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COMMENT
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From: email414investments@me.com
Sent: Monday, March 1, 2010 2:24 AM
To: secretary <secretary@CFTC.gov>
Subject: Regulation of Retail Forex
Attach: CFTC Comment Word.doc; ATT00002.txt

This is a resend of pervious comment in word format

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February 28, 2010
David Stawick
Secretary
Commodity Futures Trading Commission
1155 21st Street, NW.
Washington, DC 20581

Mr Stawick,

As a long time investor and trader of options and Forex I would like to offer my comments on the proposed rule changes to implement the CFTC Reauthorization ACT of 2008. The "CRA". In general the rule changes that would require counterparties to retail forex transactions to register as retail foreign exchange dealers (RFED's) and meet requirements for registration, disclosure, record keeping, financial reporting, and minimum capital standards are long overdue in the retail forex space. With public disclosure and easy access to data regarding RFED's, these rules, I believe, will significantly reduce the counterparty risk that is now inherent in this space.

However the one regulation that concerns me is regulation "4.12 Exemption from provisions of part 4". The rule if implemented in it's current form, would require retail investors to put up significantly more capital per forex position than what is required now. Although, in general, it is better to put up a larger amount of capital per position, which helps a trader to avoid margin calls, the retail trader, because of their small account size, cannot effectively trade their accounts without using significant leverage. Thus the retail trader will go where they can get most leverage. In other words they will engage in regulatory arbitrage using new unregulated forex dealers outside the United States and it's regulatory structure. This is a concern because these new dealers will not be subject to the reporting requirements of the United States or any regulatory body, thus giving the small retail trader no way to ascertain who their counterparty is. In this case the total loss of trading capital to a bad counterparty is significantly increased.

The best solution, in my opinion, is to leave the leverage rules as is and give the retail trader good money management tools and techniques along with solid training in the use of these. I say this because if found that good money management techniques were infinitely more important than leverage in my trading results. By allowing the retail trader to effectively trade, through the use of greater than 10:1 leverage and good money management techniques, a small account with a regulated and well capitalized RFED has, in my opinion, less risk of a total capital loss to over-leverage than to a bad counterparty.

Sincerely yours,

Ernest Scott