99-21

secretary

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From: Gerard [gvv@transtrend.com]
Sent: Friday, August 27, 1999 12:02 PM
To: secretary@cftc.gov; rwasserman@cftc.gov; echotiner@cftc.gov; joep@transtrend.com
Subject: Performance data and disclosure for cta's

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1999 AUG 30 A 9:15
OFFICE OF THE SECRETARIAT

Attn. Jean A. Webb. Copy: Robert B. Wasserman and Eileen R. Chotiner

COMMENT

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RECORDS SECTION

Re Federal Register, page 41845 (proposed rules)

Dear Mrs. Webb,

Comments are solicited on the issue of how the attributable interest income could be included in the performance of notionally funded accounts which report net return expressed in the nominal account size.

In reality notionally funded accounts do vary significantly with respect to the degree of notional funding. E.g. with our clients (we are: Transtrend B.V., a CTA in the Netherlands, NFA ID # 256682) the degree of actual funds in relation to the nominal account size varies from ca. 65% to ca. 27% and various degrees in between.

In your comments on the proposed rules you mentioned you are aware that performance comparisons would be distorted by including (solely) interest on actual funds. I.e., it was suggested it might be preferable to exclude interest income altogether for a (much) more accurate comparison (and grouping) of comparable accounts.

It is our experience that (potential) investors always seek a modus in which they can compare one investment alternative versus another with respect to performance information. Therefore, it would be worth considering to look at the fully-funded-subset-method, as an as-if-fully-funded-method, i.e. to include pro forma interest income computed over the (average) nominal account size of a period, e.g. computed as 90% of the (relevant) average 3-month T-Bill rate, irrespective of what the actual interest income was, in addition to the performance excluding (any) interest income (at all). For purists these are the two extremes (i..e. no interest income vs. interest income over the entire nominal account size). In reality (nearly) all combinations in between are possible. What would a regulator opt for any combination in between if it doesn't have to? By following my suggestion one doesn't show bias for one imperfect viewpoint or another, but one enables investors to look at the perimeter of the framework. The degree of notional funding as selected by an investor determines whether he will be closer to one or the other, i.e. he may now be in a position to interpolate the effect of his degree of funding.

performance example:

expressed as
expressed difference=
as-if-fully-funded excl. any
interest implied interest %

year one +15%
+10% 5%

year two +9%
+4.5% 4.5%

[The difference between the two columns represents the implied rate of interest if the account were fully funded. The left column enables comparison with other alternatives, accounts and cta's. The right column represents the premium over (the risk free rate of) interest, which is useful information.]

- In essence, a common denominator (in this matter) is sought after which should reveal the true underlying characteristics, comparing one cta vs. another and comparing one account vs. another. Clients and prospects are likely to appreciate a clear and straight approach that enables a 'purified' (i.e. straight) comparison, on the basis of a uniform methodology.
The suggested approach would do just that, as it facilitates the comparison between accounts with one cta and between accounts of different cta's, and it shows (i.e. reveals) the extreme effects of full interest income and no interest income. It is likely to increase investors' awareness in this matter!

Further, one can defend the viewpoint that interest income over (only) actual funds should only be part of performance reporting in relation to actual funds, i.e also of the trading results etc. expressed in actual funds. In that respect it seems better to exclude interest income altogether (for the purpose of comparison and grouping of accounts).

My above suggestion to include both, pro forma interest income over the average nominal account size (e.g. to be computed uniformly on basis of the average of the nominal account size of the first and last day of the month and on basis of a uniform interest rate, as stipulated above) and the performance without any interest income at all will enhance a better comparison between different asset classes.

The dilemma is that one cannot ignore the interest aspect as it represents effective income, however, the interest income factor shouldn't lead to a distortion in the performance comparison between (in all other respects comparable) accounts and between the performances of cta's.

Hopefully the above suggestion is of value to you in your decision making process. With pleasure I will elaborate on the above.

Sincerely,

Transtrend BV
Gerard van Vliet
Managing Director