

Financial Services Authority

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From the Chairman
Howard Davies

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Direct line: 020 7676 3000
Local fax: 020 7676 1011

OFFICE OF THE SECRETARIAT



COMMENT

Jean A Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington DC 20581

6 June 2000

Our Ref: ef/1246

Jean A Webb

I am writing in my capacity as Chairman of the recent Financial Stability Forum Working Group on Highly Leveraged Institutions (HLIs) to support the CFTC's proposed regulations on Public Reporting by Operators of Certain Large Commodity Pools.

I am pleased to note that the background information provided with the proposed new rule draws attention to the strong support our report provides for the objective of enhancing public disclosure by large hedge funds and their management companies. This reflects our firm belief that enhanced transparency of HLIs (including large, leveraged hedge funds - many of which are currently subject to few disclosure requirements) through public disclosure is a crucial condition for the application of effective market discipline to such entities. Such market discipline is critical to reduce the potential systemic risk posed by HLIs. Specifically, paragraphs 101 and 102 of our report (which is published at www.fsforum.org) endorsed the efforts of the CFTC to implement the recommendations of the President's Working Group and noted the imminent release of these public reporting requirements.

The Forum emphasised that other measures, such as direct regulation of HLIs, would be reconsidered if, upon review, the implementation of the report's recommendations (including enhanced public disclosure by HLIs) was not adequately addressing the concerns identified. However, our Working Group believed that the introduction of a régime of direct regulation would raise practical and philosophical problems. We therefore welcome the CFTC's endeavours in producing the draft regulations and wish you every success for a smooth consultation period and successful implementation.

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The Financial Services Authority
25 The North Colonnade Canary Wharf London E14 5HS United Kingdom
Telephone +44 (0)20 7676 1000 Fax +44 (0)20 7676 1099
<http://www.fsa.gov.uk>

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