

Table of Contents

CHAPTER 1. WHAT IS A PRIVATE FUND?

- § 1:1 Introduction to private funds
- § 1:2 Private fund legal considerations and overview of this treatise

CHAPTER 2. TRENDS IN THE PRIVATE FUND INDUSTRY

- § 2:1 History of private funds
- § 2:2 Growth of the private fund industry
- § 2:3 —Exemption from registration under the Investment Company Act
- § 2:4 —Historical Adviser registration exemptions (subsequently overturned)
- § 2:5 —Increased demand for alternative investments
- § 2:6 —Funds of funds
- § 2:7 Growth of the private funds industry—The JOBS Act
- § 2:8 Challenges for private funds following the financial crisis of 2008
- § 2:9 —Hedge funds
- § 2:10 —Private equity funds
- § 2:11 —The Dodd-Frank Wall Street Reform and Consumer Protection Act
- § 2:12 —The Dodd-Frank Act: The Volcker Rule
- § 2:13 Challenges for private funds following the financial crisis of 2008-AIFM Directive
- § 2:14 Private fund scandals; Bernard Madoff Ponzi scheme; Insider Trading Prosecutions; Pay-to-Play Scandals
- § 2:15 Recent challenges for private funds—Regulatory scrutiny
- § 2:16 Recent environment for private funds—Hedge funds
- § 2:17 —Private equity funds
- § 2:18 Recent developments and current prospects for private funds

CHAPTER 3. INVESTMENT COMPANY ACT OF 1940

I. DEFINITION OF AN INVESTMENT COMPANY

- § 3:1 In general

II. COMMON EXEMPTIONS FROM THE DEFINITION OF “INVESTMENT COMPANY” FOR FUNDS

A. SECTION 3(C)(1)—100-PERSON FUNDS

- § 3:2 Public offering prohibited
- § 3:3 One hundred beneficial owners limitation
- § 3:4 —Definition of beneficial owner
- § 3:5 —Exception to limitation for knowledgeable employees
- § 3:6 —“Attribution rule” look-through requirement
- § 3:7 —“Formed for the purpose” look-through requirement
- § 3:8 Restrictions on the purchase of investment company securities
- § 3:9 Integration doctrine

B. SECTION 3(C)(7)—QUALIFIED PURCHASER COMPANIES

- § 3:10 In general

- § 3:11 Qualified purchasers
- § 3:12 —Family companies
- § 3:13 —Trusts
- § 3:14 —Persons that own and invest \$25 million
- § 3:15 Other eligible 3(c)(7) fund investors
- § 3:16 —Knowledgeable employees
- § 3:17 —Involuntary transferees
- § 3:18 —Qualified institutional buyers
- § 3:19 Making the qualified purchaser determination
- § 3:20 Definition of investments
- § 3:21 —Securities
- § 3:22 —Real estate
- § 3:23 —Commodity interests, physical commodities, and financial contracts
- § 3:24 —Unfunded capital commitments
- § 3:25 —Cash and cash equivalents
- § 3:26 Valuation of investments
- § 3:27 Public offering prohibited
- § 3:28 Restrictions on the purchase of investment company securities
- § 3:29 Performance fees
- § 3:30 Grandfathered funds

C. SECTION 7(D)—NON-U.S. INVESTMENT COMPANIES

- § 3:31 In general
- § 3:32 Public offerings outside the United States
- § 3:33 Private offerings in the United States
- § 3:34 —Definition of a U.S. person
- § 3:35 —Counting and qualifying U.S. persons
- § 3:36 Integration of U.S. private placements and Regulation S offerings
- § 3:37 Web site restrictions for offshore funds

D. SECTION 3(C)(5)—FINANCING AND MORTGAGE COMPANIES

- § 3:38 In general
- § 3:39 Securities under Section 3(c)(5)
- § 3:40 Sections 3(c)(5)(A) and (B)
- § 3:41 Section 3(c)(5)(C)

E. SECTION 6(B)—EMPLOYEES' SECURITIES COMPANIES

- § 3:42 In general
- § 3:43 Exemption pursuant to Sections 6(b) and (e)
- § 3:44 Eligible investors

III. CONSEQUENCES OF FAILING TO COMPLY WITH AN EXEMPTION

- § 3:45 In general
- § 3:46 Initial registration
- § 3:47 Corporate governance
- § 3:48 —Board of directors
- § 3:49 —Shareholder voting
- § 3:50 Capital structure

TABLE OF CONTENTS

- § 3:51 Sales, repurchases, and redemptions
- § 3:52 Limitations on investments
- § 3:53 Restrictions on transactions with affiliates
- § 3:54 Recordkeeping and examinations
- § 3:55 Public reports
- § 3:56 Adviser registration
- § 3:57 Custody

CHAPTER 4. COMMODITY POOL OPERATORS AND COMMODITY TRADING ADVISORS

I. INTRODUCTION

- § 4:1 Regulation under the Commodity Exchange Act
- § 4:2 Commodity Pool Operators and Commodity Trading Advisors

II. DEFINITION OF COMMODITY INTERESTS

- § 4:3 Definition of commodity interests—In general
- § 4:4 —Historical background under Commodity Exchange Act
- § 4:5 —Futures contracts and options on futures contracts
- § 4:6 —Swaps
- § 4:7 —Retail foreign currency and commodity transactions
- § 4:8 —Leverage transactions
- § 4:9 Excluded instruments—Forward contracts
- § 4:10 —Foreign currency options traded on a national securities exchange
- § 4:11 —Treasury Amendment products
- § 4:12 —Hybrid instruments

III. DEFINITION OF COMMODITY POOL, COMMODITY POOL OPERATOR AND COMMODITY TRADING ADVISOR

- § 4:13 Definition of commodity pool and commodity pool operator
- § 4:14 —Characteristic CPO activities
- § 4:15 —CPOs of certain types of entities
- § 4:16 —Delegation of CPO responsibilities
- § 4:17 —Administrative activities
- § 4:18 Definition of commodity trading advisor
- § 4:19 —Compensation requirement
- § 4:20 —Definitional exclusions

IV. REGISTERED COMMODITY POOL OPERATORS AND COMMODITY TRADING ADVISORS

- § 4:21 Registration process
- § 4:22 —Principals
- § 4:23 —Associated persons
- § 4:24 —Branch offices
- § 4:25 —Proficiency testing requirements
- § 4:26 Requirements for Registered CPOs and CTAs
- § 4:27 —Partial exemptive relief under CFTC Rule 4.7
- § 4:28 Registered CPOs and CTAs—Disclosure Documents and offering memoranda

- § 4:29 —Financial reporting requirements
- § 4:30 —Form CPO-PQR and Form CTA-PR
- § 4:31 —Recordkeeping requirements
- § 4:32 —Supervision
- § 4:33 —Ethics training
- § 4:34 —Trade aggregation and allocations
- § 4:35 Registered CPOs—NFA Compliance Rule 2-50
- § 4:36 Registered CPOs and CTAs—NFA membership fees
- § 4:37 —NFA annual registration update and questionnaire
- § 4:38 —NFA Bylaw 1101
- § 4:39 —NFA investor suitability determination
- § 4:40 —NFA advertising rules
- § 4:41 —NFA prohibition against loans to CPO
- § 4:42 —NFA annual compliance review

V. EXEMPTIONS FROM REGISTRATION FOR COMMODITY POOL OPERATORS AND COMMODITY TRADING ADVISORS

- § 4:43 Exemptions from CPO registration—Limited trading exemption
- § 4:44 —Small pool operators
- § 4:45 —Uncompensated pool operators
- § 4:46 —Non-U.S. pools
- § 4:47 Exemptions from CTA registration
- § 4:48 —Registered or exempt CPOs
- § 4:49 —15-client exemption
- § 4:50 —Certain investment advisers
- § 4:51 CFTC registration relief for CTAs—Family Offices
- § 4:52 Claiming CPO and CTA exemptions
- § 4:53 CFTC no-action relief for CPOs
- § 4:54 CFTC registration relief for CPOs—Funds of funds
- § 4:55 —Family offices
- § 4:56 —Real estate investment trusts
- § 4:57 —Certain securitization vehicles
- § 4:58 Antifraud liability for CPOs and CTAs

