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White Cites Pros and Cons of Hedge Fund Disclosure Bill.

WASHINGTON - Securities and Exchange Commission chair Mary Jo White on Wednesday declined to take a position on a bill that would increase hedge fund reporting in the wake of fund purchases of Puerto Rico's debt, saying it has both pros and cons.

The bill, introduced on Nov. 5 by Rep. Nydia Velázquez, D-N.Y., would require hedge funds holding a 1% or more ownership stake in an entity's debt or equity securities to file quarterly reports with the SEC.

Current law requires hedge funds to report to the SEC within 10 days if they acquire 5% or more of an equity position, but it does not apply to derivative positions or government debt issues.

Velázquez asked White to comment on the bill, which is pending before the House Financial Services Committee, during a hearing held by the panel on the SEC's budget and operations.

White said she would have to study the precise parameters of the bill, but that it would likely provide benefits by increasing transparency and protecting private investors through more disclosure. However, she also noted it could have negative effects by exposing specific hedge fund strategies.

A day earlier, at a Capitol Hill event addressing hedge funds and private equity, Velázquez said that hedge funds holding Puerto Rico debt are using their leverage to lobby for "draconian cuts" that harm the island's residents. The commonwealth and its authorities currently have roughly \$72 billion of debt.

Hedge funds hold about 30% of that debt, but the specifics of their holdings are unclear, Velázquez said.

The lawmaker said hedge funds, who invested in the island's debt as its fiscal situation deteriorated, are saying Puerto Rico can avoid defaulting on its debt by cutting spending in key areas like education. She called those suggestions "morally unacceptable" because they "will hurt working families and retirees."

She added that hedge funds are also opposing "sensible steps," like extending Chapter 9 bankruptcy protection to help Puerto Rico address its debt situation.

Hedge funds "would rather see the economic future of the island vanish than take a modest discount on the debt they bought, even though they knew the island's debt was in distress when they purchased it," Velázquez said.

She said her bill would not correct all the problems associated with hedge fund involvement in the troubled debt, but that "taking a clear-eyed look at how these funds function would be a good start."

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