From: MICHAEL FRANKLIN <mfranklin20@msn.com>
Sent: Monday, March 22, 2010 2:25 PM
To: secretary <secretary@CFTC.gov>
Subject: Regulation of Retail Forex

Dear Commodity Futures Trading Commission,

I have a Degree in Economics from the University of Colorado and I am a trader of the currency market. I am aware that there is a debate over new regulation that would require leverage in the Foreign Exchange Market to be 10 percent. I am currently trading with a one percent margin requirement and I know that this regulation would severely limit my ability to successfully trade the currency market. Beyond impacting me, this regulation could also drastically impact the liquidity of the US Dollar.

Speculation in the Foreign Exchange Market is an incredible investment opportunity for anyone that has the patience and discipline for it. However, there are many traders that do not have the right personality to be successful. I can only imagine that this proposed regulation came about due to the weak economy and the financial crisis, in order to prevent losses. Banks are more than willing to leverage Forex positions at a high rate because they are not risking any capital to do so. Losses in a highly leveraged Forex position are bore by only the trader, brokers have the ability to close a position before they take on any losses. Perhaps this regulation has been proposed in order to prevent small capital trader from risking too much money in speculative currency positions. Maybe this could be a good thing for those that lose too much capital, but this regulation is not fair to those that do not have problems with losses. This regulation would allow the government too much control over the financial markets, and will not allow the markets to govern themselves. Free markets, historically, have been the most profitable and efficient, in the long run regulation only creates inefficiencies . Also, allowing people to govern their own behavior is one most important rights that the United States was founded on. The government should not step in to tell someone they cannot trade. If they are losing, it should be only their responsibility to get out.

Most of the currency traded today is done so on a speculative basis, the rest is of course exchanged so that global trade can take place. This regulation would not directly affect the currency exchanged for trade, unless the purchase of goods and services has a future payment. In this case a speculative hedge position would be opened to prevent loss due to the rapid fluctuation of the market.

This bill affects the majority of the currency traded since it is speculative. The most impacted traders will be those with low capital, under $100,000, since they need leverage to be successful. Those that trade with more money do not need leverage to be successful trading, many of these traders are the same people that were profiting from currency exchange when the market was not public. Therefore, this regulation is a regressive policy, to when the markets were less liquid and less accessible. It would be ensuring that the richest can continue to build their wealth, while low wealth individuals will lose one of the vehicles to acquire wealth.

In addition to reducing the ability of low capital traders to be in the market, this regulation could hurt the liquidity of the Dollar. This would be as a result of decreasing the amount of money being traded by players from the United States, since other countries would not be affected by the regulation.

Liquidity means more money is flowing through the markets. It allows orders to be processed without delay. It keeps the bid/ask spreads near zero because there is more than enough money available to be bought or sold at any price. Liquidity also ensures that the price being offered is the most accurate value of the dollar, this is largely because major players with high capital do not have the ability to influence the markets. The higher the liquidity the more free the market is, and the more free the market is the more efficient it is. The FED and Ben Bernanke know this, that is why the have been working full-time since 2007 to keep the markets as liquid and solvent as they can be. It would be a mistake to make a policy that would take us back to the 1970's and undo what the FED has been working hard to guarantee. First we should be looking at restoring policies that have be enacted to fight the recession, instead of trying to fix something that is already working.

Sincerely,

Mike
Colorado