MANAGED FUNDS ASSOCIATION
The Voice of the Global Alternative Investment Industry
WASHINGTON, DC | NEW YORK

May 15, 2008

Via Facsimile (202) 225-2610

The Honorable Charles B. Rangel
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

You are considering legislation that would extend many expiring tax provisions of the Internal Revenue Code. Within its many provisions, this bill would raise nearly $25 billion from the hedge fund sector by eliminating the deferral of taxation of certain compensation that U.S.-based hedge fund professionals invest in their firms' offshore funds. Managed Funds Association (MFA), which represents hedge funds, believes Congress should carefully consider the foreseeable, but unintended consequences of this revenue raiser on investors, U.S. capital markets and the U.S. economy.

Hedge Funds and Offshore Investment Funds - Hedge funds play a vitally important role in the U.S. and global financial markets as a source of much needed liquidity, particularly in the midst of the current credit and liquidity crisis. The U.S. hedge fund industry leads the world with the top 30 firms having over $600 billion of assets under management. Their investors include public and private pension funds, foundations and endowments and other large institutional investors. Their investor base is located in the United States and across the globe. Hedge funds have helped their investors 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.

To meet the demands of their foreign investors, U.S.-based hedge funds have established investment funds offshore. Without such offshore funds, non-U.S. investors can be expected to direct their investment to foreign-based hedge funds. Non-U.S. investors also expect U.S. hedge fund managers to co-invest in their offshore investment funds. Currently, the Internal Revenue Code also makes it necessary for U.S. tax-exempt persons to invest directly in those offshore funds.

Non Qualified Deferred Compensation and Offshore Investment Funds - Hedge funds, like many organizations, utilize both qualified and non-qualified deferred compensation to attract and retain key personnel. U.S.-based hedge fund managers invest their deferred income in the firm's non-U.S. funds to align their interests with their non-U.S. and U.S. tax-exempt investors. This assures investors that the manager has the proper incentive to maximize returns and effectively manage risk.

Hedge Funds as Liquidity Providers - The cumulative capital and trading activity by U.S.-based hedge funds with both their domestic and foreign investment funds have resulted in hedge funds becoming one of the largest, most reliable sources of liquidity in the U.S. marketplace. Given that we are still in the midst of an historic credit and liquidity crisis in the United States, regardless of your position on the substance of this proposal to tax deferred compensation, now is not the time to take an action that has the clear potential of reducing the ability of hedge funds to provide needed liquidity to the U.S. and global capital markets.

We acknowledge and appreciate the efforts by you and the Committee to ensure that this proposal is prospective and contains appropriate transition provisions. Nonetheless, MFA still asks that you seriously consider the potential negative effects that this deferred compensation provision will have on the U.S. economy and markets particularly at this time.

Sincerely,

John G. Gaine
Special Counsel