



NATIONAL FUTURES ASSOCIATION
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June 15, 2000

COMMENT

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VIA OVERNIGHT MAIL

Ms. Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Public Reporting By Operators of Certain Large Commodity Pools

Dear Ms. Webb:

In the April 17, 2000 Federal Register, the Commodity Futures Trading Commission requested comments on its proposal related to public reporting by operators of certain large commodity pools (65 F.R. 20395). NFA welcomes the opportunity to comment on this proposal.

As indicated in the Commission's release, the proposal is designed to address concerns regarding the safety of the U.S. and international financial system that were raised during the near collapse of Long Term Capital Portfolio, L.P. in 1998. One of the primary purposes of the proposed reporting requirements is to provide creditors, counterparties and investors with the information needed to evaluate the risk of doing business with hedge funds such as Long Term, thereby enhancing the market discipline provided by these entities and reducing systemic risk. NFA believes that market discipline provided by creditors and counterparties has improved since the events surrounding LTCM's problems. This improvement is evidenced by the fact that although several hedge funds have experienced large losses in recent months, the market has absorbed these losses without difficulty. That having been said, NFA would still support any initiatives designed to further enhance market discipline. As discussed more fully below, however, we believe that certain aspects of the Commission's proposal do nothing to accomplish this goal.

The Commission's proposal contains two main components designed to improve market discipline. First, certain CPOs would be required to file with the Commission a summary report discussing key aspects of their risk management practices. NFA recognizes the importance of strong risk management policies. We also agree that these policies should be reduced to writing and that access to these policies could provide valuable information to creditors, counterparties, and investors



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when evaluating the riskiness of a particular entity. NFA, however, does not support the mandatory filing of these policies with the Commission. Although we recognize that the requirement is not overly burdensome since it would be a one-time filing (with material updates as necessary), we do not believe that filing these policies with the Commission has any appreciable benefit. NFA suggests that the Commission consider eliminating the mandatory filing requirement and replacing it with a requirement that CPOs provide this information to the appropriate parties upon request.

Under the second component of the Commission's proposal, certain CPOs would be required to file quarterly reports disclosing both financial information and information about their pools' exposure to market risk over the course of the last reporting quarter. NFA fails to see how this requirement will enhance market discipline. The information that is required under this proposal is dated the moment it is filed. Although NFA agrees that creditors and counterparties should be interested in this type of information, NFA believes that the creditors/counterparties are in the best position to determine the exact information they need to evaluate the risk of doing business with a particular hedge fund. Moreover, it is our understanding that creditors/counterparties require and receive from hedge funds much more current financial information for these evaluations. As a result, these filings will do nothing to improve the flow of information to creditors/counterparties. Moreover, NFA is concerned that the fact that this information is disseminated though the Commission may give a false sense to the recipient of the information that the CFTC has reviewed or approved the information. NFA recommends, therefore, that the Commission delete this portion of the proposal because it merely imposes a regulatory burden without any corresponding benefit.

Again, NFA appreciates the opportunity to comment on this important proposal and would be happy to further discuss its views on these matters with Commission staff.

Sincerely,

A handwritten signature in black ink, appearing to read 'Daniel J. Roth', written over a horizontal line.

Daniel J. Roth
Executive Vice President
and General Counsel

/nam(LTRS:Webb4.caw)