CHAPTER 5. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974

I. INTRODUCTION

- § 5:1 Overview of ERISA compliance for different types of private funds
- § 5:2 —Private equity funds
- § 5:3 —Real estate investment funds
- § 5:4 —Hedge funds and similar vehicles
- § 5:5 —Funds of funds
- § 5:6 Summary of the ERISA fiduciary standards and prohibited transaction rules
- § 5:7 Summary of how ERISA applies to a fund when the fund does not comply with an ERISA exemption—The look-through rule

II. THE 25% EXCEPTION

- § 5:8 Rationale

TABLE OF CONTENTS

- § 5:9 Benefit plan investor
- § 5:10 “Class” of equity interests
- § 5:11 —What constitutes a separate class of equity interests
- § 5:12 Calculation of the 25% limit
- § 5:13 Monitoring compliance with the 25% limit
- § 5:14 Common fund structures and calculation of the 25% limit
- § 5:15 —Masterfeeder funds
- § 5:16 —Fixed allocation multistrategy funds
- § 5:17 —Multistrategy fund with a managed strategy
- § 5:18 —Funds of funds
- § 5:19 —Pooled ERISA vehicles

III. VENTURE CAPITAL OPERATING COMPANY (VCOC) EXCEPTION

- § 5:20 In general
- § 5:21 When must the 50% of assets test be satisfied?
- § 5:22 What is a venture capital investment?
- § 5:23 What are management rights?
- § 5:24 Indirect investments
- § 5:25 Distribution period

IV. REAL ESTATE OPERATING COMPANIES (REOCs)

- § 5:26 Real estate VCOCs
- § 5:27 Definition of a REOC; Operating as a REOC

V. ERISA IMPLICATIONS FOR FUNDS THAT DO NOT COMPLY WITH AN ERISA EXEMPTION

A. IN GENERAL

- § 5:28 In general

B. FIDUCIARY DUTIES

- § 5:29 Definition of a fiduciary
- § 5:30 Fiduciary duties under ERISA
- § 5:31 —Duty of loyalty
- § 5:32 —Duty of prudence
- § 5:33 —Duty of diversification
- § 5:34 —Duty to act in accordance with the plan documents
- § 5:35 Fiduciary liability under ERISA

C. PROHIBITED TRANSACTIONS

- § 5:36 In general

VI. HEDGE FUNDS OPERATED AS ERISA FUNDS

- § 5:37 In general
- § 5:38 Appointment of fund manager as an investment manager
- § 5:39 Withdrawal rights
- § 5:40 Qualified professional asset manager (QPAM) exemption
- § 5:41 Fund expenses and fees

- § 5:42 —Fund expenses
- § 5:43 —Fund fees
- § 5:44 — —Management fees
- § 5:45 — —Performance fees
- § 5:46 Additional ERISA fiduciary issues
- § 5:47 —Trade allocations
- § 5:48 —Fund investments in employer securities
- § 5:49 —Soft dollar arrangements
- § 5:50 —Proxies and tenders
- § 5:51 —Location of assets
- § 5:52 —Fund documentation
- § 5:53 —Annual return/report to DOL on Form 5500
- § 5:54 —Fee disclosure under Section 408(b)(2) of ERISA
- § 5:55 —Gifts and entertainment

VII. SUMMARY OF ERISA HOT SPOTS FOR DIFFERENT TYPES OF FUNDS

- § 5:56 Introduction
- § 5:57 Private equity funds
- § 5:58 Private equity funds of funds
- § 5:59 Real estate funds
- § 5:60 Hedge funds
- § 5:61 Multistrategy funds
- § 5:62 Funds of hedge funds

CHAPTER 6. INVESTMENT ADVISERS ACT OF 1940

I. DEFINITION OF AN INVESTMENT ADVISER

- § 6:1 Advisers Act definition
- § 6:2 —Compensation
- § 6:3 —In the business
- § 6:4 —Advice, analyses, or reports about securities

II. EXCLUSIONS FROM THE DEFINITION OF AN INVESTMENT ADVISER

- § 6:5 In general
- § 6:6 Banks and bank holding companies
- § 6:7 Brokers and dealers
- § 6:8 Family offices
- § 6:9 Lawyers, accountants, engineers, and teachers
- § 6:10 Publishers
- § 6:11 Government securities advisers
- § 6:12 Nationally Recognized Statistical Rating Organizations (NRSROs)
- § 6:13 Federal and state governments and political subdivisions

III. REGISTRATION OF INVESTMENT ADVISERS

- § 6:14 In general
- § 6:15 Advisers required to register
- § 6:16 Other persons permitted to register

TABLE OF CONTENTS

§ 6:17 State law registration

IV. EXEMPTIONS FROM REGISTRATION REQUIREMENTS

- § 6:18 In general
- § 6:19 Foreign private advisers
- § 6:20 Venture capital fund advisers
- § 6:21 Private fund advisers
- § 6:22 Dodd-Frank Act exemptions: impact on subadvisers and advisory affiliates
- § 6:23 Commodity trading advisers
- § 6:24 Intrastate advisers
- § 6:25 Advisers to insurance companies
- § 6:26 Charitable organizations and plans
- § 6:27 Small business investment companies
- § 6:28 Rural business investment companies

V. OFFSHORE INVESTMENT ADVISERS

- § 6:29 In general

CHAPTER 7. REGISTRATION UNDER THE ADVISERS ACT AND REPORTING ON FORM ADV

- § 7:1 Who is the applicant?
- § 7:2 Overview of SEC registration and reporting process
- § 7:3 Form ADV
- § 7:4 —Part 1
- § 7:5 “Assets under Management” and “Regulatory Assets under Management”
- § 7:6 Private fund reporting
- § 7:7 Form ADV—Part 2
- § 7:8 —Part 2A (the “Brochure”)
- § 7:9 —Part 2B (the “Brochure Supplement”)
- § 7:10 Delivery to clients of Form ADV Part 2
- § 7:11 Form ADV-Part 3 (Form CRS)
- § 7:12 Amendments; duty to update Form ADV
- § 7:13 —Obligation to make “prompt” amendments
- § 7:14 —Annual updates
- § 7:15 Form ADV-E: required filings in connection with surprise audits
- § 7:16 Withdrawal from registration
- § 7:17 Reporting requirements for certain advisers exempt from registration

CHAPTER 8. COMPLIANCE WITH ADVISERS ACT FOR ALL INVESTMENT ADVISERS

I. INTRODUCTION

- § 8:1 In general

II. FIDUCIARY DUTIES

- § 8:2 In general
- § 8:3 Investment opportunity allocation
- § 8:4 Best execution and soft dollars

- § 8:5 —Eligible brokerage and research services
- § 8:6 — —Eligible research
- § 8:7 — —Eligible brokerage
- § 8:8 — —Mixed-use items
- § 8:9 — —Lawful and appropriate assistance
- § 8:10 — —Good faith determination
- § 8:11 — —“Provided by” and “effecting” requirements
- § 8:12 — —“Provided by”
- § 8:13 — —“Effecting”
- § 8:14 —Best execution and soft dollar compliance
- § 8:15 Trade error corrections
- § 8:16 Use of hedge clauses
- § 8:17 Suitable investments

III. ANTIFRAUD PROVISIONS

- § 8:18 Applicable statutes
- § 8:19 Advisers Act Sections 206(1) and 206(2)
- § 8:20 Advisers Act Rule 206(4)-8
- § 8:21 Exchange Act Section 10(b) and Rule 10b-5
- § 8:22 —Antifraud provisions
- § 8:23 —Insider trading

IV. PRINCIPAL, AGENCY CROSS AND CROSS TRANSACTIONS

- § 8:24 In general
- § 8:25 Advisers Act Section 206(3)
- § 8:26 Advisers Act Rule 206(3)-2
- § 8:27 Principal and agency cross transactions compliance

