

BEFORE INVESTING IN COMMODITY POOLS

A commodity pool is an investment vehicle that “pools” together money from many investors to trade commodity futures or options. In most cases, the commodity pool operator (CPO) who organizes the pool must register with the CFTC. The pool operator either invests the funds directly or engages a commodity trading advisor (CTA) to do so.

Before joining a commodity pool, consider the pros, cons, and managers carefully. For example, by pooling assets, you may be able to achieve greater diversification than you could on your own. A pool with \$1 million in assets can more easily trade a larger number of contracts and a broader variety of contracts than an individual with fewer assets. Pool participants share in the profits and losses based on how much money they contribute. You could also be subject to certain fees, commissions, and margin calls, depending on the terms of the pool agreement. This is why you should thoroughly review the pool disclosure documents, management, and performance history — the longer the track record, the better. But, remember that past performance is no guarantee of future results.

REGISTRATION STATUS

- **Registration is generally required.** Commodity pools, pool operators, and trading advisors generally must register with the CFTC before they can solicit money from investors. Registration and examination of intermediaries is conducted by the National Futures Association (NFA) on behalf of and under the supervision of the CFTC. You can access the NFA's registration database at nfa.futures.org/basicnet/.
- **Unless they're exempt.** CPOs who are not required to register with the CFTC include operators of small pools (less than 15 investors and \$400,000 in assets); operators of single commodity pools who do not advertise or receive compensation; and operators of pools that only trade a minimal amount of futures, where participation is limited to “accredited investors” or qualified eligible persons, and satisfies certain liquidation measurements.

MANDATORY DISCLOSURES

Before signing an agreement to join the pool, registered commodity pools must provide you with disclosure documents that include the following information:

- **Management.** The names of the pool operator, pool managers, and commodity trading advisors, as well as ownership information, registration status, and past performance records.
- **Contact information.** The name, address, and telephone number of the main office, or if the main office is a P.O. box or outside the United States, where books and records are kept and available for inspection.
- **Investments.** The trading objectives and policies of the pool, along with the types of commodity interests or other interests the pool will trade. Information should

also include percentages of assets that will be used to trade broken out by category or market sector.

- **Risks.** Principal risk factors, including volatility, leverage, liquidity, and counterparty creditworthiness.
- **Fees and expenses.** Management fees, advisory fees, brokerage fees and commissions, and interest paid.
- **Break-even analysis.** A table showing the amount the pool must earn after one year (in dollars and percentage terms) to recover the amount of your initial investment plus fees and expenses.
- **Redemption information.** How to redeem shares in the pool, including any restrictions that may exist. Also, provisions for liquidating and dissolving the pool if more than a certain percentage of the capital were to be lost.
- **Liability.** Whether or not your liability will be greater than the amount of your initial investment and profits.
- **Reporting.** Commodity pools with net assets of more than \$500,000 must send a monthly account statement to shareholders; smaller pools must report at least quarterly.
- **Time period for raising funds.** With a new pool, there is frequently a provision that the pool will not begin trading until a certain amount of money is raised by a specified deadline. The CPO should explain what will happen during the fund-raising period: How your money will be traded, what interest you will earn (if any), and how and when your investment will be returned if the pool does not start trading.
- **Performance.** The pool has to report its past performance clearly and accurately.

RED FLAGS

The CFTC can bring legal action against commodity pools, operators, or advisors who commit fraud or otherwise violate the Commodity Exchange Act. CFTC enforcement actions have historically included misappropriation of customer funds, failure to register, or taking undisclosed excessive risks. Watch for these warning signs:

- Can't get your funds upon request.
- Failure to provide disclosure documents or monthly statements.
- Claims that you can't lose money or promises of high or guaranteed returns.
- Requesting cash immediately.

IF YOU SUSPECT FRAUD OR HAVE BEEN VICTIMIZED BY FRAUD:

Visit: [cftc.gov/complaint](https://www.cftc.gov/complaint) • **Email:** consumers@cftc.gov • **Call:** 866-366-2382

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