



Americans for Financial Reform
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Dear Representative,

On behalf of Americans for Financial Reform, we are writing to express our opposition to HR 1105.¹ Contrary to its title, this bill is not designed to benefit small business. Instead, it would exempt private equity fund advisers – who include some of the wealthiest and most significant entities on Wall Street – from basic reporting requirements designed to help regulators monitor systemic risk in the financial system and protect investors and the public.

Prior to the Dodd-Frank Act, hedge and private equity funds received almost no regulatory monitoring, despite the fact that combined they manage some \$3 trillion in assets and played a significant intermediary role in the financial crisis.² Section 404 of the Dodd-Frank Act created more transparency for this previously dark portion of the markets, by requiring advisers to hedge and private equity funds to report basic financial information relevant to systemic risk to the Securities and Exchange Commission (SEC). The experience of the 2008 crisis – where risks emerged from parts of the markets not being monitored by regulators – clearly demonstrates the importance of ensuring that regulators can track financial risks wherever they originate.

The Section 404 reporting requirements as implemented by the SEC are far from onerous.³ All advisers with below \$150 million in assets under management are completely exempted, and advisers with up to \$1.5 billion in assets under management must report only limited and basic information once per year. Advisers to large private equity funds are required to respond only once per year (advisers to other large funds report quarterly).

HR 1105 would exempt almost all private equity fund advisers from reporting requirements to the Securities and Exchange Commission. The sole requirement for the exemption is that the fund must not have outstanding borrowings that exceed twice the fund's invested capital. But this requirement places little if any real limitation on the exemption, since the great majority of borrowing connected with private equity activity is conducted through portfolio companies, not at the fund level. (That is, companies owned by private equity funds borrow large amounts as the direction of the fund, but the fund itself rarely borrows a great deal).

¹ [Americans for Financial Reform](#) is an unprecedented coalition of over 250 national, state and local groups who have come together to reform the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, religious and business groups.

² See e.g. Lysandrou, Photis, "[The Real Role of Hedge Funds In The Crisis](#)", Financial Times, April 1, 2012.

³ "[Reporting By Investment Advisers to Private Funds On Form PF: A Small Entity Compliance Guide](#)", Securities and Exchange Commission, Accessed December 2, 2013. "[Form PF](#)", Securities and Exchange Commission, Accessed December 2, 2013.

It is particularly distressing that Congress would consider granting this exemption at a time when concern is growing among regulators and market observers about risks created by a possible bubble in the leveraged loan market, which is dominated by loans sponsored by private equity firms. Several warnings have been issued recently by regulators concerning the risks being created in these markets.⁴ As Moody's investor's service has stated:⁵

“Private equity firms have been exploiting investors' willingness to lend to speculative-grade companies... Higher yields are drawing investors to riskier structures at a time when interest rates remain at historical lows.”

Since leveraged loans are also being sold to small retail investors, a bubble could impact both the stability of the broader financial system and the retirement savings of retail investors. The situation in the leveraged loan market clearly demonstrates the connection between private equity activity and important risks to financial stability and to investors.

An additional source of concern is the danger that the exemption granted in HR 1105 could too easily be exploited to reach beyond private equity firms alone. The distinction between a hedge fund and a private equity fund is not a formal legal distinction, it is simply a differentiation between general investment strategies. While HR 1105 grants the SEC the ability to define more precisely what a private equity fund is, if that definition is at all overbroad then it could be taken advantage of by a wide range of hedge funds in order to avoid oversight.

Private equity funds already receive significant subsidies through the tax system, as they are major beneficiaries of the favorable treatment for 'carried interest', as well as the general tax subsidy to debt costs. It is totally inappropriate to also grant such funds a blanket exemption from even the limited and basic Dodd-Frank regulatory reporting requirements. Such a blanket exemption would make it more difficult for regulators to monitor systemic risk and risks to investors, solely in order to exempt wealthy managers of large private equity funds from a minor administrative task. HR 1105 should be rejected.

Thank you for your consideration. For more information please contact AFR's Policy Director, Marcus Stanley at marcus@ourfinancialsecurity.org or 202-466-3672.

