

**From:** mathew.p.davies@gmail.com on behalf of Mathew Davies <mpd2002@columbia.edu>  
**Sent:** Saturday, March 13, 2010 1:49 PM  
**To:** secretary <secretary@CFTC.gov>  
**Subject:** Regulation of Retail Forex

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**RIN 3038-AC61**

Dear Mr. Stawick:

The retail forex leverage limitation in this proposal is a bad idea, likely to accomplish the opposite of the goals of sensible regulation. Presumably the intent of the new limit is to reduce price volatility in forex spot markets. However, reducing available leverage by a factor of 10 will have one of two effects. First, it will drastically curtail the liquidity provided by US forex brokers, incidentally driving the smaller brokers out of business. Second, it will drive what trading interest remains to overseas brokers not affected by this limitation.

Either way, the outcome will be to reduce market liquidity and investor diversity (actually increasing, not decreasing, volatility!) and/or place the interest of US traders completely outside of US regulatory control.

I am heartily in favor of more transparency, better reporting, etc. But the leverage limitation is an arbitrary one which will affect only small-time traders like myself, forcing me to put ten times (!) the cash into unprotected margin accounts. Practically, this is not feasible, and if this rule passes, I can and will move to an overseas broker despite the hassle.

A few points to consider:

First, spot forex trading is not the same as futures trading, and should not be regulated in the same way. Speculation can skew futures prices, first because there is wide latitude between the expected future price and the final spot price at which the contract settles, and second because market liquidity is a small fraction of spot forex volumes; so there may be sense in applying a leverage limit. But this kind of reasoning can't apply to the spot market. Speculation really cannot skew spot prices, because the volume of spot trading is huge - much too large for price manipulation by any one entity. Spikes in market price reflect real, instantaneous moves in market sentiment, information which is available to all market participants.

Second, if it was desired to further reduce forex price volatility (already much less than any other market on a leverage-adjusted basis), it would be necessary to impose limitations on the time scale of trading activity - e.g. enforce a minimum holding time for trades, which might still be counterproductive as it would again greatly reduce overall liquidity from small players, which is currently diversifying.

Third, realize that any sensible regulation must be enacted globally to the extent possible; applying effectively punitive or needlessly restrictive regulation in one country will simply push the business to another country, or into an internet space that is beyond the reach of any regulation.

In sum, the proposed rule is a terrible implementation of an otherwise reasonable goal. I urge you to abandon it in favor of more sensible regulation.

Sincerely,

Mathew Davies