MANAGED FUNDS ASSOCIATION

WRITTEN STATEMENT
OF

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MANAGED FUNDS ASSOCIATION

For the Joint Meeting on

Harmonization of Regulation

BEFORE THE

COMMODITY FUTURES TRADING COMMISSION
AND
SECURITIES AND EXCHANGE COMMISSION

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WRITTEN STATEMENT OF MANAGED FUNDS ASSOCIATION

Regulation of Investment Funds
September 3, 2009

Managed Funds Association ("MFA") is pleased to provide this statement on the regulation of investment funds in connection with the Commodity Futures Trading Commission ("CFTC") and Securities and Exchange Commission's ("SEC") joint meeting on "Harmonization of Regulation" held on September 3, 2009. MFA represents professionals who manage and advise hedge funds, funds of funds and managed futures funds (collectively, "investment funds"), as well as industry service providers. MFA is the primary advocate for sound business practices and industry growth. MFA's members manage a substantial portion of the approximately $1.5 trillion invested in absolute return strategies around the world.

MFAs members are among the most sophisticated institutional investors and play an important role in our financial system. They are active participants in the commodity, securities and over-the-counter ("OTC") derivatives markets. They provide liquidity and price discovery to capital markets, capital to companies to allow them to grow or improve their businesses, and sophisticated risk management to investors such as pension funds, to allow those pensions to meet their future obligations to plan beneficiaries. MFA members engage in a variety of investment strategies across many different asset classes. The growth and diversification of investment funds have strengthened U.S. capital markets and provided their investors with the means to diversify their investments, thereby reducing overall portfolio investment risk. As investors, MFA members help dampen market volatility by providing liquidity and pricing efficiency across many markets. Each of these functions is critical to the orderly operation of our capital markets and our financial system as a whole.

The SEC and the CFTC extensively regulate the activities of MFA members, and the markets in which they trade, and as such, we support greater CFTC and SEC coordination and communication of regulation. MFA, our members, and their investors, have a strong interest in markets that are stable, efficient, and subject to effective regulation. Ineffectively or inconsistently regulated markets are antithetical to the needs of institutional investors like our members and their investors. We believe enhanced CFTC and SEC coordination and communication would streamline regulation, improve oversight, and reduce compliance costs for our members and their investors. Accordingly, MFA welcomes this joint meeting and the opportunity to identify regulatory areas for harmonization. We hope that these hearings signal a new era of cooperation between the two agencies.

As Congress establishes the regulatory framework for securities and futures and other derivatives, each agency has the duty to discharge its responsibilities under the relevant statutes. In accordance with those statutory frameworks, the agencies may adopt different regulatory approaches to accommodate different products and investment vehicles. However, to the extent that the SEC and CFTC harmonize their regulations, greater regulatory consistency and uniformity would simplify compliance, eliminate redundancy and waste, and reduce compliance costs for registrants and investors while attaining a high level of oversight. We believe the similarities that exist between the securities and commodity laws are stronger than the differences and should lend themselves to greater opportunities for cooperation, coordination, and communication between the agencies, than for disparate views and conflicting interpretations.

Most notably, when Congress enacted the Commodity Futures Modernization Act of 2000, it authorized the trading of futures on individual stocks and narrow-based security indexes. But it characterized single security future and narrow-based security index future as both a security and as contracts of sale for future delivery, with the result that these products, in effect, are subject to dual regulation. Combined with disparate margin treatment, single stock futures and narrow-based security indexes have had limited success in the marketplace. Some observers cite examples like this as one of the reasons that the less regulated OTC derivatives markets, or swap markets, have developed so extensively.

Regulatory disparities and overlaps vastly complicate regulatory compliance, limit investor choice, and ultimately reduce U.S. competitiveness. We support "smart" regulation that strengthens our markets, facilitates liquidity and hedging, and enhances investor confidence, recognizing that regulation involves some attendant economic costs. We believe harmonization of securities and futures regulation should address instances of regulatory duplication, overlap and lack of coordination. We can do better, and we commend the agencies for their efforts to do so.

I. REGISTRATION & OVERSIGHT

As part of a smart and effective regulatory framework, MFA supports the registration of currently unregistered investment advisers to all private pools of capital, subject to a limited exemption for the smallest investment advisers with a *de minimis* amount of assets under management. MFA has publicly supported this approach to adviser registration over the past several months, even when the Obama Administration initially called for a narrower registration requirement only for advisers to the largest and most systemically relevant private pools of capital.

