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HEDGE FUNDS-TIGHTENED

REGULATION, REPORTING ON U.S. BANK LENDING TO HEDGE FUNDS MAY BE TIGHTENED

KUALA LUMPUR, March 4 (Bernama) -- A tighter regulation and reporting on lending by banks to hedge funds might be imposed in the United States, the Financial Times reported Tuesday.

The daily said the US Republican and Democratic congressmen are planning a series of interventions - from legislations to tighter regulation - to address the risk the funds pose to the international banking system.

In the wake of last year's near collapse of Long Term Capital Management (LTCM), "the leaders of the House banking committee appear determined to strengthen the regulation and reporting of bank lending to hedge funds," it said.

Co-ordinated by the Federal Reserve of New York, LTCM was bailed out at US\$3.5 billion by 14 financial institutions last year after suffering losses in high-risk investment.

"The capital market's subcommittee of the House of banking committee will hold several hearings this week on the relationship between banks and hedge funds with a view to possible legislative action later this year," said the Financial Times.

Prime Minister Datuk Seri Dr Mahathir Mohamad had, during the World Economic Forum in January, said the turbulence in the financial system would be minimised if banks keep their lending to hedge funds within prudential levels.

He stressed that excessive currency speculation could be curbed by controlling the leverage of hedge funds and currency trader, especially when they had been given funds amounting to 20 or 200 times their capital.

Pointing to the "Basle committee of banking supervisors" report in January, the Financial Times said most of the risks arising from hedge funds could be dealt with by improved standards at banks.

"It also noted that it would be difficult to regulate hedge funds directly, since many are based offshore," it added.

The daily quoted the Republican committee chairman, James Leach, as saying that leaders of the Group of Seven industrialised countries need to tackle the problem of hedge funds based offshore, where they could avoid regulatory supervision.

Leach said hedge funds such as LTCM were "dubiously leveraged" and placed bank capital at serious risk.

"This ill fits any idea of prudential banking practices and it's made all the worse by the potential for self-dealing in situations where banks or their officers are also investors in a particular hedge fund," he added.

The largely unsupervised activities of hedge funds have changed slightly after the bail-out of LTCM. On Feb 1, the Federal Reserve issued new best practice guidelines for regulators assessing banks' dealings with hedge funds.

"Senior Wall Street executives say their firms now require greater disclosure by hedge funds they deal with and have reduced exposure," the Financial Times added. -- BERNAMA

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