Sincerely,

Americans for Financial Reform

⁴ Gage, Caroline, Craig Torres and Kristen Haunss, "[Attack on Junk Loans Risks LBO Profits As U.S. Cracks Down](#)", Bloomberg News, November 13, 2013.

⁵ Moody's Investors Service, "[Private Equity Firms Are Raising Risks For Creditors](#)", Global Credit Research, November 27, 2012.

Following are the partners of Americans for Financial Reform

All the organizations support the overall principles of AFR and are working for an accountable, fair and secure financial system. Not all of these organizations work on all of the issues covered by the coalition or have signed on to every statement.

- A New Way Forward
- AFL-CIO
- AFSCME
- Alliance For Justice
- American Income Life Insurance
- American Sustainable Business Council
- Americans for Democratic Action, Inc
- Americans United for Change
- Campaign for America's Future
- Campaign Money
- Center for Digital Democracy
- Center for Economic and Policy Research
- Center for Economic Progress
- Center for Media and Democracy
- Center for Responsible Lending
- Center for Justice and Democracy
- Center of Concern
- Center for Effective Government
- Change to Win
- Clean Yield Asset Management
- Coastal Enterprises Inc.
- Color of Change
- Common Cause
- Communications Workers of America
- Community Development Transportation Lending Services
- Consumer Action
- Consumer Association Council
- Consumers for Auto Safety and Reliability
- Consumer Federation of America
- Consumer Watchdog
- Consumers Union
- Corporation for Enterprise Development
- CREDO Mobile
- CTW Investment Group
- Demos
- Economic Policy Institute
- Essential Action
- Greenlining Institute
- Good Business International
- HNMA Funding Company
- Home Actions

- Housing Counseling Services
- Home Defender's League
- Information Press
- Institute for Global Communications
- Institute for Policy Studies: Global Economy Project
- International Brotherhood of Teamsters
- Institute of Women's Policy Research
- Krull & Company
- Laborers' International Union of North America
- Lawyers' Committee for Civil Rights Under Law
- Main Street Alliance
- Move On
- NAACP
- NASCAT
- National Association of Consumer Advocates
- National Association of Neighborhoods
- National Community Reinvestment Coalition
- National Consumer Law Center (on behalf of its low-income clients)
- National Consumers League
- National Council of La Raza
- National Council of Women's Organizations
- National Fair Housing Alliance
- National Federation of Community Development Credit Unions
- National Housing Resource Center
- National Housing Trust
- National Housing Trust Community Development Fund
- National NeighborWorks Association
- National Nurses United
- National People's Action
- National Urban League
- Next Step
- OpenTheGovernment.org
- Opportunity Finance Network
- Partners for the Common Good
- PICO National Network
- Progress Now Action
- Progressive States Network
- Poverty and Race Research Action Council
- Public Citizen
- Sargent Shriver Center on Poverty Law
- SEIU
- State Voices
- Taxpayer's for Common Sense
- The Association for Housing and Neighborhood Development
- The Fuel Savers Club
- The Leadership Conference on Civil and Human Rights
- The Seminal
- TICAS

- U.S. Public Interest Research Group
- UNITE HERE
- United Food and Commercial Workers
- United States Student Association
- USAction
- Veris Wealth Partners
- Western States Center
- We the People Now
- Woodstock Institute
- World Privacy Forum
- UNET
- Union Plus
- Unitarian Universalist for a Just Economic Community

