

## **ALABAMA SECURITIES COMMISSION**

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Joseph P. Borg, the Director of the Alabama Securities Commission and President of the North American Securities Administrators Association (NASAA) testified before a Congressional panel today. A copy of the NASAA release is shown below.

Joseph P. Borg's testimony can be accessed at the NASAA.org website or go to this link:

[http://www.nasaa.org/issues\\_answers/legislative\\_activity/testimony/6892.cfm](http://www.nasaa.org/issues_answers/legislative_activity/testimony/6892.cfm)

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### **FOR IMMEDIATE RELEASE**

July 11, 2007

### **NASAA Outlines Concerns About Risks to Retail Investors from IPOs of Private Equity and Hedge Fund Firms**

Full text of testimony available [here](#).

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WASHINGTON, D.C.—North American Securities Administrators Association (NASAA) President Joseph P. Borg today told a Congressional panel that allowing public offerings of private equity and hedge fund management firms without appropriate regulatory protections puts retail investors at risk.

“Due to a lack of transparency, the level of individual and systemic risk attached to these investments remains unknown to the individual investor. Their fee structures and lack of full disclosure obscure real returns. The structure of these new instruments places investors in a vulnerable position, subject to the whims of controlling persons and literally without recourse. In light of the complexity and uncertainty surrounding these instruments, allowing them to be offered to the public without appropriate regulatory protections poses serious risks to investors,” Borg said.

Borg's remarks came during [testimony](#) before the U.S. House of Representatives Committee on Oversight and Government Reform Subcommittee on Domestic Policy during a hearing examining the possible risks presented to retail investors by the recent Blackstone Group L.P. and similar upcoming initial public offerings of the management entities of hedge funds and private equity funds.

“New investments with highly complex structures, opaque investment strategies, and dubious profitability have arrived on Main Street,” he noted. “Precisely because of this trend, the investor protections afforded by statutes like the Investment Company Act (ICA) are more important than ever.”

Borg said that public offerings, such as the recent Blackstone IPO, circumvent the governance protections mandated by the ICA, even though it is no longer a private investment company. For example, under the ICA, a fund must have independent directors who represent the interests of public investors. "That is not the case with Blackstone," Borg said. "We must remember that the securities laws favor substance over form and disdain structures whose only purpose is to evade their reach. In reality, both pre- and post-IPO, Blackstone functions as an investment company that earns its income through investments. From an investor protection standpoint, we are puzzled by the exclusion Blackstone enjoys from the safeguards mandated under the ICA."

"The public policy issue is how much risk, even when disclosed, should be transferred to the general public," Borg said. "In a perfect world, a careful financial adviser will say Blackstone type entities are too risky, too opaque, and too conflicted so we won't invest. However, the real world operates much differently."

Borg emphasized that NASAA does not object to access to alternative investments by retail investors so long as they are accompanied by all appropriate and necessary investor protections, rights, and remedies. "This can only be accomplished by ensuring such investments are offered pursuant to the appropriate Act," he said. "America's retail investors are not accustomed to the realities of alternative investments: portfolios of illiquid securities; the use of substantial leverage; concentration of investments; and excessive compensation arrangements detrimental to their interests."

NASAA is the oldest international organization devoted to investor protection. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, the provinces and territories of Canada, and Mexico.

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