V. AGGREGATION OF CLIENT TRADES

- § 8:28 In general
- § 8:29 The SEC’s recent private fund adviser proposal

CHAPTER 9. COMPLIANCE WITH ADVISERS ACT FOR REGISTERED INVESTMENT ADVISERS

I. INTRODUCTION

- § 9:1 In general

II. SUBSTANTIVE REQUIREMENTS

A. ADVERTISING

- § 9:2 Recent Developments
- § 9:3 In general
- § 9:4 Definition of advertisement
- § 9:5 Specific restrictions on advertisements
- § 9:6 —Use of testimonials
- § 9:7 — —Social media and the testimonial rule
- § 9:8 —Past specific recommendations
- § 9:9 —Use of graphs, charts, or formulas

TABLE OF CONTENTS

- § 9:10 —Reference to “free service”
- § 9:11 The Marketing Rule: General prohibitions
- § 9:12 General prohibition on misleading advertisements—Partial client lists
- § 9:13 Recordkeeping
- § 9:14 Section 208

B. PERFORMANCE ADVERTISING UNDER THE MARKETING RULE

- § 9:15 Performance Advertising Under the Marketing Rule—General
- § 9:16 —Presentation of Gross and Net Performance
- § 9:17 —Prescribed Time Periods
- § 9:18 —Statements About SEC Review or Approval of Performance Results
- § 9:19 —Related Performance
- § 9:20 —Extracted Performance
- § 9:21 —Hypothetical Performance
- § 9:22 —Predecessor Performance
- § 9:23 FINRA regulation of performance advertising

C. CUSTODY OF CLIENT ASSETS

- § 9:24 In general
- § 9:25 Definition of custody
- § 9:26 Maintenance of assets—Qualified custodians
- § 9:27 —Notification
- § 9:28 Reports to clients
- § 9:29 —Quarterly account statements and audit exception
- § 9:30 —Audit exception
- § 9:31 Surprise examinations
- § 9:32 Internal control report
- § 9:33 Delivery to independent representative or related persons
- § 9:34 Voluntary client asset confirmation letter
- § 9:35 Exception for certain securities

D. PROXY VOTING

- § 9:36 In general
- § 9:37 Applicability of the rule
- § 9:38 Policies and procedures
- § 9:39 —Voting client proxies
- § 9:40 —Resolving conflicts of interest
- § 9:41 —Use of an independent proxy voting service
- § 9:42 Disclosure to clients
- § 9:43 Recordkeeping

E. COMPLIANCE PROGRAM

- § 9:44 In general
- § 9:45 Chief compliance officer
- § 9:46 Policies and procedures
- § 9:47 Annual review
- § 9:48 Forensic test
- § 9:49 Control environment

F. CODE OF ETHICS REQUIREMENT

- § 9:50 In general
- § 9:51 Minimum requirements
- § 9:52 Personal trading procedures
- § 9:53 —Definition of access person
- § 9:54 —Initial and annual holdings reports
- § 9:55 —Quarterly transaction reports
- § 9:56 —Reportable securities
- § 9:57 —Exceptions from reporting requirements
- § 9:58 —Preapproval of purchases of initial public offerings and private placements
- § 9:59 Beneficial ownership
- § 9:60 Additional measures relating to personal trading procedures by employees
- § 9:61 Common policies not required by the Code of Ethics Rule
- § 9:62 Recordkeeping
- § 9:63 Form ADV

G. INSIDER TRADING POLICIES AND PROCEDURES

- § 9:64 In general

H. SUPERVISORY PROCEDURES

- § 9:65 In general

III. RECORDKEEPING REQUIREMENTS

- § 9:66 In general
- § 9:67 Records to be maintained
- § 9:68 —Business records
- § 9:69 —Client-related records
- § 9:70 —Compliance-related records
- § 9:71 Proper retention of books and records
- § 9:72 Electronic recordkeeping
- § 9:73 Non-U.S. advisers
- § 9:74 Records maintained by third parties

IV. DISCLOSURE OBLIGATIONS

- § 9:75 Form ADV
- § 9:76 —Part 1
- § 9:77 —Part 2
- § 9:78 —Part 3
- § 9:79 —Disclosure of financial information
- § 9:80 —Disclosure of disciplinary information
- § 9:81 Form PF
- § 9:82 —Reporting
- § 9:83 —Frequency and format of reporting

V. CONTRACTUAL REQUIREMENTS

- § 9:84 Assignment of advisory contracts
- § 9:85 Change in partners of a partnership

VI. FEES

- § 9:86 In general
- § 9:87 Fulcrum fees
- § 9:88 Qualified purchaser funds
- § 9:89 Sophisticated clients
- § 9:90 —Section 3(c)(1) funds
- § 9:91 —Performance-based compensation for nonqualified clients
- § 9:92 —Involuntary transfer to non-qualified client
- § 9:93 Contingent fees

VII. PRIVATE FUND ADVISER RULE AND RECENT PROPOSALS

- § 9:94 The SEC's private fund adviser rule
 - § 9:95 The SEC's Recent ESG disclosure proposal
 - § 9:96 The SEC's recent Custody Rule proposal
 - § 9:97 The SEC's recent Outsourcing proposal
- Appendix 9A. Document Retention Requirements For Registered Investment Advisers

CHAPTER 10. SEC COMPLIANCE EXAMINATIONS

I. INTRODUCTION

- § 10:1 In general

II. DIVISION OF EXAMINATIONS (EXAMINATIONS DIVISION)

- § 10:2 In general

III. TYPES OF EXAMINATIONS

- § 10:3 In general
- § 10:4 Routine examinations
- § 10:5 Cause examinations and inspections
- § 10:6 Sweep examinations

IV. EXAMINATION PREPARATION

- § 10:7 General steps
- § 10:8 Core initial request lists
- § 10:9 Follow-up request lists

V. ON-SITE EXAMINATION

- § 10:10 The examination team
- § 10:11 Interviews with senior management
- § 10:12 Compliance testing
- § 10:13 The exit interview/exit conference calls
- § 10:14 After the visit

VI. POSSIBLE OUTCOMES OF AN EXAMINATION

- § 10:15 No findings letter
- § 10:16 Deficiency letter

§ 10:17 Enforcement referral

VII. TEN SUGGESTIONS FOR MANAGING A ROUTINE COMPLIANCE EXAMINATION

- § 10:18 Plan now
- § 10:19 Appoint a visit coordinator
- § 10:20 Take the initiative
- § 10:21 Treat the SEC staff with respect
- § 10:22 Prepare employees
- § 10:23 Explain the adviser's position
- § 10:24 Request confidentiality under the Freedom of Information Act
- § 10:25 Request an exit interview
- § 10:26 Avoid unnecessary delays
- § 10:27 Respond promptly to any deficiency letters

CHAPTER 11. CERTAIN BROKER-DEALER REGULATORY CONSIDERATIONS

I. INTRODUCTION

§ 11:1 In general

II. ACTIVITIES REQUIRING REGISTRATION AS A BROKER-DEALER

- § 11:2 In general
- § 11:3 Brokers
- § 11:4 Finders
- § 11:5 Dealers
- § 11:6 Traders
- § 11:7 Persons associated with a broker or dealer
- § 11:8 International issues
- § 11:9 —Operations outside the United States
- § 11:10 —Operations within the United States
- § 11:11 —Exemptions from registration
- § 11:12 Issuers and their associated persons
- § 11:13 —Rule 3a4-1 safe harbor
- § 11:14 —State requirements

III. APPLICATION TO UNREGISTERED PRIVATE FUNDS, ADVISERS, AND THEIR ASSOCIATED PERSONS

- § 11:15 Trading activities
- § 11:16 Issuing/marketing activities

IV. CONSEQUENCES OF OPERATING AN UNREGISTERED BROKER-DEALER

§ 11:17 SEC enforcement risk; SRO and state law consequences

V. COMPLIANCE REQUIREMENTS FOR REGISTERED BROKER-DEALERS

§ 11:18 Registration

TABLE OF CONTENTS

- § 11:19 Ongoing requirements
- § 11:20 Affiliation issues
- § 11:21 —Disclosure and impact of control relationship
- § 11:22 —Affiliate transactions in securities
- § 11:23 — —Limitations on trading
- § 11:24 — —Restrictions on the purchase and sale of initial public offerings
- § 11:25 — —Public offerings of securities
- § 11:26 — —Private placements of securities
- § 11:27 —Special requirements for NYSE members
- § 11:28 —Reporting requirements
- § 11:29 —Books and records

