

From: Cam Blakemore

Sent: Friday, 27 January 2012 5:28 PM

To: Client Money

Subject: CFD Discussion Paper

To Whom it may Concern,

I was recently made aware through Alan McGrath (submission below) of the proposals to change the rules in relation to CFD trading and in particular the Direct Market CFD's.

I fully support the recommendation made by Alan in the below submission.

I have worked within the Stockbroking industry on the Retail side and Wholesale broking side for the last 12 years and I am fully aware of the issues surrounding CFD's, both Direct Market and Market Makers models

When a trader or any investors enters the market to buy or sell a particular financial instrument, price discovery and transparency is the number one priority. I feel with CFD's been pushed into a Market Maker type facility clients would not benefit from price transparency and may be open to manipulation from the Market Maker. (Does ASIC or ASX provide proper monitoring of prices quoted by Market Markers??)

Client's of CFD providers are all aware of the risk involved in trading under their platforms and we should be no way punished because the regulator believes that the "House" cannot manage their cash requirements. Alternate monitoring or regulation should be enforced before the proposed restriction are in place, which will ensure that the costs of business would be too great for the retails client. If DMA CFD clients are imposed with tighter regulations, than will Treasury also look into Prime Brokerage and Hedge Funds clients and their requirements?

In summary I believe Traders should be given choice. If we are happy to accept the risk in acknowledging CFD providers are pooling funds for capital adequacy, then we should be allowed to continue to do business as we have. In light of the MF Global situation, Retails brokers who cross promoted CFD's to the client base should be monitored to ensure their clients are aware of the risk involved in DMA CFD providers (or any leveraged risk product).

I am more than happy to discuss further on email or via phone 02 47517688

Regards

Cam Blakemore

(below submission made by Alan Mcgrath)

My name is Alan McGrath. I have been successfully trading CFD's for a living now for almost 10 years. I also facilitate a group of over 100 like minded traders, traders who I'm sure share my concern.

I was recently made aware of your discussion paper, "Handling and Use of client money in relation to over-the-counter derivatives transactions", and felt it vitally important that I forward my thoughts.

As a trader through a Direct Market Access (DMA) model CFD provider, I understand that client monies are used for hedging purposes. I have considered and discussed the risks involved with them, and am comfortable placing my funds with them. I feel that I, like all other traders I know, am an educated enough individual to understand and accept the risks involved.

If this discussion paper led to legislation banning the use of client funds, I believe several things would change:

a) It would almost certainly lead to the closing of all DMA model providers...maybe one or two would still offer it as an option, but commission would increase substantially to cover the additional hedging requirements, not to mention the fact they'd basically have no competition in that sector of the industry. Trading is a challenging profession, but one that can hold many rewards. Increasing commission costs could mean the difference between success and failure for many traders.

b) We'd be basically left with a CFD industry where, if you wanted to still enjoy the low commissions that help allow us to survive as traders, the only option would be to go to a Market Maker provider...companies whose whole model is based on making money when their clients lose it.

In the beginning of my trading journey I used a Market Maker platform. As time went on I began to realise that the more money I made, the harder they would make it for me to make that money. This could be done by increasing the price spreads on a stock, particularly in times of high volatility, or taking longer to accept my order, and then re quoting me less favourable prices.

Once a DMA model provider started operations in Australia, I switched to them, and can categorically say I would never switch back. I have no doubt that many traders would be happy to share the same experience with you. Unfortunately it is often the less experienced traders that are drawn to the Market Maker model...I know of very few full time or serious traders that would consider the Market Maker model.

It is interesting to note that your discussion paper uses the UK model as a comparison. The UK CFD industry is solely based on Market Maker providers, so I don't feel it can be considered relevant.

c) With few DMA providers left in the market, liquidity on the ASX would dry up even further, making it even more difficult to profit from trading, especially on a short term basis.

The ironic thing with this discussion paper, is that although I'm sure Treasury are looking at changes in order to protect traders, in my opinion the banning of the use of client monies by CFD providers would actually sound the death knoll for many of us that have happily and successfully traded CFD's for some time. The thought of paying significantly higher commissions, or being basically forced back to a Market Maker model is of grave concern to me, and the viability of my business of trading. What business wants to partner with a company that potentially makes money when they lose it? The conflict of interest is unacceptable.

I encourage improved regulations within the industry to protect clients, and am fully in support of the measures suggested under Section 2.8 Alternative Measures to Allow Pooling, but under no circumstances do I believe any changes should be made that would ultimately lead to the demise of the affordable, transparent DMA model we currently enjoy.