Recommended Practices for Trading Firms, Clearing Firms and Exchanges Involved in Direct Market Access

Pre-Trade Functionality Subcommittee of the CFTC Technology Advisory Committee
The PFS Subcommittee

- Gary DeWaal – Newedge
- Bryan Durkin – CME Group
- Michael Gorham – IIT Stuart School of Business
- Charles Vice – ICE
- Charles Whitman – Infinium
PFS Objective

• PFS is charged with recommending pre-trade measures that would preserve market integrity in cases of direct market access.
There is a Lot to Love about Electronic Trading

• Much greater transparency
• Much lower costs
• Much greater liquidity
• Much broader participation in markets
• Much faster access to markets

And we want to preserve all of these benefits.
Our Guiding Principles

• Preserve the dynamism of a rapidly evolving industry
• Bring all hands on deck
• Recognize incentives of each player
  – Trading firms
  – Brokers
  – Exchanges
Our Guiding Principles

• Fairness
  – Don’t advantage a clearing firm or trading firm that acts less responsibly
  – Treat DCMs, SEFs and FBOTs the same

• Coordinate with the SEC
  – FCM clearing firms that are also broker-dealers would benefit greatly if the SEC adopted pre-trade rules similar to those adopted by the CFTC
The Earlier Reports

• We have great respect for the work done by the FIA, specifically,
  – The April 2010 Market Access Recommendations
  – The Nov 2010 PTG Recommendations for Trading Firms
  – We tried to distill from those reports the most critical and effective measures
Trading Firms Must Establish

- Pre-trade quantity limits
- Pre-trade price collars
- Execution throttles
- Message throttles
- A kill button
Clearing Firms Must

• Ensure client trading firms
  – Establish pre-trade functionalities listed above
  – Utilize these PTFs for all trading
  – Use parameters agreed to by the clearing firm
  – Obtain written certification of the above from the client and ISV when trading is done from the ISV’s server

• Have access to the firm’s kill button
The Exchange

• Is the key anchor in controlling risk
• Must require all firms to use the following exchange risk controls
  – Pre-trade quantity limits on individual orders
  – Intra-day position limits
  – Pre-trade price collars
  – Message throttles
• Allow clearing & trading firms to
  – Set auto cancellation of orders upon disconnect
  – View working & filled orders & cancel working orders
• Have clear error trade policies favoring trade price adjustment