VI. OBLIGATIONS OF REGISTERED BROKER-DEALERS ACTING AS PLACEMENT AGENTS FOR PRIVATE FUNDS

- § 11:30 Communications rules
- § 11:31 Obligations under FINRA Rule 2210—Obligation to file certain retail communications with FINRA
- § 11:32 —Supervisory responsibility regarding communications with the public
- § 11:33 —Content standards applicable to all communications under FINRA Rule 2210(d)(1)
- § 11:34 —Additional content standards applicable to retail communications and correspondence under FINRA Rule 2210(d)(2)–(d)(7)
- § 11:35 Private placement filing requirements
- § 11:36 Suitability
- § 11:37 —Institutional clients
- § 11:38 Regulation Best Interest
- § 11:39 Anti-money laundering
- § 11:40 Supervision and recordkeeping

CHAPTER 12. OTHER REGULATIONS APPLICABLE TO THE OPERATION OF PRIVATE FUNDS

I. INTRODUCTION

- § 12:1 In general

II. ANTI-MONEY LAUNDERING REGULATIONS

- § 12:2 In general
- § 12:3 Regulatory framework
- § 12:4 Compliance

III. PRIVACY AND CYBERSECURITY LAWS AND REGULATIONS

A. INTRODUCTION

- § 12:5 In general

B. OBLIGATION TO SAFEGUARD AND RESTRICTIONS ON SHARING INFORMATION

- § 12:6 Regulatory framework
- § 12:7 Compliance

- § 12:8 —Safeguards requirements
- § 12:9 —Financial privacy rules; Notice requirements and model notice safe harbor
- § 12:10 —Financial privacy rules; Opt-out rights

C. RESTRICTIONS ON USING INFORMATION OBTAINED FROM AFFILIATES—REGULATION S-AM

- § 12:11 In general
- § 12:12 Notice and opt-out requirements
- § 12:13 Exceptions

D. CFTC AND SEC IDENTITY THEFT RED FLAGS RULES

- § 12:14 In general

E. SELECTED STATE LAWS—THE CCPA AND THE NY SHIELD ACT

- § 12:15 The California Consumer Privacy Act of 2018
- § 12:16 Exemptions under the CCPA
- § 12:17 *[Reserved]*
- § 12:18 The New York SHIELD Act
- § 12:19 Exemptions under the SHIELD Act

IV. REGULATION OF PAY-TO-PLAY ARRANGEMENTS AND POLITICAL CONTRIBUTIONS

A. INTRODUCTION

- § 12:20 In general

B. STATE AND LOCAL REGULATION

- § 12:21 In general

C. FEDERAL REGULATION

- § 12:22 In general
- § 12:23 Two-year “Time Out”
- § 12:24 Exceptions to two-year “Time Out”
- § 12:25 Ban on the bundling of contributions
- § 12:26 Limitation on using third-parties to solicit business
- § 12:27 Covered investment pools
- § 12:28 Restricting indirect contributions and solicitations
- § 12:29 Recordkeeping

D. COMPLIANCE

- § 12:30 In general

V. MUNICIPAL ADVISOR CONSIDERATIONS

- § 12:31 In general
- § 12:32 Application to private funds, advisers, and placement agents

VI. ECONOMIC SANCTIONS LAWS AND REGULATIONS

- § 12:33 In general

TABLE OF CONTENTS

§ 12:34 Compliance

VII. THE FOREIGN CORRUPT PRACTICES ACT

- § 12:35 In general
- § 12:36 Regulatory framework
- § 12:37 Elements of the prohibition
- § 12:38 Exceptions and defenses
- § 12:39 Enforcement environment and penalties
- § 12:40 FCPA Resource Guide, 2016 Pilot Program and 2017 Corporate Enforcement Policy
- § 12:41 Second Edition of the FCPA Guide
- § 12:42 Guidance Regarding Compliance Programs
- § 12:43 2015 Yates Memo and Biden Administration Increased Focus on Corporate Enforcement and Compliance Programs

VIII. REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS—FBAR

- § 12:44 In general
- § 12:45 Regulatory framework
- § 12:46 Compliance

IX. REPORTING ON TREASURY FORMS

- § 12:47 In general
- § 12:48 TIC Forms—Reporting on Forms B and C
- § 12:49 —Reporting on Form D
- § 12:50 —Reporting on Form S
- § 12:51 —Reporting on Forms SHL/SHLA and SHC/SHCA
- § 12:52 —Reporting on Form SLT
- § 12:53 TFC Forms—Reporting on Forms FC-1, FC-2, and FC-3
- § 12:54 BEA Forms—Reporting on Form BE-10
- § 12:55 —Reporting on Form BE-13

CHAPTER 13. SECURITIES ACT OF 1933 REGULATION OF PRIVATE FUND OFFERINGS

I. INTRODUCTION

- § 13:1 In general

II. REGULATORY FRAMEWORK

- § 13:2 In general

III. COMMON EXEMPTIONS FROM REGISTRATION UTILIZED BY PRIVATE FUNDS

- § 13:3 In general
- § 13:4 Section 4(a)(2); “old style” private placements
- § 13:5 Regulation D; private offerings under Rule 506
- § 13:6 —Accredited investors
- § 13:7 Regulation D; private offerings under Rule 506(b)—General solicitation prohibited

- § 13:8 Regulation D; private offerings under Rule 506(c)—Lifting the ban on general solicitation
- § 13:9 Regulation D; private offerings under Rule 506—SEC proposed rule to further amend Regulation D, Form D and to amend Rule 156
- § 13:10 —Integration
- § 13:11 —Filing Form D; mandatory electronic filing
- § 13:12 —SEC rule on disqualification of “bad actors” from Rule 506 offerings
- § 13:13 Regulation S; safe harbors for offers and sales outside the United States
- § 13:14 —Offshore transactions
- § 13:15 —No directed selling efforts in the United States
- § 13:16 —Additional requirements
- § 13:17 — —Category 1 offerings
- § 13:18 — —Category 2 offerings
- § 13:19 — —Category 3 offerings
- § 13:20 —Simultaneous offering in the United States and Regulation S offering
- § 13:21 —Compliance with Regulation S in practice

IV. INVESTMENT COMPANY ACT CONSIDERATIONS

- § 13:22 In general

CHAPTER 14. OTHER REGULATIONS APPLICABLE TO PRIVATE FUND OFFERINGS

I. INTRODUCTION

- § 14:1 In general

II. BLUE SKY LAWS

- § 14:2 Overview of state regulation of private offerings
- § 14:3 Mechanics of state notice filings
- § 14:4 Overview of state regulation of broker-dealers and agents

III. ERISA

- § 14:5 In General

IV. SECURITIES EXCHANGE ACT OF 1934

A. AVOIDING PUBLIC REPORTING COMPANY OBLIGATIONS

- § 14:6 Section 12(g)—2,000 holders of record limit
- § 14:7 Calculating holders of record
- § 14:8 Integration and antisham provisions
- § 14:9 Exemptive orders

B. BROKER-DEALER REGISTRATION AND EXEMPTIONS

- § 14:10 In general

V. NON-U.S. LAWS

- § 14:11 In general

CHAPTER 15. REGULATION OF OFFERING MATERIAL CONTENT

I. INTRODUCTION

§ 15:1 In general

II. OFFERING DOCUMENTATION

§ 15:2 Offering memoranda

§ 15:3 Other marketing material

III. OFFERING MATERIAL CONTENT

§ 15:4 Antifraud provisions applicable to registered and unregistered investment advisers

§ 15:5 —Section 10(b) and Rule 10b-5 of the Exchange act and Section 17(a) of the Securities Act

§ 15:6 —Sections 206(1) and (2) of the Advisers Act

§ 15:7 —Rule 206(4)-8 under the Advisers Act

§ 15:8 Advertising rules affecting registered investment advisers

§ 15:9 FINRA rule affecting fund offering materials published or distributed by FINRA members

