Columbia Business School
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Columbia University
Uris Hall
3022 Broadway
New York, NY 10027

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Mark Zurack
Professor
Finance and Economics

T. 212-854-7595
F. 212-932-8614
mz2015@gsb.columbia.edu

Mr. Brent J. Fields
Secretary
United States Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Dear Mr. Fields:

Subject: Use of Derivatives by Registered Investment Companies and Business Development Companies (File Number S7-24-15)

My name is Mark Zurack and I am currently a Professor at Columbia Business School where I teach graduate level courses in Capital Markets and Investments and Derivatives. I have been at Columbia since 2002. I also serve as an Independent Trustee on the AQR Funds Board as well on the Exchange Traded Concepts Trust (ETC) Board. From 1983-2001, I was the founder and director of the Equity Derivatives group at Goldman Sachs, focusing on strategy development, risk management, marketing and overall management.

I'm writing to you in regard to the SEC's proposed new rule on "Use of Derivatives by Registered Investment Companies and Business Development Companies." I support the overall goals of this proposal, which I understand are to protect investors from "unduly speculative" funds and ensure that funds have sufficient assets to meet payment obligations. I agree with the requirement that each fund complex with meaningful derivatives use have a derivatives risk manager, and that each board approve one of two portfolio limits and asset segregation policies and procedures. These rules should result in improved governance and reporting which will allow me to perform my responsibilities as a Trustee more effectively. I also strongly support the differentiation between "complex derivatives" versus more liquid and transparent ones. Not all derivatives are alike.

Where I have concern is in regard to the proposed means of achieving some of the aforementioned goals. I agree with giving each fund the ability to manage itself around one of two tests. The 150% gross exposure test is easy to understand and follow, so I wouldn't recommend any changes there.

However, in its current form, the 300% test does not accomplish the objectives set forth in the rule. If a Fund chooses to follow the 300% test, it should be fairly sophisticated in the way it evaluates and communicates risk to investors. For example, the fund may define risk in absolute terms (e.g., 20% annual volatility) or relative to a market index like the S&P 500.

I would advise using the Fund's communicated risk level as a base to determine whether the derivatives positions create additional risk. Using underlying securities positions as a basis for comparison is suboptimal due to the following:

- For liquidity purposes above and beyond all other requirements, funds that employ derivatives naturally hold cash
- For initial margin purposes, the fund needs to hold additional cash or Treasures
- For asset coverage purposes, the fund needs to hold even more cash

By definition, a fund with 300% exposure in derivatives would probably need to hold at least 30% in cash to meet the requirements described above. So its securities position will likely be less risky than its stated risk objective. In the long run, forcing a fund to carry a risk level inconsistent with its natural investment process will reduce return and confuse investors.

When calculating the 300% gross exposure, I would also consider adjusting for the natural risk of the underlying security. A futures contract on a short-term bond or a credit default swap on an investment grade bond contains significantly less risk than a futures contract on the S&P 500 or Oil.

There is a regulatory precedent for applying different capital requirements for different asset classes based on their risk. In November, 2015, the Comptroller of the Currency, Federal Reserve Board, FDIC, Federal Credit Administration, and the Federal Housing Finance Agency adopted different Margin and Capital Requirements for Covered Swap Entities based on their perceived risk. The Appendix that follows this letter shows the table they used.

I hope you find my comments helpful as you consider ways to enhance the very strong structure presented in the proposed rule.

Sincerely,

Mark Zurack
Professor
Finance and Economics
Columbia Business School

Enclosure