We believe advisers should be subject to either the CFTC or the SEC's registration framework depending on whether they are primarily engaged in the business of advising on the value or advisability of trading in (1) futures, or (2) securities. Advisers who are engaged equally or largely in advising on both futures and securities should be subject to both CFTC and SEC registration. We believe the Commissions should consider harmonizing registration to the extent possible to avoid duplicate filings. Merging or coordinating the National Futures Association's ("NFA") registration database and Investment Adviser Registration Depository ("IARD") would also make it easier for investors to find registration and disciplinary information for an adviser.

We believe that advisers who are registered with one agency and are not primarily engaged in advising activity within the other agency's purview should be eligible for an exemption from registration with the other agency,[1] and that the SEC and CFTC should work together to define registration thresholds. Such an exemption reduces duplication and overlap, and would allow each agency to better direct the use of its limited resources.

In this respect, we are concerned that the Obama Administration's proposed "Registration of Advisers to Private Funds" legislation would repeal an exemption from investment adviser registration for registered commodity trading advisors ("CTAs") to private funds whose business does not consist primarily of acting as an investment adviser. Such legislation would impose overlapping registration requirements for a number of CTAs that are already registered with, and well regulated by, the CFTC. We do not believe that any justification exists for such a change, nor do we believe that the current framework creates any inappropriate regulatory gaps; on the contrary, we believe the current framework allows for the type of efficient regulation that is the goal of this joint meeting.

With respect to oversight and examinations of advisers, we believe the two agencies should establish a shared internal database of advisers who engage in futures and securities activities. Such a database could serve as an electronic file on a registrant, detailing its registration and examination history. We believe a joint database would facilitate and promote the sharing of information between the two agencies. We also believe the CFTC or the NFA—which conducts CTA and commodity pool operator ("CPO") examinations—and the SEC should coordinate their examinations of dual registrants. It is our view that, together, a shared registrant database and enhanced regulatory coordination of registrant examinations would greatly improve regulatory efficiency and oversight; and ultimately would be beneficial for the CFTC, the SEC, registrants and their investors by reducing regulatory redundancy and the cost of compliance and oversight.

II. REGULATORY FRAMEWORK FOR PRIVATE POOLS

Many private pools of capital trade both securities and futures. As such, their advisers may be registered investment advisers and registered CTAs and/or CPOs, and subject to the respective regulatory requirements. The regulatory requirements under the Investment Advisers Act of 1940 ("Advisers Act") and the Commodity Exchange Act ("CEA"), however, are not always consistent. From the experience of our members, we submit the following observations and recommendations for the CFTC and SEC to consider in improving regulatory coordination and harmonization with respect to regulation of private pools subject to the Advisers Act and the CEA.

One of the expectations of all registrants is to comply with the requirements of its primary regulator. This becomes more difficult in the case of dual registrants where the regulatory requirements are at times inconsistent. For the most part, a dual registrant can

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[1] *See* Section 203(b)(6) of the Investment Advisers Act of 1940 and Section 4m(3) of the Commodity Exchange Act.

reconcile the differences between contrasting regulatory requirements, such as with CFTC and SEC's rules regarding recordkeeping, general disclosure, advertising and use of U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. However, in areas such as performance disclosures, the CFTC and SEC sometimes take quite different approaches and provide disparate guidance. The CFTC is generally more prescriptive in its requirements than the SEC. Moreover, the two agencies take opposing views on certain matters related to performance disclosures, including the use of hypothetical performance data and use of performance of other accounts managed by the adviser. The CFTC generally requires disclosure of the performance of other accounts and restricts the use of hypothetical or "simulated" rates of return. The SEC restricts the use of "related performance" in circumstances where the CFTC would permit or even require it.

We believe the SEC and CFTC jointly should re-examine and revise, as appropriate, the compliance requirements under their respective statutes and regulations for sponsors of private pools that trade both securities and commodities. At a minimum, the regulations should allow registrants to maintain a single compliance manual with consistent, if not uniform, policies and procedures. We believe coordinated regulations for sponsors of private pools of capital would streamline the registration and compliance process, improve compliance and oversight, as well as reduce costs to registrants and investors. In examining each agency's regulations, we believe each agency's approach to dual registrants should be given a fresh review and equal consideration, as the more strict requirements may not necessarily be more appropriate.

