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Sent: Thursday, February 11, 2010 1:45 AM
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Subject: Regulation of Retail Forex

Subject: ID number RIN 3038-AC61

Hello,

I appreciate your zeal to provide good regulation in the Retail Forex market from the point of view of risk involved. But, I have concerns regarding the guideline to reduce the leverage to 10:1. At present, the blood of the forex market is the high liquidity present in a currency pair. By reducing the leverage ratio to 10:1, the liquidity in the currency pair is going to dry down, thereby increasing the risk involved in forex trading exponentially. The presence of a Very High Risk product in the financial market might lead to many disastrous situation in the future. Below are my suggestions alternate to the reduction in leverage ratio.

My suggestions:

1. Instead of modifying the leverage ratio for a currency pair, you can stipulate the allowed margin percentage to 50% of the Account balance to leverage. For example, If one has 500\$ balance in his forex trading account, he/she should be allowed to undertake trade positions by leveraging only 50% of the balance, i.e., 250\$. This way, in the present scenario, one would be able to take maximum of 2 trade positions in EUR/USD (1position size=10000\$) by providing margin of 100\$ for each position. The remaining 300\$ would become usefull during high market swings to buffer the losses for considerable period. By this, you would be regulating the retail from taking more risk without affecting the present Forex market environment.

2. Instead of applying a Static leverage ratio across the forex market, a Differential leverage ratio based on the risk undertaken would be of great use. For example: If one has an open trade position in EUR/USD(1position size = 10000\$), the leverage ratio can be 100:1. If the same person takes another position in EUR/USD(1position size = 10000\$), the leverage ratio for both the positions can be reduced to 95:1. Like this, more the risk undertaken, less the leverage ratio can become. This way, you can regulate the herd mentality of the retail from taking more risk based trades, without drying out the overall forex market liquidity. This would also make the retail realize about the risk undertaken.

Forex trading can result in a very good profit when managed with less risk/reward ratio. Forex trading is a boon to many of the Retail traders, as it forms another source of income apart from the main profession. So, please do not kill an another source of income for the retail in the present economic downturn.

Regards,
Swamy Shylesh

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