Locks must be designed to withstand the maximum output power of the actuators and maximum expected manual operating forces treated as a limit load. Under these conditions, the door must remain closed, latched and locked.

(5) *Power Availability:*

All power to the door must be removed in flight and it must not be possible for the flight crew to restore power to the door while in flight.

(6) *Powered Lock Systems:*

For doors that have powered lock systems, it must be shown by safety analysis that inadvertent opening of the door after it is fully closed, latched and locked, is extremely improbable.''

Issued in Renton, Washington, on April 11, 2000.

Donald L. Riggin,

Acting Manager, Transport Airplane Directorate, Aircraft Certification Service.

[FR Doc. 00–9557 Filed 4–14–00; 8:45 am]

BILLING CODE 4910–13–P

COMMODITY FUTURES TRADING COMMISSION

17 CFR Part 1

RIN 3038–AB53

Public Reporting by Operators of Certain Large Commodity Pools

AGENCY: Commodity Futures Trading Commission.

ACTION: Proposed regulations.

SUMMARY: In April of 1999, the President's Working Group on Financial Markets (comprised of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Securities and Exchange Commission, and the Chairman of the Commodity Futures Trading Commission) (the ''PWG'') issued a 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''). This report reviewed the events surrounding the near-collapse of Long Term Capital Portfolio, L.P.

The PWG Report contained eight recommendations. The first was that ''more frequent and meaningful information on hedge funds should be made public'' and the fourth was that ''regulators should encourage improvements in the risk management systems of regulated entities.'' In furtherance of the first objective, the report specifically recommended that commodity pool operators (''CPOs'') of large commodity pools should file quarterly reports, that these reports should ''include more meaningful and comprehensive measures of market risk'' such as ''value at risk'' and that these reports be published.

Consistent with this unanimous recommendation of the PWG, the Commission is proposing new Rule 4.27, which would require the CPOs of the largest commodity pools to provide to the Commission the specified aggregate financial and risk information on a quarterly basis. In order to provide context for the evaluation of this information, these CPOs would also be required to provide certain summary information about their risk management systems and practices.

DATES: Comments must be received on or before June 16, 2000.

ADDRESSES: Comments should be mailed to Jean A. Webb, Secretary, Commodity Futures Trading Commission, Three Lafayette Centre, 1155—21st Street, NW, Washington, DC 20581; transmitted by facsimile to (202) 418–5521; or transmitted electronically to (*secretary@cftc.gov*). Reference should be made to ''Public Reporting by Operators of Certain Large Commodity Pools''.

FOR FURTHER INFORMATION CONTACT: Robert B. Wasserman, Associate Director at *rwasserman@cftc.gov*, Tobey Kaczensky, Special Counsel at *tkaczensky@cftc.gov*, or James L. Carley, Attorney at *jcarley@cftc.gov*, Division of Trading and Markets, Commodity Futures Trading Commission, Three Lafayette Centre, 1155—21st Street, NW., Washington, DC. 20581, Telephone (202) 418–5430.

SUPPLEMENTARY INFORMATION:

I. Background

The events in 1998 involving highly leveraged hedge funds, particularly the near collapse of Long Term Capital Portfolio, L.P. (''LTCM''), raised concerns that problems at one such financial institution, under certain circumstances, could be transmitted to other financial institutions and pose material systemic risks to the financial system of the United States and to international financial systems. In the months following these events, the President's Working Group on Financial Markets (the ''PWG'') conducted a study of the events and their policy implications and, in April of 1999, issued ''Hedge Funds, Leverage, and the Lessons of Long Term Capital Management: Report of The President's Working Group on Financial Markets'' (the ''PWG Report'').[1]

The PWG Report stated that the ''primary mechanism that regulates risk taking by firms in a market economy is the market discipline provided by creditors, counterparties (including financial contract counterparties), and investors.''[2] The report observed, however, that ''market discipline tends to be effective only when creditors have the incentives and the means to evaluate the riskiness of the firm.''[3] The report concluded that investors and counterparties had ''exercised minimal scrutiny of its risk management practices and [its] risk profile'' and were ''almost certainly not adequately aware'' of the ''nature of the exposures and risks [LTCM] had accumulated.''[4] The report attributed this ''insufficient monitoring'' to ''LTCM's practice of disclosing only minimal information'' about itself that ''did not reveal meaningful details about [its] risk profile.''[5]

Thus, the members of the PWG unanimously recommended that ''more frequent and meaningful information on hedge funds should be made public''[6] and that the public disclosures should include risk information. Specifically, the report recommended that: (i) registered CPOs operating large funds begin filing with the Commission quarterly, rather than annual, reports of financial information; (ii) in addition to traditional financial statements, these reports include more ''meaningful and comprehensive measures of market risk (*e.g.*, value at risk or stress test results), without requiring the disclosure of proprietary information on strategies or positions;''[7] and (iii) these reports be published. Separately, the report recommended that ''regulators should encourage improvements in the risk management systems of regulated entities.''[8]

With respect to hedge funds that are not currently registered as CPOs, the PWG Report recommended that ''a means for disclosure should be developed to ensure that similar financial information is provided to the public'' but recognized that ''Congress

[1] As noted above, the President's Working Group on Financial Markets is comprised of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Securities and Exchange Commission, and the Chairman of the Commodity Futures Trading Commission. A number of other federal agencies participated in the study, including the Council of Economic Advisers, the Federal Deposit Insurance Corporation, the National Economic Council, the Federal Reserve Bank of New York, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

[2] PWG Report at 25.

[3] Id.

[4] Id at 15.

[5] Id.

[6] Id at 31.

[7] PWG Report at 32–33.

