

UNITEHERE!

OFFICE OF THE PRESIDENT

1630 South Commerce Street, Las Vegas, NV 89102 • TEL (702) 386-5120 • FAX (702) 386-5290

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September 2, 2016

US House of Representatives
Washington, DC
20515

Dear Representative,

As you know, the House of Representatives may be considering HR 5424, the "Investment Advisers Modernization Act", in the coming weeks.

This legislation would reduce required disclosures by private equity managers to both their clients and the Securities and Exchange Commission (SEC).ⁱⁱ Further, it is practically an invitation for private equity managers to make false and misleading statements to the public.ⁱⁱⁱ

At a time when the nearly \$4 trillion^{iv} private equity industry should become more transparent, HR 5424 would enable it to become more opaque, putting workers, retirees, and the general public at risk.

The timing of this legislation is ludicrous given the recent SEC settlements with private equity firms totaling more than \$150 million.

In 2014, Andrew Bowden, then Director of the SEC's Office of Compliance Inspections and Examinations noted that in its first round of examinations of private equity managers the agency had found "violations of law or material weaknesses in controls over 50% of the time" in how managers handled fees and expenses.^v

Since then, the SEC has brought more than ten enforcement cases against some of the largest firms in the private equity industry.^{vi}

Just last week Apollo Global Management agreed to pay \$52.7 million, the largest settlement to date, for misleading fund investors.^{vii} The SEC reached a \$14.1 million settlement with WL Ross, another private equity manager, for failing to disclose its fee allocation practices to its investors.^{viii}

Specifically, HR 5424 would:

- (1) Substantially reduce the information private equity managers are required to provide to the SEC annually on Form PF.^{ix}
- (2) Ban the SEC from applying anti-fraud protections to sales literature distributed to the general public by private funds.^x
- (3) Create new exemptions from requirements that private equity managers have an annual independent audit of their funds and securities holdings.^{xi}
- (4) Create new exemptions to current requirements that funds provide investors with plain-English narrative reports (Form ADV Part 2A brochure) that detail fees and compensation, investment strategies, risk of loss, any misconduct, and other financial information.^{xii}

D. TAYLOR, PRESIDENT

GENERAL OFFICERS: Sherri Chiesa, Secretary-Treasurer • Peter Ward, Recording Secretary
Jo Marie Agriesti, General Vice President • Maria Elena Durazo, General Vice President for Immigration, Civil Rights and Diversity



Pension funds make up the largest investor group for alternatives such as private equity.^{xiii} The retirement security of hundreds of thousands of hotel workers, housekeepers, cooks, servers and others who are members of UNITE HERE depends on private equity managers being honest. This is true for millions of other working people.

Last year a coalition of 13 state Treasurers, Comptrollers, and public pension funds sent a letter to the SEC calling for better enforcement and disclosure of fee practices by private equity funds.^{xiv}

Given the growing role that private equity plays in our economy and the retirement security of millions of Americans, recent settlements by major private equity managers show that more, not less, needs to be done to ensure that private equity managers are honest and transparent.

Please stand with me in opposing HR 5424.

Thank you,



D Taylor
President
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ⁱ [HR 5424, Sec 3\(b\)](#)

ⁱⁱ [HR 5424, Sec 3\(b\)](#)

ⁱⁱⁱ [HR 5424, Sec 4](#)

^{iv} ["Another Trillion Dollars for Private Equity," Chief Investment Officer, May 21, 2016.](#)

^v ["Spreading sunshine in private equity," Andrew J. Bowden, Director, Office of Compliance Inspections and Examinations, May 6, 2014.](#)

^{vi} ["SEC must keep bearing down on private equity," Financial Times, Aug 26, 2016.](#)

^{vii} ["Apollo charged with disclosure and supervisory failures," SEC, Aug 23, 2016.](#)

^{viii} ["Private Equity Fund Adviser Settles with SEC for Failing to Disclose Its Fee Allocation Practices," SEC, Aug 24, 2016.](#)

^{ix} [HR 5424, Sec 3\(b\)](#)

^x [HR 5424, Sec 4](#)

^{xi} [HR 5424, Sec 3\(c\)\(2\)\(B\)](#)

^{xii} [HR 5424, Sec 3\(a\)](#)

^{xiii} ["Global alternatives survey 2016," Willis Towers Watson, July 11, 2016.](#)

^{xiv} Letter from 13 state Treasurers and Comptrollers to SEC Chair Mary Jo White RE: Standardized Private Equity Fee Disclosure, 21 July 2015, http://comptroller.nyc.gov/wp-content/uploads/documents/SEC_SignOnPDF.pdf