19th January 2012

Dear Treasurer,

My name is Alex Macpherson and I am a trader. I have been trading for 10 years.

I would like to begin by acknowledging that any initiative to increase protection to retail clients is welcome. However, it concerns me to discover that the current planned reforms relating to client cash will have an immeasurable impact on those CFD providers offering a direct market access (DMA) model. It is my firm belief that this model not only reflects a sense of integrity, but also remains the only choice for a trader with the potential to align the interest of the provider, user and related financial markets. As a result, any decision made must firstly take into consideration the preservation of this model of service.

The DMA model facilitates a transparent way for users to participate in the underlying financial market. The client's orders are reflected within the market and this interaction assists with the price determination process through liquidity.

The education material on the ASX states that the stock market allows for the buying and selling of company shares, which occurs over a current electronic network. Under these conditions a liquid market place is enabled.
http://www.asx.com.au/programs/vignettes/lesson1part1.html

My income is derived through trading and I therefore need to ensure that I have direct access to the markets I trade. Features of CFDs such as leverage, the ability to short sell and access to markets provides tools that are essential for my trading. A visit to any trading related social networking forum adequately demonstrates that I am not alone in this cause. These are the users of CFDS.

The alternative model to a CFD is a market maker. I am met with great concern that the proposed changes anticipated by the treasury will endorse this model. In short, the model is a financial market's 'book maker,' with the ability to manipulate the results.

Perhaps an example will help you to better understand. I have opened accounts with both IG Markets and CMC Markets who both use the market maker model. I noticed that the pricing showed on stocks differed with that of the underlying. I see this as a hidden cost which is not disclosed and I only discovered this as I also have webIRESS which is a DMA platform which enables me to see the actual trades on the ASX. I have had incidences where orders with market makers did not go into the market and the price I was filled at had been manipulated. Given my trade size this translated into a $250 difference. As you can imagine processing 20 trades a day in the one stock equates to significant loss.

The fundamental problem lies in the fact that when providers don't hedge they profit from client losses. The ultimate goal of a business is to make the greatest profit, however to the client's detriment it encourages a great incentive to maximise on their losses. Ultimately, they will look to exploit the same retail users that it is your goal to protect. Any logic in this model evades me.

The DMA model requires the provider to mirror the client's intentions in the market via hedging. This process is more capital intensive than not participating. DMA providers only receive revenue when I trade or hold position. They would get little benefit from me if I always made losses and stopped trading, aligning our interests. The DMA hedging process means that traders like me add to liquidity in the underlying market and thus, increase its efficiency. I would argue that this model is far more effective than that of the market makers.

I am more than willing for my money to go towards hedging my corresponding position in the market. The idea of my money being used for anything other than hedging however is significantly unappealing to me. I used the MF Global platform and had funds in the account at the time they filed for Chapter 11.

I agree that we need regulatory reform; however reducing competition and regulatory changes which inhibits DMA providers is likely to put the industry in an even worse position. Does this current solution give any weight to the businesses and markets that will be affected? You have failed to acknowledge the most important people - the end users and the retail investors that you maintain so strongly that you are trying to protect.

This issue is important to me so I have attempted to make my option clear. I cannot trade with market makers and I urge you to consider the impacts of putting firms in a position where people cannot buy the underlying shares.

I note that CMC has a four year track record of heavy losses. Last year they lost over $30 million and hold only $94m in assets. It concerns me that regulation would suggest that I should be trading with this business for example as opposed to a profitable DMA business, which aligned out interest.

If you would like further information on my views, I would be happy to discuss.

Regards,

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