COMMENT
CL-00006

From: Steve Reich <sreich@fxbridge.com>
Sent: Thursday, January 14, 2010 9:55 AM
To: secretary
Cc: timothy.geithner@do.treas.gov
Subject: Regulation of Retail Forex

To whom it may concern,

As a member of the institutional foreign exchange community for the past 20 years, I am struck by some of the randomness in the new proposed regulations.
To give you an idea of my background, I was a currency trader for Credit Suisse, the chief dealer for HSBC's currency group for the US office and a proprietary dealer for Barclays between 1988 and 2000.
I am also one of the founders of Hotspot FX which is one of the largest clearers of foreign exchange in the world.

In the last 2 years, I have become more involved in the retail side of the currency business as a technology provider to broker dealers.
The majority of our clients are based outside the United States.
The most frustrating aspects are twofold:

It tends to draw a high degree to fraudulent activity
A majority of clients lose money trading currencies even where no fraud occurs

I have spoken a number of times with the Bank of England regarding policy to protect individual investors.

The increased regulation vastly reduced the fraudulent activity and is something that was greatly needed.
Closing loopholes that allowed brokers and 'money managers' to operate outside the auspices of the CFTC was also very important.

The high degree of leverage is definitely a factor in why losers outnumber winners in terms of currency trading.
However, setting a 10-1 leverage restriction would seem to represent a very inconsistent policy in terms of trading currencies in the US.
To limit OTC Forex trading to 10-1 while allowing the CME to operate with much higher degrees of leverage (as high as 100-1 still) would seem to be both inconsistent and unfair.
It may illustrate the undue influence of exchange management on policy if OTC rules are so dramatically different from those not on 'advisory committees'.

If the true purpose is to protect investors, rules between OTC and on exchange trading need to be consistent in terms of leverage.

Unlike other asset classes, the largest portion of trading volume, which takes place in the bank and institutional marketplace, occurs over EBS (ICAP owned company).
There is no centralized exchange, and the CFTC should not pretend that the exchange is a central liquidity point for the forex market.
The vast majority of the on exchange liquidity is derived from OTC sources.

If the interest is to protect clients, any rules regarding leverage should be consistent between on exchange and off exchange products in the forex industry.
Currently, an observer can only draw two conclusions:

'the fix is in'
Clients and brokers will shift their accounts to entities outside the US in order to maintain their ability to trade FX with higher degrees of leverage

The net result of this will be poorer protection available for Americans who will then have accounts in places where the CFTC

In conclusion, while 400-1 is excessive in terms of leverage, 10-1 leverage based on volatilities in the currency market would seem to be unduly onerous.
Pick a reasonable number and enforce is amongst ALL participants.

In addition, there are still significant steps that should be taken to reduce the risk of 'money managers' such as restricting a managers ability to generate fees on trading volume as opposed to trading results.

Thank you,
Steve Reich

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