

# Enhancing Private Fund Adviser Reporting Data



Commissioner Jaime Lizárraga

**Aug. 10, 2022**

Today, the Commission is proposing amendments that would improve our oversight and investor protection efforts over the \$20 trillion private fund adviser industry. These amendments will also help better assess trends and enhance a key resource for identifying financial stability risks.

Prior to enactment of the landmark Dodd-Frank Act, empirical regulatory data on hedge funds and private funds was not systematically collected. The Act filled that glaring gap by requiring the collection of private fund data that financial regulators now use to identify trends and potential risks to our financial markets. Congress recognized the value of this data for anticipating and addressing future crises.

The Commission created Form PF to serve as the primary reporting source of this data. The data, in turn, assists the Financial Stability Oversight Council (“FSOC”) in meeting its Congressional mandate of identifying risks and responding to emerging threats to U.S. financial stability, and in promoting market discipline that eliminates any expectations of taxpayer bailouts. Today’s proposal would improve the collection of that data and inform our and FSOC’s understanding of potential systemic risks in the private fund industry.

Form PF has brought transparency to a previously opaque yet economically significant sector of our financial markets. Around the time of the Dodd-Frank Act’s enactment, a common yet unreliable estimate of hedge fund assets under management prior to the 2008 financial crisis was in the neighborhood of \$2 trillion. Two years after enactment, Form PF filers reported an approximate \$8 trillion figure. And, by the fourth quarter of 2021, the gross asset figure reached \$20 trillion – an astounding increase over the years.

The data also show a significant increase in the exposure to private funds by U.S. individuals, non-profits, and state and municipal government pension plans. For example, in the first quarter of 2013, beneficial ownership of all private funds by U.S. individuals was reported at \$588 billion. By the fourth quarter of 2021, it was reported at nearly \$1.4 trillion. This exposure has significant implications for the integrity of our financial markets, particularly for retail investors who invest for their retirement, home ownership, and their children’s education. Which is why today’s proposal to further refine Form PF data collection would be so essential for a more comprehensive evaluation of these implications.

There are two specific areas of the proposal where public feedback will be critical. First, the proposal would enhance data collection on private funds’ use of trading vehicles – which can incur leverage – to provide greater clarity on the risks they present. Second, the proposal would require all private fund advisers – not just advisers to qualifying hedge funds – to report whether the funds provide investors with withdrawal or redemption rights, and if so, how often. This information would be critical to understanding private funds’ susceptibility to stress during unforeseen or volatile market events.

These are two of several proposed changes to the form that are designed to better identify trends in the private fund industry and help the Commission better protect investors. Bearing in mind FSOC's congressional mandate of monitoring potential systemic risks and the Commission's mandate of overseeing private fund advisers, I also encourage public comment on all aspects of the proposal.

Lastly, I would like to emphasize the importance of cross-agency collaboration. Investor protection is most effective when there's clear, strong, and meaningful regulation. This proposal illustrates how two financial regulators that share the common responsibility of protecting investors are able to work together so that financial stability risks can be assessed and addressed effectively.

The proposed amendments to Form PF are thoughtfully tailored and informed by more than a decade of experience with the form. I am pleased to support today's proposal, and I'd like to thank the staff in the Division of Investment Management, the Division of Economic and Risk Analysis, and the Office of the General Counsel for their hard work and dedication to investor protection.