

Private Funds Alert

June 2009

CONNECTICUT HEDGE FUND REGULATION DIES AT END OF 2009 SESSION

The Connecticut General Assembly ended its 2009 regular session without passing any of the three bills that would have imposed additional regulation on hedge funds and other private investment funds doing business in Connecticut. All of these bills would have increased the regulatory burdens on private investment funds regardless of the size of the fund or the sophistication of its investors. Other private investment funds, including private equity funds and venture capital funds, would also have been subject to the proposed legislation.

- Senate Bill No. 953 would have mandated greater disclosure requirements for fund managers. The Connecticut Attorney General testified in favor of an earlier version of Bill No. 953, which imposed additional requirements on private investment funds and their managers, including, among other things, increased financial qualification thresholds for investors as well as significant ongoing annual disclosure requirements.
- House Bill No. 6477 would have required any investment fund conducting business in Connecticut to be licensed by the Connecticut Banking Commissioner.
- House Bill No. 6480 would have required private investment funds domiciled in Connecticut and having Connecticut pension fund investors to provide financial disclosures upon request by prospective investors.

S. 953 passed in the Senate by a vote of 24-12, but died in the House on the final day of the session. If enacted, it would have required the managers of private investment funds to comply with the disclosure requirements of SEC Rule 204-3 under the Investment Advisers Act of 1940. The bill imposed disclosure requirements on two types of fund managers – those based in Connecticut and out-of-state fund managers who solicit investors in the state. Under the bill, fund managers would not have been required to disclose information under Rule 204-3 other than “material conflicts of interest.”



The bill was changed significantly from earlier versions which sought to impose investor suitability requirements for fund investors. Earlier versions also required additional disclosures regarding fee schedules paid by funds, material changes in the investment strategy of a fund, and litigation or government investigation involving a fund. The bill encountered heavy opposition in the House and therefore was not called to vote before the end of the legislative session. A special session, however, will be scheduled to address the budget. There is a possibility that hedge fund regulation may be incorporated into budgetary legislation considered during the summer session. We will continue to monitor any similar proposed legislation over the special summer session and alert you to any changes.

Questions or Assistance?

If you have any further questions regarding private investment funds or investment fund regulation, please feel free to contact Peter Bilfield, John Lawrence, or Donna Brooks.

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