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This is a comment in regards to "Regulatory Notice 09-06" the proposal to establish a Leverage Limitation on Retail Forex. I believe such action is not to the benefit of retail traders, FINRA, nor the organizations it oversees.

While a misuse of high leverage can certainly hurt a trade, proper risk control can easily avert such disaster. It is not difficult to scale one's trade-specific leverage using appropriate lot sizes. By limiting leverage as proposed, tighter than is even required by equities, smaller traders would be disproportionately hurt. This would require new traders to deposit larger sums with their broker to start, putting more of their capital at risk during the steepest part of the learning curve. A trader operating with smaller sums rarely ever owes more than their initial deposit due to modern Forex margin methods. This allows a trader to commit only small portions of their starting capital early on, reducing their overall financial risk. Without reasonable leverage, this would not be possible.

As Forex is typically given a mark-to-market treatment, margin calls are easy to automate. The statement made in the supporting PDF file that "In the retail forex market, there is neither any margin call nor any notice for an investor to deposit additional funds to maintain his or her position" is factually in error. Every broker I've ever traded with has maintained strict margin call methods, as it is in a broker's own best financial interest to do so. Sadly this statement seems to be the supporting logic behind this proposal. It is generally not wise to base decisions on inaccurate information, so I suggest a survey of Forex broker margin call methods may be in order.

The notion that Forex is more volatile than equities is also up for debate. While it's true that currencies may move several hundred "pips" per day, if referenced in terms of percentage it's much smaller than equities. A 5 point move in a $50/share stock represents a 10% move, while a 500 pip move in the GBP/USD at 1.3000 would be only a 3.85% move. Thus a 5% stop loss would control risk quite well. It is also far less likely that a major currency like the USD will ever reach 0. If you survey the historical volatility of the major currency pairs you will find they are not more volatile, percentage-wise, than stocks. Even in bear markets such as these. Ie: Citigroup has fallen from over $50 to currently under $5. No major currency is even close to losing 90% of it's value.

As individual traders are not strongly regulated in the US this would give retail traders an incentive to trade with non-FINRA organizations. This would, in effect, create an entire market around brokers that are poorly regulated. That, in turn, would expose traders to even further instability. That would, also, effectively deal FINRA out of the regulatory process for the growing small trader retail Forex market. Additionally this provides a negative incentive for brokers to submit to regulation, all while providing foreign brokers an edge against their US-based counterparts. All in all, it neither benefits retail traders, FINRA, nor the organizations it regulates. I believe we, as an industry, should be providing incentives to self-regulate by promoting marketplace awareness instead.

While the use of retail Forex products will certainly increase in the future, and such use will certainly expose a wider range of investors to the risks of high leverage, I don't believe directly limiting leverage for all retail traders is in anyone's best interest. Instead, limiting leverage only for those that are operating with managed funds, and requiring proper disclosure of leverage risk, would be a better approach in the long run.

Sincerely,
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