



RECEIVED  
CFTC

2011 SEP 21 PM 3:10

OFFICE OF THE  
SECRETARIAT

September 20, 2011

**COMMENT**

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

Re: RIN 3038-AD54

Dear Mr. Stawick:

Global Futures & Forex, Ltd. ("GFF") has previously commented, in my letter dated May 13, 2011, on 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"). This letter supplements our May 13 comment.

The Proposal includes two different proposed methods for swap dealers to calculate the capital charges for foreign currency options which are swaps. For swap dealers which are futures commission merchants ("FCMs"), the capital charge on foreign currency swaps (including options) is in proposed CFTC Reg. 1.17(c)(5)(iv)(C) and (D). The charge is based on the FCM's net swap position, with a 6% charge on swaps involving certain major currencies and a 20% charge on swaps with other underlying currencies. For swap dealers which are not FCMs, the capital charge on foreign currency options is in proposed Reg. 23.104(d)(7), and is referred to as the "delta-plus" method, which is 8% of the net delta of the option position plus a volatility charge based on option gamma and vega.

In my May 13 letter, GFF offered proposed changes to the regulatory language which would provide that the charge for swaps held by FCMs who are swap dealers would also apply to retail forex options held by FCMs and retail foreign exchange dealers ("RFEDs"). After further review and analysis, GFF believes that the delta-plus method should also be available as an alternative way for FCMs and RFEDs to calculate capital charges on foreign currency options.

For these reasons, GFF hereby proposes that the Commission amend Reg. 1.17(c)(5)(vi) in accordance with the language in the Attachment. This would permit FCMs and RFEDs to calculate capital charges on foreign currency options based on the current method, or on either of the two methods applicable to swap dealers.



The current capital charges for options held by FCMs and RFEDs are unreasonable, because they preclude netting of offsetting risks. The purpose of GFF's May 13 letter and this letter is to correct this untenable situation by requesting that the Commission adopt a reasonable capital charge which allows netting of offsetting risks on retail forex options held by FCMs and RFEDs. Because currency swaps may be in the form of currency options, which present the same risks as retail forex options, the capital charges on foreign currency swaps which are options, as proposed by the Commission, provide an appropriate methodology for capital charges on retail forex options. Moreover, there is no valid reason to adhere to the antiquated capital charges on options in the current rule, which prohibit netting, when the Commission has developed the up-to-date methods in the Proposal, which allow netting.

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 unreasonable capital charge that makes them uneconomical. It would also be unfair to retail dealers to preclude them from applying the same capital charge rules as swap dealers in relation to instruments which are economically identical.

For the foregoing reasons, GFF hereby requests that the Commission amend CFTC Reg. 1.17 (c)(5)(vi) 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)(vi)

(vi) In the case of securities options and/or other options for which a haircut has been specified for the option or for the underlying instrument in § 240.15c3-1 appendix A of this title, the treatment specified in, or under, § 240.15c3-1 appendix A, after effecting certain adjustments to net capital for listed and unlisted options as set forth in such appendix, or alternatively for foreign currency options, a charge computed in accordance with either paragraphs (c)(5)(iv)(C) and (c)(5)(iv)(D) of this section or § 23.104(d)(7);