[8] Id at 34.

would need to enact legislation that authorizes mechanisms for [such] disclosure.'' [9] On September 23, 1999, Representative Richard Baker of Louisiana introduced a bill which would require unregulated hedge funds to report certain financial and risk information to the Federal Reserve Board. As amended on March 16, 2000, and referred by the Subcommittee on Capital Markets to the full Committee on Banking and Financial Services, this legislation would require each such hedge fund or family of such hedge funds with total assets of $3 billion or net assets of $1 billion to report to the Board on a quarterly basis both ''[m]eaningful and comprehensive financial information (such as a complete set of financial statements * * *)'' and ''[m]eaningful and comprehensive measures of risk (such as value-at-risk or stress test results).'' [10]

In advocating the reporting of risk, as well as financial, information, the PWG report pointed out that financial leverage, particularly when measured by balance sheet leverage, does not by itself provide an adequate measure of risk because ''for any given balance sheet leverage ratio, the fragility of a portfolio depends on the market, credit, and liquidity risks in the portfolio.'' [11] Financial information should be supplemented with a ''statistical measure'' such as ''value-at-risk relative to net worth,'' which would ''produce a more meaningful description of leverage in terms of risk.'' [12]

The PWG believes that improving the transparency of the risk profiles of hedge funds would help other market participants make more informed judgments about market integrity and the creditworthiness of borrowers and counterparties. Secretary of the Treasury Lawrence Summers recently noted that the public sector ''can help to enhance the effectiveness of market discipline by creating an environment of greater transparency and disclosure. * * * [A]gencies should continue to apply the recommendations of the [PWG Report] that are designed to enhance the monitoring of leverage and risk, and to improve transparency, especially the steps to increase reporting by the largest hedge funds. * * *'' [13]

Moreover, the PWG has not been the only group to recognize these advantages of greater public disclosure. The PWG's recommendations have met with the approval of international financial regulators. The International Organization of Securities Commissioners (IOSCO) released a report last November which stated that:

> ''The [hedge fund] information gap can, in principle, be addressed through greater public disclosure to permit market participants to assess [hedge fund] risks independently * * * . Market participants might use additional information * * * for a number of purposes, including making more informed decisions with respect to the pricing of transactions and the proper assessment of risks and returns inherent in investment and trading decisions.'' [14]

Similarly, the Financial Stability Forum, a group consisting of the U.S. Treasury and the Federal Reserve Bank of New York as well as the Basel Committee on Banking Supervision, IOSCO and financial regulators from the UK, France, Germany, Australia, Italy, and Hong Kong, released in March a report which stated that:

> ''The [FSF] Working Group firmly supports the objective of enhancing public disclosure by HLIs [highly leveraged institutions, or, hedge funds] and endorses U.S. efforts to achieve this through both regulation and legislation.'' [15]

The FSF Report went on to state that ''[t]he Working Group agrees [with the PWG and IOSCO] that enhanced public disclosure by HLI's would be desirable.[16]

The regulations proposed today are intended to implement the PWG Report recommendations discussed above, and are consistent with the recommendations of the IOSCO Hedge Fund Report and the FSF Report. As described more fully below, they would require operators of the largest commodity pools to file, with respect to each pooled investment vehicle under their direct or indirect control, including vehicles which are not commodity pools, (1) an initial report that would provide summary descriptions of key aspects of their risk management practices, and (2) quarterly reports that would disclose both financial information and information about the exposure of the pool to market risk over the course of the quarter (but that would not reveal positions or trading strategies).

II. The Hedge Fund Reporting Regulation—Proposed Regulation 4.27

A. Persons Required To Report

1. Size and Leverage Thresholds

Proposed Section 4.27(b) would define a reporting person as a commodity pool operator that controls one or more pools where, at the end of a quarter, either (a) the controlled assets of such pool or pools total three billion dollars ($3,000,000,000) or greater or (b) the controlled net assets of such pool or pools total one billion dollars ($1,000,000,000) or greater. These thresholds are intended to limit the reporting requirement to the CPOs of funds whose activities potentially could have systemic risk effects. Any person which has met these thresholds at the end of any of the past three quarters is included as a reporting person in order to ensure a reasonable continuation of coverage of hedge funds which may be experiencing problems. Based on financial filings received pursuant to existing rules, the Commission believes that approximately twenty-five pool operators would be required to report under the proposed rule.

The Commission requests comment on whether these criteria for ''reporting persons'' are appropriate and whether other criteria should be applied.

2. The Effect of Current Exemptions

a. Pools Limited to Sophisticated Investors—Rules 4.7, 4.8 and 4.12(b)

Participation in many of the funds that would be subject to proposed Rule 4.27 is limited to large, sophisticated investors that are generally considered to need less protection than other customers. Pursuant to Rules 4.7, 4.8, and 4.12(b), these funds may be exempted from specified provisions of other Part 4 rules. [17] In contrast to other rules under Part 4, however, Rule 4.27 is not intended primarily as a means of customer protection. Rather, the regulation is intended to facilitate the exercise of market discipline by other market participants in their dealings with hedge funds that, because of their size, could potentially have systemic risk effects. The importance of facilitating market discipline, to the benefit of counterparties and the market at large, is independent of the sophistication of the investors in any particular pool. Accordingly, the proposed rule does not exempt funds from the provisions of Rule 4.27 on the grounds that participation in such funds

[9] *Id.* at 33.

[10] H.R. 2924, 106th Cong., 1st Sess. (2000).

[11] PWG Report at 24.

[12] *Id.*

[13] Remarks presented to the Futures Industry Association on March 17, 2000.

[14] ''Hedge Funds and Other Highly Leveraged Institutions—Report of the Technical Committee of the International Organization of Securities Commissioners,'' November 1999 (hereinafter the ''IOSCO Hedge Fund Report'') at 24–25.

[15] ''Report of the Working Group on Highly Leveraged Institutions'' (hereinafter the ''FSF Report'') at 3.

[16] *Id.* at 31.

[17] Commission regulations referred to herein are found at 17 CFR Ch. 1 *et. seq.* (1999).

is limited to large, sophisticated investors.

b. Pools That Have Received Exemptions on a Case by Case Basis

Rule 4.12(a) permits the Commission to ''exempt any person or any class or classes of persons from any provision of this Part 4 if it finds that the exemption is not contrary to the public interest.'' A number of persons have received such exemptions on the grounds that participants in their pools are not in need of customer protections provided by the Part 4 rules. Most of these persons manage funds that would fall below the size threshold of Rule 4.27. However, for the reasons stated above, no person that controls any pool or pools that satisfy the thresholds of Section 4.27(b) and that has obtained relief pursuant to Rule 4.12(a) prior to the effective date of these rules will be exempt from Rule 4.27 by virtue of such relief. No person that obtains relief pursuant to Rule 4.12(a) in accordance with a Commission order or an exemptive letter issued subsequent to the effective date of these rules will be exempt from Rule 4.27 unless such order or letter expressly exempts such person from Rule 4.27.

c. Entities Excluded From the Definition of Commodity Pool

Rule 4.5 excludes certain entities from the definition of commodity pool operator on the grounds that they are otherwise regulated.[18] These entities include investment companies, insurance companies, banks, trust companies, and fiduciaries and employers subject to ERISA.[19] Proposed Rule 4.27, by its terms, would only apply to commodity pool operators. Therefore, entities excluded from the definition of commodity pool operator pursuant to Rule 4.5 would not be required to file reports under proposed Rule 4.27.

