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SENTINEL MANAGEMENT GROUP, INC

ERIC A. BLOOM
PRESIDENT & CEO

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

RECORDS SECTION
OFFICE OF THE SECRETARIAT

COMMENT

Re: Proposed changes to Rule 1.25

Dear Ms. Webb:

Sentinel Management Group, Inc. ("Sentinel") appreciates the opportunity to comment on the Commodity Futures Trading Commission's ("CFTC") proposed changes to rule 1.25 pertaining to the investment of customer funds (17 CFR 1.25). Since 1980, Sentinel has been a registered FCM whose primary business is the investment of customer funds of FCMs, clearing organizations and other institutional investors.

Sentinel welcomes and supports the expansion of investment alternatives available to FCMs and clearing organizations and recognizes that the safety of customer funds is essential to the overall well-being of the FCM, the clearing organizations and the industry in general. Sentinel believes that the proposed rules will enable the FCM community to earn higher yields on customer funds without exposing them to undue risk. We support the proposed changes subject to the following comments.

Under the proposed rule, the allowable investments ("Permitted Investments") will be expanded to include U.S. government securities, municipal securities, certificates of deposit ("CD"), commercial paper ("CP"), corporate notes ("MTN") and interests in money market mutual funds ("MMF"). In addition, the rule will allow for the use of repurchase and reverse repurchase agreements ("repos") utilizing any of the Permitted Investments. The proposed rule also specifies concentration limits on all of the permitted investments except U.S. government securities and interests in MMFs. Sentinel agrees that concentration limits are prudent practice and agrees with the concentration limits proposed for the Permitted Investments when those investments are purchased outright and held in the portfolio. However, Sentinel notes that the risks of owning such securities outright are greater than the risks of holding such securities in the form of a repo. Under the proposed rule, a repo is limited to an overnight investment and therefore has a 1 day maturity and duration. Therefore, a repo is more liquid than the direct investment in the security used to collateralize the repo. This increased liquidity also reduces the price volatility of the security since the repo will be unwound the following day. In addition, since the counterparty to the repo is obligated to repurchase the security

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at a specified date and price, notwithstanding any changes in the value or market price of the security, the same security held under a repo enjoys a higher credit quality (as a result of the obligation of the counterparty) than the security would if it were owned outright by the FCM or clearing organization. Finally, as a practical operational matter, if Permitted Investments used to collateralize repos were limited to 5 percent of the FCM or clearing organization's total assets held in segregation, many small and mid-sized FCMs would be unable to take advantage of the repo market as the transaction costs associated with a large number of small transactions would be prohibitive. In addition, most counterparties consider repos under \$15 million to be "odd lots" and are therefore not willing to engage in small value repos. In light of these facts, Sentinel believes that the concentration limits set forth in the proposed rule should not be applied to Permitted Investments that are held by a FCM or clearing organization pursuant to a repo. We do, however, acknowledge that diversification among repo counterparties is a prudent practice. Perhaps the CFTC may wish to consider imposing a reasonable concentration limit for any given counterparty.

Sentinel appreciates this opportunity to submit these comments on the proposed changes to rule 1.25. If you have any questions regarding this matter, please feel free to contact Philip M. Bloom, Sentinel's General Counsel, at 847-412-4412 or me at 847-412-4420.

Very truly yours,



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