Regarding investor standards, we support the premise that retail and sophisticated investors should have different threshold requirements and that the regulatory framework should reflect these differences. For example, MFA has consistently opposed any "retailization" of hedge funds. However, we believe the myriad of federal financial sophistication standards currently in existence are confusing and redundant. Financial sophistication standards under current federal regulations include: accredited investor, qualified client, qualified purchaser, qualified institutional buyer, qualified eligible person and eligible contract participant. We recommend that the CFTC and SEC re-examine and simplify the financial sophistication standards under the futures and securities regulatory frameworks.

III. REGULATION OF PUBLIC COMMODITY POOLS

Public commodity pools or their sponsors are subject to the Securities Act of 1933 ("Securities Act"), the Securities Exchange Act of 1934 ("Exchange Act"), the CEA and state blue sky laws.[2] As such, public commodity pools are regulated by the SEC, CFTC, NFA, the Financial Industry Regulatory Authority ("FINRA") and state regulators,[3] and face relatively high regulatory burdens. We believe regulation of these investment vehicles could be greatly improved through enhanced regulatory coordination.

[2] Under the CEA, the CPO, not the pool, is technically subject to regulation.

[3] Public commodity pools are subject to state regulation because shares in a public pool are not "covered securities" exempt from state regulation of securities offerings. *See* Section 18 of the Securities Act.

Coordination amongst the SEC, CFTC, NFA and FINRA would streamline and add regulatory consistency to the oversight process, reduce or eliminate redundancy, enhance compliance and oversight, and greatly reduce compliance costs for registrants and their investors.

We believe greater regulatory coordination also would lead to more sensible and consistent regulation. One example of an area where registrants, their service providers and investors would benefit from such coordination is in the regulation of futures brokerage trail commissions. Futures brokerage trail commissions are the portion of the brokerage commissions paid by a public commodity pool to those who sold interests in the pool and provide specific ongoing services to those investors. In 2004, FINRA reinterpreted the treatment of futures brokerage trail commissions as underwriting compensation within the underwriting limits of FINRA Rule 2810. This interpretation reversed the treatment of brokerage trail commissions that had been in place for 23 years, by mutual agreement of the regulators. FINRA's reinterpretation was made without the input of the CFTC, the primary regulator of commodity pools. We believe that at the very least FINRA should have consulted with the CFTC prior to FINRA's 2004 reinterpretation of FINRA Rule 2810. The rule reinterprets futures brokerage trail commissions as underwriting compensation, subject to a 10% lifetime underwriting compensation limitation. We are concerned that this rule amendment will have negative unintended consequences.[4] The reinterpretation became applicable to existing pools by December 2008, but all new or proposed offerings were subject to it after it was first announced as final.

MFA members continue to struggle with the long-term business operation implications of imposing a lifetime fee cap for the ongoing futures execution and account services provided by appropriately registered brokers-dealers. We are concerned that the long-term implications of the FINRA rule change will harm the market for public commodity pool offerings in the United States by restricting the number of such offerings, despite the public benefits these funds provide. Public commodity pools are one of the few alternative investments available to retail investors and provide a valuable means for portfolio diversification with broad regulatory oversight.

More generally, we recommend that the SEC and CFTC review and amend the current regulatory framework for public commodity pools to streamline review and oversight of offerings; to improve regulatory efficiency and reduce redundancy; and to enhance coordination between the SEC, CFTC, NFA and FINRA. In addition, as we believe that the federal regulators provide thorough, extensive and robust oversight of public commodity pools, comparable to the level of oversight provided to mutual funds, we recommend that the SEC and CFTC recommend that Congress amend the Securities

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[4] MFA has raised its concerns with FINRA's reinterpretation and amendment of FINRA Rule 2810 on several occasions. *See* MFA letter to SEC dated June 4, 2008 in response to SEC Release No. 34-57803; MFA letter to the SEC dated August 20, 2004 in response to SEC Release No. 34-50065; MFA letter to the SEC dated October 7, 2004 in response to SEC Release No. 34-50335; *and* MFA letter to National Association of Securities Dealers, Inc. ("NASD") dated March 12, 2004 in response to NASD Notice to Members 04-07.

Act to define a security issued by a registered CPO as a "covered security" exempt from state regulation of securities offerings. We believe such an exemption would provide consistent, uniform oversight of offerings of public commodity pool shares and would greatly reduce the regulatory burdens of these investment vehicles.