B. Reporting Requirements

Each reporting person would file two types of reports: (i) An initial set of qualitative descriptions of its risk management practices and (ii) quarterly reports disclosing quantitative financial and risk exposure information. The initial descriptions would be filed concurrently with the first quarterly report; thereafter, revised responses that reflect material changes, if any, to the initial descriptions would be filed concurrently with subsequent quarterly reports. Each quarterly report would be filed not later than thirty days after the end of each quarter.

As noted above, the discipline exercised by other market participants can provide a critical means of controlling excessive leverage and, thus, constraining the added market, credit, and funding liquidity risks generated thereby. Public disclosure of the information collected under this rule should help other market participants to make more informed judgments and to more effectively exercise market discipline. This discipline is expected to both constrain excessive leverage of reporting persons and encourage reporting persons to adopt best practices in risk management as such evolve within the industry. Accordingly, the Commission is proposing to disclose publicly both the initial descriptions and the quarterly reports.[20] Section 4.27(f). The Commission intends to make this information available over the Internet within one business day after receipt. Thus, the Commission effectively would serve as a conduit for transmitting this information to the public.

Discussions of the quantitative financial and risk information proposed to be reported on a quarterly basis are presented in sections 1 and 2 below, respectively. The qualitative risk management information to be reported initially is discussed in section 3. Specific filing and attestation requirements are set forth in section 4, while definitional matters are discussed in section 5.

1. Quarterly Reporting of Financial Information Under Rule 4.27

Market discipline can only serve as an effective check upon excessive leverage if other market participants can obtain meaningful information about a reporting person's financial condition on a reasonably timely basis. The PWG Report observed that ''[c]urrently, the scope and timeliness of information made available about the financial activities of hedge funds are limited.''[21] As noted above, the first of its recommendations was that ''[h]edge funds should be required to disclose additional, and more up-to-date, information to the public'' and that CPOs should file ''quarterly reports rather than annual reports.''[22] Accordingly, consistent with the PWG Report's recommendations, Section 4.27(d)(1) of the proposed rule would require each reporting person to report on a quarterly basis certain key financial information for each pool under its control, including statements of income, financial condition, changes in financial position, and changes in net asset value.

2. Quarterly Reporting of Risk Exposure Information Under Rule 4.27

Leverage has been described within the hedge fund industry not as an independent source of risk but, rather, as ''a factor that influences the rapidity with which changes in market risk, credit risk or liquidity risk factors'' create losses.[23] It has been noted that ''the market risk inherent in a [hedge fund], coupled with the constraints imposed by funding liquidity, make the amplifying effect of leverage of particular concern to [hedge fund managers].''[24] The PWG emphasized that leverage is not an adequate measure of risk because ''for any given balance sheet leverage ratio, the fragility of a portfolio depends on the market, credit, and liquidity risks in the portfolio.''[25]

Accordingly, the Commission believes that, in order to fairly portray the risk profile of reporting persons, the quarterly financial information discussed above should be supplemented with certain quantitative risk information. Currently, the most widely accepted methodology of calculating exposure to market risk is value-at-risk (also called ''capital-at-risk''). Value-at-risk is calculated using statistical techniques, and represents the largest dollar loss[26] which is expected to be suffered over a given investment horizon or ''holding period'' (for example, one day or ten days) with a given degree of certainty or ''confidence level'' (for example, 95% or 99.6%).[27] Because it is expressed in dollars, value-at-risk for a particular entity can be compared over time and, in some circumstances, across multiple entities

[18] See 50 FR 15868 (April 23, 1985).

[19] The Employment Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. 1001–1381 (1982), as amended by the Multiemployer Pension Plan Amendments Act of 1980, Pub. L. No 96–364, 94 Stat. 1208 (1980).

[20] Section 8(a)(1) of the Commodity Exchange Act, 7 U.S.C. 12(a)(1), provides that ''the Commission may not publish data and information that would separately disclose the business transactions or market positions of any person and trade secrets or names of customers.'' The disclosure called for by proposed Rule 4.27 is of aggregate information which would not require the disclosure of information covered by Section 8(a)(1).

[21] PWG Report at 32.

[22] *Id.*

[23] Caxton Corporation, Kingdon Capital Management, LLC, Moore Capital Management, Inc., Soros Fund Management, LLC, and Tudor Investment Corporation, ''Sound Practices for Hedge Fund Managers,'' February 2000 at l–1 and l–2 (hereinafter the ''Industry Sound Practices report'').

[24] *Id.*

[25] PWG Report at 24.

[26] As used herein, the term ''loss'' means any adverse change in the value of a pool's portfolio, whether realized or unreailzed. See *infra* at 20.

[27] Value-at-risk can, of course, be measured in any currency.

(for example, when all such entities compute value-at-risk using the same confidence level and holding period). Most importantly, value-at-risk incorporates correlations among positions in the portfolio without revealing the positions themselves; it does not compromise the confidentiality of a firm's trading strategies.

The methodology commonly understood as ''value-at-risk'' may, in the future, be replaced by some other method of measuring of market risk. Indeed, one or more reporting persons may already have developed such an alternative method. Accordingly, for purposes of proposed Rule 4.27 and in the discussion below, the term ''VAR'' shall mean any measure of exposure to market risk, including value-at-risk, that can be expressed in dollars and that represents the amount that a pool's losses during a stated period are expected not to exceed, with a stated degree of certainty.

VAR would complement traditional balance sheet measures of leverage by giving other market participants insight into the magnitude of the firm's exposure to losses. Under Section 4.27(d)(2)(i), each reporting person would be required to report for each pool under its control the highest, lowest, and ending VAR calculated during the reporting period at each confidence level and holding period for which VAR is normally calculated by the reporting person. However, as further discussed below, the proposed rule would not require disclosure of stress test results so as not to discourage reporting persons from conducting the most rigorous stress tests.[28] Some reporting persons may conduct stress testing by calculating VAR at extremely high confidence levels. Accordingly, no reporting person would be required to report VAR calculated at a confidence level in excess of 99.6%. (This is the confidence level corresponding to a VAR not expected to be exceeded more often than once in a year of 250 trading days).

A matrix of VAR results (*e.g.,* for 95%, 98%, and 99.6% confidence levels) would be more informative than a single result. Accordingly, the proposed rule requires disclosure of the highest, lowest, and ending VAR at each confidence level and holding period for which VAR is calculated by the reporting person. The Commission is aware, however, that this approach might be more burdensome than requiring, for example, results at the single highest confidence level for which VAR is calculated. The Commission invites comment on the best approach to take in this regard.

