



## CONNECTICUT INTRODUCES THREE BILLS AIMED AT REGULATING PRIVATE FUNDS

Three bills have recently been introduced to the Connecticut General Assembly that aim to regulate private funds that have a presence in Connecticut. Hearings on the bills were scheduled for February 27, 2009 and the effective date of each of the bills is October 1, 2009. This alert provides an overview of the three raised bills and URLs for the source text of these bills.

### RAISED BILL NO. 953

The broadest in scope of the three bills, Raised Bill No. 953 seeks to specify reasonable regulations for all funds in the state. Currently, the scope of this bill encompasses any investment company located in Connecticut (i) that claims an exemption under Section 3(c)(1) (the 100-investor exemption) or Section 3(c)(7) (the qualified purchaser exemption) of the Investment Company Act of 1940, as amended (the "1940 Act"), and (ii) whose offering of securities is exempt under the private offering safe harbor criteria of Rule 506 of Regulation D of the Securities Act of 1933, as amended. For purposes of this bill, an investment company is deemed to be located in Connecticut if such company has an office in Connecticut where employees regularly conduct business on behalf of such company. In its proposed form, this bill does not distinguish between investment companies organized as hedge funds or private equity funds, as its intent is to encompass all private funds located in Connecticut. It should be further noted that, while this bill covers investment companies claiming an exception to the definition of investment company under Section 3(c)(1) or Section 3(c)(7), the "Hedge Fund Transparency Act" recently introduced in the U.S. Senate would remove these Sections and transform them to exemptions by moving them, without substantive change, to new Sections 6(a)(6) and 6(a)(7) of the 1940 Act.

Any investment company covered by this bill will be subject to the following requirements:

- On or after January 1, 2011, no investment company will consist of individuals who have less than \$2.5 million in investment assets (either individually or jointly with a spouse) or institutional investors that have less than \$5 million in investment assets;
- The manager must disclose to each investor or prospective investor any conflicts of interest that will or are likely to impair the manager's duties and responsibilities to the company or its investors;
- The manager must disclose to each investor (i) any material change in the investment strategy or the departure of any key personnel responsible for implementing such strategy, (ii) the existence of any side letters, and (iii) any major litigation or governmental investigation; and
- Beginning on January 1, 2010, the manager must make annual disclosures to each investor of (i) the fee schedule to be paid, including management fees, brokerage fees and trading fees, and (ii) an audited financial statement indicating the investor's capital balance.

The full text of Raised Bill No. 953 may be found at:

[http://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&bill\\_num=953&which\\_year=2009](http://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&bill_num=953&which_year=2009)

### RAISED BILL NO. 6477

This bill seeks to require hedge funds and private capital funds domiciled or conducting business in Connecticut to be licensed by the Connecticut Banking Commissioner. At this time, no guidance has been provided as to what actions constitute "conducting business" in Connecticut for purposes of this bill. This bill regulates the fund entity as opposed to its management company, as it states that no hedge fund or private capital fund may be established or conduct business in Connecticut without first obtaining a license issued by the Banking Commissioner. The application for a license must be accompanied by a \$500 fee. The license is valid for one year and may be renewed annually upon the payment of \$500.

The full text of Raised Bill No. 6477 may be found at:

[http://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&bill\\_num=6477&which\\_year=2009](http://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&bill_num=6477&which_year=2009)



RAISED BILL NO. 6480

This bill seeks to assist prospective investors in certain hedge funds and private capital funds to make informed decisions. The scope of this bill encompasses any hedge fund or private capital fund that is both (i) domiciled in Connecticut, and (ii) receiving money from pension funds domiciled in Connecticut. Any such fund covered by the scope of this bill will be required to provide each prospective pension investor with certain financial information, including detailed portfolio information relative to the assets and liabilities of such fund, upon request by such investor.

The full text of Raised Bill No. 6480 may be found at:

[http://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&bill\\_num=6480&which\\_year=2009](http://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&bill_num=6480&which_year=2009)

**For further information, please contact:**

**CARL A. RUGGIERO**  
**CURTIS, MALLET-PREVOST, COLT & MOSLE LLP**  
101 PARK AVENUE  
NEW YORK, NY 10178  
E-MAIL: [CRUGGIERO@CURTIS.COM](mailto:CRUGGIERO@CURTIS.COM)  
TEL: (212) 696-6116

**VICTOR L. ZIMMERMANN, JR.**  
**CURTIS, MALLET-PREVOST, COLT & MOSLE LLP**  
FINANCIAL CENTRE  
695 EAST MAIN STREET  
STAMFORD, CT 06901  
E-MAIL: [VZIMMERMANN@CURTIS.COM](mailto:VZIMMERMANN@CURTIS.COM)  
TEL: (203) 388-0849

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