

Hedging bets

The article published on Tuesday 8 April on TheParliament.com entitled 'MEP urges caution on hedge funds and private equity' gives a somewhat partial view of the content of the economic affairs committee hearing and the position of the parliament on hedge funds and private equity. It gives the impression that the alternative investment sector was a culprit to the financial turmoil and that both MEPs and the guest speakers who contributed to the hearing strongly advocate more regulation specific to hedge funds and private equity.

The speakers in the hearing concluded that the causes of the financial crisis were complex and required a carefully considered response. None of the speakers, with the exception of Mr Rossman, identified major shortcomings, particularly in the regulation of hedge funds or private equity. Rather, they pointed to the trading and issuing of complex, ill-understood financial instruments by regulated sectors, too strong a reliance on credit ratings and inadequate valuation methods as bigger factors leading to the crisis. While hedge funds certainly played their part in the crisis, as did all market actors, they actually fared better than the regulated investment banks, notwithstanding the recent news of hedge fund losses. This was also pointed out by Mr Jean-Pierre Landau of Banque de France in his presentation during the hearing.

There are many MEPs, including myself, who believe that we must not rush to regulate before properly analysing the situation. The US reaction is not a reason for the EU to necessarily follow suit as the regulatory environments are not the same. Alternative investment is already subject to more regulation in Europe than it is in the US. Moreover, in contrast to the US, in the EU an overhaul of the legislative framework for financial markets has very recently taken place. Major new legislation, notably Basel II, the transparency directive and MiFID reached their application phase not long ago. Their full impact is yet to be felt and therefore re-regulation at this point would be premature.

Piia-Noora Kauppi is a member of the economic and monetary affairs committee

Hedge funds may have played their part in the current financial crisis, says Finnish MEP **Piia-Noora Kauppi**, but they fared better than regulated banks

The current crisis requires a carefully meditated response from the EU as well as from all actors concerned. Many initiatives are underway in different parts and the parliament will continue its efforts to identify any shortcomings in the market and the appropriate measures to address them. We all recognise that there no easy answers. We should therefore be careful not to oversimplify. ★



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