



MANAGED FUNDS ASSOCIATION

VIA ELECTRONIC MAIL: secretary@cftc.gov

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Ms. Jean A. Webb
Secretary to the Commission
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, D.C. 20581

Re: "Self-Regulation and Self-Regulatory Organizations," Request for Additional Comments 70 *Fed.Reg.* 71090 (November 25, 2005) as extended 70 *Fed.Reg.* 75794 (December 21, 2005)

Managed Funds Association ("MFA") is pleased to submit this statement for the record of the Commodity Futures Trading Commission's ("CFTC's") roundtable hearing on self-regulation and self-regulatory organizations ("SRO's") in the United States future industry. MFA is the leading U.S.-based membership organization representing the interests of professionals worldwide who specialize in the alternative investment industry, including hedge funds, funds of funds and managed futures funds. MFA has over 1,000 members from over 20 countries, including professionals representing 35 of the world's 50 largest hedge funds. Hedge funds represented by our members manage a significant portion of the estimated \$1.5 trillion invested globally in alternative products. Among MFA's membership are many commodity pool operators ("CPOs") and commodity trading advisers ("CTAs"), whose market activities are supervised by the CFTC and the SROs authorized by the Commodity Exchange Act ("CEA"). Collectively, these MFA members are responsible for a significant portion of the daily volume in the U.S. futures markets.

MFA members trade and invest in many futures and securities markets that rely on self-regulation to provide integrity, transparency, efficiency and fairness. MFA members, therefore, have a stake in making sure that SROs continue to meet the needs of all market participants and continue to serve the public interest as embodied in the Commodity Exchange Act. The CFTC's November 25, 2005, Federal register notice on self-regulation frames well what we understand to be the most important structural and policy issues facing SROs today.

MFA has no pre-conceived notions on SRO structure or policy. In general, we would favor a balanced approach to SRO structure which would blend the expertise of seasoned industry participants with the unquestioned impartiality of decision-makers with no business interest in the outcomes. Both ingredients are invaluable. Self-regulatory rules, policies and discipline which are not grounded in substantial market realism and knowledge would be counter-

Ms. Jean A. Webb

Page 2

productive and could lead to decisions dictated by default by SRO management teams. At the same time, when SRO policies and adjudications have been adopted or endorsed by independent arbiters, the market perceives self-regulation to be at its strongest, a conclusion confirmed by the decision of many SROs to add non-industry participants to their boards and regulatory committees.

MFA members also rely on the Commission to continue to provide effective oversight of SRO activities and decisions. The CEA contains carefully-calibrated, congressionally-crafted checks and balances on SRO powers which enable the CFTC to draw upon its sound judgment and considerable authority to curb any shortcomings or excesses it perceives to be permeating SRO actions. Those added measures of protection also are a source of strength for self-regulation under the CEA.

Additionally, MFA has great confidence in the capabilities of the National Futures Association (“NFA”). NFA competently exercises front-line regulatory authority responsibility over CPOs and CTAs, particularly in the areas of registration, compliance, examination and dispute resolution. As a genuinely independent body with significant authority over the activities of all participants in the futures markets who conduct business with public customers, NFA has represented the best in self-regulation. Its diverse board and dedicated staff consistently seeks to apply a properly-weighted regulatory touch to facilitate the efficient operation of the futures markets and the maintenance of investor confidence in their fairness and integrity. Nevertheless, continued CFTC oversight of NFA is also important given the broad scope of NFA’s mandate and responsibilities. But as a model for SROs, NFA has been a success, and MFA would not recommend or support any material change in NFA structure or operations.

Self-regulation has always been the life blood of futures market regulation under the CEA. Despite major changes resulting from globalization, technology and conversions to for-profit status, it remains the first line of defense against misconduct and abuse that if not exercised, or perceived to be exercised, fairly could ruin the confidence market participants now have in U.S. self-regulators. If that confidence is ever lost, it may never be regained, and surely will not be regained easily. For that reason, MFA commends the CFTC for its deliberative approach to these important issues of public and regulatory policy.

Very truly yours,

/s/ John G. Gaine

John G. Gaine
President

cc: Stephen B. Braverman
Alan G. Sobba