

**From:** Michael Gazzani <mjgcpa@usa.net>  
**Sent:** Saturday, January 23, 2010 11:07 AM  
**To:** secretary <secretary@CFTC.gov>  
**Subject:** "Regulation of Retail Forex"

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My broker has provided me with information regarding your proposed new regulations concerning retail foreign currency transactions.

While I certainly agree with any regulations that protect traders from brokers that do not meet ethical and financial standards (including insurance) which would subject the trader to losses due to fraud by the broker. I believe that managed accounts (similar to mutual fund accounts) should not be permitted to trading in futures because the risks can outweigh the benefits to the customers that may not be aware or knowledgeable of this type of trading.

I disagree with the proposed reduction of the 100:1 leverage limitation, to 10:1. This reduction does not protect the trader from fraudulent brokers. I see it as a greater opportunity for a fraudulent broker to gain access the larger account deposits, since a trader must increase the account deposit by 10 times to maintain the current level of trading. This essentially results as a penalty to the trader, which would require larger amounts of cash to be on deposit with the broker. A larger account balance exposes the trader to larger loss potential in a volatile market or by fraud.

I believe the proposed regulations affecting leverage amounts to protect traders because such transactions "CAN QUICKLY LEAD TO LARGE LOSSES" is ridiculous. This reduces the proposed regulation to a monitoring device to protect traders that DO NOT properly manage their accounts, or as a means of protecting them from themselves. The bottom line is that all traders would suffer because of the incompetence of a few.

As a relatively newcomer to Forex trading, I quickly learned that the numerous protections provided by my broker are for my benefit. As I have learned, due to my aggressive style of trading, it is best for me to maintain a small cash balance with the broker. In the event that the market has a quick turn against me, I know that the worst case scenario is I can only lose the amount I have on deposit. In reality, this would not happen because the broker would close my position (in accordance with their margin requirements) before the account balance reaches zero.

Maybe my broker is ahead of the curve in dealing with its customers. I have on several occasions made bad trades that resulted in my losing sufficient funds to

prevent me from placing additional orders. My brokers always e-mails me prior to this event actually occurring (or if they expect a big change to occur), so that I can chose to let it happen or attempt to manage my account out of the situation. If I lose my funds, it has nothing to do with the actions of the broker or because of the leverage ratio. In fact, because of the leverage ratio, I am able to risk smaller amounts of cash to achieve greater returns on my investment.

I only risk a small balance for trading because I enjoy following the Forex markets and being an active trader. As a small trader, a reduction in the leverage ratio would prevent me from remaining as an active trader, not willing to risk 10 times more than I currently do. Since the beginning of December, I have increased my account value from \$500 to \$1,200 (profits of \$700) by properly managing my trades as I have learned from prior experience. If the market were to take a disastrous turn, my exposure remains at approximately \$460 of the \$500 I started with. Your proposed regulation reducing the leverage ratio would require that I maintain a \$5,000 balance to achieve the same \$700 account increase, but with a much greater downside risk (\$4,600). Alternatively, if my trades were reduced to 1/10<sup>th</sup> of their current level, the \$700 increase would only be \$70, which wouldn't even cover my data service feed for one month. Trading at 1/10<sup>th</sup> of my current level most likely would not be acceptable to the broker and it would not reward my efforts sufficiently for me to continue to trade.

Finally, I understand your desire to protect traders from themselves. Although I can't speak for all brokers, I can say that my broker constantly reminds its traders of the of the risks of trading in the Forex market and provides adequate notice of potential volatile situations. Regulations governing how brokers practice are necessary, which should not include further reduction of leverage ratios. Reduction of leverage ratios will force millions of traders out of the market and potentially affect the market as a whole.

*Michael J. Gazzani*

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