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Public Interest Comment on Hedge Fund Investor Qualifications - The Definition of Accredited Investor in Certain Private Investment Vehicles

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Abstract

The Securities and Exchange Commission (SEC) seeks public comment on proposed rules raising the level of personal wealth required for individuals to qualify to purchase securities offered by certain private investment funds commonly referred to as hedge funds. The SEC's new requirement for individuals would limit hedge funds only to those investors who already have \$2.5 million in investments, reducing those able to invest by 85 percent.

The SEC's proposed rules harm investors by reducing their ability to decrease overall portfolio risk through purchasing hedge fund securities. Hedge funds are primarily a tool for risk management and risk reduction, not beating general market returns. During the 2000 to 2002 bear market, the S&P 500 had an average annual loss of 15.5 percent and the NASDAQ Composite Index likewise lost 10.6 percent annually. The average annual return for hedge funds during the same period was a gain of approximately 2.5 percent.

Even though hedge funds are private investment vehicles not subject to the SEC's system of registration and disclosure, there is enough public information about them for a substantial portion of investors to make informed decisions.

The SEC can better promote the goals of investor protection, efficiency and capital formation by: (1) revising the proposed rules to substantially reduce any net worth, income and/or value of investments required to purchase the securities of hedge funds; (2) amending applicable rules to permit all investors to purchase the securities of hedge funds registered with the Commission or some other regulatory body; and (3) studying how the policies of other countries that allow investors greater access to hedge funds affect investor protection, competition, efficiency, and capital formation.

Keywords: hedge fund, accredited investor, securities exchange commission, risk, private pool, risk management

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