



FIA PTG Comments at the CFTC's Technology Advisory Committee Meeting

February 10, 2014

- The FIA Principal Traders Group ("FIA PTG") is composed of firms that trade their own capital on the exchange-traded markets. Our members engage in manual, automated, and hybrid methods of trading and are active in a variety of asset classes, such as foreign exchange, commodities, fixed income, and equities. We are a critical source of liquidity in the exchange-traded markets, allowing those who use these markets to efficiently manage their business risks. More information about the FIA PTG can be found on our web site at: <http://www.futuresindustry.org/ptg/>.
- The FIA, the FIA PTG, and the FIA European Principal Traders Association ("FIA EPTA") have been in the forefront of efforts to strengthen risk controls and system safeguards across the futures marketplace by identifying industry best practices with respect to risk controls that reduce the risk of market disruptions due to unauthorized access, software changes, system failures, and order entry errors. We observe that many of the safeguards discussed in the CFTC's Concept Release have been in place for many years and continue to be improved by the industry. Other system safeguards have been suggested in FIA and FIA PTG white papers that go beyond the risk controls and safeguards discussed in the Concept Release.
- The FIA PTG supports the CFTC's efforts to improve market infrastructure through effective risk controls and system safeguards. As we have noted in the FIA's response to the Concept Release, we believe that risk control requirements are most effective when they are principles-based. Any risk control that is overly prescriptive may quickly become obsolete as markets, technology, and trading strategies evolve and as a result may introduce, rather than reduce, risk.
- Although we believe the current infrastructure underlying the futures marketplace is very strong, FIA PTG member firms will continue to work to further strengthen that infrastructure. The FIA PTG stands ready to support the work of the CFTC to better understand where it thinks improvements can be made.
- The FIA PTG supports efforts of the CFTC to use state of the art technology to more effectively monitor markets and protect market participants from trading abuses.

- The FIA PTG believes that automated trading technology has provided many benefits to the overwhelming majority of futures market participants. Market quality metrics have improved across the board as trading has become more automated and competitive. Trading costs are lower, markets are deeper and more liquid, discrepancies in prices across related markets are reduced, and prices better reflect information about the value of the commodities underlying futures contracts. The FIA PTG therefore believes that any regulatory effort to improve market infrastructure must, at a minimum, preserve the market quality improvements that have occurred as markets have become more automated and competitive. If the CFTC determines that further regulation in this area is warranted, this determination should be supported by solid empirical evidence and rigorous economic analysis.
- The FIA PTG believes that in order to prevent market disruption due to a malfunctioning automated trading system (“ATS”), it is pre-trade risk controls—not credit-controls—that should be used. Such controls can use various approaches and act on a very granular level to detect unusual activity and to prevent unintended trading. We believe that kill switches, if implemented and used properly, can serve as an effective last-resort means of risk control, but stress that they are not a panacea and should only be used during extreme events when all other courses of action have been exhausted.
- A recent survey of FIA PTG firms showed that all responding firms indicated that they used some form of pre-trade maximum order size limits, data reasonability checks, messaging throttles, and self-trade prevention controls. In addition, all responding firms indicated they were either using, or considering using, some form of drop copy functionality to aid with risk management.
- The FIA PTG does not believe that a clear distinction can be made between high-frequency trading and automated trading. In fact, high-frequency trading, however defined, is a subset of automated trading and should not be used interchangeably with the term automated trading or as a way of arbitrarily identifying a type of market participant. The FIA PTG believes that instead of adopting a formal definition of high-frequency trading, the Commission’s efforts would be better spent focusing on and addressing potential risks of automated trading according to the principle that all market participants should be subject to risk controls.
- The FIA PTG supports a principles-based approach regarding registration, certification and identification of automated trading systems. We believe it should be left to the individual DCMs to define these policies for their market participants. US DCMs have their own rules regarding identification and registration of an ATS. Such rules are designed to allow the DCM to identify orders generated by automated trading systems and know the supervisor(s) behind these systems. We welcome the opportunity to discuss any additional information the Commission may seek regarding participants that is not already included in the DCMs’ audit trails.
- The FIA PTG believes that any type of market-moving data and statements produced by the federal government should be governed by processes and released through systems that ensure the accuracy of such data as well as guarantee a broad and timely delivery of that data to market participants. With respect to privately developed information, including information that may potentially move markets, we emphasize that this type of information is an important component of the price discovery process. We do not support government intervention into private enterprise in this context, but we do encourage transparency with respect to the policies and mechanics of information disclosure.