



**Rosenthal
Collins
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C.F.T.C.

Experience That Works

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August 4, 2000

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

Re: Rules Relating to Intermediaries of Commodity Interest Transactions

Dear Ms. Webb:

Rosenthal Collins Group, L.L.C. ("RCG") welcomes the opportunity to respond to the Commodity Futures Trading Commission's ("CFTC") proposed rule amendments relating to intermediaries of commodity interest transactions in the June 22, 2000, *Federal Register*. RCG would like to provide the following comments:

Core Principle One – Registration

RCG strongly encourages the CFTC to adopt the risk-based capital requirements developed by the Chicago Mercantile Exchange ("CME") and Chicago Board of Trade ("CBOT"). In adopting this risk-based approach, RCG recommends the CFTC eliminate the current "funds based" approach. The CME and CBOT risk-based model has several years of historical analysis that demonstrates its effectiveness.

Core Principle Three – Financial Requirements

RCG is in favor of permitting institutional customers to "opt out" of segregation. For those customers that "opt out" of segregation, a futures commission merchant ("FCM") should not be restricted as to where the funds are held. Rather, the net capital rules will dictate the allowable/nonallowable treatment and the capital requirements for those funds that are not held in segregation. This is consistent with the CFTC's approach with noncustomer funds. The capital requirements related to customers that "opt out" are included in the CME and CBOT risk-based model. An FCM must obtain from customers that "opt out" of segregation an acknowledgement to this effect and the impact of such decision (i.e. priority in a bankruptcy distribution). As it relates to bankruptcy, prior to permitting any customer to "opt out" of segregation, the CFTC must clearly indicate the priority of distribution in an FCM bankruptcy. RCG believes that the current Part 190 rules are inconsistent and confusing relating to priority of claims for customers, noncustomers, and general creditors.

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COMMENT

RCG is in favor of expanding the investment opportunities within proposed CFTC Regulation 1.25. However, RCG is concerned with the requirement for the expanded securities available to invest be in the highest short-term rating of a nationally recognized statistical rating organization ("NRSRO") or one of the two highest long-term ratings of an NRSRO. RCG believes that this will limit our increased flexibility in investment opportunities. RCG also recognizes that many FCMs and clearing organizations have had limited experience investing in securities other than US government securities. We suggest the CFTC adopt the current proposal with a commitment to the industry to review the restrictive rating requirements once FCMs and clearing organizations have had an opportunity to incorporate the additional securities available to invest into their investment programs.

As it relates to municipal securities, RCG has developed a municipal securities investment program. The program has a market value of approximately \$2.0 million and represents less than 2% of total segregated assets. The average duration is 1 year with only one security having a maturity greater than 2 years (\$105,000 par value with a 3 year maturity). RCG has followed the established requirements within CFTC 1.25. RCG recommends the CFTC to continue to allow general obligation municipal securities regardless of the rating. In many instances, municipal securities are not rated due to the costs associated with obtaining a rating. The fact that they are general obligations minimizes the default risk. If no changes are made to the current proposal, a substantial portion of RCG's municipal securities will not be in compliance with Rule 1.25 and we request a "grand-father" provision for our existing portfolio.

Finally, RCG recommends an amendment to CFTC Rule 1.17(c)(5)(x) (proprietary capital charges), which was not specifically mentioned in the proposed rule changes. RCG recommends the CFTC eliminate the 150% requirement for proprietary positions not directly cleared by the FCM. RCG believes the initial purpose of this rule was that the FCM had more control over those trades it cleared directly with a clearing organization than those trades cleared by a correspondent broker. However, with the sophistication of today's market, RCG believes an FCM has the same degree of control and access to market for trades clearing directly with a clearing organization or through a correspondent broker. RCG proposes that all proprietary positions be subject to the 100% requirement.

If you have any questions, please call me at (312) 795-7560.

Respectfully submitted,



Richard J. Horgan
Chief Financial Officer