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President's Working Group Releases Common Approach to Private Pools of Capital Guidance on hedge fund issues focuses on systemic risk, investor protection

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HP-272

Washington, DC- The President's Working Group on Financial Markets (PWG) released a set of principles and guidelines today that will guide U.S. financial regulators as they address public policy issues associated with the rapid growth of private pools of capital, including hedge funds. The agreement among the PWG and U.S. agency principals, which will serve as a framework for evaluating market developments, specifically concentrates on investor protection and systemic risk concerns.

"The President's Working Group believes that public policy toward private pools of capital should be governed by consistent principles that set out a uniform approach to specific policy objectives," said Secretary Henry M. Paulson, chair of the group. "These principles demonstrate that U.S. regulators and policymakers have a unified perspective and are committed to providing forward-leaning guidance for the industry and its participants. These guidelines should serve as a foundation to enhance vigilance and market discipline further, which will strengthen investor protection and guard against systemic risk. We will continue to monitor developments in this ever-evolving market with these principles in mind."

The group has designed the principles to endure as financial markets continue to evolve. They provide a clear but flexible principles-based approach to address the issues presented by the growth and dynamism of these investment vehicles.

The principles are intended to reinforce the significant progress that has been made since the PWG last issued a report on hedge funds in 1999 and to encourage continued efforts along those same lines:

- **Private Pools of Capital:** maintain and enhance information, valuation, and risk management systems to provide market participants with accurate, sufficient, and timely information.
- **Investors:** consider the suitability of investments in a private pool in light of investment objectives, risk tolerances, and the principle of portfolio diversification.
- **Counterparties and Creditors:** commit sufficient resources to maintain and enhance risk management practices.
- **Regulators and Supervisors:** work together to communicate and use authority to ensure that supervisory expectations regarding counterparty risk management practices and market integrity are met.

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 1988 to further the goals of enhancing the integrity, efficiency, orderliness, and competitiveness of financial markets and maintaining investor confidence. The PWG worked with the Federal Reserve Bank of New York and the Office of the Comptroller of the Currency in developing the guidance.

[Click here for the agreement among PWG and U.S. agency principals on principles and guidelines regarding private pools of capital](#) 

