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COMMENT
CL-06543

From: Nikunj Singhal <nikunj.singhal@yahoo.com>
Sent: Monday, March 8, 2010 2:37 PM
To: secretary <secretary@CFTC.gov>
Subject: Regulation of Retail Forex

Dear Secretary:

I am writing in response to CFTC's recent proposal to restrict leverage in currency trading by retail investors to 10-to-1.

Foreign exchange trading is a very large and legitimate financial market where the participants include (i) entities with a need to hedge their forex exposure as well as (ii) investors – which range from highly sophisticated and seasoned traders to amateur speculators. While it is always difficult to enact "one-size fits all" regulations, I feel that the proposed regulations will deprive a number of experienced investors of regular and valuable supplementary income.

To illustrate my argument, I know for a fact that a number of retail investors (including myself) typically maintain leverage anywhere from 20-to-1 to 50-to-1 even though we have the ability to lever up to 100-to-1, or even in some cases up to 400-to-1. But what really helps sophisticated investors is that in unusual market circumstances we have the ability to lever up higher and take advantage of market opportunities when they present themselves. What the CFTC is proposing will reduce the potential income of thousands of similar investors by up to 90% annually. It is difficult for me to comprehend the rationale for this proposal.

I acknowledge that there is some merit to the argument that 100-1 leverage leads some people to take ill-advised and extraordinary risks and potentially to take 100% losses. I am sure this happens a lot in the retail foreign exchange market, as it does in several other products – several of which have virtually no barriers to participation. However, regulations such as the one proposed have never and will never succeed in "protecting people from themselves". If not retail forex, then "a fool who is about to part with his money" will find another avenue. Ironically, a lot of good investors today happened to be exactly such "fools" in the past and have learnt successful investment techniques the hard way.

It is not clear to me who this potential regulation will benefit. The forex industry is so big that retail investors trading at 100-to-1 leverage simply cannot move markets. The marginal investor who was going to lose $500-$1,000 (in a perfectly legitimate financial product unlike poker, horse racing or lottery tickets) may go away, but the new regulations will prevent a vast number of seasoned retail investors from earning $20,000 or more each year (income which is dutifully taxed by the IRS). What's also important to note is that the marginal investor typically loses a few hundred to a thousand dollars, gets it "out of his system" and never returns – in other words, it's a one-time loss. However, the smart investor creates a recurring income stream that could last a lifetime. There is a beautiful asymmetry to leverage. **As such, the proposed regulation will do a lot more harm than good.**

I propose leaving the current leverage provisions unchanged. If at all the CFTC must act, I propose reducing leverage requirements to no less than 50-to-1 on widely traded pairs, or imposing more stringent leverage requirements on accounts that have an average balance of less than $5,000 (in order to "protect the really marginal investor from himself").

Thank you,
Nik Singhal