

United States Senate

WASHINGTON, DC 20510

July 14, 2016

The Honorable Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Dear Chair White:

We write regarding the Securities and Exchange Commission's (SEC) recent oversight and enforcement efforts in the private equity industry and to request that you consider publishing an investor bulletin that consolidates the SEC's findings and warnings with respect to private equity investments.

As you know, the Wall Street Reform and Consumer Protection Act of 2010 called for certain private equity advisors to register with and be periodically examined by the SEC. As a result of these changes, several troubling issues have come to light, such as advisors charging undisclosed fees and expenses, misallocating expenses, and failing to disclose conflicts of interest.

Specifically, there were instances in which:

- Expenses were shifted away from parallel funds created for insiders, family, friends, and preferred investors to the main investor fund, resulting in higher expenses being borne by the investors in the main fund;
- Priority "co-investment" opportunities were made available to favored parties, creating a potential conflict of interest with the general investor pool; and
- Promises of "rates at or below market" for private equity real estate management fees that were in certain instances not properly supported.

It appears that in a number of instances the private equity advisers did not adequately disclose these and similar practices to investors, and/or the fees charged were inconsistent with the private placement memoranda and other investor expectations. For example, the SEC recently reported that a major private equity fund adviser "consented to the entry of the SEC's order finding that it breached its fiduciary duty to the funds, failed to properly disclose information to the funds' investors, and failed to adopt and implement reasonably designed policies and procedures." In addition, this private equity adviser agreed to "pay nearly \$39 million to settle charges that they failed to fully inform investors about benefits that the advisers obtained from accelerated monitoring fees and discounts on legal fees."

Based on these examples, it seems clear that the SEC's examinations and enforcement efforts have helped even sophisticated private equity investors, who in some cases are investing on

behalf of workers saving for retirement, better understand potential pitfalls and, in some cases, obtain access to basic investor information that otherwise would not have been readily available. Building upon this success, we would appreciate it if the SEC would consider highlighting and consolidating the private equity adviser lessons learned to date by making them more easily and readily available to current and potential private equity fund investors, so that these investors can have a more informed basis upon which to make their investment decisions. For example, the SEC has prepared an Investor Bulletin on hedge funds with useful tips, and we ask you to publish a similar bulletin that consolidates findings and warnings with respect to private equity investments. If such a bulletin is impractical for some reason, we would appreciate it if you and your staff would explain any obstacles or concerns.

Thank you for your consideration. We would appreciate a response no later than July 29, 2016.

Sincerely,



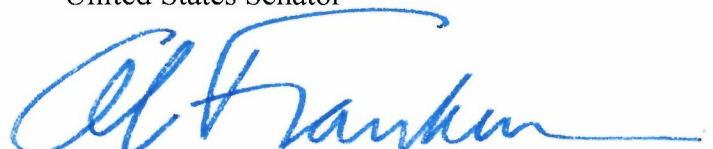
Jack Reed
United States Senator



Jeffrey A. Merkley
United States Senator



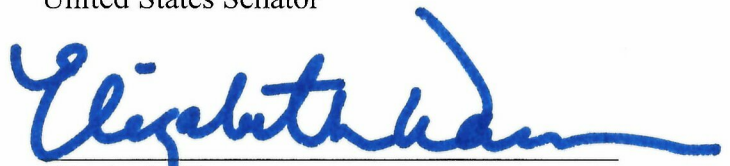
Sherrod Brown
United States Senator



Al Franken
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