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with recommendations to the Commission on Hedge funds and private equity
(2007/2238(INI))

Committee on Economic and Monetary Affairs

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(Initiative – Rule 39 of the Rules of Procedure)

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

with recommendations to the Commission on Hedge funds and private equity (2007/2238(INI))

The European Parliament,

- having regard to the Second Council Directive 77/91/EEC of 31 January 1977 on coordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 58 of the Treaty, in respect of the formation of public limited liability companies and the maintenance and alteration of their capital, with a view to making such safeguards equivalent¹;
- having regard to the Fourth Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies²,
- having regard to the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts³,
- having regard to Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions⁴,
- having regard to Council Directive 2001/23/EC of 12 March 2001 on the approximation of the laws of the Member States relating to the safeguarding of employees' rights in the event of transfers of undertakings, businesses or parts of undertakings or businesses⁵,
- having regard to Directive 2001/65/EC of the European Parliament and of the Council of 27 September 2001 as regards the valuation rules for the annual and consolidated accounts of certain types of companies as well as of banks and other financial institutions⁶,
- having regard to Directive 2001/107/EC of the European Parliament and of the Council of 21 January 2002 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) with a view to regulating management companies and simplified prospectuses⁷,
- having regard to Directive 2001/108/EC of the European Parliament and of the Council of 21 January 2002 amending Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), with regard to investments of UCITS⁸,

¹ OJ L 026, 31.1.1977, p. 1.

² OJ L 222, 14.8.1978, p. 11.

³ OJ L 193, 18.7.1983, p. 1.

⁴ OJ L 372, 31.12.1986, p. 1.

⁵ OJ L 82, 22.3.2001, p. 16.

⁶ OJ L 283, 27.10.2001, p. 28.

⁷ OJ L 41, 13.2.2002, p. 20.

⁸ OJ L 41, 13.2.2002, p. 35.

- having regard to Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services¹,
- having regard to Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse)²,
- having regard to Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision³ (Pension Funds Directive),
- having regard to Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings⁴,
- having regard to Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading⁵,
- having regard to Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids⁶,
- having regard to Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments⁷,
- having regard to Commission Directive 2006/73/EC of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive⁸ (MiFID Implementing Directive),
- having regard to Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market⁹,
- having regard to Directive 2005/1/EC of the European Parliament and of the Council of 9 March 2005 establishing a new organisational structure for financial services committees¹⁰,
- having regard to Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing ,

¹ OJ L 271, 9.10.2002, p. 16.

² OJ L 96, 12.4.2003, p. 16.

³ OJ L 235, 23.9.2003, p. 10.

⁴ OJ L 178, 17.7.2003, p. 16.

⁵ OJ L 345, 31.12.2003, p. 64.

⁶ OJ L 142, 30.4.2004, p. 12.

⁷ OJ L 145, 30.4.2004, p. 1.

⁸ OJ L 241, 2.9.2006, p. 26.

⁹ OJ L 390, 31.12.2004, p. 38.

¹⁰ OJ L 79, 24.3.2005, p. 9.

- having regard to Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast)¹,
- having regard to Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast)²,
- having regard to Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies³,
- having regard to the Commission proposal for a directive of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (COM(2008)0119) (Solvency II Proposal),
- having regard to the Commission communication on Removing obstacles to cross-border investments by venture capital funds (COM (2007)0853),
- having regard to its resolution of 15 January 2004 on the future of hedge funds and derivatives⁴,
- having regard to its resolutions of 27 April 2006⁵, on asset management and 13 December 2007 on Asset Management II⁶,
- having regard to its resolution of 11 July 2007 on financial services policy (2005-2010) - White Paper⁷ (2006/2270(INI)), in particular paragraph 19 thereof,
- having regard to its resolution of 20 February 2008 on the Integrated Guidelines for Growth and Jobs (Part: broad guidelines for the economic policies of the Member States and the Community): Launching the new cycle (2008–2010)⁸,
- having regard to Article 192, second paragraph, of the EC Treaty,
- having regard to Rules 39 and 45 of its Rules of Procedure,
- having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Legal Affairs and the Committee on Employment and Social Affairs (A6-0000/2008),

A. whereas there is at present insufficient EU regulation of hedge funds and private equity,

B. whereas the condition in Rule 39(2), that no proposal should be in preparation, is duly fulfilled,

¹ OJ L 177, 30.6.2006, p. 1.

