January 3, 2010

Mr. David Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Advance Notice of Proposed Rulemaking: Antidisruptive Practices Authority Contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act (RIN Number 3038–AD26)

Dear Mr. Stawick:

Chopper Trading, LLC, a proprietary trading firm based in Chicago, appreciates the opportunity to provide the Commodity Futures Trading Commission (the "Commission") with our views and suggestions regarding proposed amendments to section 4c(a) of the Commodity Exchange Act (''CEA''), under section 747 of Dodd-Frank, to expressly prohibit certain trading practices deemed disruptive of fair and equitable trading[1].

I. EXECUTIVE SUMMARY

Chopper Trading supports the Commission's efforts to ensure that markets operate in an orderly manner that is fair to all participants. Therefore, it is imperative that a multi-layered, coordinated approach be taken to achieve this goal, utilizing risk controls and market checks at the appropriate regulatory levels, to ensure market stability. Any trading practice executed with the intent to manipulate markets and disrupt fair and equitable trading should be prohibited, and those found in violation must be held accountable. This principle should be applied to all participants equally across all markets regulated by the Commission.

The Commission asks if it should provide additional guidance to the markets in its efforts to define disruptive trading practices. Chopper Trading believes it is essential that, in so far as the Commission is required to act by Dodd-Frank, the Commission should clearly define what practices are prohibited. As a proprietary trading firm, Chopper Trading carefully develops strategies that execute only under specifically-defined parameters, and we ask that the Commission develop its rules with the same care and precision, creating bright-line regulations that clearly delineate prohibited actions. In order for new rules to strengthen markets, clarity will be important, ensuring market participants are able to determine if current or potential future trading strategies are permissible. The Commission must act carefully in crafting any additional rules in order to avoid unintended consequences. Today we have the most liquid and efficient markets in the world – maintaining these standards of excellence should be paramount.

[1] 75 Fed. Reg. 211 (November 2, 2010) at 67301.

II. BACKGROUND

Chopper Trading is a proprietary trading firm, operating only with its own capital. Every dollar placed in the market is there at the personal risk of the management – the incentives to ensure safe, prudent and smart trading could not be higher. Because proprietary traders have their own capital at risk, we are among the strongest proponents of orderly markets. It is in our vested interest that markets function well, including: sound risk controls; clear error trade policies that focus on trade certainty; and a strong, underlying regulatory framework.

The tools utilized by traders today are part of the historic evolution of devices and networks that traders have been using to better collect information since equity and derivatives markets were first created. At different times, the telephone, telegraph and ticker tape were each a disruptive technology, thought by some to confer "unfair" advantages upon their owners. But their primary goal was always the same: to deliver timely and accurate information so that market participants could re-assess and reduce risk based on evolving market conditions. Using regulation to artificially reverse this process will reduce liquidity and widen bid-offer spreads, to the detriment of all market participants.

The tools used by proprietary traders, including computerized algorithms, are an essential part of a healthy market ecosystem, providing increased liquidity and true price discovery to the benefit of all market participants, including retail investors.

III. "BUYING THE BOARD" SHOULD NOT BE DEFINED AS A DISRUPTIVE TRADING PRACTICE

As the Federal Register notice makes clear, in the context of electronic trading, where orders are matched not by humans but by computerized order-matching algorithms, trades are routed to best executions. These systems limit any electronic trader's ability to violate bids and offers. In this context of defining disruptive trading and violating bids and offers, the Commission asks how "buying the board," or the purchase of all of the contracts that have been publicly posted in the market place, should be treated. Many times throughout the normal trading day, traders may have the need to buy the board to fill orders. This is not a disruptive activity, rather it is normal practice, as market participants look to meet their trading needs in certain markets and products. Therefore, Chopper Trading does not believe the practice of "buying the board" to be disruptive, per se, unless it is done with the intent to manipulate markets. Exchanges already have in place tools to ensure various orders do not disrupt the marketplace. These exchange-level mechanisms are often the best way to ensure fair and orderly markets, although, where feasible, the Commission should consider encouraging better coordination across exchanges in the use of these tools.

IV. "INTENT TO MANIPULATE" SHOULD BE PART OF ANY DEFINITION OF SPOOFING

As the Commission considers how to define spoofing, the Commission must consider that spoofing does not have a generally understood definition in the futures markets. Therefore, any definition must be crafted with care and precision, creating bright-line regulations that clearly delineate prohibited actions. Only then will market participants be able to determine if current or potential future trading strategies are permissible. A too-broad or easily misinterpreted definition could have unintended consequences for the market, resulting in wider bid-offer spreads and reduced liquidity.

