MANAGED FUNDS ASSOCIATION

October 30, 2007

The Honorable Charles Rangel
Chairman
Committee on Ways & Means
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Rangel:

We are writing to express our concern about provisions in the bill you introduced last week. By its many provisions, your bill would raise nearly $50 billion from the hedge fund and private equity sectors. Managed Funds Association (MFA), which represents hedge funds, cannot support the manner in which this revenue is raised because: 1) the deferred compensation proposal singles out just one industry against all others and, is retroactive in nature; and 2) combined with the carried interest proposal, the bill disadvantages U.S. firms' ability to compete globally and could disrupt the important role these investment funds play in the markets and the economy.

Hedge funds have helped investors around the world, including pension funds, obtain high rates of return in an environment where the risk of gain and loss is shared in a partnership relationship between the investor and the fund manager. This relationship has led to hedge funds being actively managed to maximize performance, resulting in hedge funds becoming one of the largest, most reliable sources of liquidity in the marketplace at the very time it is needed most – in the aftermath of the credit crunch. The provisions of H.R. 3970 dealing with deferred compensation and carried interest can disrupt this partnership relationship between the investor and the manager, which will surely lead to unintended consequences for investors, the markets and the economy.

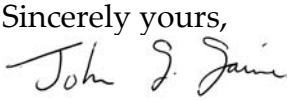
On deferred compensation in particular, the approach taken in H.R. 3970 is retroactive in nature in that it would require funds to negate existing deferred compensation agreements that had been entered into under long-settled law at the time. Regardless of one's opinion on the appropriateness of continuing such practice in the future, to change the law in a retroactive manner is unjustified, inappropriate and should be changed.

The carried interest provisions of H.R. 3970 would treat U.S. hedge funds very differently than their competitors around the globe. Furthermore, these provisions would have the effect of prohibiting hedge funds and similar partnerships from accessing the public markets through an initial public offering.

The hedge fund industry is a vital part of our nation's economy, providing liquidity to equity and debt markets; promoting price efficiency, and enabling American businesses to manage risks in an efficient and cost effective manner. MFA asks that you seriously consider the negative effects that the retroactive deferred compensation and the carried interest provisions will have on the U.S. economy and that all of these issues be confronted directly and in depth before any legislation is allowed to move forward.

Thank you for your consideration of our concerns.

Sincerely yours,



John G. Gaine
President