§ 15:10 —General antifraud standards

§ 15:11 —Advertisement and sales literature-related standards

§ 15:12 —Inclusion of related performance information

IV. DELIVERY OF OFFERING MATERIALS

§ 15:13 “Brochure rule” for registered investment advisers

§ 15:14 Recordkeeping requirements for offering materials

CHAPTER 16. PRIVATE EQUITY FUND COMMON FEATURES

I. INTRODUCTION

§ 16:1 In general

§ 16:2 Brief history

§ 16:3 Distinguishing characteristics of private equity funds

§ 16:4 Types of private equity funds

§ 16:5 Common structures

§ 16:6 Marketing of private equity funds

II. COMMON TERMS OF PRIVATE EQUITY FUND AGREEMENTS

A. IN GENERAL

§ 16:7 In general

B. STRUCTURING AND GOVERNANCE

§ 16:8 Parallel investment vehicles

§ 16:9 —Coinvesting in parallel investment vehicles

- § 16:10 —Reallocations during a fund’s admission period
- § 16:11 Alternative investment vehicles
- § 16:12 Investment limitations and guidelines
- § 16:13 Leverage and guarantees
- § 16:14 Closings
- § 16:15 Capital commitments and capital contributions
- § 16:16 Commitment period
- § 16:17 —Termination of the commitment period
- § 16:18 —Post-commitment period
- § 16:19 Defaults
- § 16:20 Excuse and exclusion
- § 16:21 Key person and cause events
- § 16:22 Exculpation and indemnification
- § 16:23 Valuation
- § 16:24 Withdrawal
- § 16:25 Conflicts of interest
- § 16:26 —Investor advisory committee

C. FEES AND EXPENSES

- § 16:27 Expenses generally
- § 16:28 Management fees
- § 16:29 —Offsets and waivers
- § 16:30 Transaction fees

D. DISTRIBUTIONS

- § 16:31 Distribution waterfall
- § 16:32 Proceeds from dispositions
- § 16:33 —Return of capital contributions
- § 16:34 —Preferred return
- § 16:35 —General partner catch-up
- § 16:36 —General partner carried interest
- § 16:37 Other proceeds
- § 16:38 Recycling of amounts distributed
- § 16:39 General partner clawback

E. SIDE LETTERS

- § 16:40 In general

CHAPTER 17. PRIVATE EQUITY FUND ACQUISITIONS OF PORTFOLIO COMPANIES

I. INTRODUCTION

- § 17:1 In general

II. DUE DILIGENCE

- § 17:2 In general
- § 17:3 Preliminary measures
- § 17:4 Other considerations

III. REGULATORY CONSIDERATIONS

- § 17:5 In general
- § 17:6 Antitrust regulation (Hart-Scott-Rodino Act)
- § 17:7 Federal Communications Commission (FCC) regulation
- § 17:8 Bank Holding Company Act/Gramm-Leach-Bliley Act
- § 17:9 Federal Deposit Insurance Corporation (FDIC) regulation
- § 17:10 Committee on Foreign Investment in the United States
- § 17:11 Advisers Act regulation

IV. DEAL PROTECTION

- § 17:12 In general
- § 17:13 Breakup fees and reverse breakup fees
- § 17:14 Financing outs
- § 17:15 No shop provisions
- § 17:16 Go shop provisions

V. FINANCING

- § 17:17 Financing commitments
- § 17:18 Financing upon closing

CHAPTER 18. COMMON PRIVATE EQUITY FUND INVESTMENT ISSUES

I. INTRODUCTION

- § 18:1 In general

II. ERISA CONSIDERATIONS

- § 18:2 Venture capital operating companies
- § 18:3 Controlled group liability
- § 18:4 —“Trade or business”
- § 18:5 —“Common control”
- § 18:6 —Potential consequences of inclusion in controlled group
- § 18:7 —Potential liabilities resulting from inclusion in controlled group
- § 18:8 —Potential involvement of and liability to the PBGC
- § 18:9 —Lending and credit issues

III. CO-INVESTING AND CLUB DEALS

- § 18:10 In general
- § 18:11 Potential advantages of co-investments and club deals
- § 18:12 Potential disadvantages of co-investments and club deals
- § 18:13 Issues to consider when evaluating potential co-investors
- § 18:14 —Initial considerations
- § 18:15 —Potential future conflicts
- § 18:16 Issues to consider before signing the acquisition agreement
- § 18:17 Shareholders’ agreements

IV. CONFLICTS

- § 18:18 In general

- § 18:19 Buy-side conflicts
- § 18:20 Sell-side conflicts
- § 18:21 Conflicts between fund and portfolio company
- § 18:22 Conflicts between fund and sponsor financial institution affiliates

V. PORTFOLIO COMPANY DIRECTOR RESPONSIBILITIES

A. IN GENERAL

- § 18:23 In general
- § 18:24 Board responsibilities, generally

B. CHALLENGES FACING DIRECTORS DESIGNATED BY PRIVATE EQUITY FIRMS

- § 18:25 Director fiduciary duties, generally
- § 18:26 —Duty of loyalty
- § 18:27 —Duty of care
- § 18:28 Practical implications of the duty of loyalty
- § 18:29 —Procedures to satisfy the duty of loyalty
- § 18:30 —Corporate opportunity doctrine
- § 18:31 —Use of confidential information
- § 18:32 —Exercise of contractual “veto rights”
- § 18:33 —Serving as a director of a competitor
- § 18:34 Practical implications of the duty of care
- § 18:35 —Procedures to satisfy the duty of care
- § 18:36 Special duties applicable to dividends, distributions, and stock repurchases
- § 18:37 Additional responsibilities of directors of public companies

CHAPTER 19. PRIVATE EQUITY FUND INVESTMENT EXIT STRATEGIES

I. INTRODUCTION

- § 19:1 In general

II. PRIVATE SALE

- § 19:2 In general
- § 19:3 Strategic Sale
- § 19:4 Secondary Sale

III. INITIAL PUBLIC OFFERING

- § 19:5 In general
- § 19:6 Phase 1—Pre-IPO issues and structuring the offering
- § 19:7 Phase 2—Filing and SEC review
- § 19:8 Phase 3—Marketing
- § 19:9 Phase 4—Pricing and life as a public company

IV. OTHER MEANS OF DIVESTING SECURITIES

- § 19:10 In general

TABLE OF CONTENTS

§ 19:11	Section 4(a)(1) transactional exemption
§ 19:12	Rule 144 safe harbor for resale of restricted securities
§ 19:13	—Sales by nonaffiliates and affiliates
§ 19:14	Rule 144—Determination of when an investor is an affiliate of the issuer
§ 19:15	“Section 4(11/2)”
§ 19:16	Rule 144A—Safe harbor for “Qualified Institutional Buyers”
§ 19:17	Regulation S—Sales Outside of the United States
§ 19:18	Registration rights
§ 19:19	Distribution in kind
§ 19:20	—Mechanics of a DIK

CHAPTER 20. COMMON FEATURES OF HEDGE FUNDS

I. INTRODUCTION

§ 20:1	In general
§ 20:2	History
§ 20:3	Common structure

II. REGULATION OF HEDGE FUNDS AND HEDGE FUND MANAGERS

§ 20:4	Statutory framework
--------	---------------------

III. INVESTMENT STRATEGIES

§ 20:5	Common investment strategies
§ 20:6	Side pocket investments

IV. FREQUENTLY NEGOTIATED TERMS

§ 20:7	In general
§ 20:8	Most favored nation
§ 20:9	Portfolio transparency rights
§ 20:10	Lock-up periods
§ 20:11	Periodic withdrawals
§ 20:12	Gates
§ 20:13	Holdback amounts

V. FEES AND COMPENSATION

§ 20:14	In general
§ 20:15	Management fees
§ 20:16	Performance-based fees/allocations
§ 20:17	—Hurdles/benchmarks
§ 20:18	—High watermark
§ 20:19	—Limited look backs
§ 20:20	—Reduced high watermarks
§ 20:21	The performance fee rule

