstone Group is prohibited from selling interests in its underlying funds, including its hedge and private equity funds, to the general investing public. Instead, these funds can be sold only to sophisticated investors, such as wealthy individuals and institutional investors. The collapse of Long-Term Capital Management in 1998 is one example of the volatility and risk involved in investing in hedge funds. With these concerns and the explosive growth of these funds in mind, the SEC recently proposed a rule that would increase the minimum wealth for investors in certain types of hedge funds from $1 million to $2.5 million.[1]

---

[1] Securities and Exchange Commission, *Prohibition of Fraud by Advisers to Certain Pooled Investment Vehicles; Accredited Investors in Certain Private Investment Vehicles,*

According to legal and financial experts whom we consulted, the Blackstone LP IPO presents novel questions because it appears to be a vehicle for allowing public investors to participate in hedge-fund type investments that have previously been considered unsuitable. As we understand it, the main value of the investors' stake in Blackstone LP derives from the performance of the underlying hedge funds and private equity investments. This would be a major change in investor protections and market regulation. It should not be authorized without careful consideration of its implications for the average investor.

The Domestic Policy Subcommittee intends to hold a hearing on these issues at the earliest opportunity. We urge that you decline to accelerate the effectiveness of the Blackstone LP IPO in order to allow more time for SEC review and for the congressional hearing to occur. More time would allow for a fuller consideration of the tax and national security concerns that have been raised by other members of Congress.[2]

Securities Act Release No. 33-8766; Investment Advisers Act Release No. 2576 (Dec. 27, 2006) (online at www.sec.gov/rules/proposed/2006/33-8766.pdf).

[2] On June 14, Senators Max Baucus and Charles E. Grassley, chairman and ranking member of the U.S. Senate Committee on Finance, introduced legislation that would tax publicly traded partnerships such as Blackstone LP at the standard 35% corporate tax rate instead of the capital gains tax rate that Blackstone has sought. In a letter to Henry M. Paulson, Jr., Secretary of the Department of Treasury, the Senators requested that Secretary Paulson provide his views on the proposed legislation and "join us in informing the Securities and Exchange Commission of the need to address the tax matters raised by the Blackstone LP IPO so that we can preserve the integrity of the tax code and also give clear guidance to potential investors and the public of the tax treatment." In a separate letter to the SEC, the Senators stated that investors would gain "confidence of the tax treatment of any investments" and be "in a more informed position after Congress and the Treasury have had an opportunity to speak to the serious tax policy questions raised by the Blackstone IPO."

On June 20, 2007, Senator Jim Webb wrote you, Secretary Paulson, and Michael Chertoff, Secretary of the U.S. Department of Homeland Security, requesting that the SEC decline acceleration of the IPO until the Committee on Foreign Investment in the United States and the SEC determine whether China's participation in the IPO raises national security concerns.

If you have any questions concerning this letter, your staff can contact Charlie Honig, Counsel, Domestic Policy Subcommittee, at (202) 225-6427.

Sincerely,

Dennis J. Kucinich

Henry A. Waxman

Dennis J. Kucinich
Chairman
Domestic Policy Subcommittee

Henry A. Waxman
Chairman
Committee on Oversight and Government Reform

cc: Tom Davis
Ranking Minority Member
Committee on Oversight and Government Reform

Darrell Issa
Ranking Minority Member
Domestic Policy Subcommittee

The Honorable Paul S. Atkins
Commissioner
U.S. Securities and Exchange Commission

The Honorable Roel C. Campos
Commissioner
U.S. Securities and Exchange Commission

The Honorable Annette L. Nazareth
Commissioner
U.S. Securities and Exchange Commission

The Honorable Kathleen L. Casey
Commissioner
U.S. Securities and Exchange Commission