May 23, 2011

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

COMMENT

Re: RIN 3038-AD54

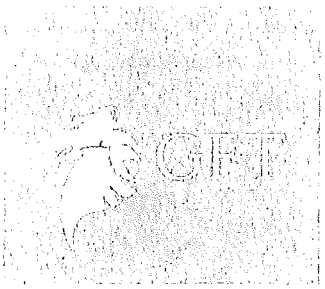
Dear Mr. Stawick:

Global Futures & Forex, Ltd. ("GFF") appreciates the opportunity to comment upon the proposals in the Notice of Proposed Rulemaking entitled "Capital Requirements of Swap Dealers and Major Swap Participants," published by the Commodity Futures Trading Commission ("Commission" or "CFTC") in the *Federal Register* on May 12, 2011 (the "Proposal").

GFF is a registered futures commission merchant ("FCM") and retail foreign exchange dealer ("RFED") and member of National Futures Association ("NFA"). GFF has been registered as an FCM since November 2000, and as an RFED since September 2010. Before becoming a registered FCM, GFF was registered as an introducing broker ("IB"), beginning in 1997. In addition to being registered with the Commission, GFF is registered with the Australian Securities and Investments Commission and the Japanese Financial Services Agency. GFF's wholly-owned subsidiary, GFT Global Markets UK Limited, is registered with the U.K. Financial Services Authority. GFF also has other wholly owned subsidiaries, namely, GFT Global Markets Asia Pte Ltd. and GFT DMCC, which are registered with the Monetary Authority of Singapore and the Dubai Gold and Commodities Exchange, respectively.

GFF's primary business is acting as a forex dealer for off-exchange foreign exchange ("forex") contracts. Customers of GFF download software from GFF's web site,

[redacted] GFTFOREX.COM
INT'L [redacted] TOLL FREE [redacted] FAX [redacted]



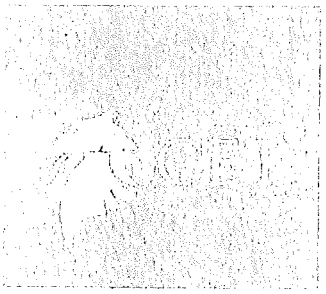
www.gftforex.com, and use the software to enter orders through the Internet. The customer base includes both retail and institutional customers located throughout the world.

In this letter, GFF is commenting on the proposed changes to CFTC Reg. 1.17 in the Proposal. CFTC Reg. 1.17 relates to minimum capital requirements for FCMs, RFEDs and IBs, and specifies the capital charges, also known as "haircuts," that must be deducted from net capital to determine adjusted net capital. As currently written, the Proposal would amend Reg. 1.17 to provide specifically for capital charges on foreign currency swaps, including options within the swap definition.

The capital charges that are proposed for foreign currency swaps should also apply to retail foreign currency options. There is no principled reason to apply different haircuts to foreign currency options which are within the definition of swaps, as opposed to foreign currency options which are within the definition of retail foreign currency transactions. They are the same instrument, with the only difference being who qualifies as the counterparty, and they should therefore be treated the same for purposes of capital charges.

Background

Capital charges for CFTC registrants are established by CFTC regulations. CFTC Reg. §5.7(b)(2)(v)(B), which governs financial requirements for RFEDs, provides: "In computing adjusted net capital, the capital deductions set forth in §1.17(c)(5)(vi) of this chapter shall apply to all retail forex transactions that are options." Section 1.17(c)(5)(vi) of CFTC Regulations requires that haircuts be in accordance with Appendix A to SEC Regulation 15c3-1 for securities options and/or other options for which a haircut has been specified for the option or for the underlying instrument in Appendix A.



Appendix A to SEC Rule 15c3-1 does not make any reference to foreign currency options. Rather it refers to listed options and unlisted options on securities, and imposes haircuts based on the value of the underlying securities, as specified in SEC Rule 15c3-1. However, foreign currency is not a security. Moreover, SEC Rule 15c3-1 does not state that foreign currency will be treated as a security, and does not specify any haircut for foreign currency.

We understand from CFTC staff, however, that the federal securities regulators and the CFTC rely on guidance in the New York Stock Exchange Handbook to establish (a) that the unhedged currency risk exposure in each foreign currency is a security for purposes of Appendix A, and (b) that the haircuts for foreign currencies are 6% or 20%, depending on the currency. Based on this guidance, we understand that the staffs of the CFTC, SEC and their respective self-regulatory organizations currently interpret the requirements in Appendix A to SEC Rule 15c3-1 to require a capital charge to be taken separately on each individual option for which an RFED or any other CFTC or SEC registered dealer acts as counterparty. Under this interpretation, options which offset each other are not permitted to be netted before the capital charges are applied.

