

Get Out the Shovel: SEC Digging Into New Hedge Fund Data

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The Securities and Exchange Commission (SEC) has started to comb through the wealth of data it now has regarding [newly registered hedge funds and other private funds](#). Now the question is what will they do with all of the information?

“Pick your fraud of the day and the question is, ‘Can we extract information from this data system together with the other databases we have access to and home in on problems before they do damage?’” said Robert Plaze, deputy director in the Division of Investment Management for the SEC.

As we previously discussed on this blog, approximately 1,400 new firms are now under the SEC’s microscope. After submitting detailed disclosures, the SEC knows a lot more about these firms and plans to use the information to identify firms that pose a risk to investors.

According to Mr. Plaze’s comments to the [Wall Street Journal](#), regulators now are able to “reverse-engineer” the data across a wider range of scenarios to seek out potential areas of weakness based on tips, complaints, and the agency’s own work, including instances where the fund advisers are the victims. For example, if a prime broker or auditor has drawn scrutiny, regulators could look for other clients of theirs that may be unaware of the issue, he said.

Plaze indicated that the SEC could also sift through the data for funds that are affiliated with a struggling broker, and monitor whether those funds are directing their clients to trade with that broker to help it recover, a problematic practice from a conflict-of-interest perspective.

“It’s sort of our first census of the industry,” Mr. Plaze said of the new requirements. “This gives us a powerful new tool to police the markets.”

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