² OJ L 177, 30.6.2006, p. 201.

³ OJ L 184, 14.7.2007, p. 17.

⁴ OJ C 92 E, 16.4.2004, p. 407.

⁵ OJ C 296 E, 6.12.2006, p. 257.

⁶ Texts adopted, P6_TA(2007)0627.

⁷ Texts adopted, P6_TA(2007)0338.

⁸ Texts adopted, P6_TA(2008)0058.

- C. whereas the Commission has not responded positively to Parliament's earlier requests, including those made in its above-mentioned resolutions of 15 January 2004, 27 April 2006, 11 July 2007, 13 December 2007),
- D. whereas hedge funds and private equity are alternative investment vehicles that have not only a significant and increasing share in global assets under management, but also a significant and increasingly important presence and activity in world financial markets,
- E. whereas several global, EU and national institutions have, long before the current financial crisis, voiced their concerns in relation to hedge funds and private equity about financial stability, inadequate risk management, excessive debt (leverage) and the valuation of illiquid and complex financial instruments,
- F. whereas there is empirical evidence that hedge funds engage in herding in times of market turmoil, thus giving rise to financial stability concerns,
- G. whereas realising the Lisbon Agenda requires long-term investment in growth and jobs,
- H. whereas such long-term investment requires well-functioning financial markets in the EU and globally, contributing to the real economy,
- I. whereas hedge funds and private equity in many cases provide liquidity and demand for innovative products,
- J. whereas financial stability also requires better supervisory cooperation, including globally, which logically requires, in due course, a comprehensive revision of current EU supervisory arrangements,
- K. whereas enhanced appropriate levels of transparency towards the public, investors and supervisory authorities, including, in future, any new EU supervisory body, are crucial to ensure such well-functioning and stable financial markets as well as for promoting competition between market actors and products,
- L. whereas excessive debt required by much of the activities of hedge funds and private equity threatens financial stability, prejudices the realisation of the long-term investment, growth and jobs agenda and is, moreover, unfairly favoured in national tax regimes,
- M. whereas the recent increase in private equity transactions has significantly increased the number of employees, whose jobs are ultimately controlled by equity funds, and Community employment law (in particular, Directive 2001/23/EC) was formulated when this was not so,
- N. whereas in the event of extreme debt loads, private equity leveraged buy-outs affect the viability of the target companies,
- O. whereas there are many conflicts of interest either arising from the business model of private equity or hedge funds or from the relationships between those vehicles and other actors in financial markets,
- P. whereas whilst there is no evidence that those vehicles caused the current financial crisis,

they have been involved in the business of non-regulated and highly complex structured products; whereas not being adequately capitalised and thus volatile to turbulences, those vehicles enhanced the crisis,

- Q. whereas in order to minimise the risk of future financial crises and given the strong interactions across markets and between market participants and given the objective of a level playing field across borders and between regulated and unregulated market participants, the EU needs better, more coherent and harmonised regulation across the board,
1. Requests the Commission to submit to Parliament by 30 November 2008, on the basis of Article 44, Article 47(2), or Article 95 of the EC Treaty, a legislative proposal or proposals on hedge funds, private equity and other relevant actors, following the detailed recommendations below;
 2. Confirms that the recommendations respect the principle of subsidiarity and the fundamental rights of citizens;
 3. Considers that the financial implications of the requested proposal or proposals should be covered by EU budgetary allocations for (i) the establishment of any EU supervisory authority, (ii) the EU public credit rating agency, and (iii) the EU public certification body for structured products;
 4. Instructs its President to forward this resolution and the accompanying detailed recommendations to the Commission, the Council and the parliaments and governments of the Member States.