Under Section 4.27(d)(2)(ii), each reporting person would be required to report for each holding period for which it calculates VAR the frequency during the quarter with which losses for each pool under its control exceeded the corresponding VAR for such pool (at the highest confidence level calculated not exceeding 99.6%). Each reporting person would also be required to report the dollar magnitude of the greatest loss experienced by each pool during the quarter. The importance of examining the magnitude, as well as the frequency, of losses in excess of VAR is exemplified by the recommendation of one group of hedge fund managers that ''[e]ven if the frequency of changes in value in excess of that generated by the market risk model is within the expected range, if the observed change in the value of the portfolio differs significantly from the change that would be expected, given the composition of the portfolio and the observed changes in the market factors, [the hedge fund manager] should reconcile the difference.'' [29]

Many hedge funds actively seek risk, and indeed serve the market by acting as ''risk absorbers;'' that is, ''by standing ready to lose capital, [they] act as a buffer for other market participants in absorbing 'shocks.' '' [30] The ratio of VAR to net asset value (''NAV'') provides an indication of the ability of a firm to absorb the losses that it is likely to experience during normal market conditions. This type of ratio very usefully relates the separate concepts of leverage and risk to one another. The Industry Sound Practices report recommends that hedge fund managers track the leverage of their funds by ''using 'risk-based leverage' measures reflecting the relationship between the riskiness of a * * * portfolio and the capacity * * * to absorb the impact of that risk.'' ''VAR/Equity'' is one of several such measures mentioned in the report.[31]

To be sure, the calculation of VAR is highly sensitive to the selection of the confidence level at which it is measured, and the holding period over which it is calculated. There is no widely accepted standard for either of these parameters. For example, a 95% one-day VAR for a particular firm may be a relatively low dollar value that is expected to be exceeded every month (95% covering 19 out of 20 trading days in a month). By contrast, a 99.6% one-day VAR for the same firm might be a significantly larger dollar value that is not expected to be exceeded more often than once a year (99.6% covering 249/250 trading days). Many firms use each of these confidence levels and still other firms use levels of 98%, 99%, and so forth.

The Commission has considered whether it would be advisable to ensure that reported VAR information would remain directly comparable across multiple firms. To do so, the Commission would have to mandate the confidence level and holding period for which firms would be required to calculate and report VAR. This would mean, however, that some firms might be compelled to begin calculating VAR information that they do not already prepare and that would be inconsistent with the information used internally to manage trading activities. The Basel Committee on Banking Supervision (''Basel'') and IOSCO have recognized that the objectives of comparability across firms and consistency with internal risk management systems are not always compatible. They have emphasized the latter objective because ''linking public disclosure to internal risk management processes helps ensure that disclosure keeps pace with innovations in risk measurement and management techniques.'' [32]

The Commission believes that it is more important to ensure consistency with internal practices and proposes to require reporting persons to report VAR only for confidence levels and holding periods for which VAR is routinely calculated for internal purposes. This approach would provide other market participants with information which is consistent with information the pool's management utilizes in managing risk internally, in addition to imposing a lighter regulatory burden upon reporting persons.

Nor is the Commission proposing to specify a particular method or model that a firm should use to calculate VAR. To do so could create significant burdens for reporting persons and, given the rapid pace of innovation in both financial engineering and risk management, would be of questionable utility. Rather, the Commission is following the ''internal model'' approach chosen by Basel and IOSCO.

The Commission does seek to encourage firms to use accurate, reliable VAR models, and would do so by mandating the disclosure of the firms'

[28] See discussion *infra* at 14–15.

[29] Industry Sound Practices repoert at 17.

[30] *Id.* at 3.

[31] *Id.* at 19–20.

[32] Basel and IOSCO, ''Recommendations for Public Disclosure of Trading and Derivatives Activities of Banks and Securities Firms,'' October 1999, at 6 (hereinafter the ''Basel/IOSCO Disclosure Recommendations'').

backtesting results. Backtesting is a process by which the losses implied by the VAR calculation are compared to the losses experienced.[33] The results of this comparison provide valuable information about the validity of a firm's VAR model.[34] The Commission believes that market discipline will be facilitated by disclosing this information, so that other market participants may reach their own conclusions as to the accuracy of the firm's VAR, and the reliability of the firm's risk management systems. For example, if a firm calculates VAR at a 95% confidence interval over a one-day holding period, the expected value for the number of trading days that the VAR figure will be exceeded over a quarter-year of approximately 60 trading days is three (60 trading days × 95% = 57; 60 − 57=3). If a firm's actual one-day losses exceeded its calculated 95% one-day VAR on ten separate occasions during a quarter, and no sufficient explanation is provided, other market participants might conclude that the VAR calculated by the firm is of questionable reliability, and might draw adverse inferences concerning the firm's risk management.

Even when validated by solid backtest results, however, VAR provides only part of the information necessary to fully evaluate a firm's exposure to market risk. VAR represents merely the loss that is not expected to be exceeded under ''normal'' market conditions; it provides no information whatsoever about the possible extent of losses under ''abnormal'' market conditions. Even if VAR accurately predicts the worst loss that would occur in 99.6% of the trading days over a year (250 × 99.6% = 249), it would not provide any information as to the magnitude of potential losses on the remaining 0.4% of the trading days (250 × 0.4% = 1). A reporting person can only explore the potential extent of such extraordinary losses by conducting stress tests.

Stress tests involve subjecting models of the firm's positions to various sets of extreme market conditions and measuring the losses that would result.[35] These conditions might include historical circumstances, such as the 1987 stock market drop or the 1998 Russian loan default, or hypothetical scenarios specifically designed to stress the firm's current positions. Consequently, the results of properly performed stress tests can show extraordinarily high hypothetical losses. For example, a firm with total assets of $3 billion, a net asset value of $500 million, and a 99.6% one-day VAR of $100 million (*e.g.* a VAR-to-NAV ratio of only 20% which many might consider quite adequate) could very likely, through rigorous stress tests, generate modeled losses well in excess of $500 million.

If reporting persons were compelled to publicly disclose their stress test results, they might be discouraged from performing the most rigorous stress tests that they could develop and might not learn of and address potential weaknesses in their portfolio strategies. Therefore, the proposed rule would not require reporting persons to report stress test results. Rather, reporting persons would be required simply to report whether stress tests have been performed during the quarter and, if so, whether the results of such tests are communicated to an appropriate level of management.

