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PWG Private-Sector Committees Release Best Practices for Hedge Fund Participants

Washington- Two blue-ribbon private-sector committees established by the President's Working Group released separate yet complementary sets of best practices for hedge fund investors and asset managers today, in the most comprehensive public-private effort to increase accountability for participants in this industry.

"As we said when announcing these committees --- we want the world's highest investor protection standards; we want to guard against systemic risk and keep the United States the most competitive financial marketplace in the world. As these committees were formed, their Chairmen and the PWG believed that markets benefit when experienced and respected participants develop best practices and new accountability standards," said Treasury Secretary Henry M. Paulson, Jr., who chairs the PWG. "These are important issues, and these recommendations represent tangible steps towards our goals."

The PWG tasked the committees, [selected in September 2007](#) and comprised of well-respected asset managers and investors, with collaborating on industry issues and developing a set of best practices for their respective groups of stakeholders. Their work was based on the [PWG's Principles and Guidelines Regarding Private Pools of Capital issued in February 2007](#), which sought to enhance investor protections and systemic risk safeguards. The best practices may be viewed at the committees' websites, www.amaicmte.org.

The PWG includes the heads of the U.S. Treasury Department, the Federal Reserve, the Securities and Exchange Commission and the Commodity Futures Trading Commission.

The best practices for the asset managers call on hedge funds to adopt comprehensive best practices in all aspects of their business, including the critical areas of disclosure, valuation of assets, risk management, business operations, compliance and conflicts of interest. Eric Mindich, CEO of Eton Park Capital Management, chairs the Asset Managers' Committee.

The best practices for investors include a Fiduciary's Guide and an Investor's Guide. The Fiduciary's Guide provides recommendations to individuals charged with evaluating the appropriateness of hedge funds as a component of an investment portfolio. The Investor's Guide provides recommendations to those charged with executing and administering a hedge fund program once a hedge fund has been added to the investment portfolio. Russell Read, Chief Investment Officer of the California Public Employees' Retirement System, leads the Investors' Committee.

Both best practices documents recommend innovative and far-reaching practices that exceed existing industry standards. The recommendations complement each other by encouraging both types of market participants to hold the other more accountable. Given the global nature of financial markets, the best practices were designed to be consistent with the work that was done in the United Kingdom to improve hedge fund oversight.

The PWG Principles and Guidelines Regarding Private Pools of Capital issued in early 2007 provided a clear but flexible approach to address issues presented by the growth and dynamism of these investment vehicles. The PWG designed the principles to endure as financial markets evolved and identified four stakeholders who contribute to hedge fund vigilance: asset managers, creditors, investors and regulators.

Regulators moved to implement these principles and worked to encourage the industry to adopt the principles. Secretary Paulson [in June 2007](#) announced that the PWG would call upon experienced industry participants who could lead the charge to raise standards for improving transparency and accountability. The group selected chairmen to lead two private-sector committees to develop the best practices.

The PWG and the committee chairmen sought a range of experience and leadership when considering committee members. The Investors' Committee included representatives from labor organizations, endowments, foundations, corporate and public pension funds, investment consultants, and non-U.S. investors. The Asset Managers' Committee includes representatives from a diverse group of hedge fund managers representing many different investment strategies.

The recommendations will be open for public comment for 60 days. The committees then will review and, as necessary, revise these best practices and standards. Comments may be submitted at the Committees' website. The committees will continue to meet to discuss raising the standards for industry participants after the best practices are complete.

REPORTS

- [Fact Sheet: Asset Managers' Committee Best Practices Summary](#)
- [Asset Managers' Committee Best Practices](#)
- [Fact Sheet: Investors' Committee Best Practices Summary](#)
- [Investors' Committee Best Practices](#)