Any definition of spoofing must include an element of an intent to manipulate the market. In addition, the definition of spoofing should neither rely solely on the percentage of the order filled nor on a metric related only to the size, frequency or volume of orders. These metrics in isolation could eliminate legitimate trading strategies, or would need to be placed so high by regulators as to be ineffective at targeting those with intent to manipulate the markets.

The cancellation of orders is another suggested metric that cannot be used in isolation to determine spoofing. Cancellation of bids or offers prior to execution is common, as market participants respond to events and manage their risk. In defining spoofing, the Commission asks if submitting or cancelling bids or offers to overload the quotation system of a registered entity to delay another person's executions of trades should be labeled as spoofing. If done with the intent to manipulate the market, this practice should be prohibited, no matter the label. That said, most exchanges have in place effective messaging and cancellation rules. We believe the CME's cancellation rules, which look at message rate as a function of traded volume, are an excellent model.

V. ALGORITHMIC TRADING IS AN ESSENTIAL MARKET TOOL AND ANY ADDITIONAL REGULATION MUST BE CAREFULLY CONSIDERED

Algorithmic trading is a tool used across a wide array of market participants. It has become an essential tool for a diverse range of firms, including brokers, institutional investors and high frequency traders.

The evolving discussion on the role of algorithms is, in part, an outgrowth of the events of May 6. In the course of joint SEC-CFTC committee meetings, CFTC technology committee meetings and in other forums, some have raise the prospect of placing obligations on high frequency traders (although the Commission's report makes clear May 6 was not precipitated by high frequency trading). These suggested obligations have included minimum quote life, best price obligations, maximum quote spreads, depth obligations, paying for cancellations and position limits.

This is an area where, in Chopper Trading's opinion, the Commission must exercise extreme caution. Imposing any one or any combination of these obligations would have serious, negative consequences for market liquidity, bid-offer spreads and price discovery. Moreover, given traders' practices of trading across markets, measures imposed in any market will likely have unintended, and negative, ripple effects in other markets. Instead, to best address the events of May 6, the Commission should continue in its efforts to ensure improved coordination at the exchange level. Circuit breakers and limit-up/limit-down mechanisms like those utilized by the

CME are the tools best suited to protect the marketplace from any sudden violent move in the markets, whether legitimate or caused by an error.

While exchange-level efforts will be most effective in addressing disruptive trading, the Futures Industry Association's Principal Traders Group (FIA's PTG) published in November best practices across seven issue areas that can be applied to firms and other market participants.[2] Chopper Trading embraces the report, and in fact has been utilizing most of its recommendations since the firm's inception. Many of these risk management principles operate not just at the firm level, but at the exchange and clearing firm levels, as well, providing a multi-layered approach to risk mitigation.

We believe disruptive trading is best addressed at the exchange level. However, if the CFTC is compelled to act elsewhere, we believe a principles-based approach should be adopted. The FIA's PTG best practices, which have been developed to ensure the safety and soundness of all firms utilizing algorithmic trading, is the best available model. Given the numerous different algorithms in use among thousands of market participants, algorithm management can also be approached through best practices concerning limit and order checks at the firm level. We believe that adopting a principles-based approach based on the FIA's PTG best practices would allow each firm to develop, within a prescribed regulatory framework, appropriate, firm-specific policies and procedures tailored to their individual business models, including limit and order checks. This principles-based approach would achieve the regulatory objective of ensuring the algorithms in use by different market participants are not disruptive to markets.

The Commission asks whether traders should be held accountable for disruptive practices, and Chopper Trading believes that accountability should apply across the board equally to any market participant, irrespective of business model. The Commission should, of course, carefully define what it considers a disruptive trading practice to ensure bright lines and clear rules for participants. This should all be done with care and precision to avoid unintended consequences that could affect the efficiency we now have in our markets.

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Chopper Trading appreciates the opportunity to submit this comment letter on these important issues. If you have any questions or would like to discuss these issues further, please contact me at (312) 628-3020.

Respectfully submitted,

Raj Fernando
CEO, Chopper Trading

cc: Chairman Gary Gensler

[2] http://www.futuresindustry.org/downloads/Trading_Best_Pratices.pdf

Commissioner Michael Dunn
Commissioner Jill Sommers
Commissioner Bart Chilton
Commissioner Scott O’Malia