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Speculative or "Hedge" Funds

FILE NO.: 132-3

It has come to the attention of the Commission that a new type of investment company is gaining national prominence. As you are aware, these companies have recently received a great deal of publicity in the various trade papers. The market effect of the speculative or "hedge" funds is, as yet, unknown. However, it is becoming obvious that the operation of this type of company could have a serious impact on the market in general.

The Chairman views the bargaining of these ventures with some concern in regard to their potentially far-reaching effects and has instructed the staff to conduct an overall review of the operations of these companies to determine (1) if they are complying with the provisions of the statutes administered by the Commission, and (2) if new rules or legislation is warranted to regulate the practices of such companies. In this connection, the Chairman has asked the Director to advise him of any action taken to implement this study. The Director has informed the Chairman that instructions have been given to this office to take immediate steps to effect such a review. The review is to be initiated by the inspection of all the "speculative" funds now registered with the Commission.

Therefore, your office should immediately inspect Imperial Growth Fund, located at 10509 Wayzata Boulevard, Minneapolis, Minnesota. We have been told that the examination of these companies should take precedence over all other inspections, regardless of prior scheduling. As an expediency, the inspection should be limited in scope to a review of the operations of the company in the past six months with particular emphasis on amount of activity in the following areas:

1. Short sales (dollar amount and number of transactions by security);
2. Writing of Puts and Calls (dollar amount and number of transactions by security);
3. Trading in Puts and Calls (dollar amount and number of transactions by security);
4. Borrowing (aggregate amount borrowed and asset coverage);

5. Margin transactions (dollar amount and number of transactions by security);
6. Short-term trading (turnover rate, number of securities purchased, sold and reacquired, etc); and
7. Arbitrage (number of securities, name of issuers and dollar amount).

Some information may be gained through a review of the responses to Items 1.26 and 2.02 of the N-15 Form filed by this company.

Since we are working under a time mandate, it would be best to limit the inspection in the above manner with the understanding that, should circumstances warrant, we might be called upon to further develop certain areas.

It would be appreciated if your office would give priority to this inspection so as to enable the staff to make appropriate recommendations for either additional legislation or rules as soon as possible.

Arrangements are being made to have the pertinent dockets forwarded to your office.

If we may be of assistance, please do not hesitate to contact us.

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