From: jc-xt@hotmail.com
Sent: Monday, February 22, 2010 6:42 PM
To: secretary <secretary@CFTC.gov>
Subject: Public Comment Form

Below is the result of your feedback form. It was submitted by (jc-xt@hotmail.com) on Monday, February 22, 2010 at 18:42:08

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commenter_subject: Regulation of Retail Forex

commenter_frdate: January 20, 2010

commenter_frpage: Page 3281-3330

commenter_comments: Subject: Regulation of Retail Forex (RE: FR Doc 2010-456[Federal Register: January 20, 2010 (Volume 75, Number 12)])

To Whom It May Concern:

I am writing to express my disagreement with the proposed change in available leverage from 100:1 to 10:1.

As a trader my trading capital would actually be at much greater risk if this proposal were to be adopted. That increased risk would be combined in two forms: an increase in risk from the larger security deposit required, and an increase in risk from FCM bankruptcy. Please allow me to explain.

The proposed rule would require the FCM (aka broker) to collect from me (the retail forex customer) a much larger security deposit than is currently required in order for me to trade the same lot size as I do presently. In other words, it would be necessary for me to increase the amount on deposit with the FCM in order to maintain my present amount of trading income.

I am keenly aware that my security deposit (held by the FCM) is at risk, and should my broker go bankrupt, I risk losing the entire security deposit. Knowing this fact, my current trading strategy calls for me to keep the majority of my trading capital in a money market account or U.S. treasuries, and to keep only the minimally required amount on deposit with my broker. Should my broker go out of business and should my security deposit be lost as a result, then the majority of my capital is still safe from that loss.

An important point is that this (above) strategy to safeguard my trading capital is possible only because the current leverage availability allows me to adopt this strategy.

This proposed change, requiring an increased security deposit, would cause me to have to move capital from the safer position to the riskier position (and this point is key) with no increase in potential reward, but just to maintain the same potential for reward. So, to summarize, the effect of this proposal for me would be: higher risk; equal reward.

Furthermore, the text of the CFTC proposed rule includes this statement:

┐In an FCM bankruptcy, customers share the segregated property pro rata in proportion to their claims, without any support from a compensation fund.

That statement helps to make my second point.

The commonly held belief is that should the proposal be adopted some number of FCMs will indeed go out of business. (Some FCMs may merge or consolidate with others, some may cease operations in an orderly way, and some will probably almost certainly just abruptly close their doors.) So, (again the key point) the proposed rule itself would increase risk simply because of an increased likelihood of FCM bankruptcy (carrying the potential loss of security deposit) resulting from the rule s implementation.

So now, the result is an even larger degree of risk ┐ from both a) the risk resulting from the increased size security deposit required, and, b) the risk resulting from a higher potential for FCM bankruptcy and along with the bankruptcy the loss of that larger security deposit just in order to maintain the same potential for reward that exists already. So again: much higher risk; no change in potential reward.

I feel it my obligation to be aware of the riskiness of my trading decisions and practices. As you can tell, I ve taken steps to help protect me and my family from the risk of trading the forex market. My efforts to mitigate risk would be eliminated by this rule change.

While some of the rule changes included in this proposal are very good and beneficial to individuals and to groups and the industry as a whole, I strongly feel the change in available leverage would not be a benefit, but rather would be a cause for increased risk, and therefore would be a mistake to implement.

Thank you for the opportunity to express my thoughts and feelings.

Sincerely,
Jim Cook

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