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PALOMA PARTNERS

COMMENT

June 12, 2000

Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Public Reporting by Operators of Certain Large Commodity Pools

Dear Ms. Webb:

This letter responds to the Commodity Futures Trading Commission's (the "Commission") request for comments on proposed Rule 4.27 (the "Proposed Rule"), which would require the commodity pool operators of some large commodity pools to report certain financial and risk information to the Commission.

We applaud the Commission for its efforts to protect the stability of the world's financial system by promoting market discipline as the primary mechanism to regulate risk-taking. The Proposed Rule's purpose is to implement the recommendations of the report entitled "Hedge Funds, Leverage, and the Lessons of Long Term Capital Management: Report of The President's Working Group on Financial Markets" (the "PWG Report"). We agree with the PWG Report's assertion that market discipline can be effective in restraining excessive leverage only when creditors, counterparties, and investors have the information necessary to make a well-informed assessment of the risk-taking of a firm. Those entities, however, already can obtain extensive financial and risk information directly from a private investment fund, and we encourage them to do so before they transact with such a fund. Furthermore, regulators should prod creditors and counterparties to develop more robust risk measures and risk-management practices, so that they may use this information effectively when making credit and trading decisions. In fact, the lessons of 1998 already have led to improvements in risk management and the transparency of information in the marketplace.

We see, nonetheless, a problem with the PWG Report's recommendations, and, thus, the Proposed Rule. The PWG Report correctly recognizes the importance to market efficiency of protecting proprietary information such as positions and trading strategies. We disagree, however, that the public disclosure of financial and risk information, whether or not proprietary, by private investment funds is necessary to, or useful in, achieving the objective of controlling excessive risk-taking in the financial markets. It is important to recognize that only the counterparties, creditors, and investors-*not* the public–can provide market discipline to these funds. The public-at-large, because it does not invest in, provide credit to, or trade with these private investment funds, has no power to restrain excessive leverage.

Requiring the public disclosure of certain financial and risk information does not meet the goal of controlling leverage and risk-taking by private investment funds. Therefore, one cannot justify the costs and burden of providing such extensive information within the narrow deadline of thirty days from the end of the quarter.

If you have any questions, please contact me at your convenience.

Respectfully submitted,

PALOMA PARTNERS COMPANY L.L.C.

Leon M. Metzger

Leon M. Metzger
President