From: Michael Hobbs

Sent: Friday, 27 January 2012 6:31 PM

To: Client Money

Subject: Comments on discussion paper ""Handling and Use of client money in relation to over-the-counter derivatives transactions"

Michael Hobbs

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full time trader for 5 yrs

Hi there,

I was made aware of your discussion paper recently and fully support the thoughts of Alan Mcgrath listed below which i have copied and pasted. 10-20% of my overall trading is via cfd's and i only use dma (direct market access) apart from a few index trades which follow the XJO quite closely. I would have to rethink whether or not to continue using CFDs if the dma facility was withdrawn. The market maker model which i believe evolved from spread betting is what i'd rather avoid personally because it's easier to abuse in my opinion.

If you would like to discuss further, i'm available after market hours on the above mobile number.

thanks

Michael Hobbs

Hello

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 requoting 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.

I am more than happy to discuss this matter further if you require. I am available via email or my telephone number is xx xxxxxxx. (I'd appreciate no calls during market trading hours though)

Regards

(name and address supplied)