The reporting person would be permitted (but not required) to provide any other information with which it might wish to supplement the reported VAR information. This information would be posted publicly along with the required information.

3. Initial Reporting Concerning Risk Management Practices Under Rule 4.27

As discussed above, the Commission is not proposing to mandate use of specific parameters or methodologies for monitoring the risk exposures. This means, however, that for the quantitative information in the quarterly reports to be useful to other market participants, some additional information must be made available to enable the quarterly reports to be placed in context.

The Commission therefore proposes that each reporting person submit narrative descriptions of their practices in five areas set forth in Section 4.27(c)(2). These cover the reporting person's policies, procedures, and systems for supervising, monitoring, and reviewing market, credit, and funding liquidity risks generated by its financing, trading, and investment activities. Initially, each reporting person would be required to submit an entire set of responses. Thereafter, a revised set of responses would be required following any material change in those policies, procedures, or systems. Such updated responses would be due concurrently with the submission of the next quarterly report required under Section 4.27(d)(2).

The Commission has developed the topics described below based on a review of discussions of ''best practices'' from both governmental organizations[36] and private industry.[37] It is important to note that the Commission is not proposing to require reporting persons to use any of the tools that are the subjects of the inquiries. This is consistent with the caveats in the private industry reports, which emphasize that the best practices they discuss may not be appropriate for hedge funds of all sizes.[38] Rather, the Commission is simply proposing that reporting persons be required to disclose to the market information about its use of such tools, along with any additional information the reporting person might believe is necessary to put that disclosure in context. It would then be up to a reporting person's counterparties to determine whether or not the reporting person's risk management efforts are adequate, and the appropriate steps to take in light of that determination. Thus, these reports are expected to lead to improvements in risk management systems as market discipline encourages firms to adopt best practices as they evolve in the industry.

[33] ''By comparing actual changes in the value of the portfolio to the changes generated by the VAR calculation, the [hedge fund manager] can gain insight into whether the VAR model is accurately measuring a [hedge fund's] risk.'' Industry Sound Practices report at I–13.

[34] ''[I]f the frequency of changes in value of the portfolio exceeds the frequency generated by the market risk model (a statistical expection based on the confidence level of the market risk model), such deviation should be scrutinized to determine its source.'' *Id.* at 16.

[35] Hedge fund managers are advised to ''perform 'stress tests' to determine how potential changes in market conditions could impact the market risk of [their] portfolio[s]. * * * [and] also consider conducting 'scenario analyses' to benchmark the risk of the [the fund's] current portfolio against various scenarios of market behavior (historical or prospective) that are relevant to the [manager's] trading activities (*e.g.* the October 1987 stock market event, the Asian financial crisis * * *).'' Industry Sound Practices report at 15–16.

[36] See generally PWG Report; Basel and IOSCO, ''Trading and disclosures of Banks and Securities Firms—Results of the Survey of Public Disclosures in 1998 annual Reports,'' December 1999; the IOSCO Hedge Fund Report; the Basel/IOSCO Disclosure Recommendations; Basel, ''Sound Practices for Banks' Interactions with Highly Leveraged Institutions,'' January 1999; Basel/IOSCO, ''Framework for Supervisory Information about Derivatives and Trading Activities,'' September 1998; IOSCO, ''Principles for the Supervision of Operators of Collective Investment Schemes,'' September 1997; and Basel, ''Supervisory Framework for the Use of 'Backtesting' in Conjunction with the Internal Models Approach to Market Risk Capital Requirements,'' January 1996.

[37] See generally the Industry Sound Practices Report and the Counterparty Risk Management Policy Group (or ''CRMPG,'' a group of major commercial and investment banks), ''Improving Counterparty Risk Management Practices,'' June 1999 (hereinafter the ''CRMPG Report'').

[38] See, e.g., CRMPG Report at 2 and Industry Sound Practices report at 2.

Topic 1—Approach to Risk Management

The first topic is the reporting person's overall approach to risk management. A responsive disclosure would include a discussion of the extent to which the reporting person has established an independent risk monitoring function within its organization, the extent of that function's resources and the nature of its authority, the types of risk monitoring techniques the reporting person employs, and the ways in which senior management is involved in risk management.[39]

The Commission believes this information would be of particular value in helping other market participants to develop an understanding of the strength of the reporting person's commitment to sound risk management practices. For example, information about the degree to which senior management is involved in risk monitoring, the authority which the risk monitoring function may exercise over other functions such as the trading desk, and the financial and human resources dedicated to risk management efforts could assist other market participants in gauging how rigorously the firm balances its risk taking against potential returns.

Topics 2 (Market Risk in Normal Markets) & 3 (Market Risk in Abnormal Markets)

The second and third topics both relate to the reporting person's approach to measuring and managing its exposure to market risk. The second topic is the method used by the reporting person to measure market risk during normal market conditions, how it validates its models (for example, backtesting), and whether its practices are tested by external auditors. These inquiries are intended to give other market participants insight into the reliability of the quantitative market risk information conveyed quarterly by reporting persons. The knowledge that a reporting person is utilizing contemporary techniques to measure market risk, has addressed major problem areas with input data, and subjects its methodologies to backtesting and external audits might give other market participants greater confidence in these quarterly numbers.

The third topic is the reporting person's use of stress tests, its policies and practices for ensuring that meaningful and realistic scenarios are used in stress tests, and the extent of management involvement in the process of developing scenarios and evaluating results. This information is important in helping other market participants evaluate the extent to which the reporting person prepares for abnormal market conditions. Stress tests are an essential tool for exploring the potential extent of extraordinary losses under such market conditions. The value of stress testing depends on the development and use of scenarios that are meaningful to the unique market positions of the reporting person. Ensuring that scenarios are meaningful requires the involvement of experienced and seasoned traders and managers.

Topic 4 (Credit Risk)

The fourth topic is credit risk; that is, the likelihood that trading counterparties will be unwilling or unable to perform their obligations to a reporting person (also sometimes called ''default risk''). Credit risk is currently the focus of widespread efforts to develop quantitative measurement techniques similar to those that have been developed to measure market risk. However, these techniques are not yet as well developed nor are they as generally accepted as are the market risk measurement techniques such as value-at-risk. Accordingly, the Commission does not propose to require any disclosure of quantitative credit risk information in the quarterly reports.

The Commission does believe that other market participants will benefit from insight into the extent to and means by which a reporting person monitors its credit risk exposures. Therefore, under the proposal, each reporting person would be required to provide information about the basic processes by which it evaluates the creditworthiness of potential counterparties, whether it employs any of various methodologies to quantify its credit risk exposures, whether it monitors the concentration of its exposures, and whether it uses credit risk mitigation tools such as netting agreements.

