

**NEW SEC RULES REQUIRE HEDGE FUND MANAGERS TO REGISTER AS INVESTMENT ADVISERS BY FEBRUARY 1, 2006.**

**REGISTERED INVESTMENT ADVISERS MUST APPOINT A CHIEF COMPLIANCE OFFICER AND ADOPT EXTENSIVE COMPLIANCE PROCEDURES AND A CODE OF ETHICS.**

***PARKS LEGAL CAN FIND THE PROFESSIONAL TO ESTABLISH OR SUPPLEMENT YOUR COMPLIANCE PROGRAM.***

On December 2, 2004, SEC officials released NEW Rule 203(b)(3)-2 and related amendments that require most hedge fund and fund-of-funds managers that are not currently registered as investment advisers to register with the SEC by February 1, 2006. A hedge fund manager with more than 14 investors in its fund(s) during the course of any 12-month period and \$30 million or more under management will be required to register as an investment adviser with the SEC. Previously, many funds claimed exemption under Section 203(b)(3), which allowed fund managers to count each hedge fund that they managed as a single client, regardless of the number of underlying investors. Under 203(b)(3)-2 managers are required to look through and count each investor as a separate client when applying the exemption, effectively ending this exemption for most hedge funds.

Each hedge fund manager required to register under 203(b)(3)-2 must have all required policies and procedures in place at the time its registration becomes effective (by February 1, 2006). Under previously adopted Rule 206(4)-7, registered investment advisers must designate a chief compliance officer and have written compliance policies and procedures that are designed to prevent violations of the Advisers Act. In the February 2004 release of Rule 206(4)-7, the SEC made it clear that appointing a midlevel operations or accounting professional may not be satisfactory, noting that, "An adviser's chief compliance officer should be competent and knowledgeable regarding the Advisers Act and should be empowered with full responsibility and authority to develop and enforce appropriate policies and procedures for the firm. Thus, the compliance officer should have a position of sufficient seniority and authority within the organization to compel others to adhere to the compliance policies and procedures."

The SEC has yet to test the new rules. Examinations, investigations and enforcement actions are certainly on the horizon. Incurring the expense of adding experienced compliance and legal staff now will likely save advisers money, headaches and business in the future.