

**SECURITIES AND EXCHANGE COMMISSION STAFF
ISSUES HEDGE FUND REPORT**

The staff of the Securities and Exchange Commission (the “Commission”) issued its Report today on the implications of the growth of hedge funds.

The principal recommendations found in the Report are that the Commission consider

1. requiring hedge fund managers to register as investment advisers under the Investment Advisers Act of 1940, as amended (the “Advisers Act”);
2. revising Advisers Act regulations to require hedge fund managers to provide a brochure specifically designed for hedge funds;
3. requiring the boards of directors of registered investment companies (“RICs”) that invest in hedge funds to adopt valuation procedures to ensure that the RICs value the hedge fund assets consistent with the valuation requirements of the Investment Company Act of 1940, as amended; and
4. requiring that additional fee table disclosure be provided about the layers of fees in registered funds of funds.

In addition, the Report recommends that

1. the NASD and the Commission continue to monitor whether broker-dealers are effectively conducting suitability determinations and meeting their disclosure obligations to investors;
2. the Commission consider permitting general solicitation of interests in Section 3(c)(7) (“Qualified Purchaser”) hedge fund offerings;
3. staff examiners monitor capital introduction services provided by prime brokers to determine whether and when such services rise to the level of acting as a broker or an adviser;
4. the hedge fund industry embrace and further develop best practices; and
5. the Commission continue its investor education efforts.

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The Report also recommends that the Commission consider issuing a concept release for examining the wider use of hedge fund investment strategies in RICs.

The Report does not necessarily express the views of the Commission itself and will be submitted to the Commissioners for their review and consideration.

A copy of the Report is attached.

If you have any questions regarding the Report, please call Daniel Schloendorn ((212) 728-8265, dschloendorn@willkie.com), Emily M. Zeigler ((212) 728-8284, ezeigler@willkie.com) or Rita M. Molesworth ((212) 728-8727, rmolesworth@willkie.com) of our New York office.

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September 29, 2003

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