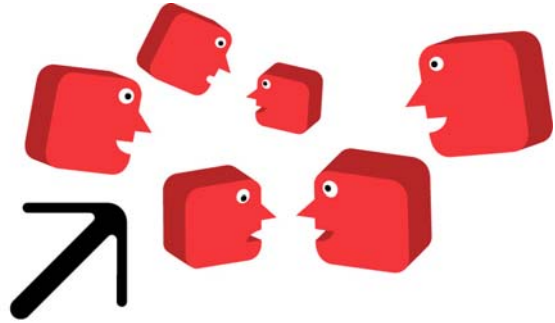




PES Council

Sofia, 22-23 November 2007



Adopted Resolution

Social market economy comes first A new strategy for hedge funds and private equity

Hedge and private equity funds are a large industry and its impact on financial market stability and in the functioning of the whole economy is not regulated. Assets in hedge and private equity funds stand at \$3trillion today and are expected to reach \$10 trillion by the end of 2010. The biggest five equity deals together are larger than the annual budgets of all but 16 of the world's largest nations.

The PES believes that action is needed to ensure that hedge and private equity funds operate in a way that benefits not only funds manager but also investors, workers and other interested parties.

These funds are exempt from the rules of disclosure and transparency that apply to all other players in the financial markets. This means that pension fund managers and investors attracted to the high returns promised by hedge and private equity funds cannot know the level of risks involved. Moreover, the complexity of these financial products makes reporting and risk management more difficult in detriment of the equilibrium in the financial market and in the real economy. This is not acceptable.

The PES is also seriously concerned by with the mounting debts created by hedge funds and private equity funds, especially through leveraged buy-outs. There is a real danger that these debts will cause a collapse in financial confidence – and liquidity – similar to that caused by the recent American sub-prime mortgage crisis. Indeed the debt leverage undertaken by private equity and hedge funds represents a risk to financial markets themselves as recent events have shown.

The PES believes that there is no serious argument for private equity and hedge funds to enjoy treatment different from the rest of the financial market: they need proper and efficient regulation and supervision within the framework of the EU and at international level.

The PES believes that the lack of transparency and disclosure, the risks to **security and financial stability**, the protection of public services and utilities and corporate social responsibility, – let alone the debt burden and job losses all too often imposed on companies taken over through leveraged buy outs, and the tax avoidance of fund managers - are all serious questions relating to the behaviour, and regulation, of private equity and hedge funds.



Therefore, the PES calls for:

- Workers rights to collective bargaining, information and consultation to be guaranteed by private equities before a takeover;
- Trade unions and workers to be consulted and given information before a buyout.
- Transparency of private equity and hedge funds and the setting of minimum Reporting standards, definition of responsibilities and information disclosure. All investors -including pension funds- need to be able to properly evaluate the opportunities and risks of all funds. Reporting must not only include assessment of risks and gains but the social, employment and environmental impact of the fund;
- Adequate measures to be taken by the relevant authorities to ensure that hedge funds and private equity funds do not pose any threat to financial markets stability. Limits of leverage to lower the risk of default should be considered;
- Effective taxation for funds managers. It is unacceptable that workers pay income tax while funds managers are taxed on capital gains at much lower rates than income tax;
- Transparent roles of conduct not only for the directors of companies which are taken over, in order to avoid conflicts of interests but also to investment bankers and managers of hedge and private equity funds;
- The G8 Task Force on this issue should take into account the above principles in formulating its conclusions.

The PES believes that financial markets should be providing the liquidity to finance the long term investments required to develop Europe's economy, and supports actions to ensure that this function is performed by the financial markets. The PES believes that the above mentioned principles can contribute to ensure that healthy companies are not put in jeopardy into their long term investment plans. In short, Hedge and private equity funds need to support, and not work against, the real economy. Evidently, the practices of the industry of hedge and private equity funds, exclusively targeted to short term profit, are in sharp contrast with the long term Lisbon goals; much needed to the development of Europe.