**ANNEX TO THE MOTION FOR A RESOLUTION:
DETAILED RECOMMENDATIONS ON THE CONTENT
OF THE PROPOSAL REQUESTED**

1. Recommendation 1 on Financial Stability and Better Functioning Financial Markets Measures

The European Parliament considers that the legislative act to be adopted should aim to regulate:

- (a) Capital requirements Investment firms, insurance companies, credit institutions, conventional funds (such as UCITS and pension funds/IORPs) have to comply with capital requirements. Whatever the legal structure of hedge fund and private equity vehicles, including limited partnerships, the Commission should ensure that an appropriate capital requirement is introduced at the level of the entity that controls the investment of the fund or funds concerned (i.e. management firm), covering all funds regardless of their place of registration.
- (b) EU public credit rating agency The Commission should establish an EU Public Credit Rating Agency in order to foster competition and improve transparency in that sector. The Commission should also, in its revision of the Directive 2006/48/EC, introduce a provision that, where a credit assessment of an External Credit Assessment Institution (ECAI) is required for the calculation of a credit institution's risk-weighted exposure, the credit assessment of the EU Public Credit Rating Agency will also be required.
- (c) Liquidity The Commission should introduce risk-weighted capital adequacy requirements in respect of liquidity risk in its revision of the Directive 2006/48/EC.
- (d) Valuation The Commission should propose precise rules on the valuation of illiquid financial instruments in order better to protect investors and the stability of financial markets.
- (e) Prime brokers The capital requirement of any institution providing prime brokerage services should be increased in line with the complexity and opacity of the structure or nature of the exposures, to which their dealings with hedge funds and private equity expose them. In particular, the provisions of Directives 2006/48/EC and 2006/49/EC should be amended to achieve that result.
- (f) Venture capital The Commission should implement, without delay, the policy proposals set out in its communication on Removing obstacles to cross-border investments by venture capital funds, including proposing legislation to provide a harmonised EU-wide framework for venture capital and so to ensure cross-border access to such capital for the SME sector in line with the Lisbon Agenda.
- (g) EU supervisory authority The Commission should establish a European

supervisor covering all financial services sectors: capital markets, securities, insurance and banking sectors. It should further be established whether there should be two such European supervisors: one for prudential regulation and another for conduct of business regulation.

2. *Recommendation 2 on Transparency Measures*

The European Parliament considers that the legislative act to be adopted should aim to regulate:

(a) Registration and authorisation of management companies and funds' managers

The Commission should establish an EU framework for the registration and authorisation of entities that control the investment of hedge funds or private equity (i.e. management firms), which should function on a single entry point basis: once authorised, the entities concerned should have access to undertake business throughout the EU. In order to promote a well-functioning single European financial market, the Commission should ensure that management firms disclose the following:

- the name and domicile of funds they control,
- the identity of managers,
- corporate earnings and bonuses,
- remuneration of directors, senior executives and other staff with investment responsibilities, and
- relationships with prime brokers.

That information should be set out in a uniform format (also to facilitate the proposal for a database below).

(b) Notification (i.e. approval) of wholesale investment vehicles In order to encourage funds to be located onshore in the EU, the Commission should propose a separate directive along the lines of the EU-wide private placement regime, currently under discussion, to apply to the marketing and distribution in the EU of hedge funds and private equity funds. Such a regime should function on a single entry point basis: once authorised, it should be possible to offer those wholesale investment vehicles to professional, institutional investors throughout the EU. In order to promote a well-functioning single European financial market, the Commission should ensure the investment vehicle discloses the following:

- general investment strategy and immediate information on any changes thereto,
- leverage/debt exposure,

- overall fees as well as breakdown of fees (including any stock options awarded to employees),
- source and amount of funds raised,
- past performance,
- risk-management system and portfolio valuation methods,
- information on the administrator of the fund, and
- share of the fund contributed by the management company and its staff.

