

## Private Equity and Hedge Fund Trade Groups Sue SEC Over New Rules



In a significant legal development, six prominent private equity and hedge fund trade groups have filed a lawsuit against the U.S. Securities and Exchange Commission (SEC). The lawsuit alleges that the SEC exceeded its statutory authority in implementing expansive new rules related to expenses and disclosures in the private funds industry. SEC Chair Gary Gensler contends that these rules will enhance transparency and competition within the private funds sector, which manages approximately \$20 trillion in assets but has faced allegations of opacity and conflicts of interest from advocacy groups.

The SEC has maintained its stance, asserting that it acted within the boundaries of its regulatory powers and the laws governing administrative processes. The agency intends to vigorously defend the newly enacted rules in court.

Key provisions of the contested regulations require private funds to issue quarterly reports on fees and performance, conduct annual audits, disclose specific fee structures, and prohibit the preferential treatment of certain investors concerning portfolio exposures and redemption options.

**See also: [Coinbase Seeks Dismissal of SEC Lawsuit in U.S. Federal Court](#)**

The lawsuit, filed by the six trade groups, argues that the rules exceed the Commission's statutory authority, were adopted without adhering to notice-and-comment requirements, and are characterized as arbitrary, capricious, an abuse of discretion, and contrary to the law, all in violation of the Administrative Procedure Act. The plaintiffs are seeking the court's intervention to vacate these rules.

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Bryan Corbett, CEO of the Managed Funds Association (MFA), expressed concerns that the new rules would increase costs for investors and stifle competition.

This legal action has been brought before the 5th U.S. Circuit Court of Appeals. Joining the Managed Funds Association in this endeavor are the National Venture Capital Association, American Investment Council, Alternative Investment Management Association, National Association of Private Fund Managers, and the Loan Syndications & Trading Association.

The lawsuit against the SEC is part of a growing trend of legal challenges facing Chair Gary Gensler's SEC. In a recent setback for the SEC, a judge panel ruled against the agency for its rejection of Grayscale Investments' proposed bitcoin exchange-traded fund (ETF) without providing a clear explanation for its decision.

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This lawsuit represents a significant clash between regulatory authorities and the private funds industry, with high stakes for both sides. The SEC contends that the new rules are essential for enhancing transparency and investor protection within the private funds sector, while the trade groups argue that the regulations overstep the SEC's authority and could have adverse effects on competition and costs for investors.

As this legal battle unfolds, it could have far-reaching implications for the future of regulatory oversight in the private funds industry. The SEC and the trade groups will present their arguments in court, and industry stakeholders, investors, and legal experts will closely watch the outcome. It remains to be seen whether the court

will uphold the SEC's regulatory authority or side with the trade groups, potentially reshaping the regulatory landscape for private equity and hedge funds.

**Don't be a silent ninja! Let us know your thoughts in the comment section below.**