Topic 5 (Funding Liquidity Risk)

The fifth topic is funding liquidity risk; that is, the risk that due to its capital structure or to constraints upon its ability to access additional external capital a reporting person will be unable to fund its operations or to fulfill its trading obligations without resorting to the unplanned liquidation of positions.[40]

The Commission has concluded that requiring a reporting person to disclose detailed information on its access to additional capital might impinge upon sensitive relationships and has decided not to propose requiring the disclosure of quantitative information about funding liquidity risk in the quarterly reports. Each reporting person would, however, be required to provide a description of the processes by which it monitors its funding liquidity, determines an appropriate limit on financial leverage, and ensures its ability to access additional capital when necessary.

4. Filing and Attestation

Proposed Section 4.27(e) would provide for the filing of required reports by mail and concurrently by e-mail. The Commission believes that electronic filing would expedite processing and publication of the data filed, and that the large, sophisticated entities that would be required to report under this regulation are likely to have the facilities to file reports in this matter without undue burden. The Commission proposes to require attestation of all required filings in a manner consistent with Section 4.22(h).

5. Definitional Matters

Proposed Sections 4.27(a)(1) and (7) refer to the definitions of commodity pool operator and net asset value set forth in § 4.10 of Part 4.

Section 4.27(a)(2) would define control as the direct or indirect power to direct or cause the direction of the management and policies of the pool, whether through the ownership of any share, partnership interest or other investment in the pool, by contract or otherwise. This definition is modeled after that found in regulation 12b–2 under the Securities Exchange Act of 1934, 17 CFR 240.12b–2.

Section 4.27(a)(3) would define controlled assets as the aggregate of all assets in one or more pools under common control. (Investments by one such pool in another are excluded to avoid double counting). Section

[39] The risk monitoring function ''should report directly to [s]enior [m]anagement and be staffed with persons having sufficient experience and knowledge to understand [the fund's] trading strategies and the nature and risk of its investments.'' In addition, ''[c]omprehensive and centralized systems for position and global exposure reporting and risk analysis should function independently of risk selection/portfolio management personnel so that trading activities and operations may be effectively supervised and compliance with trading policies and risk limits can be controlled.'' Industry Sound Practices report at 10.

[40] Hedge fund managers ''should evaluate the stability of sources of liquidity and plan for funding needs accordingly, including a contingency plan in periods of stress * * * [including] taking into account potential investor redemptions and contractual arrangements that affect [the hedge fund's] liquidity (e.g. notice periods for reduction of credit lines by counterparties).'' Industry Sound Practices report at 18.

4.27(a)(4) would define controlled net asset value in a similar manner.

Section 4.27(a)(5) would define governing authority of a pool to mean the pool's Board of Directors, managing member, general partner, trustee or similar person with the legal authority and responsibility to manage the affairs of the pool, while section 4.27(a)(10) would define senior management of a reporting person as the managing committee, group of executives, or other body with the authority and responsibility to direct and oversee the trading activities of a pool controlled by the reporting person.

Section 4.27(a)(6) would define loss as any adverse change, realized or unrealized, in the value of a pool's portfolio, as measured for risk management purposes. This definition focuses on losses as actually measured by the reporting person. This calculation excludes additions, withdrawals, and redemptions of capital.

Section 4.27(a)(8) would define pool as any investment trust, syndicate or similar form of enterprise that is controlled by a commodity pool operator.

Section 4.27(a)(9) would define reporting period as each calendar quarter; however, if all pools controlled by the same person have a fiscal year other than the calendar year, and all such pools have the same fiscal year, it shall mean each such fiscal quarter. The latter restriction is intended to avoid confusion in cases where multiple pools controlled by the same person have different fiscal years.

Section 4.27(a)(11) would define VAR as the amount, stated in U.S. dollars, which a pool's losses during a stated period (the ''holding period'') are expected, with a stated degree of certainty (the ''confidence level''), not to exceed. This includes the statistical measure, ''value-at-risk,'' currently calculated by many market participants, as well as any similar measure of market risk that may be developed or used.

III. Related Matters

A. Paperwork Reduction Act

Rule 4.27 contains information collection requirements. As required by the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)), the Commission has submitted a copy of this section to the Office of Management and Budget (OMB) for its review.

Collection of Information

Rules Relating to the Public Reporting by Operators of Certain Large Commodity Pools, OMB Control Number 3038–XXXX.

The burden associated with the proposed new rule is estimated to be 1,125 hours which will result from new reporting requirements for certain large commodity pool operators (CPOs).

The estimated burden of the proposed new rule with respect to ongoing quarterly reports required under Section 4.27(d) of each entity that qualifies under Section 4.27(b) was calculated for each year in which Rule 4.27 is effective as follows:

Estimated number of respondents: 25

Annual responses by each respondent: 4

Total annual responses: 100

Estimated average hours per response: 5

Annual reporting burden: 500 hours

The estimated burden of the proposed new rule with respect to the initial report required under Section 4.27(c) of each entity in the year in which such entity first qualifies under Section 4.27(b) was calculated for the first year in which Rule 4.27 is made effective as follows:

Estimated number of respondents: 25

Annual responses by each respondent: 1

Total annual responses: 25

Estimated average hours per response: 25

Annual reporting burden: 625 hours

Organizations and individuals desiring to submit comments on the information collection requirements should direct them to the Office of Information and Regulatory Affairs, OMB, Room 10235 New Executive Office Building, Washington, DC 20503, Attention: Desk Officer for the Commodity Futures Trading Commission.

The Commission considers comments by the public on this proposed collection of information in—

- Evaluating whether the proposed collection of information is necessary for the proper performance of the functions of the Commission, including whether the information will have a practical use;
- Evaluating the accuracy of the Commission's estimate of the burden of the proposed collection of information, including the validity of the methodology and assumptions used;
- Enhancing the quality, usefulness, and clarity of the information to be collected; and
- Minimizing the burden of collection of information on those who are to respond, including through the use of appropriate automated electronic, mechanical, or other technological collection techniques or other forms of information technology, *e.g.,* permitting electronic submission of responses.

OMB is required to make a decision concerning the collection of information contained in these proposed regulations between 30 and 60 days after publication of this document in the **Federal Register**. A comment to OMB is best assured of having its full effect if OMB receives it within 30 days of publication. This does not affect the deadline for the public to comment to the Commission on the proposed regulations.