That information should be set out in a uniform format (also to facilitate the database proposal below).

- (c) Database The Commission should, with the help of Level 3 Committees, establish an EU-wide registration/authorisation database recording the information on both management firms and investment vehicles as specified above. The supervisory authorities of all Member States should have unlimited access. Relevant categories of the database should be public.
- (d) Investors The Commission and supervisory authorities should ensure that investors in those vehicles receive not only sufficient but also relevant and comparable information (e.g. the simplified prospectus/fact sheet for UCITS).
- (e) Private equity and protection of employees The Commission should propose amendments to Directive 2001/23/EC so that the same protections afforded employees by that Directive, including the right to be informed and consulted, apply whenever control of the undertaking or business concerned is transferred by means of a private equity transaction.

3. ***Recommendation 3 on Excessive Debt Measures***

The European Parliament considers that the legislative act to be adopted should aim to regulate:

- (a) Limits on leverage for private equity The Commission should amend Directive 77/91/EEC on capital to introduce rules to specify the appropriate level of debt at any given time in relation to the target company bearing in mind the legitimate rights of important stakeholders (including employees); in conjunction with such level, the Commission should request the Member States to introduce taxation consequences for private equity funds in cases of excessive debt; such taxation consequences could include eliminating or reducing the tax deductibility of interest payments on the debt concerned in line with best practices in Member States.
- (b) Capital depletion The Commission should amend Directive 77/91/EEC on capital

to set minimum capital levels for the target company by reference to the long-term interests of the target company. The Commission should also, without delay, propose rules to harmonise requirements for directors of the target company (i.e. management and supervisory board members), to certify that capital outflow (including any fees paid) is in the best long-term interests of the target company, including its long-term growth and R&D needs. In particular, EU corporate governance requirements, such as the provisions of the Directive 1978/660/EEC, might be amended to achieve that result.

- (c) Limits on leverage for hedge funds The Commission should devise the upper limit in the debt of hedge funds in relation to preserving the stability of the EU financial system.
- (d) EU Registration for structured products The Commission should establish a public register of structured products in the EU.

4. **Recommendation 4 on Conflicts of Interest Measures**

The European Parliament considers that the legislative act to be adopted should aim to regulate:

- (a) Investment banks (prime brokers) - hedge funds and private equity The Commission should assess whether the strengthening of capital requirements for prime brokers (Recommendation 1) deals appropriately with the inherent conflicts of interest between:
 - the prime brokers and hedge funds, where the former's credit (lending) decisions are often contaminated by the prospect of earning fees from latter (via trading services), and
 - investment banks and private equity, where the former's credit (lending) decisions are often contaminated by the prospect of earning fees from latter (via deal related services).
- (b) The Commission should also introduce rules to ensure effective Chinese walls between services that investment firms provide for their clients (such as prime brokerage) and all their other business units (including asset management services, proprietary trading etc).
 - Private equity The Commission should formulate rules by which to deal with the conflicts of interest between the private equity partners and the management of the target company (and any others who stand to gain from the deal). Those rules should include a requirement of public disclosure of any fees or other incentives received by directors (i.e. management board and supervisory board members) or employees of the target company.
 - Credit Rating Agencies (CRAs) The Commission should formulate rules by which to deal with the conflicts of interest inherent in their current business models, and arising from the interplay among actors in today's financial markets.

- Market access and concentration: the Directorate General for Competition of the Commission should launch an inquiry into market concentration in the following financial services industry sectors: hedge funds, private equity, investment banks (with focus on prime brokerage services) and CRAs.

EXPLANATORY STATEMENT

In recent years – long before the current financial crisis first emerged in August 2007 – there have been growing concerns about the effects of the activities of highly leveraged investment vehicles such as hedge funds and private equity funds. These concerns have been voiced in Member States and by European and global financial institutions. The alternative investment industry – hedge funds and private equity – are no longer a “niche” industry, but important actors in the financial markets.