The Capital Charges for Foreign Currency Swaps Should Also Apply to Retail Foreign Currency Options

The current treatment of capital charges for foreign currency options ignores that risks on individual options are offset where the dealer holds identical offsetting options in the same option series. Because dealers who are subject to CFTC and SEC capital requirements are not permitted to offset equal and opposite options positions for the purposes of determining the

appropriate capital charge, it is currently uneconomical for registered dealers to offer these options, to either retail or institutional customers. As a result, as the Commission acknowledged in the Proposal, FCMs historically have not engaged in significant OTC derivatives transactions, but rather have conducted them in affiliated unregulated entities.

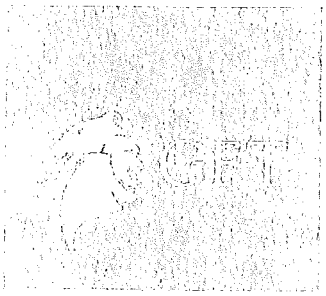
The Proposal recognizes that some swap dealers and major swap participants will be FCMs, and that these swaps will include options. In order for off-exchange foreign currency and other options to be entered into by these dealers and participants, it is essential that there be a reasonable and workable way to compute capital charges for foreign currency and other options that are swaps. To meet this need, the Commission, in the Proposal, has now proposed a capital change for swaps (including options) that will permit netting of like options before a capital charge is imposed on the net position. Thus, the Proposal includes the following capital charge in CFTC Reg. 1.17(c)(1):

(iv) For the net position in the following:

* * *

(C) Over-the-counter foreign currency swap transactions involving euros, British pounds, Canadian dollars, Japanese yen, or Swiss francs, 6 percent of the notional principal amount of the swap transaction:

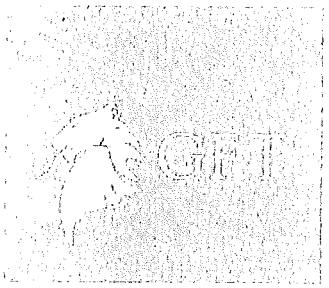
(D) Over-the-counter foreign currency swap transactions involving currencies other than euros, British pounds, Canadian dollars, Japanese yen, or Swiss francs, 20 percent of the notional principal amount of the swap transaction;



This capital treatment should not be limited to swaps, but should also apply to retail forex transactions which are options. Foreign currency options within the swaps definition are the same instrument as foreign currency options within the definition of retail foreign currency transactions. The only difference is that swaps which are options may be transacted only with counterparties who are eligible contract participants ("ECPs"), whereas retail foreign currency transactions which are options may be transacted with non-ECPs.

Attached to this letter is a proposed change to CFTC Reg. 1.17(c)(1)(iv) in the Proposal, which would make this capital charge applicable to all options, both swaps and retail. Also included is a conforming change to CFTC Reg. 5.7 to reference this treatment of retail options. Now that the Commission is proposing to adopt a much-needed rule for capital charges that would specifically apply to foreign currency options that are swaps, there is no principled basis to prevent its application to retail options as well.

It would be unfair to retail dealers, as well as contrary to Congressional intent, to allow swap dealers to net foreign currency options before applying a capital charge while preventing retail dealers from doing the same. By permitting retail foreign currency options under the terms of section 2(c) of the Commodity Exchange Act, Congress showed an intent that RFEDs and FCMs be permitted to offer, and customers be permitted to trade, retail forex options. It would be contrary to this Congressional intent to prevent these options from being offered by imposing an unwarranted capital charge that makes them uneconomical. It would also be unfair to retail

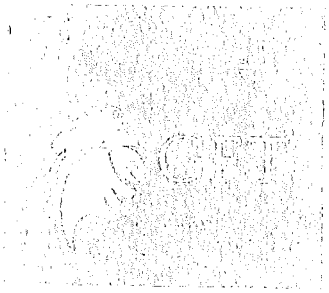


dealers to preclude them from applying the same rules as swap dealers in relation to instruments which are economically identical.

For the foregoing reasons, GFF hereby requests that the Commission amend CFTC Regs. 1.17 and 5.7 as proposed in the Attachment to this letter.

Very truly yours,

Gary L. Tilkin
President



ATTACHMENT

Proposed Revision to CFTC
Reg. 1.17 (c)(5)(iv)

(iv) For the net position in the following:

* * *

(C) Over-the-counter foreign currency swap transactions and retail foreign currency transactions described in sections 2(c)(2)(B) and 2(c)(2)(C) of the Act that are options, involving euros, British pounds, Canadian dollars, Japanese yen, or Swiss francs, 6 person of the notional principal amount of the swap transaction:

(D) Over-the-counter foreign currency swap transactions and retail foreign currency transactions described in sections 2(c)(2)(B) and 2(c)(2)(C) of the Act that are options, involving currencies other than euros, British pounds, Canadian dollars, Japanese yen, or Swiss francs, 20 person of the notional principal amount of the swap transaction;

Proposed Revision to CFTC
Reg. 5.7(b)(2)(v)(B)

(B) In computing adjusted net capital, the capital deductions set forth in §1.17(c)(5)(iv)~~(vi)~~ shall apply to all retail forex transactions that are options.