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1800 OLD MEADOW ROAD, SUITE 1503 ♦ McLEAN, VIRGINIA 22102 ♦ (703) 734-0654

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COMMENT

January 9, 2003

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C.F.T.C.

Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, N.W.
Washington, D.C. 20851

Re: Advance Notice of Proposed Rulemaking on CPO and CTA Registration Exemptions
Request for Comment

Madam Secretary:

I am in receipt of and have reviewed the referenced Advance Notice. As I am in the process of establishing an exempt pool in accordance with § 4.13(a)(2), I read the Notice with considerable interest. Unfortunately, the two proposals do not coincide with my particular plans. I thus would like to direct my comments to Issue 4 of the Request for Comment, regarding other forms of registration relief, and to the No-Action Relief.

I. Other Form of Registration Relief

I propose that the Commission should increase the § 4.13(a)(2) limits to \$1,000,000 and 35 participants from those currently set at \$200,000 and 15 participants, respectively. I offer the following thoughts:

1. The Commission seeks to be consistent with other regulatory requirements:

During a conversation I had with a Commission representative in October, 2002, reference was made to CFTC Letter No. 99-41 (August 27, 1999) as an example of an effort by the Commission to more closely match the SEC Reg 230.506 and thereby rectify inconsistent Commission regulatory language. The Commission representative also mentioned that the \$200,000 limit, was established in 1982 (if memory serves me correctly) and that some thought had been given to raising it.

2. SEC Reg. D exemption categories:

The SEC, per Reg. D, currently has three small entity exemptions, excerpted in pertinent part:

Section	Dollar Limit	Limit on Number of Purchasers
§ 230.504	\$1,000,000	no limitation
§ 230.505	\$5,000,000	max 35 non-accredited investors
§ 230.506	no limit	max 35 non-accredited investors

3. Blue Sky exemption categories:

In the course of researching the establishment of my pool, I have spoken to securities examiners in several states. I have learned the following regarding small entity exemptions (private placement, no advertising), excerpted in pertinent part:

State	Section	Dollar Limit	Limit on Number of Purchasers
VA	§ 13.1-514(B)(7)(a)	none	35 (total for all states)
TX	§ 5-I 109.13	none	35 (total for all states)
CO	§ 11-51-308(1)	none	20 offers, 10 sales in Colorado

4. Integration with SEC and Blue Sky exemption categories:

Regarding Dollar Limit:

As the Commission appears to be receptive to increasing the approximately 20-year-old \$200,000 limit thereby bringing it more in line with current dollars, utilizing the SEC § 230.504 limit of \$1,000,000 appears appropriate. This value would not conflict with the three state regulatory requirements (albeit an admittedly small sample) referenced above.

In the alternative, I propose that the limit be set at \$500,000. This would roughly keep the current ratio ($\$200,000 \div 15 = \$13,333$) the same when applied to 35 people. To be exact, the limit would be \$466,667, which is rounded up to \$500,000.

Regarding Limit on Number of Participants:

The SEC Reg. D is more generous in this regard than are the several states that I contacted. Per §230.501(e), accredited investors are excluded from calculation of the number of purchasers. Thereafter, depending on the specific exemption sought, there may be a maximum of 35 non-accredited purchasers.

The number 35 also appears to be a common cut-off point for the several states that I contacted in circumstances where securities have not been offered to the general public by advertisement or solicitation.

To recap, I propose that the Commission increase the limits set in § 4.13(a)(2)(i) and (ii) to \$1,000,000 and 35 participants, respectively.

In the alternative, I propose that the Commission increase the limits set in § 4.13(a)(2)(i) and (ii) to \$500,000 and 35 participants, respectively.

II. Comments on CPO Registration No-Action Relief

I further propose, should the Commission adopt either of the above increased § 4.13(a)(2) limits in conjunction with a No-Action Relief, that participation not be restricted to "accredited investors" and that some mechanism other than "notional value" be used in determining permissible position size during the No-Action Relief period.

1. Participation in the pool is restricted to "accredited investors":

Reference is made in this section of the Commission's Advance Notice to the Securities Act Rule 501(a). However, Rule 504 is not so referenced. Rule 504, which applies to

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offerings and sales of securities not exceeding \$1,000,000, does not require that purchasers be "accredited investors." In light of Rule 504, it appears that it would be reasonable to remove the No-Action Relief restriction pertaining to "accredited investors."

2. Use of aggregate notional value on one-half of pool's liquidation value:

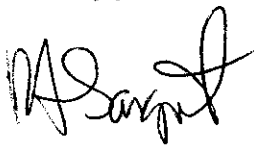
Were the Commission to adopt the \$1,000,000 discussed above, but maintain the current "notional value" mechanism, a pool, at its inception, would be allowed to establish a position of 2 S&P 500 Index futures contracts during the No-Action Relief period (one-half of liquidation value being \$500,000, and $\$500,000 / 204,822.50 = 2.44$). At the other extreme, utilizing the current Chicago Mercantile Exchange minimum margin requirement of \$17,813, a \$1,000,000 account would be able to establish a position of 56 contracts.

I do not have a specific alternative mechanism to propose. I understand that the No-Action Relief is intended to be a benefit during the period that precedes formal adoption of a rule. I merely observe that limiting a possible position of 56 contracts to a position of only 2 contracts is a rather severe restriction.

To recap, I propose that participation not be restricted to "accredited investors" and that some mechanism other than "notional value" be used in determining permissible position size should the Commission adopt either of the above proposed increased § 4.13(a)(2) limits in conjunction with a No-Action Relief period.

I welcome this opportunity to participate in this public comment regarding the Advance Notice, and hope that these thoughts are constructive.

Sincerely yours,



Robert A. Sargent
President