Discussion of the CFTC's Proposed Rule on Electronic Trading Risk Principles

CFTC Technology Advisory Committee

Automated and Modern Trading Markets Subcommittee

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Definition of Electronic Trading

“Electronic trading encompasses a wide scope of trading, and should be understood, for purposes of this proposed rulemaking, to include all trading and order messages submitted by electronic means to the DCM’s electronic trading platform. This would include both automated and manual order entry.”

- Manual orders, once entered into an automated system pose many of the same risks as fully automated orders.
- Risk-based approach will allow DCMs to capture the differences between fully automated orders and manual orders entered into automated systems.

Market Disruption

“This rulemaking uses the term “market disruption” to describe the disruptive effects to be prevented, detected, and mitigated through these Risk Principles. Is it preferable to use the term “trading disruption,” “trading operations disruption,” or another alternative term instead? If so, which term should be used and why?”

- Sufficiently broad to capture both trading system outages and other potential events that could limit market participants’ ability to trade and manage risk.

What Constitutes a “Market Disruption”

“What type of unscheduled halts in trading would constitute “market disruptions” that impact the ability of other market participants to trade or manage their risk?”

- Outage to critical DCM trading system infrastructure.
- Instances in which trading is not halted, but during which market participants cannot trade, manage risk or engage in price discovery are difficult to define and depend on the degree of market disruption.
- Market participant system issue or withdrawal of liquidity that does not affect other market participants would not be a “market disruption.”

Latency as a Measure of Market Disruption

"What amount of latency to other market participants (measured in milliseconds) should be considered a market disruption? How can DCMs evaluate changes over time in the amount of latency that should be considered a market disruption?"

- Defining a latency measure will not be effective in defining market disruptions.
- Latency variability is a natural property of trading systems.
- A specific latency measure may be normal during periods of high market activity, but anomalous during a period of lower market activity.

Disparity of DCM Rules

"The Commission recognizes that DCMs may differ in what rules they establish to prevent, detect, and mitigate market disruption and system anomalies. Would such disparity have a harmful effect on market liquidity or integrity?"

- DCM trading systems have different architectures and features. DCMs should establish rules specific to their systems in order to most effectively prevent and mitigate market disruption.
- Flexibility will allow DCMs to innovate to ensure market resilience. Over time, this will strengthen best practices.