IV. INVESTOR PROTECTION

To further the goals of ensuring that futures and securities regulations serve the broad public policy objectives of protecting investors, ensuring market integrity and promoting price transparency, we believe the CFTC and SEC should institute a joint investor advisory committee. We believe such a committee, comprised of investors and the sponsors of investment vehicles that trade securities and futures, would provide the Commissions with regular and direct feedback on investor concerns and issues that arise from futures and securities regulations and their effects on markets. A joint investor advisory committee would help the CFTC and SEC to better coordinate and harmonize securities and futures regulation.[5]

V. OVERSIGHT OF OVER-THE-COUNTER DERIVATIVES

MFA members are active participants in the OTC derivatives markets, and have a strong interest in promoting the integrity and proper functioning of these markets. While Congress debates a new statutory framework for the regulation of OTC derivatives, the Obama Administration and key policy makers have indicated that such regulatory framework should require close cooperation and coordination between the CFTC and SEC. In that vein, we submit to the CFTC and SEC principles to promote regulatory harmonization of OTC derivatives, as well as general principles for smart regulation of OTC derivatives.

1. Promoting Regulatory Harmonization

MFA supports smart regulation of OTC derivatives that will enhance transparency to regulators and reduce systemic risk. When considering regulatory reform measures for the OTC derivative markets, MFA believes that such measures should be sufficiently tailored to address identified risks and the intended objectives of such regulation. In addition, we believe that the CFTC and SEC should work closely together to ensure that regulation of OTC derivatives is effective and accommodates the differences across OTC derivative products and the market participants that use them.

To that end, we suggest that regulators consider the following:

[5] We note that the Obama Administration's legislative proposal on investor protection establishes an investor advisory committee to advise and consult with the SEC on regulatory priorities and issues regarding new products, trading strategies, fee structures and the effectiveness of disclosures; initiatives to protect investor interest; and initiatives to promote investor confidence in the integrity of the market place. We also note that the SEC has formed an investor advisory committee to give investors a greater voice at the SEC. We support the SEC's measure and believe that a similar advisory committee would assist both of the Commissions with regulatory harmonization.

- Simplification of registration requirements for, and regulation of, market participants whose activities in the OTC derivatives markets are systemically significant, and are already subject to federal regulatory oversight (*e.g.*, as a registered investment adviser, CTA or CPO);
- Consistent regulation of OTC derivative products within asset classes; and
- Creation of a central trade repository to streamline reporting of trades and other transaction information as part of an OTC derivative reporting regime.

Simplification of Registration Requirements and Regulation. MFA acknowledges that the CFTC and SEC have a valid interest in regulating and monitoring dealers and major market participants whose activities in the OTC derivatives markets are systemically significant. We agree that regulators should have the authority to register and regulate dealers and such other systemically significant participants in the OTC derivatives markets. In our view, regulation should be appropriately tailored to address the identified risks and intended objectives of the regulation. We understand that one of the purposes of regulation would be to oversee non-dealer major market participants, such as AIG, whose activities in the swap markets are believed to have contributed to the financial crisis last fall. We note, however, that the size and extent of the activities of AIG dwarf those of any investment manager, and encourage policy makers to set a reasonable bar to determine which firms might in fact pose systemic risk solely due to their swaps activities.

In addition, as we have recommended for securities and futures regulation, we encourage the agencies to consolidate the registration requirements and regulation of systemically significant participants through the use of a central electronic database for registration, and coordinating audits and examinations. Given the constraints on government resources and the cost of regulation for market participants, we believe it is important that regulatory oversight be targeted to address specific risks and concerns.

Consistent Regulation of OTC Derivative Products. MFA believes that regulation of OTC derivatives products should be implemented in a manner that respects the similarities and important differences among asset classes. To the extent practicable, regulation of OTC derivatives by the CFTC and SEC should be streamlined, consistent, and take into consideration the economic fundamentals of the product. For example, we believe that regulation of credit default swaps ("CDS") should be consistent whether a market participant is trading a single security CDS or a CDS index. Market participants that use CDS as part of their investment or hedging strategy generally use CDS and CDS indices interchangeably as a hedging tool. As such, we believe it makes economic and market sense for single security CDS and CDS indices to be subject to the same regulation. Regulation that were to treat single security CDS and CDS indices differently would add no benefits in protecting against systemic risk, but would greatly increase the complexity and cost of regulation for market participants and limit their ability to use such products to manage credit risk.

