

## Opening Statement of Ranking Member Spencer Bachus at the Hearing entitled "Hedge Funds and Systemic Risk: Perspectives of The President's Working Group on Financial Markets"

July 11, 2007

Thank you, Mr. Chairman for holding this important hearing, the third in a series of hearings on the public policy issues associated with the rapid growth of private pools of capital, including hedge funds and private equity funds. The Committee is fortunate to have with us today four distinguished representatives of the President's Working Group on Financial Markets ("PWG").

The PWG, chaired by the Treasury Secretary and composed of the chairmen of the Federal Reserve Board, the Securities and Exchange Commission, and the Commodity Futures Trading Commission, was formed in the wake of the 1987 stock market crash to promote integrity, efficiency, orderliness, and competitiveness in our financial markets. Since then, it has periodically issued reports on issues affecting the U.S. markets, including a 1999 report on hedge funds assessing lessons learned in the wake of the near-collapse of Long Term Capital Management.

Earlier this year, the PWG endorsed an approach to hedge-fund regulation that relies primarily on market pressures and incentives to contain risk. The PWG concluded - correctly, in my view - that market discipline, together with statutory limitations restricting access to hedge funds to wealthy investors, can sufficiently mitigate industry risks. By emphasizing the importance of free market forces rather than the heavy hand of excessive government regulation, I believe that the PWG has struck the right balance in regulating the activities of these highly innovative investment vehicles.

Hedge funds and private equity funds have in recent days become convenient targets for those favoring higher taxes and more government intervention in the capital markets. While this is certainly a debate worth having, I hope that it will be informed by an appreciation for the vital role that these private pools of capital play in the efficient functioning of our markets and in maintaining America's competitive standing in the global economy. Hedge funds actively pursue arbitrage opportunities across markets and in the process often reduce or eliminate mis-pricing of financial assets. As former Federal Reserve Chairman Alan Greenspan said, "Their willingness to take short positions can act as an antidote to the sometimes-excessive enthusiasm of long-only investors. Perhaps most important, they often provide valuable liquidity to financial markets, both in normal market conditions and especially during periods of stress. They can ordinarily perform these functions more effectively than other types of financial intermediaries because their investors often have a greater appetite for risk and because they are largely free from regulatory constraints on investment strategies."

Private equity funds offer tools for providing capital and expertise to underperforming companies or companies struggling with the tremendous pressure of the public markets to meet quarterly earnings expectations. In order to improve corporate performance, private equity funds recruit top managers and directly tie compensation to long-term performance and growth. They develop strategic business plans and implement operational improvements to revitalize companies in a manner that can only be achieved when the firm's owners are directly and actively engaged in its management.

Hearings like the one we are having today are important because they allow members of this Committee to better understand the industries we oversee. If Congress attempts to regulate or tax any specific sector of the financial services industry without a thorough understanding of the role it plays in our financial system, the risk of unintended, unnecessary, burdensome or harmful regulation is real. The last thing we want to do is to drive hedge funds or private equity funds --

and their capital -- offshore.

So I again commend Chairman Frank for his attention to this issue, and I welcome our distinguished panelists to today's hearing.

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