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Bill Introduced to Require Hedge Funds to Disclose Holdings More Frequently.

A bill requiring hedge funds to disclose their holdings more frequently was introduced in Congress on Wednesday, a move that if signed into law would represent a seismic change for the hedge-fund industry.

Rep. Nydia Velazquez, a Democrat from New York who introduced the bill, tied the effort to the fiscal crisis in Puerto Rico, which has battled a sluggish economy and high debt load for years. Hedge funds and other investors who own the island's bonds have negotiated with island officials over a possible debt restructuring and cost-cutting measures.

"This bill will allow regulators and the public to see exactly what role these funds are playing in Puerto Rico's financial crisis and in our broader economy," Rep. Velazquez said in a statement.

The measure would require hedge funds to disclose positions where they own 1% or greater of a company's stock within five days, compared with the current requirement of 5% within 10 days. The bill would also create a new requirement for hedge funds to disclose investments with a 1% or greater stake—in either stocks or corporate and municipal bonds—every quarter.

Labor groups like the AFL-CIO and the American Federation of State, County and Municipal Employees are supporting the bill, called the Hedge Fund Sunshine Act of 2015, according to Ms. Velazquez's office. Another supporter is Hedge Clippers, a group that seeks to "expose the mechanisms hedge funds and billionaires use to influence government and politics," according to its website.

It wasn't immediately clear whether the bill, introduced in the U.S. House of Representatives and expected to be referred to the House Financial Services Committee, would muster enough momentum to become law. Even some supporters of the bill said it could be an uphill climb.

"It's always difficult to do things that large and powerful financial institutions don't like," said Lisa Donner, executive director at Americans for Financial Reform, an advocacy group. Still, Ms. Donner said the bill is a "very valuable proposition to have on the table," given the size of the hedge-fund industry and how little is disclosed compared with other institutions.

Hedge funds will likely balk at the proposal because frequent disclosures of smaller stakes could make it more costly for managers to build their positions. With more disclosure, other investors would know sooner that a manager is buying certain stocks or bonds, allowing them to mark up the price before selling.

"Given how low the 1% threshold is, the proposal could have a chilling effect on managers employing their optimal strategy," said George Silfen, a partner at Kramer Levin Naftalis & Frankel LLP who represents hedge funds and mutual funds.

A spokesman for the Managed Funds Association, which lobbies for hedge-fund interests in

Washington, didn't immediately respond to a request for comment.

Ms. Velazquez, who represents parts of Manhattan, Brooklyn and Queens, is the first Puerto Rican woman elected to Congress. In September, she introduced another bill, the Puerto Rico Investor Protection Act of 2015, that would bring federal oversight for Puerto Rico's mutual-fund industry in line with mainland funds. The bill was referred to the House Financial Services Committee.

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— Rob Copeland contributed to this article.