Copies of the information collection submission to OMB are available from the CFTC Clearance Officer, 1155—21st Street, NW, Washington, DC 20581, (202) 418–5160.

B. Regulatory Flexibility Act

The Regulatory Flexibility Act (''RFA''), 5 U.S.C. 601–611, requires that agencies, in proposing regulations, consider the impact of those regulations on small businesses. The Commission has previously established certain definitions of ''small entities'' to be used by the Commission in evaluating the impact of its regulations on such entities in accordance with the RFA.[41] The Commission has previously determined that FCMs and CPOs are not small entities for the purpose of the RFA.[42] Moreover, the regulations that are the subject of the present rulemaking apply, by their terms, only to extraordinarily large entities. The Chairman, on behalf of the Commission hereby certifies, pursuant to 5 U.S.C. 605(b), that these proposed regulations will not have a significant economic impact on a substantial number of small entities. Nonetheless, the Commission specifically requests comment on the impact these proposed regulations might have on small entities.

List of Subjects in 17 CFR Part 4

Advertising, Commodity futures, Commodity interest, Commodity pool operators, Consumer protection.

In consideration of the foregoing and pursuant to the authority contained in the Commodity Exchange Act and, in particular, section 1a(4), 4l, 4m, 4n, and 8a, 7 U.S.C. 1a(4), 6l, 6m, 6n, and 12a, the Commission hereby proposes to amend Chapter I of the Code of Federal Regulations as follows:

PART 4—COMMODITY POOL OPERATORS AND COMMODITY TRADING ADVISORS

1. The authority citation for Part 4 continues to read as follows:

[41] 47 FR 18618–18621 (April 30, 1982).

[42] 47 FR 18619–18620 (April 30, 1982).

Authority: 7 U.S.C. 1a.2, 4, 6b, 6c, 6l, 6m, 6n, 6o, 12a and 23.

2. A new § 4.27 is proposed to be added to subpart B to read as follows:

§ 4.27 Public reporting by operators of certain large commodity pools.

(a) General definitions. For the purposes of this section:

(1) *Commodity pool operator* or *CPO* has the same meaning as ''commodity pool operator'' defined in section 1a(4) of the Commodity Exchange Act;

(2) *Control* means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise;

(3) *Controlled assets* means the sum of all assets in all pools controlled by the same person, exclusive of any interest that any pool controlled by such person may have in any other pool controlled by such person;

(4) *Controlled net asset value* or *CNAV* means the sum of the net asset values for all pools controlled by the same person, exclusive of any interest that any pool controlled by such person may have in any other pool controlled by such person;

(5) *Governing authority* means a pool's Board of Directors, managing member, general partner, trustee or similar person with the legal authority and responsibility to manage the affairs of the pool;

(6) *Loss* means any adverse change, realized or unrealized, in the value of a pool's portfolio, as measured for risk management purposes. This calculation excludes any additions, withdrawals, or redemptions of capital;

(7) *Net asset value* or *NAV* has the same meaning as ''net asset value'' as defined in § 4.10(b);

(8) *Pool* means any investment trust, syndicate or similar form of enterprise that is controlled by a commodity pool operator;

(9) *Reporting period* means either:

(i) Each quarter ending March 31, June 30, September 30, or December 31, or

(ii) In the case of a reporting person controlling one or more pools of which each has the same fiscal year that is not the calendar year, each quarter of such fiscal year for such pool(s);

(10) *Senior management* means the managing committee, group of executives, or other body of a reporting person with the authority and responsibility to direct and oversee the trading activities of a pool controlled by such reporting person; and

(11) *VAR* means the amount, stated in U.S. dollars, which a pool's losses during a stated period (the ''holding period'') are expected, with a stated degree of certainty (the ''confidence level''), not to exceed.

(b) Persons required to report. (1) A reporting person is any commodity pool operator that:

(i) Controls one or more pools where, as of the last business day of a reporting period,

(A) The controlled assets of such pool or pools are equal to or greater than three billion dollars ($3,000,000,000); or

(B) The controlled net asset value of such pool or pools is equal to or greater than one billion dollars ($1,000,000,000); or

(ii) That qualified as a reporting person pursuant to this paragraph (b)(1) as of the last business day of any of the prior three reporting periods.

(2) For purposes of calculations pursuant to this paragraph (b), all amounts shall be converted to U.S. dollars at the rate in effect on the date for which such report is made.

(c) Initial reporting. Each reporting person shall file with the Commission, not later than 30 days after the end of the first reporting period during which such reporting person satisfies the requirements of paragraph (b) of this section, a report with respect to each pool under its control and each such report shall contain the name and address of the reporting person, the name of the pool with respect to which the report is being filed, and the following information:

(1) A narrative description of the strategic approach taken toward the management of market, credit, and funding liquidity risk exposures, including:

(i) The process by which the pool's governing authority sets standards for appropriate risk taking,

(ii) The structure, autonomy, and authority of the risk monitoring function,

(iii) The types of tests and tools used to control risk taking in trading and investment activities, and

(iv) The extent and frequency of risk information routinely provided to the governing authority and senior management;

(2) A narrative description of the technique (such as value-at-risk) used to measure, monitor, and manage the exposure of the pool to market risk, including discussions of, as applicable:

(i) Methodology (for example, historic, parametric, Monte Carlo, or quasi Monte Carlo),

(ii) Confidence levels and holding periods,

(iii) The evaluation of correlations within and among markets,

(iv) How the position liquidity of portfolios is monitored,

(v) How non-normally distributed data is handled,

(vi) Whether historic data is weighted,

(vii) How models are backtested or otherwise validated, and

(viii) How often models are tested by an external auditor;

(3) A narrative description of the use of stress tests to determine the magnitude of potential losses in excess of VAR, including discussions of:

(i) The methodologies used (for example, historic events, hypothetical scenarios, or matrix analysis),

(ii) Stress factors examined,

(iii) The extent of senior management's involvement with the design and construction of stress tests,

(iv) The extent to which stress test results are communicated to the governing authority and to senior management, and

(v) The policies established with respect to actions that management should take in response to results deemed incompatible with its risk appetite;

(4) A narrative description of the measurement, monitoring, and management of the pool's exposure to credit risk, including:

(i) How the creditworthiness of individual counterparties is evaluated,

(ii) Whether value-at-risk-style techniques for quantifying credit risk are utilized,

(iii) How the concentration of exposures to particular counterparties and sectors is monitored, and

(iv) Whether netting agreements and other credit risk mitigation tools are employed; and

(5) A narrative description of the measurement, monitoring, and management of the pool's exposure to funding liquidity risk, including:

(i) The approach taken toward managing financial leverage,

(ii) How the level of liquid reserves is determined, and

(iii) The extent of the authority, if any, to:

(A) Restrict withdrawals of capital or other redemptions of interests in the pool or repayments of subordinated debt,

(B) Compel additional contributions of capital, and

(C) Access committed lines of credit.