VI. VALUATION

§ 20:22	In general
§ 20:23	Valuation framework

VII. REDEMPTIONS AND SUSPENSIONS

§ 20:24 In general

VIII. CONVERGENCE WITH PRIVATE EQUITY STRATEGIES

§ 20:25 In general

§ 20:26 The emergence of hybrid funds

§ 20:27 Hybrid fund issues

CHAPTER 21. HEDGE FUND COMMON SECURITIES TRADING CONSIDERATIONS

I. INTRODUCTION

§ 21:1 In general

II. INSIDER TRADING

§ 21:2 In general

§ 21:3 Rule 10b-5

§ 21:4 —Questions of duty: classical theory vs. misappropriation theory

§ 21:5 — —Classical theory

§ 21:6 — —Misappropriation theory

§ 21:7 — —Tipping

§ 21:8 —Materiality and confidentiality

§ 21:9 —Causation: use vs. possession of material nonpublic information

§ 21:10 —Scienter

§ 21:11 Rule 14e-3 and tender offers

§ 21:12 Enforcement of insider trading laws and regulations

§ 21:13 Government enforcement of insider trading laws and regulations—In general

§ 21:14 Recent developments and trends in government enforcement of insider trading laws

§ 21:15 Enforcement of insider trading laws and regulations—Private rights of action

§ 21:16 —Controlling person liability

§ 21:17 Enforcement activity regarding expert consulting firms

§ 21:18 Alternative data

§ 21:19 Increasing use of Title 18

§ 21:20 Hacking

§ 21:21 Insider trading policies and procedures

III. RUMOR-BASED MANIPULATION

§ 21:22 In general

§ 21:23 SEC regulation of rumor-based manipulation

§ 21:24 FINRA regulation of rumor-based manipulation

§ 21:25 Rumor-based manipulation policies

IV. SHORT SELLING RULES

§ 21:26 Concept of short selling

§ 21:27 Controversy surrounding short selling

TABLE OF CONTENTS

- § 21:28 Regulation of short selling
- § 21:29 Regulation of Short Selling—Order Marking Requirements
- § 21:30 Regulation of short selling—“Locate” and “close-out” requirements
- § 21:31 —Deceptive short selling
- § 21:32 —Reporting of Short Positions and Securities Lending Transactions
- § 21:33 —Regulation M

V. SECTION 13(F) REPORTING

- § 21:34 In general
- § 21:35 Threshold requirements
- § 21:36 Form 13F information and filing procedure
- § 21:37 —Confidential treatment

VI. LARGE TRADER REPORTING

- § 21:38 Large trader reporting and Form 13H
- § 21:39 Who is a large trader?
- § 21:40 Large trader registration
- § 21:41 Form 13H information and filing procedure
- § 21:42 Large trader obligation to provide large trader ID to broker-dealers; broker-dealer monitoring, recordkeeping, and reporting obligations
- § 21:43 Foreign entities

CHAPTER 22. SECURITIES PRIME BROKERAGE

I. THE BASICS OF SECURITIES PRIME BROKERAGE

A. INTRODUCTION

- § 22:1 In general

B. THE SECURITIES PRIME BROKER RELATIONSHIP

- § 22:2 Basic Relationship
- § 22:3 Services offered by the prime broker
- § 22:4 Benefits of the prime broker relationship

II. REGULATORY OVERSIGHT OF SECURITIES PRIME BROKERS

A. REGULATORY STRUCTURE

- § 22:5 Statutory scheme
- § 22:6 Role of the SEC
- § 22:7 FINRA and other SROs
- § 22:8 States
- § 22:9 Examination and enforcement

B. PRINCIPLE REGULATORY GUIDANCE

- § 22:10 Prime brokerage no-action letter
- § 22:11 International prime brokerage

C. SOFT DOLLAR ARRANGEMENTS; SAFE HARBOR UNDER EXCHANGE ACT SECTION 28(E)

§ 22:12 In general

D. MARGIN REGULATION

§ 22:13 In general

§ 22:14 Regulation T: credit by broker-dealers for securities transactions

§ 22:15 Regulation U: credit by banks and persons other than broker-dealers

§ 22:16 Regulation X: borrowers of securities credit

§ 22:17 FINRA Rule 4210

§ 22:18 Portfolio margining rules

§ 22:19 Prime broker participation in selling syndicates

§ 22:20 Enhanced financing

III. SECURITIES PRIME BROKERAGE DOCUMENTATION

§ 22:21 Basic documentation

§ 22:22 Key terms of securities prime brokerage agreements

IV. SECURITIES PRIME BROKER CREDIT RISK

§ 22:23 In general

§ 22:24 SEC customer protection rules

§ 22:25 Legal rights to cash and securities in a liquidation proceeding

§ 22:26 —Securities Investor Protection Corporation liquidations

§ 22:27 —Chapter 7 bankruptcy proceedings

§ 22:28 —Non-U.S. liquidation proceedings

§ 22:29 —Orderly liquidation authority

§ 22:30 —Other arrangements

CHAPTER 23. ACTIVIST INVESTING BY HEDGE FUNDS

I. INTRODUCTION

§ 23:1 In general

II. REGULATORY FRAMEWORK

§ 23:2 Disclosure requirements under Sections 13 and 16 of the Exchange Act

§ 23:3 —Determination of “beneficial ownership”

§ 23:4 — —“Wolf packing”

§ 23:5 — —“Empty voting”

§ 23:6 —Schedules 13D and 13G

§ 23:7 —Additional Section 16 requirements

§ 23:8 Insider trading

§ 23:9 Hart-Scott-Rodino Antitrust Improvements Act

§ 23:10 State law considerations

III. PROXY CONTESTS

§ 23:11 In general

§ 23:12 “Proxy access”

TABLE OF CONTENTS

§ 23:13 “Broker discretionary votes”

CHAPTER 24. OTHER PRIVATE INVESTMENT FUNDS

I. INTRODUCTION

§ 24:1 In general

II. VENTURE CAPITAL FUNDS

§ 24:2 Characteristics and investment strategies

§ 24:3 History of venture capital funds

§ 24:4 Allocation and distribution mechanics

§ 24:5 Drawdowns

§ 24:6 Financing

§ 24:7 ERISA issues

§ 24:8 Dodd-Frank exemption for advisers to venture capital funds

III. MEZZANINE FUNDS

§ 24:9 Characteristics and investment strategies

§ 24:10 Allocation and distribution mechanics

§ 24:11 Conflicts of interest

IV. REAL ESTATE FUNDS

§ 24:12 Characteristics and investment strategies

§ 24:13 Strategic partners

§ 24:14 Transaction fees to affiliates

§ 24:15 Financing

§ 24:16 Environmental liability

§ 24:17 ERISA issues

V. FUNDS OF FUNDS

§ 24:18 Characteristics and investment strategies

§ 24:19 Fees and expenses

§ 24:20 Securities law

§ 24:21 ERISA issues

§ 24:22 Liquidity

VI. SECONDARY FUNDS

§ 24:23 Characteristics and investment strategies

§ 24:24 Carried interest, fees, and expenses

§ 24:25 Risk allocation

§ 24:26 Consent issues

§ 24:27 Regulatory issues

CHAPTER 25. BENEFICIAL OWNERSHIP CONSIDERATIONS

I. INTRODUCTION

§ 25:1 In general

II. DEFINITION OF BENEFICIAL OWNERSHIP

A. RULE 13D-3

- § 25:2 In general
- § 25:3 Voting and investment control; Rule 13d-3
- § 25:4 —Aggregation/ Disaggregation
- § 25:5 —Anti-avoidance provision
- § 25:6 —Partnerships and other specific applications
- § 25:7 Right to acquire; blockers

B. RULE 13D-5

- § 25:8 Group formation
- § 25:9 Consequences of a group being formed

C. DERIVATIVES AND SECTION 13

- § 25:10 In general

III. BENEFICIAL OWNERSHIP REPORTING UNDER SECTIONS 13(D) AND (G)

- § 25:11 In general
- § 25:12 Schedule 13D filing requirements
- § 25:13 Schedule 13G filing requirements
- § 25:14 Determining whether to file a Schedule 13D or 13G
- § 25:15 —Qualified institutional investors
- § 25:16 —Passive investors
- § 25:17 —Other investors eligible to file Schedule 13G
- § 25:18 Filing mechanics
- § 25:19 Activism and group formation

IV. REGULATION OF INSIDER TRADING UNDER SECTION 16

- § 25:20 In general
- § 25:21 Beneficial ownership under Section 16
- § 25:22 Reporting obligations under Section 16(a)
- § 25:23 Short-swing profit disgorgement under Section 16(b)
- § 25:24 Prohibitions on short selling under Section 16(c); Rule 16c-4
- § 25:25 Directors by “deputization”
- § 25:26 Interaction with Section 13
- § 25:27 Application to partnerships and funds