List of State and Local Affiliates

- Alaska PIRG
- Arizona PIRG
- Arizona Advocacy Network
- Arizonans For Responsible Lending
- Association for Neighborhood and Housing Development NY
- Audubon Partnership for Economic Development LDC, New York NY
- BAC Funding Consortium Inc., Miami FL
- Beech Capital Venture Corporation, Philadelphia PA
- California PIRG
- California Reinvestment Coalition
- Century Housing Corporation, Culver City CA
- CHANGER NY
- Chautauqua Home Rehabilitation and Improvement Corporation (NY)
- Chicago Community Loan Fund, Chicago IL
- Chicago Community Ventures, Chicago IL
- Chicago Consumer Coalition
- Citizen Potawatomi CDC, Shawnee OK
- Colorado PIRG
- Coalition on Homeless Housing in Ohio
- Community Capital Fund, Bridgeport CT
- Community Capital of Maryland, Baltimore MD
- Community Development Financial Institution of the Tohono O'odham Nation, Sells AZ
- Community Redevelopment Loan and Investment Fund, Atlanta GA
- Community Reinvestment Association of North Carolina
- Community Resource Group, Fayetteville A
- Connecticut PIRG
- Consumer Assistance Council
- Cooper Square Committee (NYC)
- Cooperative Fund of New England, Wilmington NC
- Corporacion de Desarrollo Economico de Ceiba, Ceiba PR
- Delta Foundation, Inc., Greenville MS
- Economic Opportunity Fund (EOF), Philadelphia PA

- Empire Justice Center NY
- Empowering and Strengthening Ohio's People (ESOP), Cleveland OH
- Enterprises, Inc., Berea KY
- Fair Housing Contact Service OH
- Federation of Appalachian Housing
- Fitness and Praise Youth Development, Inc., Baton Rouge LA
- Florida Consumer Action Network
- Florida PIRG
- Funding Partners for Housing Solutions, Ft. Collins CO
- Georgia PIRG
- Grow Iowa Foundation, Greenfield IA
- Homewise, Inc., Santa Fe NM
- Idaho Nevada CDFI, Pocatello ID
- Idaho Chapter, National Association of Social Workers
- Illinois PIRG
- Impact Capital, Seattle WA
- Indiana PIRG
- Iowa PIRG
- Iowa Citizens for Community Improvement
- JobStart Chautauqua, Inc., Mayville NY
- La Casa Federal Credit Union, Newark NJ
- Low Income Investment Fund, San Francisco CA
- Long Island Housing Services NY
- MaineStream Finance, Bangor ME
- Maryland PIRG
- Massachusetts Consumers' Coalition
- MASSPIRG
- Massachusetts Fair Housing Center
- Michigan PIRG
- Midland Community Development Corporation, Midland TX
- Midwest Minnesota Community Development Corporation, Detroit Lakes MN
- Mile High Community Loan Fund, Denver CO
- Missouri PIRG
- Mortgage Recovery Service Center of L.A.
- Montana Community Development Corporation, Missoula MT
- Montana PIRG
- Neighborhood Economic Development Advocacy Project
- New Hampshire PIRG
- New Jersey Community Capital, Trenton NJ
- New Jersey Citizen Action
- New Jersey PIRG
- New Mexico PIRG
- New York PIRG
- New York City Aids Housing Network
- New Yorkers for Responsible Lending
- NOAH Community Development Fund, Inc., Boston MA
- Nonprofit Finance Fund, New York NY
- Nonprofits Assistance Fund, Minneapolis M

- North Carolina PIRG
- Northside Community Development Fund, Pittsburgh PA
- Ohio Capital Corporation for Housing, Columbus OH
- Ohio PIRG
- OligarchyUSA
- Oregon State PIRG
- Our Oregon
- PennPIRG
- Piedmont Housing Alliance, Charlottesville VA
- Michigan PIRG
- Rocky Mountain Peace and Justice Center, CO
- Rhode Island PIRG
- Rural Community Assistance Corporation, West Sacramento CA
- Rural Organizing Project OR
- San Francisco Municipal Transportation Authority
- Seattle Economic Development Fund
- Community Capital Development
- TexPIRG
- The Fair Housing Council of Central New York
- The Loan Fund, Albuquerque NM
- Third Reconstruction Institute NC
- Vermont PIRG
- Village Capital Corporation, Cleveland OH
- Virginia Citizens Consumer Council
- Virginia Poverty Law Center
- War on Poverty - Florida
- WashPIRG
- Westchester Residential Opportunities Inc.
- Wigamig Owners Loan Fund, Inc., Lac du Flambeau WI
- WISPIRG

Small Businesses

- Blu
- Bowden-Gill Environmental
- Community MedPAC
- Diversified Environmental Planning
- Hayden & Craig, PLLC
- Mid City Animal Hospital, Pheonix AZ
- The Holographic Repatterning Institute at Austin
- UNET

