4.13(a)(3).
compliance with the trading limits of Rule
results of this computation to determine its
positions (as to margin or as to net notional
value). The investor fund CPO should use the
results of this computation to determine its
compliance with the trading limits of Rule
4.13(a)(3).
investee funds to determine compliance with
the trading restrictions of Rule 4.13(a)(3).
aggregate of their commodity interest posi-
positions across investee funds that trade commodity
interests (without regard to the level of com-
modity interest trading engaged in by those
investee pools). It does not allocate any of
the investor fund’s assets directly to com-
modity interest trading.
Application: The investor fund CPO may claim relief under Rule 4.13(a)(3).
investee funds) that trade commodity interest
positions committed to such direct trading as a sepa-
rate pool for purposes of determining compli-
ance with Rule 4.13(a)(3)(ii), such that the
commodity interest trading of that pool must meet the criteria of Rule 4.13(a)(3)(ii)
independently of the portion of investor fund
assets allocated to investee funds.
8, 2003]
5. Situation: An investor fund CPO allocates
no more than 50 percent of the fund’s assets
to investee funds that trade commodity inter-
ests (without regard to the level of com-
modity interest trading engaged in by those
investee pools). It does not allocate any of
the investor fund’s assets directly to com-
modity interest trading.
Application: The investor fund CPO may allocate
the fund’s assets to both investee funds and
direct trading of commodity interests.
Applicability: The investor fund CPO must treat
the amount of investor fund assets committed
to such direct trading as a separate
pool for purposes of determining complicity
with Rule 4.13(a)(3)(ii), such that the
commodity interest trading of that pool
must meet the criteria of Rule 4.13(a)(3)(ii)
independently of the portion of investor fund
assets allocated to investee funds.
8, 2003]
6. Situation: An investor fund CPO allocates
the fund’s assets to both investee funds and
direct trading of commodity interests.
Application: The investor fund CPO must treat
the amount of investor fund assets committed
to such direct trading as a separate
pool for purposes of determining complicity
with Rule 4.13(a)(3)(ii), such that the
commodity interest trading of that pool
must meet the criteria of Rule 4.13(a)(3)(ii)
independently of the portion of investor fund
assets allocated to investee funds.
8, 2003]
5.3 Registration of persons engaged in retail
forex transactions.
5.2 Prohibited transactions.
5.1 Definitions.
APPENDIX B TO PART 4—ADJUSTMENTS
FOR ADDITIONS AND WITHDRAWALS IN
THE COMPUTATION OF RATE OF RETURN
This appendix provides guidance concerning alternate methods by which com-
modity pool operators and commodity trading
advisors may calculate the rate of return information required by Rules 4.25(a)(7)(i)(F)
and 4.35(a)(6)(i)(F). The methods described
herein are illustrative of calculation meth-
ods the Commission has reviewed and deter-
mined may be appropriate to address poten-
tial material distortions in the computation
of rate of return due to additions and with-
drawals that occur during a performance re-
porting period. A commodity pool operator
or commodity trading advisor may present
to the Commission proposals regarding any
alternative method of addressing the effect
of additions and withdrawals on the rate of
return computation, including documentation
supporting the rationale for use of that
alternate method.
1. Compounded Rate of Return Method
Rate of return for a period may be cal-
culated by computing the net performance
divided by the beginning net asset value for
each trading day in the period and compounding each daily rate of return to de-
termine the rate of return for the period. If
daily compounding is not practicable, the
rate of return may be compounded on the
basis of each sub-period within which an
addition or withdrawal occurs during a month.
For example:

<table>
<thead>
<tr>
<th>Account value</th>
<th>Change in value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start of month</td>
<td>$10,000</td>
</tr>
<tr>
<td>End of 1st acct. period</td>
<td>+10% ($1,000 profit).</td>
</tr>
<tr>
<td>Start of 2nd acct. period</td>
<td>$11,000</td>
</tr>
<tr>
<td>End of 2nd acct. period</td>
<td>+4,000 addition.</td>
</tr>
<tr>
<td>Start of 3rd acct. period</td>
<td>$15,000</td>
</tr>
<tr>
<td>End of 3rd acct. period</td>
<td>-20% ($3,000 loss).</td>
</tr>
<tr>
<td>Start of end of acct. period</td>
<td>$12,000</td>
</tr>
<tr>
<td>End of month</td>
<td>-2,000 withdrawal.</td>
</tr>
<tr>
<td>Start of month</td>
<td>$10,000</td>
</tr>
<tr>
<td>End of month</td>
<td>+25% ($2,500 profit).</td>
</tr>
</tbody>
</table>

Compounded ROR = \( [(1 + 1)(1 - 2)(1 + .25)] - 1 \) = 10%.

2. Time-weighted method
Time-weighting allows for adjustment to the
denominator of the rate of return cal-
culation for additions and withdrawals, weighted for the amount of time such funds
were available for trading divided by the
total number of days in the period.

10, 2003]

PART 5—OFF-EXCHANGE FOREIGN
CURRENCY TRANSACTIONS

Sec.
5.1 Definitions.
5.2 Prohibited transactions.
5.3 Registration of persons engaged in retail
forex transactions.

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