V. HART-SCOTT-RODINO ANTITRUST IMPROVEMENTS ACT OF 1976

- § 25:28 In general
- § 25:29 Basic regulatory scheme
- § 25:30 Jurisdictional requirements: how to determine whether the HSR Act applies to a transaction
- § 25:31 —Assets or voting securities
- § 25:32 — —Assets
- § 25:33 — —Voting securities
- § 25:34 —The “size-of-the-transaction” test

TABLE OF CONTENTS

§ 25:35	—The “size-of-the-parties” test
§ 25:36	— —Defining the acquiring and acquired person
§ 25:37	— —The concept of control
§ 25:38	Exemptions
§ 25:39	—The investment exemption
§ 25:40	—Convertible securities
§ 25:41	—Acquisitions of foreign assets
§ 25:42	—Acquisition of voting securities of a non-U.S. issuer
§ 25:43	—Acquisition of goods or realty in the ordinary course of business
§ 25:44	Special considerations for private funds
§ 25:45	—Formation of private funds
§ 25:46	—Prohibition against assuming control during the waiting period
§ 25:47	—Transfers between investment vehicles
§ 25:48	—Incremental acquisitions
§ 25:49	Substantive antitrust concerns
§ 25:50	HSR Notification Form
§ 25:51	Filing fees
§ 25:52	Penalties for noncompliance with the HSR Act

VI. STATE ANTI-TAKEOVER LAWS TIED TO BENEFICIAL OWNERSHIP

§ 25:53	In general
§ 25:54	Delaware anti-takeover laws
§ 25:55	New York anti-takeover laws
§ 25:56	Pennsylvania anti-takeover laws
§ 25:57	—Control share acquisition
§ 25:58	—Control share cash-out
§ 25:59	—Freeze-out for five years with fair price
§ 25:60	—Recapture of profits

VII. SHAREHOLDER RIGHTS PLANS (OR POISON PILLS)

§ 25:61	Background
§ 25:62	Defining the “acquiring person”

CHAPTER 26. OVERVIEW OF TAX ISSUES AFFECTING PRIVATE FUNDS

I. INTRODUCTION

§ 26:1	In general
--------	------------

II. U.S. FEDERAL INCOME TAX TREATMENT OF PARTNERSHIPS

A. ENTITY CLASSIFICATION: “CHECK-THE-BOX” REGIME

§ 26:2	Entity classification
§ 26:3	Check-the-box structuring opportunities

B. PUBLICLY TRADED PARTNERSHIP ISSUES

§ 26:4	In general
§ 26:5	Safe harbors and exempted transfers

- § 26:6 Qualifying income exemption
- § 26:7 Issues for private equity funds
- § 26:8 Issues for hedge funds

C. FISCAL TRANSPARENCY

- § 26:9 In general

D. CONTRIBUTIONS TO A PARTNERSHIP

- § 26:10 In general

E. TAX BASIS OF A PARTNER'S INTEREST IN A PARTNERSHIP

- § 26:11 In general

F. DISTRIBUTIONS BY A PARTNERSHIP

- § 26:12 In general
- § 26:13 "Hot assets"
- § 26:14 Distributions of marketable securities
- § 26:15 Adjustments to the basis of partnership assets

G. PARTNERSHIP ALLOCATIONS

- § 26:16 Basic principles
- § 26:17 Capital account maintenance
- § 26:18 Capital shifts
- § 26:19 Provisions in private fund agreements
- § 26:20 —Private equity funds
- § 26:21 —Real estate funds
- § 26:22 —Venture capital funds; mezzanine funds
- § 26:23 —Hedge funds

H. TRANSFERS OF INTERESTS IN PARTNERSHIPS

- § 26:24 Gain or loss recognized by the transferor partner
- § 26:25 Adjustments to basis of partnership interests
- § 26:26 Allocations of partnership items for the taxable year of the transfer
- § 26:27 Effective date of the transfer
- § 26:28 PTP issues
- § 26:29 Provisions in partnership agreements

III. CONDUCT OF A TRADE OR BUSINESS

- § 26:30 In general

IV. ISSUES AFFECTING U.S. INDIVIDUAL INVESTORS

- § 26:31 Long-term capital gains and qualified dividend income
- § 26:32 Qualified Business Income
- § 26:33 Phantom income
- § 26:34 Investments in controlled foreign corporations
- § 26:35 Dividends-received deduction and transition tax in respect of deferred foreign income

TABLE OF CONTENTS

- § 26:36 Investments in passive foreign investment companies
- § 26:37 Limitations on losses and deductions
- § 26:38 —Limitations on the deductibility of capital losses
- § 26:39 —Limitation on partnership losses: basis limitation and at-risk rules
- § 26:40 —Limitation on miscellaneous itemized deductions
- § 26:41 —Limitation on deductibility of passive activity losses
- § 26:42 —Limitation on deductibility of excess business losses
- § 26:43 —Limitation on the deductibility of investment interest
- § 26:44 —Limitation on deductibility of business interest
- § 26:45 —Capitalization of organization and syndication expenses
- § 26:46 —Deferral or capitalization of losses and deductions

V. ISSUES AFFECTING U.S. TAX-EXEMPT INVESTORS

- § 26:47 In general

VI. ISSUES AFFECTING NON-U.S. INVESTORS

- § 26:48 In general

A. TRADE OR BUSINESS IN THE UNITED STATES: EFFECTIVELY CONNECTED INCOME

- § 26:49 In general
- § 26:50 FIRPTA
- § 26:51 Non-U.S. partners in a partnership conducting a U.S. trade or business
- § 26:52 Trading safe harbor
- § 26:53 Loan origination issues
- § 26:54 Distressed debt issues

B. INVESTMENT INCOME THAT IS NOT EFFECTIVELY CONNECTED INCOME

- § 26:55 FDAP income
- § 26:56 Portfolio interest
- § 26:57 Gain from dispositions of investment assets other than real property
- § 26:58 Election with respect to income derived from real property
- § 26:59 Source of FDAP income
- § 26:60 Swaps and other equity derivatives
- § 26:61 Withholding agent
- § 26:62 Reduction of withholding tax pursuant to treaties
- § 26:63 FATCA—Overview
- § 26:64 —Intergovernmental Agreements
- § 26:65 —Payments subject to FATCA withholding
- § 26:66 *[Reserved]*
- § 26:67 The Common Reporting Standard

C. INVESTMENTS BY FOREIGN GOVERNMENTS

- § 26:68 In general

D. TAX AUDIT PROCEDURES APPLICABLE TO PARTNERSHIPS

- § 26:69 Bipartisan Budget Act of 2015

VII. NON-TAX STRUCTURING CONSIDERATIONS

§ 26:70 Jurisdictional considerations

CHAPTER 27. TAX-RELATED STRUCTURING CONSIDERATIONS FOR PRIVATE EQUITY FUNDS

I. INTRODUCTION

§ 27:1 In general

II. THE FUND VEHICLES

§ 27:2 In general

III. MINIMIZING THE EFFECT OF THE RULES APPLICABLE TO INVESTMENTS BY U.S. PERSONS IN CFCS

§ 27:3 In general

IV. U.S. TAX-EXEMPT INVESTORS: AVOIDING THE RECOGNITION OF UBTI

§ 27:4 In general

§ 27:5 Investments in operating partnerships

§ 27:6 Subpart F insurance income

§ 27:7 Borrowings and guarantees

§ 27:8 Management fee offsets

V. ISSUES FOR NON-U.S. INVESTORS

§ 27:9 In general

§ 27:10 Certain specific issues

VI. STRUCTURING “BLOCKER” ENTITIES TO ADDRESS UBTI ISSUES AND EFFECTIVELY CONNECTED INCOME ISSUES IN A PRIVATE EQUITY FUND

