From: honguyen@comcast.net
Sent: Sunday, January 24, 2010 8:49 PM
To: secretary <secretary@CFTC.gov>
Subject: Regulation of Retail Forex: RIN 3038-AC61

David Stawick, Secretary
Commodity Futures Trading Commission
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Regarding **RIN 3038-AC61**
FX is probably one of the least volatile traded assets in the global capital markets, which is why current regulations allow up to 100:1 leverage, the highest leverage of anything I have seen.

However, proposed 10:1 leverage is overkill, because this could widen bid/ask spreads, and therefore dry up liquidity. Compare this to current fixed-income futures trading, that leverage is around 100:4 ... which is 25:1

What I want to know is whether this proposed new leverage also applies to institutions, like CTAs or hedge funds.

I strongly support regulations in instruments that are responsible for the 2008 credit crisis: credit derivatives, credit structured products, and risky debt instruments such as high-yield loans.

I don't think it's necessary to change/modify any regulations for FX trading, because: 1) FX has some of the lowest volatilities compared to equities and fixed-income, and .. 2) FX is absolutely innocent of any boom/bust cycles throughout the 20th century and this century. Crises involving LTCM (fixed-income arbitrage), Amaranth (commodities), Bear Stearns (subprime mortgages), AIG (credit derivatives) and Lehman Brothers (mortgages and credit derivatives) have zero FX footprint or exposure. Black Monday in 1987 was a result of excessive stock speculation, which caused new regulations such as 2:1 leverage in equities. The Tequila Crisis in 1994 was a result of too much debt in Latin America, somewhat similar to too much mortgage debts in 2008.

However, I woud be sympathetic if you want to reduce maximum leverage to something like 80:1, but 10:1 is absolutely counterproductive. I honestly believe that if 10:1 were to become law, it will creep back up to 30:1 not long after. And eventually it might go even higher.

If the CFTC wants to experiment with new regulations, let's start at 80:1 ... and give it a year to see how it works compared to other assets, before we do anything further.

Let's not over-react in FX, but instead focus regulations on Glass-Steagall and credit derivatives/structured products and risky debts.