Given easy access to debt financing with low interest rates and high liquidity from 2000 to mid-2007 and the search for higher yields by many institutional and other investors, the share of hedge funds and private equity within the global asset under management (AuM) pool has increased substantially. Not only amazing growth of their assets but also ever more intensive trading activities make these vehicles important market players. Although their weight in the markets has increased, the same cannot be said for the levels of transparency¹.

Until June 2007 – a few months before the global financial crisis emerged – concerns about systemic risks were expressed in several independent reports by global financial institutions and also highlighted at several international meetings. In May 2007, the Financial Stability Forum recommended new actions to be taken by financial authorities, institutional investors and hedge fund managers to strengthen protection against potential systemic risks related to hedge funds and other highly leveraged institutions. Similar concerns were expressed by the ECB in reports dating back to 2006 and 2007. Also the FSA expressed its concern in June 2007 in relation to private equity on market abuse, conflicts of interests and the financing of, and risk distribution typically associated with, LBO transactions.

The European Parliament has in several reports made recommendations on hedge funds and private equity to the European Commission, but with no response. In its resolution of July 2007 the European Parliament therefore expressed its "regrets that up to now [the European Commission's commitment to engage careful, independent and professionally conducted regulatory impact assessments] has not been fulfilled in a satisfactory manner". There has yet to be a response from the Commission.

This report should be seen against this particular background. There is even greater need for modernising regulation today. As financial markets become more globally integrated and complex, Europe's regulatory tools must be modernized – and Europe must develop oversight and regulatory responses that are as up-to-date and fine-tuned as the financial marketplace itself. It would be inadequate and wrong to act as if Europe's current regulatory structures designed for the past do not need to be as modern and innovative as those actors they need to regulate.

Private Equity and Hedge Funds

¹ See Working Document on hedge funds and private equity, 17.3.2008.

Hedge funds and private equity are different sorts of investment vehicles. Although they are both lightly regulated private pools of capital that invest and compensate their managers with a share of the fund's profits, they differ in their investment strategy and in the products they invest in.

Private equity investment funds are "private" in the sense that they are not listed and derive their capital from investors outside of public capital markets. They may be sub-divided into venture capital (used to finance new businesses), expansion capital (to fund the growth of existing businesses) and buy-out funds, which typically seek to take an existing public company private through a highly leveraged buy-out. Today buy-out funds correspond to more than 60% of the private equity industry and should be in the focus for the need for modernized regulation.

The public authorities lack sufficient information on the extent, nature and ownership of private equity exposures. Again, existing EU prudential regulation (such as the Capital Requirements Directive) needs to be reviewed to see if it equips EU supervisors and other public authorities with what they require to discharge their financial stability and other responsibilities.

For the companies, the workers, pensioners and consumers that are indirectly exposed to private equity and specifically to leverage buy-outs, it is unlikely that existing EU investor protection legislation is adequate, as the directly exposed intermediary investor (such as the pension fund) will benefit from professional investor exclusions. Consideration needs to be given as to how best to extend the benefit of EU investor protection legislation to these vulnerable groups.

The leverage issue in private equity (specifically in relation to LBOs) is making many companies vulnerable and may therefore require some analogue to existing thin-capitalisation rules in the tax field, but at the EU level. Loading their balance sheet with debt is an implicit tax subsidy resulting in companies of poor financial health and in reduction in public revenue at the same time; thus benefiting the debt providers instead of enabling the governments to finance implementation of the Lisbon goals such as better education, infrastructure and research. The target companies, which private equity buy-outs take private, may also suffer from depletion of their capital (e.g. excessive dividends to remunerate the private equity managers; transformation of target company capital into debt through the removal of undisclosed reserves and the sale of assets). Private equity firms can off load risk to the target company also due to their legal structure (limited-liability).