A. IN GENERAL

§ 27:11 Special-purpose entities used as blockers

B. PLACEMENT OF A BLOCKER IN THE FUND STRUCTURE

§ 27:12 In general

§ 27:13 Blocker below structures

§ 27:14 Blocker above structures

§ 27:15 Possible structures to address VCOC issues

C. BLOCKER’S JURISDICTION OF ORGANIZATION

§ 27:16 Blockers organized in the United States

§ 27:17 Blockers organized outside the United States

§ 27:18 Blockers for investments in USRPHCs

VII. TAX-EXEMPT AND NON-U.S. INVESTORS IN REAL ESTATE FUNDS

§ 27:19 Tax-exempt investors

TABLE OF CONTENTS

§ 27:20 Non-U.S. investors

VIII. CERTAIN TYPICAL TAX-RELATED UNDERTAKINGS IN PRIVATE EQUITY FUND AGREEMENTS

§ 27:21 In general

§ 27:22 Undertakings with respect to UBTI and effectively connected income

§ 27:23 Undertakings with respect to investments outside the United States

CHAPTER 28. HEDGE FUND STRUCTURES AND CERTAIN TAX ISSUES FOR HEDGE FUNDS

I. INTRODUCTION

§ 28:1 In general

II. HEDGE FUND STRUCTURES

A. INVESTMENTS BY DIFFERENT TYPES OF INVESTORS

§ 28:2 In general

§ 28:3 U.S. taxable investors

§ 28:4 U.S. tax-exempt investors

§ 28:5 Non-U.S. investors

B. STRUCTURES OF HEDGE FUND VEHICLES

§ 28:6 Parallel fund structure

§ 28:7 Master-feeder fund structure

§ 28:8 Master-feeder structure with direct investments

§ 28:9 Parallel funds with mini-master

C. JURISDICTION AND FORM OF ORGANIZATION OF FUND ENTITIES

§ 28:10 In general

§ 28:11 Master fund

§ 28:12 Mini-Master

§ 28:13 Onshore Fund

§ 28:14 Offshore Fund

§ 28:15 Fund of funds

III. U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR OFFSHORE HEDGE FUND VEHICLES

§ 28:16 In general

§ 28:17 Avoiding effectively connected income

§ 28:18 —Trading safe harbor

§ 28:19 —Blockers and swaps

§ 28:20 —Season and sell arrangements

§ 28:21 —Business development companies

§ 28:22 “Protective” tax returns

§ 28:23 Withholding tax on U.S. source FDAP income

§ 28:24 Proposed legislation

CHAPTER 29. TAX ISSUES FOR MANAGERS OF PRIVATE FUNDS

I. INTRODUCTION

§ 29:1 In general

II. COMPENSATION FOR MANAGERS OF PRIVATE FUNDS

§ 29:2 In general

III. CARRIED INTEREST: PROFITS INTEREST IN A PARTNERSHIP

§ 29:3 In general

§ 29:4 Receipt of a partnership profits interest

§ 29:5 —Provision of services to or for the benefit of the partnership in a partner capacity

§ 29:6 —Profits interest or capital interest?

§ 29:7 —Transfers to estate planning vehicles

§ 29:8 Three-year holding period for long-term capital gain treatment on carried interest allocations

§ 29:9 Replacing management fees with profits interests

§ 29:10 Proposed regulations on issuance of partnership interests for services

IV. INCENTIVE FEES

§ 29:11 In general

§ 29:12 Fee deferral arrangements

§ 29:13 Effects of Section 457A on deferred compensation plans

V. THE GENERAL PARTNER ENTITY AND THE MANAGEMENT COMPANY

§ 29:14 Form of organization of GP Entity

§ 29:15 Management companies

§ 29:16 —Reasons for separate management companies

§ 29:17 —Structures of management companies

§ 29:18 —Management companies as ongoing operating businesses

§ 29:19 — —Structure

§ 29:20 — —Grant of interests in management companies

§ 29:21 — —Sale of management company

§ 29:22 — —Public offering of management company

CHAPTER 30. SALES OF INVESTMENT ADVISERS

I. INTRODUCTION

§ 30:1 In general

II. DUE DILIGENCE

§ 30:2 In general

§ 30:3 Regulatory due diligence

TABLE OF CONTENTS

- § 30:4 —Relevant regulatory regimes
- § 30:5 —Areas of focus
- § 30:6 — —Material litigation and government investigations
- § 30:7 — —Correspondence and filings with regulators
- § 30:8 — —Internal compliance reports and reports of consultants
- § 30:9 — —Compliance program
- § 30:10 — —Fund documents
- § 30:11 Implications for the terms of a transaction

III. PRIMARY REGULATORY ISSUES

A. ECONOMIC AND LIABILITY IMPLICATIONS OF CONTROL

- § 30:12 In general
- § 30:13 Restrictions on principal transactions under the Advisers Act
- § 30:14 Control-person liability under the Exchange Act
- § 30:15 Determination of control
- § 30:16 Implications for the terms of a transaction

B. CLIENT AND FUND INVESTOR CONSENT REQUIREMENTS

1. Whether Consent Is Required

- § 30:17 Definition of assignment
- § 30:18 SEC staff interpretations
- § 30:19 —Public company mergers of equals
- § 30:20 —Spin-offs of adviser subsidiaries to public shareholders

2. Obtaining Consent

- § 30:21 In general
- § 30:22 Manager-controlled funds
- § 30:23 Independent funds
- § 30:24 SEC staff interpretations—Negative consent process
- § 30:25 Penalties for failure to obtain consent
- § 30:26 In general
- § 30:27 Change of control
- § 30:28 Allocating the risk of the client-consent requirement
- § 30:29 —Risk of losing revenue
- § 30:30 — —Closing condition
- § 30:31 — —Purchase price adjustment
- § 30:32 — —Combination provisions
- § 30:33 — —Defining consent
- § 30:34 — —Risk of liability for improper consents

IV. POST-CLOSING ITEMS

- § 30:35 In general

CHAPTER 31. INITIAL PUBLIC OFFERINGS OF INVESTMENT ADVISERS

I. INTRODUCTION

- § 31:1 In general

II. ISSUES ARISING IN AN INITIAL PUBLIC OFFERING OF A PRIVATE FUND MANAGER

A. INVESTMENT COMPANY CLASSIFICATION

1. Statutory Framework

- § 31:2 In general
- § 31:3 Subjective test for whether an issuer is an investment company
- § 31:4 Objective test for whether an issuer is an investment company
- § 31:5 Section 3(b)(1) exception

2. Determination of a Private Fund Manager's Investment Company Status

- § 31:6 In general
- § 31:7 Subjective test for a private fund manager's investment company status
- § 31:8 Objective test for a private fund manager's investment company status
- § 31:9 —Investment securities
- § 31:10 —Valuation
- § 31:11 Section 3(b)(1) exception

3. The SEC's Defense of its Investment Company Analysis of Private Fund Managers

- § 31:12 In general

B. INDIRECT OFFERING

- § 31:13 In general
- § 31:14 Securities Act Rule 140
- § 31:15 Investment Company Act Section 48(a)

CHAPTER 32. ADVISING PRIVATE FUNDS: EUROPEAN CHAPTER

I. INTRODUCTION

- § 32:1 Overview

II. THE ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

- § 32:2 Background
- § 32:3 Scope
- § 32:4 Authorization of AIF Manager
- § 32:5 Operating conditions for AIF Managers
- § 32:6 Remuneration
- § 32:7 Organizational requirements
- § 32:8 Delegation
- § 32:9 Depository
- § 32:10 Disclosure and transparency
- § 32:11 AIFs employing leverage or acquiring control of non-listed companies
- § 32:12 Rights of EU AIF Managers to market and manage EU AIFs in the EU
- § 32:13 Specific rules in relation to third countries
- § 32:14 Marketing of Funds in Member States by non-EU Managers

TABLE OF CONTENTS

- § 32:15 Reverse solicitation and “pre-marketing”
- § 32:16 Marketing to retail investors
- § 32:17 Competent authorities
- § 32:18 Consequences of non-compliance with the AIFM Directive
- § 32:19 Amendments to the AIFM Directive

III. OTHER RELEVANT EU LEGISLATION

- § 32:20 Market abuse
- § 32:21 Short selling
- § 32:22 Markets in Financial Instruments Directive
- § 32:23 Undertakings for collective investments in transferable securities (UCITS)
- § 32:24 The ESG Regulations

Table of Laws and Rules

Table of Additional Authorities

Table of Cases

Index