price meadows incorporated

September 15, 2004

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

**VIA ELECTRONIC MAIL**

**Re: File Number S7-30-04 Proposed Registration Under the Advisers Act of Certain Hedge Fund Advisers**

Dear Mr. Katz:

Price Meadows Incorporated ("PMI") is pleased to present certain views on the proposals (the "Proposals") set forth July 20, 2004. These views may be of interest as they come from the perspective of a third-party hedge fund administrator serving primarily US domestic funds.

## BACKGROUND

PMI acts as a third-party administrator to approximately 130 hedge funds, involving investment advisors located in over 25 states. The firm administers both domestic and offshore funds.

## THE REGISTRATION QUESTION

If the primary concern behind the registration of hedge fund advisers is investor protection, it may be worth noting that:

1. There has been a natural evolution in the industry towards outsourcing.
2. Outsourced accounting has evolved into third-party administration.
3. Virtually all funds are audited.
4. Those funds without third-party administration or audits are at a competitive disadvantage to those with them.

Consequently, there is a strong argument that the marketplace itself is compelling the industry to change in ways that may provide more investor protection than that contemplated by the Proposals.

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## RULE 206(4)-2, THE ADVISER CUSTODY RULE (RE HEDGE FUNDS)

The Proposals entertained an extension of the 120-day audit delivery alternative to certain of the reporting requirements of Rule 206(4)-2. The Proposals solicited comments re the extension of the time limit to 180 days. Accordingly, we would submit the following observations:

1. Virtually all hedge funds have the same fiscal year ending on December 31.
2. Public accounting firms have enormous seasonal workloads during the January through April period.
3. Audit timing is not within the absolute control of the auditor or investment adviser, since even a “simple” hedge fund audit requires cooperation from outside custodians and vendors during the confirmation process.
4. This “outside cooperation” aspect is multiplied in a fund-of-hedge funds audit because of dependency on the audit reports of all underlying hedge funds. A reasonable timetable for audit production by a fund-of-hedge funds is 30 days after receipt of the last underlying manager audit.

Accordingly, PMI would recommend:

1. An extension to 150 days for all hedge funds.
2. An extension to 180 days for funds-of-hedge funds.

Since the distinction between a hedge fund and a fund-of-hedge funds is important, PMI would recommend a definition of “fund-of-hedge funds” similar to the following: “A hedge fund that invests 10% or more of its assets in unregistered investment companies which are unaffiliated with the principals of the fund-of-hedge funds.”

The 10% threshold recognizes the existence of hybrid funds where the investment management function is partially internal, partially outsourced to other managers. The “unaffiliated” requirement reflects the reality that master-feeder structures under common control are, in our experience, audited by the same firm at the same time.

PMI appreciates the opportunity to comment to the Commission about hedge funds and would welcome further discussion. If you or your staff have questions or seek amplification of our views, please feel free to contact M. Kelley Price by phone at (425) 454-3770 or by e-mail at kelley@pricemeadows.com.

Sincerely,

PRICE MEADOWS INCORPORATED