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By Darin Newsom, DTN Senior Analyst [More...](#)

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May 22, 2009—New traders frequently think that learning from the most talented traders is the best way to learn. On the contrary, new trade...

By Mike Bellafiore [More...](#)

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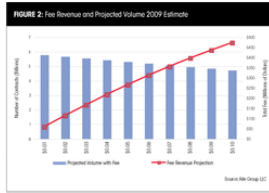
charges a transaction fee on equities, and the National Futures Association collects 1 cent per round turn trade on futures. Further increasing fees or instituting new ones could drive business out of the United States, he says. "In theory, if you tax them in the United States, they are going to move their business elsewhere, and take the liquidity with them," he says. Aite Group estimates the government could raise about \$59 million if it placed a 1 penny fee on Aite's projection of volumes this year for futures/options and equity options (see Figure 1). But for every penny fee, the potential loss of business in volume would equate to 2 percent (see Figure 2).

**FIGURE 1: Revenue per Penny of a Transaction Fee**

Instrument	Projected Volume	Revenue
Equity Options	\$362,740,199	\$36,274,019.90
Futures Options	2,873,876,544	\$28,738,765.44
<b>Total</b>		<b>\$65,012,785.34</b>

Source: Aite Group LLC

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Greg Hold, CEO of direct trading firm Hold Brothers LLC, agrees that a transaction tax would drive day traders out of the United States. A 0.25 percent tax per share on a \$50 stock, for example, would mean a fee of 12.5 cents per share, he explains. "But the average day trader makes less than a penny a share." By driving out the day traders, and thus liquidity in the market, the government would both chase away its tax base and dramatically widen spreads in stocks.

"They are just putting a bullet in the head of what's left of the American financial system if they do a transaction tax," Hold says.

**3. MOVING OTC DERIVATIVES ONTO AN EXCHANGE**

The idea of forcing OTC derivatives onto an exchange, or at least into clearing, gained steam this spring. In February, the House Agriculture Committee passed H.R. 977, the Derivatives Markets Transparency and Accountability Act of 2009. The bill includes a provision that mandates the clearing of all OTC contracts, requires reporting of OTC transactions to the CFTC and gives the CFTC the power to suspend purely speculative trading in credit derivatives if the underlying security is subject to a short-selling suspension order from the SEC.

In March, Treasury Secretary Tim Geithner, in his testimony before Congress, proposed moving the standardized parts of the OTC derivatives markets to a central clearinghouse and encouraging further use of exchange-traded instruments.

Then in May, senators Carl Levin (D-Mich.) and Susan Collins (R-Maine) introduced a bill that would repeal statutory prohibitions, including those enacted in the Commodity Futures Modernization Act of 2000, that currently bar government regulation of swap markets, which encompasses credit default swaps. If passed, this legislation would pave the way for federal regulation of all types of swaps, but it does not specify how swaps should be regulated.

Levin and Collins called the bill an "interim measure intended to clear the way for more specific swaps requirements" in financial reform legislation to come later this year.

Market forces, specifically growing fear of counterparties, were already moving OTC products toward a clearinghouse model, Zubulake says. For example, the SEC recently approved ICE Trust and CME Group to operate as central counterparties for credit default swaps, and ICE Trust has already begun to clear certain legacy deals through its clearinghouse, according to Zubulake's report....

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