(6) If any tests, analyses, or practices discussed in paragraphs (c)(1) through (5) of this section are not performed, the reporting person should so state separately with respect to each item.

(d) Quarterly reporting. Each reporting person shall file with the Commission, not later than 30 days after

the end of each reporting period, a report with respect to each pool under its control. Each such report shall contain the name and address of the reporting person, the name of the pool with respect to which the report is being filed, and the following information:

(1) Financial information:

(i) A statement of financial condition as of the end of the reporting period;

(ii) A statement of income or loss for the reporting period;

(iii) A statement of changes in financial position for the reporting period; and

(iv) A statement of changes in net asset value over the reporting period which shall be prepared in accordance with § 4.22(a)(2).

(2) Risk information:

(i) The highest, lowest, and last VAR for the pool during the reporting period at each confidence level and holding period for which it was calculated by the reporting person; provided that VAR calculated for confidence intervals in excess of 99.6% need not be reported;

(ii) (A) For each holding period for which the reporting person calculated VAR, the number of occasions, if any, on which losses exceeded the corresponding VAR calculated for that holding period at the greatest confidence interval, not in excess of 99.6%, for which VAR was calculated by the reporting person and

(B) The dollar amount of the greatest loss during the reporting period, whether or not it exceeded the corresponding VAR;

(iii) A brief discussion of whether, during the quarter, stress tests were performed with respect to the pool's positions and, if so, whether the results thereof were reported to senior management and the governing authority; and

(iv) Any additional information which the reporting person wishes to present to supplement the information in paragraph (d)(2) of this section.

(3) Changes in risk management practices: If, for any pool controlled by the reporting person, there is any material change to the information provided pursuant to paragraph (c) of this section, as modified by previous submissions pursuant to this paragraph (d)(3) concerning that pool, the reporting person shall submit a revised set of responses pursuant to paragraph (c) of this section.

(4) All financial information shall be reported in accordance with generally accepted accounting principles consistently applied.

(e) Filing requirements. Each report required to be filed with the Commission under this section shall:

(1) Be signed in accordance with the requirements of § 4.22(h); and

(2) Be sent via first-class mail, postage prepaid, to: Commodity Futures Trading Commission, Three Lafayette Centre, 1155—21st Street, NW., Washington, DC 20581, Attention: Managed Funds Branch, *and* by attachment to an e-mail message addressed and sent to *hfreport@cftc.gov* with electronic confirmation of delivery activated.

(3) Copies of reports shall be retained in accordance with § 1.31.

(f) Public records. Reports filed pursuant to this section shall be considered Public Records as defined in § 145.0 of this chapter.

* * * * *

Issued in Washington, DC, on April 11, 2000 by the Commission.

Jean A. Webb,

Secretary of the Commission,

Dissenting Remarks of Commissioner Barbara Pedersen Holum, Proposed Rule 4.27;Reporting by Operators of Certain Large Commodity Pools

In April 1999, the President's Working Group on Financial Markets issued a report entitled ''Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management'' (the ''PWG Report''). Among other things, the PWG Report recommended (i) that registered CPOs operating large funds begin filing with the Commission quarterly, (ii) that the reports include more comprehensive information on market risk, and (iii) that information in the reports be published.

These recommendations respond to events occurring twenty months ago. However, market developments since then call into question whether a specific prescriptive rule, such as proposed Rule 4.27, is the appropriate response at this time.

In my judgement, and in light of the recommendations of the CFTC staff task force report entitled ''A New Regulatory Framework,'' the Commission should seek comment on whether the specific recommendations of the PWG Report remain current and, if so, how best to achieve them. For these reasons, I respectfully dissent from the Commission's issuance of proposed Rule 4.27.

Commissioner Barbara Pedersen Holum
Date: April 7, 2000.

Concurring Statement of Commissioner Erickson

I concur with the Commission's publication of the proposed rules that would require commodity pool operators (CPOs) of the largest commodity pools to file quarterly reports with the Commission. Given that the proposed rules are intended to respond to the events surrounding the near-collapse of Long-Term Capital Management (LTCM), comments from the public and especially from the industry will be instructive in the Commission's efforts to craft an approach that is indeed effective. In addition to comments limited to the proposed rule, I am interested in comments that will inform the Commission about how the industry has addressed the potential risks posed by certain highly leveraged institutions since the LTCM episode. Moreover, I encourage the submission of comments that provide input on the following issues:

1. The proposed rules envision a reporting system whereby the Commission is essentially a conduit for the public dissemination of quarterly reports without any further review by any federal financial regulator. Is publication alone sufficient?

2. It is not clear that reporting on a quarterly basis would have been sufficient to address the events precipitating the private rescue of LTCM. Assuming that reporting alone is an adequate response, would quarterly reporting be effective?

3. The April 1999 report of the President's Working Group on Financial Markets concluded that the ''central public policy issue raised by the LTCM episode is how to constrain excessive leverage more effectively.'' One possible way to address leverage concerns would be to require CPOs to provide the Commission with a confidential early warning notification structured similar to the Commission's existing notification requirement with respect to net capital requirements for futures commission merchants. Such an approach may address publicly expressed concerns about the quantity and quality of the information available to federal financial regulators in the weeks preceding LTCM. What are the public policy implications of such an approach—either in addition to or in lieu of quarterly reports?

[FR Doc. 00–9463 Filed 4–14–00; 8:45 am]

BILLING CODE 6351–01–P

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG–116048–99]

RIN 1545–AX63

Stock Transfer Rules: Supplemental Rules; Hearing Cancellation

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Cancellation of notice of public hearing on proposed rulemaking.

SUMMARY: This document provides notice of cancellation of a public hearing on proposed regulations relating to supplemental rules for stock transfers.

DATES: The public hearing originally scheduled for Thursday, April 20, 2000, at 10 a.m., is canceled.

FOR FURTHER INFORMATION CONTACT: Guy Traynor of the Regulations Unit, Assistant Chief Counsel (Corporate), (202) 622–7180 (not a toll-free number).

SUPPLEMENTARY INFORMATION: A notice of proposed rulemaking and notice of