1275 King Street
Greenwich, CT 06831

T 203.863.6700
F 203.863.6700

00-15
(12)

TUDOR INVESTMENT CORPORATION

C.F.T.C.
'00 JUL 6 AM 5 45
RECEIVED C.F.T.C.
RECORDS SECTION

COMMENT

July 6, 2000

'00 JUL 7 AM 11 31
OFFICE OF THE SECRETARIAT
RECEIVED C.F.T.C.

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

Re: Proposed Regulation 4.27 – Public Reporting by Operators of Certain Large Commodity Pools

Dear Ms. Webb:

Tudor Investment Corporation and its affiliates ("Tudor") would like to take this opportunity to provide you with comments concerning the proposed Rule 4.27 (the "Rule") of the Commodity Futures Trading Commission ("CFTC") published for comment recently.

Tudor is a registered commodity trading advisor which was founded in 1983. It and its affiliates (which include a registered commodity pool operator) manage in excess of $4 billion in customer funds domiciled both domestically and offshore. Tudor was an early and active participant in the group of hedge funds that produced the "Sound Practices for Hedge Fund Managers Report" earlier this year. It also has participated in the ongoing dialogue among the international government agencies that are earnestly seeking appropriate methodologies to minimize the likelihood of a repeat of the LTCM episode. In the context of our continuing participation in the regulatory dialogue relating to hedge funds, Tudor urges the CFTC not to adopt the Rule.

I. The Data Obtained Under The Rule Will Not Be Relevant To Counterparties, Investors Or Regulatory Agencies.

The Rule as currently formulated will require large commodity pool operators to file aggregate financial and risk data with the CFTC, which would in turn make such information available to the public. Tudor assumes the rationale for such disclosures is to provide relative transparency with respect to fund positions and strategies to counterparties, investors and regulators, and thereby, perhaps most importantly, reduce or eliminate the "surprise" factor which was a significant aspect of the LTCM problem.

While Tudor applauds these objectives, it does not believe they will be achieved through the adoption of the Rule. Any credit provider would be substantially remiss in relying upon such broad-brush data to determine credit levels appropriate to a hedge fund. Such counterparties can, and do, command much more timely and detailed data in the context of credit decisions, especially after LTCM. Such information is provided pursuant to confidentiality agreements to the credit departments of counterparties and is subject to strict Chinese Wall requirements to prevent improper use of the information. Individual investors will most likely find the proposed VAR data confusing and not directly comparable among peer hedge funds. With respect to the CFTC, any information provided would be stale and probably irrelevant at the time of its disclosure. Further Tudor does not believe that the establishment of a wholly new quarterly reporting protocol for hedge funds is consistent with the current strategic direction of the CFTC which emphasizes a decreased regulatory burden based upon "Core Principles."

With respect to the quality of the information requested, much weight is placed upon VAR analysis. Tudor currently utilizes VAR and its variants to measure risk in the markets in which it participates. However, it is one of many tools employed by skilled professionals who frequently must transcend quantitative tools such as VAR to qualitatively measure real risk. VAR, like similar tools, is only as good as the data that it is based upon, and experience has shown Tudor that data can be flawed or simply unavailable. Moreover, VAR is particularly inexact at the extremes of market behavior and must be viewed in conjunction with additonal analysis which takes into consideration sensitivity to more severe market moves. Accordingly, mandating VAR-type disclosures and the like may extend a CFTC imprimatur of reliability with respect to such disclosures that is not merited. Moreover, while the market professionals will understand the limitations of VAR, neither the investor class that the CFTC wishes to protect nor the public will have such an appreciation.

Further, the mandated quarterly disclosure of positions also may bias trading activities toward either short-term positions, which may in the long run disadvantage clients, or window dressing procedures, not unlike those activities that go on under other regulatory reporting regimes, to (i) deprive competitors and other market participants of data which could be used to disadvantage Tudor client pools, and (ii) present its financial and risk position in the best light possible at the close of a reporting period, which may not be a accurate depiction of day-to-day risk.

Accordingly, Tudor believes that the information that would be required under the rule will not assist the CFTC in providing greater transparency to counterparties, investors or any other regulator. Moreover, Tudor believes the implementation of a periodic reporting system for hedge funds and the contours of that system is best left to the legislative process rather than to the rulemaking process.

II. The Marketplace Has Learned the Lessons of LTCM.

Tudor believes that insufficient weight has been placed by the CFTC upon the lessons learned by the marketplace in the wake of the LTCM problem. LTCM, as has been written about at length, was the confluence of certain unique factors. It is less likely the circumstances that rattled the financial markets in 1998 will repeat. In fact, two of the largest hedge funds recently experienced significant losses without any deleterious impact on the market. When all the extraneous factors are sifted through, the principal problem of LTCM was excessive credit extended by market counterparties in furtherance of trading strategies that required extremely large positions to reach profitability targets. Post-LTCM, market participants are wary and chastened, and Tudor has experienced first-hand their heightened credit sensitivities as have every other market participant. In response to the argument that this heightened sensitivity is only transitory, Tudor would, for example, respectfully direct the CFTC to the case of the highly publicized losses and litigation experienced by certain market participants in the mid-1990s in over-the-counter ("OTC") derivatives markets due to poor sales, documentation and credit practices. To resolve those problems, regulators such as the OCC and the Federal Reserve enhanced their examination guidelines (as they have already done in response to LTCM) and the private sector embraced sound practices and transactions documentation. The OTC derivatives market has experienced few newsworthy problems since those practices were adopted by market participants, even though the OTC derivatives remain largely unregulated. The lessons were not transitory.

Tudor believes the flaws in this proposed Rule are reasonably summarized by Representative Toomey in his remarks from Tuesday, April 11, 2000 before the Committee on Banking and Financial Services in respect to a similar legislative proposal. Representative Toomey stated:

> "I would just briefly mention, with respect to the Hedge Fund Disclosure Act, that while I am glad to see that we have not moved in the direction of any kind of heavy-handed direct regulatory burdens, I will nevertheless reluctantly oppose the legislation.
>
> I think there are a couple of problems that I look forward to discussing with the panelists today. One is, I don't think the bill would be able to accomplish its objectives as a practical matter, which we will discuss.
>
> I think it is also based on the flawed premise that markets do not work in the sense that the very sophisticated participants in this market are deemed to be incapable of determining the information that they need. Hence, the necessity of legislation requiring information.

> Thirdly, I am concerned about the moral hazard scenario the concern that there will be an illusion of regulation where regulation would not exist.
>
> Lastly, a mechanical thing that concerns me a great deal about this bill which is the requirement for meaningful and comprehensive analysis of risk is in the bill; however, it also says that no proprietary information need be disclosed. I think that is an internal contradiction in the bill. I don't see how you can accomplish the former without also committing the latter."

Tudor is pleased to have the opportunity to submit these comments on proposed Rule 4.27, and will be pleased to respond to any questions that you may have regarding this comment letter.

Very truly yours,

Mark F. Dalton, President

John G. Macfarlane
Chief Operating Officer