From: Ricardo Perez <rpdlv@aim.com>
Sent: Monday, March 22, 2010 12:00 PM
To: secretary <secretary@CFTC.gov>
Subject: 75 FR 3281: Regulation of Off-Exchange Retail Foreign Exchange Transactions and Intermediaries

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Dear sir/madam:

From what I have read, the Commodity Futures Trading Commission is proposing setting a maximum value on off-exchange forex transactions of 10:1 for United States based dealers. Raising the margin requirement as the CFTC is proposing would be detrimental to small traders like myself. Right now, the broker I use allows very small positions to be taken with the 100:1 margin (the smallest is just $10.00 US Dollars). This effectively reduces my total dollar exposure since I can trade the FOREX market with a minimal investment. Increasing the margin requirements by a factor of 10 would mean that I would now need $100.00.

This is how I understand the new rule:
(please excuse me for repeating what you surely know better than I do)
Under the current 100:1 margin requirement if I "go long" EUR/USD (buy the Euro/sell the U.S. dollar) at say 1.5000 and it drops to 1.4050, a position taking US $10.00 will show a loss of $5.00, which is a 50% drop in value. And if it goes the other way to 1.5050 it would show a profit of $5.00.
Under the new 10:1 rule the loss/gain would still be the same ($5.00) but the percentage would of course be 5% now, since the margin requirement is now 10 times greater ($100.00). But $5.00 is still $5.00 either way, so my loss would remain the same. Under the new proposed rules my only change would be that I would now need $100 instead of $10 to open the same position.

I understand that new traders may risk too much money without taking the time to practice their trading skills (most companies offer practice accounts), but pricing them out of the market by raising the margin requirements is not the way to reduce their losses. Rather, FOREX dealers could be asked to strongly encourage practice account use before any real trading is done so that new traders will know what to expect from this very volatile market. Some dealers (such as mine) have practice accounts that do not expire. This account has been of invaluable help to me in greatly reducing my real losses (so far minimal) in real trading. Other dealers have accounts that do not expire unless their balance reaches zero or are not used after a certain amount of days. I would guess that many new traders never bother with a practice account and hence risk their money without having developing any trading techniques beforehand. The CFTC could compile data (if available) as to what percentage of traders are actually profitable over a single year and have the FOREX dealers give out this information when someone inquires about opening an account, rather than vague disclaimers about how risky it is which is what you find in the dealers' documentation.
And perhaps FOREX dealers could be asked to offer the 10:1 margin requirement as an option for account holders for those who feel more comfortable with it- even though it would mean investing a larger amount of money in the account.
In conclusion, I would strongly encourage the Commodity Futures Trading Commission to reconsider the margin change, since it does not solve the problem of inexperienced traders losing their money and it deprives small traders such as myself who are aware of the risks, of participating in the challenging but interesting FOREX market.

Sincerely,

Ricardo Perez

Coon Rapids, Minnesota USA