Nevertheless, we also caution against treating all asset classes of OTC derivatives alike. The major OTC derivative asset classes include foreign exchange, interest rate, commodity, equity and credit. Each asset class is distinguished by important differences in the underlying instrument, market characteristics, market conventions and the particular characteristics of the OTC derivative. Accordingly, we believe that regulation must distinguish among different types of OTC derivatives.[6]

Creation of a Central Trade Repository as part of an OTC Derivative Reporting Regime. MFA supports the establishment of a regulatory reporting regime for swap participants in which all market participants record their non-standardized OTC derivative trades in a centralized trade repository on a confidential-basis. Regarding centrally cleared contracts, we believe that market participants should report all centrally cleared contracts to a CCP on a confidential-basis and not also to a repository. In this way, regulators would have transparency over the entire universe of OTC derivative contracts through access to information maintained by a central trade repository and CCPs. We believe a single reporting requirement would enhance transparency, eliminate costly duplicative requirements, and significantly reduce costs to market participants. Moreover, we are concerned that the high cost and burdens of a dual reporting framework would reduce the utility of OTC derivatives to market participants as a risk management tool.

We strongly believe that a central repository, CCPs and regulators should maintain information on individual OTC derivative contract information on a confidential basis to protect the proprietary trading information of individual market participants. To enhance general transparency of the OTC derivatives markets, we support the broad publication of aggregated market information that does not disclose individual proprietary trading information.

2. General Principles for OTC Derivative Regulation

MFA believes that smart regulation will improve efficiency and competitiveness in the OTC derivatives markets, as well as help regulators identify cases of market manipulation, insider trading or other abuses. In addition, we believe enhanced coordination between the CFTC and the SEC from the outset on OTC derivatives regulation would benefit all market participants through the development of a thoughtful, effective, efficient and robust regulatory foundation. MFA submits to the CFTC and SEC several important components, which we strongly believe an OTC derivatives regulatory framework should include. As follows, regulation should:

- Support the development of standardized OTC derivatives, while maintaining a framework for customized OTC derivatives to address investor and end-user needs;
- Promote central clearing of standardized OTC derivatives with access for sophisticated end-users;

[6] *See* discussion below of standardized OTC derivatives.

- Promote the development of exchange or alternative electronic trading of standardized OTC derivatives;
- Implement appropriate margin standards for market participants; and
- Provide protection of customer positions and related collateral in the case of counterparty failure for both centrally cleared and non-cleared customized OTC derivatives.

Lastly, over the past several years, MFA and its members have worked with swap dealers and regulators, including the Federal Reserve Bank of New York, to build out the infrastructure of the OTC derivatives markets. We encourage the CFTC and SEC, in coordinating regulation of OTC derivatives, to build upon existing efforts to further develop these markets.

<u>Support the Development of Standardized OTC Derivatives</u>. MFA believes that a regulatory framework should support the development of standardized OTC derivatives products to the extent practicable and appropriate, as standardized products increase regulatory and market efficiencies. We note, however, that some OTC derivatives products are incapable of being standardized because their terms are sufficiently customized to the risk and credit profiles of the parties to the transactions. We believe a regulatory framework for OTC derivatives should maximize the ability of market participants to mitigate risk and encourage product innovation. As such, it is important to provide market participants with the ability to engage in non-standardized or customized products. These products allow market participants to custom manage their firm or company's specific risks in a way unmatched by standardized products.

<u>Promote Central Clearing of Standardized OTC Derivatives</u>. MFA believes a regulatory framework should promote the use of CCPs to clear standardized OTC derivative products, and that sophisticated end-users who meet appropriate standards should be eligible to participate as a CCP member. We also support moving standardized legacy contracts to CCPs. However, in general, central clearing of standardized contracts, including legacy transactions, will require further development of the OTC derivatives markets infrastructure in order to obtain the risk-reducing benefits of clearing. Some examples of these developments include, industry agreement on the key documentation terms that constitute standardization, moving all contracts to an electronic platform, the development of electronic systems for feeding trade data to CCPs, and providing access to CCPs for all market participants. Accordingly, we support promoting the use of central clearing, but for the reasons explained above, believe that a regulatory framework should not mandate central clearing of OTC derivatives.

