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COLLEGE OF BUSINESS ADMINISTRATION
DEPARTMENT OF ACCOUNTING AND TAXATION

COMMODITY FUTURES TRADING COMMISSION
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September 15,1998

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

Dear Ms. Webb:

I would like to comment on the concept release: *Performance Data and Disclosure for Commodity Trading Advisors and Commodity Pools*, that was released by the Commodity Futures Trading Commission (CFTC or the Commission) on 6/18/98 in the *Federal Register* (*Federal Register* Vol. 63 No. 117; Doc ID: fr18jn98-18).

The concept release states that the Commission currently requires that the presentation of the rate of return (ROR) be based upon the return on investment (ROI). The Commission notes that this measure is widely used by economists, financial analysts and other professionals in the business world. The Commission should realize that even though this performance measure is widely used (because of its simplicity) it is not considered a very effective measure of performance. The ROI does not provide any indication of the risks inherent in an investment, as would certain discounted cash flow models that explicitly address such risks. However, my comments relate only to the computation and disclosure of ROI.

Generally, in computing the ROI, the amount used in the denominator of the ratio would be the value of the investment (*e.g.*, the total cost of a commercial real estate property). This amount (which would be similar to the use by a commodity trading advisor (CTA) of a nominal account size - however, it is critical that the nominal account size be determined appropriately, see discussion below) could differ from the actual amount of cash invested, if the property was financed by debt or other means. This difference, however, would normally be disclosed separately as a leverage factor that could be used to provide interested parties with a rate of return on their cash invested (*e.g.*, return on equity = return on assets multiplied by a leverage factor).

The Commission might consider allowing CTAs to disclose the ROR based on the nominal account size of the CTA's trading programs, only if the CTA sets the nominal account size to be equal to the actual cash investment (*i.e.*, the average [or some similar measure, such as the mode or the median] of the CTA's customers' actual cash investments) or if the CTA sets the nominal account size to the actual cash investments of some investors in the trading program (i.e., a fully-funded subset or a typical or average funded account). Alternatively, the CTA might provide a separate disclosure of the ratio of the average actual cash investments to the nominal account size, so that an interested party would be able to determine the CTA's ROR based on the current or prospective investor's cash investment.

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Ratios, such as ROR and ROI, may mislead an unsophisticated commodity investor because they do not explicitly address the risks inherent in the trading programs. The establishment of a nominal account size that is not tied to the actual cash investments could result in misleading information. For example, if a return of $50,000 was earned on an actual cash investment funded at $100,000, the rate of return would be 50%. Alternatively if the return was a loss, the rate of the loss would also be 50%. However, if the nominal account size is set at $1,000,000 or some other higher amount that is not tied to the participants' actual cash investments in the CTAs trading program, the rate of profit and the rate of loss would only be 5% or less. This might mislead the unsophisticated current or prospective investor to believe that the return and, therefore the risk, is similar to that of money market assets. In addition, if an unsophisticated investor were to make comparisons of the changes in the rates of returns for the two periods he or she might believe that the change would be 10%. This might make the investor believe that the risk or volatility of the trading program is not as great as it would be if the actual cash investments were used.

Today, many commodity firms are directing their advertising to the general public; the Commission should ensure that unsophisticated commodity investors clearly understand the risks and volatility underlying CTA's trading program before they enter into the program. The Commission should also ensure that such investors have relevant performance measurements when they are invested in those programs. Relevance, in my view, should be determined by how the investor typically funds his or her program participation and not on the nominal account size as proposed.

Sincerely yours,

Adrian P. Fitzsimons

Adrian P. Fitzsimons, Ph.D., CPA
Accounting and Taxation Department Chairman