

Via Hand Delivery

September 7, 2016

The Honorable Paul D. Ryan  
Speaker  
United States House of Representatives  
Washington, DC 20515

The Honorable Nancy Pelosi  
Minority Leader  
United States House of Representatives  
Washington, DC 20515

*Re: H.R. 5424, Investment Advisers Modernization Act of 2016*<sup>1</sup>

Dear Mr. Speaker and Minority Leader Pelosi:

I am writing on behalf of the Council of Institutional Investors (CII), a nonpartisan, nonprofit association of employee benefit plans, foundations and endowments with combined assets under management exceeding \$3 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families. Our associate members include a range of asset managers with more than \$20 trillion in assets under management.<sup>2</sup>

The purpose of this letter is to express our opposition to H.R. 5424, which we understand may be voted on by the full House of Representatives later this week. We respectfully request that you oppose H.R. 5424 because it rolls back important transparency and reporting requirements that we and many of our members believe are critical to investor protection.<sup>3</sup>

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<sup>1</sup> Congress.Gov, available at <https://www.congress.gov/bill/114th-congress/house-bill/5424>.

<sup>2</sup> For more information about the Council of Institutional Investors (CII) and our members, please visit CII's website at [http://www.cii.org/about\\_us](http://www.cii.org/about_us).

<sup>3</sup> See Letter from Jack Ehnes, Chief Executive Officer, California State Teachers' Retirement System, to The Honorable Jeb Hensarling, Chairman, House Committee on Financial Services et al. 2 (June 10, 2016) ("This proposed legislation would actually roll back the important investor protections provided to funds like CalSTRS from Dodd-Frank which required transparency in the form of registration and certain reporting from these fund advisers.") (on file with CII); see also Letter from Anne Simpson, CalPERS, Investment Director, Global Governance, to The Honorable Jeb Hensarling, Chairman, House Committee on Financial Services et al. 2 (June 10, 2016) ("We believe H.R. 5424 would erode the Dodd-Frank provisions that established greater transparency into private equity funds, . . . and enhanced the ability of regulators to effectively monitor systemic risk in the private fund industry.") (on file with CII); see generally, A Report by the Investors' Working Group, U.S. Financial Reform: The Investors' Perspective 15 (July 2009) (recommending "transparency and oversight" of private equity and hedge funds because their systemic importance to the market), available at [http://www.cii.org/files/issues\\_and\\_advocacy/dodd-frank\\_act/07\\_01\\_09\\_iwg\\_report.pdf](http://www.cii.org/files/issues_and_advocacy/dodd-frank_act/07_01_09_iwg_report.pdf).

For example, Section 3(b) of H.R. 5424 would provide exceptions for private equity and hedge funds from existing disclosure requirements on Form PF, a confidential form used by the U.S. Securities and Exchange Commission and other regulators to track risks in the financial system.<sup>4</sup> We share the concerns expressed by Jennifer Taub, professor of law at Vermont Law School about the impact of this proposed provision.<sup>5</sup> In testimony before the House Financial Services Committees' Subcommittee on Capital Markets and Government Sponsored Enterprises, Professor Taub warned that Section 3(b), if enacted, would:

[P]romote opacity by allowing private equity funds to retreat into the shadows, gaining exceptions from completing form PF just a few years after they began doing so. This information is important to monitor for systemic risk and to protect investors. If enacted, private equity fund advisers could stop completely section 4 of the form. This section provides important information related to leverage and counterparty risk. It also includes information concerning geographic and industry breakdown of portfolio companies.

In addition, if enacted, section 1c of Form PF would apparently no longer have to be completed by hedge fund advisers with between \$150 million and \$1.5 billion in AUM. The information is very important as it provides insight into trading and clearing of derivatives as well as short-term wholesale funding including bilateral and triparty repo[s]. Given that derivatives and the short-term wholesale funding markets accelerated the financial crisis and still remain a source of risk, it is critical for the SEC . . . to gather this information.<sup>6</sup>

Thank you for considering our views on this matter. If you have any questions, please contact me at (202) 822-0800 or [jeff@cii.org](mailto:jeff@cii.org).

Sincerely,



Jeffrey P. Mahoney  
General Counsel

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<sup>4</sup>FORM PF, available at <https://www.sec.gov/rules/final/2011/ia-3308-formpf.pdf>.

<sup>5</sup> *Legislative Proposals to Enhance Capital Formation, Transparency, and Regulatory Accountability*, Hearing before the H. Subcomm. on Cap. Mkts. & Gov't Sponsored Enters. of the Comm. on Fin. Servs., 114<sup>th</sup> Cong. 10 (May 17, 2016) (written testimony of Jennifer Taub, Professor of L., Vt. L. Sch.), available at <http://financialservices.house.gov/uploadedfiles/hhrg-114-ba16-wstate-jtaub-20160517.pdf>.

<sup>6</sup> *Id.*