We believe it is important for the CFTC and SEC to coordinate regulation of CCPs to provide consistent oversight and a market-efficient allocation of products cleared through CFTC-regulated and SEC-regulated CCPs. Just as we believe that the CFTC and SEC should regulate in a uniform manner products within the same asset class, we believe that standardized products within the same asset class should be eligible for clearing through the same CCP, and that the CCP should be subject to uniform regulation with respect to products of a single asset class. Taking the earlier example of

CDS, we believe that a standardized single security CDS should be eligible to be centrally cleared through the same CCP as a standardized CDS index. In addition, whether the CCP is regulated by the SEC, CFTC or both, only a single set of regulations should apply with respect to the single security CDS and the CDS index. We believe that smart regulations that parallel market practice will enhance oversight and compliance, support the risk management needs of market participants and further promote innovation and competition.

In addition, we believe that CFTC and SEC regulation of CCPs should include mandating that all CCPs have the appropriate financial resources and risk management practices to minimize the risk of CCP failure and the systemic risks associated with the failure of a clearing member. Further, with respect to a clearing member failure, we believe that CCPs should be required to address "initial margin" segregation (*i.e.*, the ability to place initial collateral to dealers in a bankruptcy-protected account) and position portability (*i.e.*, the ability to move trades from an insolvent or defaulting dealer to a solvent dealer within a CCP).

<u>Promote the Development of Exchange or Alternative Electronic Trading</u>. MFA supports regulation that promotes the development of trading standardized or "plain vanilla" OTC derivatives on exchange or on an electronic trading platform. Again, MFA encourages the CFTC and SEC to coordinate regulation of exchanges and alternative electronic trading platforms to ensure consistent regulation, to allow products within a single asset class to be traded on the same exchange or platform, and to provide uniform treatment of products within the same asset class.

We caution against mandating that OTC derivatives be exchange traded as most OTC derivatives are highly complex financial instruments that are not sufficiently standardized or liquid enough for exchange trading. In determining whether to establish exchange trading of an OTC derivative contract, policy makers and regulators should consider the market liquidity associated with the product, whether trading would promote economic efficiency and competition, and whether the contract is fungible and interchangeable between exchanges.

<u>Implement Appropriate Margin Standards for Market Participants</u>. MFA supports regulation that would require market participants to post margin or other appropriate collateral on their OTC derivatives transactions when there is risk exposure. Long standing market practice is such that MFA members currently post margin on all of their OTC derivatives positions. We believe that the imposition of such a requirement on market participants would help reduce counterparty and systemic risks.

<u>Provide Protection of All Customer Positions and Related Collateral in the case of Counterparty Failure</u>. MFA believes that the protection of customer collateral and positions in a central clearing regime is absolutely critical to the success of central clearing initiatives. In addition, MFA believes that a regulatory framework should require OTC derivatives dealers to segregate all customer collateral in bankruptcy-protected accounts, regardless of whether such collateral is posted in the context of

central clearing or as between parties in bilateral contractual dealings. Such measures would enhance customer protection and greatly reduce systemic risk.

To date, OTC derivatives dealers do not segregate customer collateral and have, in effect, used it as an inexpensive source of financing. This practice exacerbates systemic risk to our capital markets by increasing counterparty risk. For example, as a result of Lehman Brothers Holdings, Inc.'s ("Lehman") failure to segregate customer collateral, its default exacerbated the financial condition of other dealers who were counterparties to it and raised market concerns about the viability of those other dealers. In addition, Lehman's account clients who were also counterparties with collateral held by Lehman, were more likely to have moved assets away from Lehman in the days prior to its default, further exacerbating Lehman's financial condition, in an effort to minimize their exposure to Lehman.

Accordingly, MFA urges the CFTC and SEC to work with policy makers to establish an OTC derivatives regulatory framework that minimizes systemic risk by requiring that dealers segregate customer collateral in bankruptcy-protected accounts.

VI. CONCLUSION

Market innovation and investment strategies have evolved in such ways that today's market participants are often engaged in advising or trading in a variety of asset classes, including securities, futures and OTC derivatives. Gone are the days when all advisers were strictly CTAs or investment advisers. As such, we applaud the Commissions' efforts to work together to strengthen and harmonize regulation between the CFTC and SEC, which we believe will enhance oversight and market efficiency, and reduce the burden of compliance on registrants.

MFA is committed to working with regulators to enhance our regulatory system, to reestablish a sound financial system and restore stable and orderly markets. MFA appreciates the opportunity to appear before the CFTC and SEC in its joint meetings on "Harmonization of Regulation." I would be happy to answer any questions that you may have.