

CFTC letter No. 03-10**January 7, 2003****Exemption****Division of Clearing and Intermediary Oversight**Re: Request for Exemption from Rule 4.22

Dear :

This is in response to your letter dated December 16, 2002, to the Division of Clearing and Intermediary Oversight (the "Division") of the Commodity Futures Trading Commission (the "Commission"), as supplemented by your letter dated December 31, 2002, e-mails dated January 2, 2003, and telephone conversations with Division staff. By your correspondence, you request on behalf of your clients "U" and "V", each a registered commodity pool operator ("CPO"), that the Division exempt "U" and "V" from the financial reporting requirements of Rule 4.22^[1] in connection with the operation of "Master Fund I", "Master Fund II", "Master Fund III" and "Master Fund IV" (collectively, "Master Funds"), for which "U" and "V" will serve as CPOs.

Based upon the representations made in your correspondence, we understand the facts to be as follows. "U" and "V" will serve as the Co-CPOs of Master Fund I and Master Fund II. "U" will serve as the CPO of "Feeder Fund II", Master Fund III and Master Fund IV. "W", a registered CPO, is the CPO of "Feeder Fund I" and "Feeder Fund III". Feeder Fund I, Feeder Fund II and Feeder Fund III (collectively, the "Feeder Funds") are commodity pools in which investors are permitted to directly invest.

Feeder Fund I will invest in Master Fund I, Feeder Fund II will invest in Master Fund II, and Feeder Fund III will invest in Master Fund III. Master Fund I will invest in Master Fund II, which may in turn invest in Master Fund III, which may in turn invest in Master Fund IV. The only participants in the Master Funds are the Feeder Funds and other Master Funds. The Master Funds will conduct trading activities for the commodity pools that invest in them. "U", "V" and "W" are separate legal entities, but have identical ultimate ownership, officers and directors.

Since the same persons are the owners, officers, and directors of "U", "V", and "W", absent the requested exemption "U" and "V" would have to provide financial reports to themselves as follows: (i) "U" and "V" as the Co-CPOs of Master Fund I would be required to provide financial reports for Master Fund I to "W" as the CPO of Feeder Fund I; (ii) "U" and "V" as the Co-CPOs of Master Fund II would be required to provide reports for Master Fund II to themselves as the Co-CPOs of Master Fund I and to "U" as the CPO of Feeder Fund II; (iii) "U" as the CPO of Master Fund III would be required to provide reports for Master Fund III to itself and "V" as the Co-CPOs of Master Fund II and to "W" as the CPO of Feeder Fund III; and (iv) "U" as the CPO of Master Fund IV would be required to provide reports for Master Fund IV to itself as the CPO of Master Fund III.

Based upon the representations contained in your letter, the Division believes that granting the requested exemption would not be contrary to the public interest and the purposes of Rule 4.22. Accordingly, by the authority delegated to it under Rule 140.93(a)(1), the Division hereby exempts “U” and “V” from the periodic and annual reporting requirements of Rule 4.22 in connection with their operation of the Master Funds. This relief is subject to the conditions that: (i) “U” remains the CPO of Feeder Fund II, Master Fund III and Master Fund IV; (ii) “U” and “V” remain the Co-CPOs of Master Fund I and Master Fund II; (iii) “W” remains the CPO of Feeder Fund I and Feeder Fund III; (iv) “U”, “W” and “V” retain identical ultimate ownership, officers and directors; (v) participation in the Master Funds is limited to the Feeder Funds, and any fund for which “W”, “U” or “V” are the sole CPOs (*e.g.*, Master Fund I, Master Fund II and Master Fund III); and (vi) the annual reports of the Feeder Funds contain financial statements that include, among other information, the fees associated with the operation of the applicable Master Fund expressed in dollars and a detailed schedule of investments made by the Master Fund.^[2]

This letter does not excuse “U” or “V” from compliance with any other applicable requirements contained in the Commodity Exchange Act (the “Act”),^[3] or in the Commission’s regulations issued thereunder. For example, each remains subject to all antifraud provisions of the Act^[4] and the Commission’s regulations, to the reporting requirements for traders set forth in Parts 15, 18 and 19 of the Commission’s regulations and to all other applicable provisions of Part 4. Finally, this letter is applicable to “U” and “V” solely in connection with the operation of Master Fund I, Master Fund II, Master Fund III and Master Fund IV.

This letter, and the exemptions provided herein, are based upon the representations you have made to us. Any different, changed or omitted material facts or circumstances might render this exemption void. You must notify us immediately in the event the activities or operations of “U”, “V”, “W”, the Master Funds or the Feeder Funds change in any material way from those represented to us.

If you have any questions concerning this correspondence, please contact Peter Sanchez, an attorney on my staff, at (202) 418-5432.

Very truly yours

Jane Kang Thorpe
Director

^[1] Commission rules referred to herein are found at 17 C.F.R. Ch. I (2002).

^[2] See, letter from John C. Lawton, Acting Director, Division of Trading and Markets, to all CPOs (February 1, 2002) (<http://www.cftc.gov/files/tm/tmcpoannualreport2001.pdf>) (stating that "detailed

income, fee and liquidity information for material investee pools and in total for all investee pools [are] 'material information,' " required to be disclosed in a pool's annual report, and further stating that, "the schedule of investments at the investor pool level should contain the details of the investments carried by the investee pool. A schedule of investments at the investor pool level which simply lists the name of the investee pool is not sufficient.").

As of July 1, 2002, a reorganization of Commission staff became effective. The Division of Clearing and Intermediary Oversight is now responsible for the oversight of intermediaries, such as CPOs.

^[3] 7 U.S.C. §1 *et seq.* (2000)

^[4] *See, e.g.,* Commodity Exchange Act §§4b and 4o, 7U.S.C §§6b and 6o.