Hedge funds are investment vehicles, which use investment strategies, trading techniques and financial instruments that remain largely unregulated. They adjust rapidly to any change in the market conditions and are trying to explore market imperfections while seeking absolute returns, which are not correlated with stock and bond markets returns. In order to maximise those returns (but thus also losses), they borrow or trade in a variety of complex financial products, some with high leverage (derivatives, options) and engage in dynamic trading techniques such as short selling. Their investment strategies vary from event driven (like merger arbitrage, activist etc) to equity hedge (like market neutral, short bias etc), global macro or relative value (like fixed income-convertible arbitrage, volatility etc). Although all these features are usually not available to other (regulated) collective investment vehicles, many other financial institutions make use of some of them (as for example investment banks'

proprietary trading desks).

Although the sector's transparency has improved in the recent years mostly due to increased pressures of institutional investors such as pension funds or even funds of hedge funds, more should be done in order to increase transparency (reporting and disclosure, common standards for valuation, risk management, internal governance etc).

Complex matrix of existing EU directives and regulations together with different sets of national level regulation of hedge funds across Member States enhance the lack of transparency and seemingly high fees.¹ This lessens any commercial pressure to meet onshore standards and thus encourage offshore registration as well as investments in offshore rather than onshore products.

Other relevant market participants

Hedge funds have significant business relationships with ***regulated investment and commercial banks***. The latter act as prime brokers (including financing trades), as well as provider of trading, sales and other services such as clearing and settlement, custody and even offering office space to hedge funds managers. There are estimates that hedge funds have provided investment banks with revenue of 40-50 billion USD in 2006, which was roughly around 15-20 percent of all industry revenues in investment banking, and equivalent to 4 percent of the assets under hedge funds management at the time.² There is lack of transparency of hedge funds overall exposure inherent to their use of multiple prime brokers, which usually do not have the complete picture of funds' risk profile. The latter is of paramount importance when calculating capital requirements. There have been worries on possible conflicts of interest by regulators and supervisory authorities as the banks scoop high fees when financing and advising the deal as well as sometimes compete to buy the assets on offer. Another worry has been for the hedge funds to be receiving tips about pending mergers and other undisclosed news that could affect a stock price. Trading ahead of public disclosure would give a fund an advantage; while illegal, it is often hard for authorities to detect or prove.³

Given that hedge funds invest in ***structured products***, it should be mentioned that there is a need to improve the information on securitisation and on activities in over-the-counter (OTC) markets. Linked to this, the activities and business models of CRAs should be addressed.

Current financial turmoil

The current financial crisis was triggered by the sub-prime market in the USA, but it has then expanded to the whole financial system due to inter-linkage between market participants (investment vehicles, structured products, CRAs, etc.). Stock markets all around have suffered significant losses and central banks had to inject money into the market to counterbalance the

¹ See also: Naik, Narayan, Fung, William: "Hedge Funds: Transparency and Conflict of Interest", London Business School, ECON Study, p. iii, IP/A/ECON/ST/2007-17.

² Dresdner Kleinwort: "Credit Swiss, Deutsche Bank, UBS: How important are hedge funds for the investment banking industry?", Dresdner Kleinwort Equity Research, 6 February 2007, p.8.

³ International Herald Tribune, 2 January 2007.

lack of liquidity during the growing credit squeeze. Nobody yet knows the full magnitude this crisis will have.

A coherent approach

In relation to the current financial crisis the direct causes are not to be placed on hedge funds and private equity. But the crisis has revealed the vulnerability of hedge fund and private equity fund activity as well as strong interdependencies with other key actors such as investment banks, securitization vehicles (SPVs) and CRAs. Therefore new and better regulation of hedge funds and private equity can not be isolated from the need for better regulation of other financial actors. This interdependence requires a coherent and consistent approach to regulation – based on a level playing field and “neutral” regulation for all major actors.

All investors, consumers and the financial markets as such will benefit from appropriate and modernised regulation. It will promote financial stability, the achievement of the Lisbon goals, companies' long term competitiveness and viability in the globalised economy, employment - social cohesion. Well-functioning financial markets depend on transparency and confidence in the market.

There is a need for modernizing and improving the existing regulatory and supervisory framework, enhancing transparency, solving conflicts of interests and bolstering financial stability.