THE BUSINESS NEWS (ROB-TV), NATIONAL (CABLE), 18 Feb 04 18:40, Length: 00:07:10, Ref# 383339-9
Anchor/Reporters:

INTERVIEW WITH LAUREN TEIGLAND-HUNT, TEIGLAND-HUNT & ASSOCIATES LLP

HOWARD GREEN, HOST: Hedge funds may need to gear up for battle with the SEC. The Securities and Exchange Commission has proposed hiring 160 people to register and inspect hedge funds. I spoke with Lauren Teigland-Hunt from New York earlier today. She's the managing partner of Teigland-Hunt & Associates LLP and external counsel to Managed Funds Association. I began by asking what her reaction was to the announcement.

LAUREN TEIGLAND-HUNT, TEIGLAND-HUNT & ASSOCIATES LLP: The release I saw from the Commission said that the SEC was interested in devoting a number of those new resources to enhanced mutual fund industry regulation. And I think in light of recent developments over the past several months we can all agree that, that's probably a good thing. They also mentioned that they were planning to devote a certain amount of these resources to hedge fund regulation. In my view, it depends what they mean by this. A number of hedge funds are already regulated by the SEC. All hedge funds, whether they're registered or not, are subject to securities regulation that is enforced by the SEC.

GREEN: What do you think it means though, you must have some sense of what it means?

TEIGLAND-HUNT: Well, what I think it means is that they recognize the hedge fund industry is growing and they need to devote more resources to it. To the extent that the intent of this is to focus on expanding their authority, I think there's a lot of controversy surrounding that.

GREEN: What kind of controversy?

TEIGLAND-HUNT: Well, a number of very prominent policymakers have been pretty vocal about the SEC staff's recent recommendation to require all hedge fund advisers to register. Among them Chairman Greenspan testified last week before the Senate Banking Committee that he was uncomfortable with requiring registration of all hedge fund advisers. In addition Chairman Newsome of the Commodity Futures Trading Commission has said that he's not comfortable with it, that the case has not been made for registration. In fact two of Chairman

Donaldson's colleagues, Commissioners Glassman and Atkins, have said that they're not comfortable with the recommendation either.

GREEN: But what about Mr. Donaldson, he has said that this could be a trillion dollar industry any time. Doesn't that in itself mean that there should be more scrutiny of this industry?

TEIGLAND-HUNT: I think what we have to remember here is that the hedge fund industry is purely an institutional marketplace. Hedge funds are offered exclusively to institutional investors and wealthy individuals. As such, these investors traditionally have not required or even sought protection from the SEC. So to the extent that the SEC is seeking to extend their authority into an institutional marketplace, I think that merits close scrutiny.

GREEN: But what about the fact that more and more smaller investors, if I can call them that, are entering into this area. There are products available to them that are labeled hedge funds. Doesn't that raise the issue?

TEIGLAND-HUNT: Well you raise a very interesting issue which is also an issue that there is a lot of confusion about. When the SEC launched its investigation into the hedge fund industry back in May of 2002, one of the things they were concerned about was just that issue: the fact that retail investors are interested in these products and may be getting involved in these products and that these products may not be protecting them.

The fact of the matter is that when the SEC completed and published its report last September, they found no evidence of retailization. Retail investors are not, by law, permitted to invest directly into these products. To the extent they want to get into these products, it would be something that the SEC has full authority to regulate.

GREEN: What's the alternative to more regulation?

TEIGLAND-HUNT: The alternative to more regulation, in my view, is to enforce the existing system, which I think as we've seen over the past several years, has worked very well.

GREEN: But who should enforce it?

TEIGLAND-HUNT: All of the regulators that have oversight over the different parts of the hedge fund industry. That would include not just the SEC, but the CFTC, the Fed and the Treasury. All of these regulators have important federal interests that they protect, markets that they protect, and they have the authority in place to protect them.

GREEN: What about self-regulation?

TEIGLAND-HUNT: Self-regulation of the hedge fund industry is one of the things that Managed Funds Association is seeking to promote. Last November the Managed Funds Association published "Sound Practices for Hedge Fund Managers" in the very spirit of the idea that the best way to regulate is through self-regulation.

GREEN: Even though there's been a lot of skepticism about self- regulation in this current environment over the past few years?

TEIGLAND-HUNT: Yes, because even though self- regulation is being scrutinized in various sectors, New York Stock Exchange, Nasdaq, etc., in this industry, again, it's an institutional marketplace; and the idea is that it's in everybody's interest to regulate themselves, because out of self-discipline and self-policing, you serve your own self-interest.

GREEN: Let me put it to you this way. If the membership has nothing at all to hide, or worry about, why protest at all about any of this?

TEIGLAND-HUNT: Well I guess we share the concern of Alan Greenspan and others who have voiced concern over the SEC's proposal to extend their authority. Again, this is a marketplace that functions very well "as is," so any increased regulation of this marketplace has to have a very clear purpose. And it's not clear to us what that purpose is. With any regulation of a marketplace that provides so many valuable benefits to the markets in terms of liquidity, refining the pricing system, narrowing bid-ask spreads, you need to be very careful that any new regulation has a clear purpose and no unintended outcomes.

GREEN: Just to finish up, a few years back when the Long-Term Capital Management situation occurred, it sounded like Mr. Greenspan and company were very worried about that particular situation unraveling.

TEIGLAND-HUNT: You raise a good point. There was a very important study done with respect to Long-Term Capital Management by Chairman Greenspan together with the other members of the President's Working Group on Financial Markets. They looked very hard at the time at what happened with Long-Term Capital Management, which I think we all see now as somewhat of an aberration in the markets. They looked very hard at whether or not it made sense to directly regulate hedge funds. And they concluded, at the time, that it didn't make sense. That direct regulation of hedge funds presented formidable challenges in terms of cost and effectiveness, and that indirect regulation of hedge funds through prime brokers and through their creditors made a lot more sense.

GREEN: Okay, well unfortunately we're out of time but good of you to join us.

TEIGLAND-HUNT: Thank you for having me.

GREEN: Thanks very much. That's Lauren Teigland-Hunt, external Counsel to Managed Funds Association.

END

WORDS: 1207

Transcript Order: 102429 Id: 383339-9 Sent: 05 Mar 04 10:00AM