Occupy the SEC

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Occupy the SEC works to ensure that financial regulators protect the interests of the public, not Wall Street.

FOR IMMEDIATE RELEASE:

Occupy the SEC Urges Securities and Exchange Commission to Regulate "Liquid Alternative" Mutual Funds

New York, NY – November 25, 2014

Occupy the SEC ("OSEC") has submitted a letter to the Securities and Exchange Commission ("SEC"), recommending that the agency promulgate tough new regulations covering so-called "liquid alternative" mutual funds. In its letter, OSEC warns the SEC regarding the outsized risks that these alternative funds present to investors and the economy.

"Liquid alts" are a variety of mutual funds that promise high yields to investors, based on the utilization of risky investment strategies typically favored by the likes of hedge funds. These alternative funds have grown in popularity and growth estimates anticipate assets in liquid alternatives to amount to $2 trillion by 2020.

OSEC exhorts the SEC to regulate these funds in a manner that faithfully implements the strictures of the Investment Company Act of 1940, the law that sets the bedrock for mutual fund regulation. In particular, the Commission is urged to be wary of whether these alternative funds are in compliance with pre-existing mutual fund regulations covering:

- Liquidity Requirements
- Accurate Fund Naming
- Prohibitions on Issuance of Senior Debt
- Leverage Restrictions
- Risk Valuation
- Diversification Requirements

Moreover, the SEC is urged to implement more stringent fiduciary requirements in order to protect investors and curtail incentives for abuse by investment advisors.

Many liquid alt fund managers are actually private fund managers with little experience in abiding by the numerous restrictions and procedural requirements imposed by mutual fund law. At the same time, many of these funds are focused on investing in shallow markets with questionable liquidity. As a result, alternative mutual funds have the potential to produce significant risks and create new social welfare problems in the event of a market collapse. The increased retail access of these funds threatens to reintroduce into the personal investment sphere the same problems of risky proprietary trading that the Volcker Rule was intended to address.

In its comment letter, OSEC asserts that the SEC's failure to effectively regulate this burgeoning product class could set the stage for significant heartache, especially for vulnerable retail investors.

Occupy the SEC is a group of concerned citizens, activists, and financial professionals that works to ensure that financial regulators protect the interests of the public, not Wall Street. For further information, visit http://occupythesec.org or email info@occupythesec.org.

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