FIX TRADING COMMUNITY™
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December 11, 2013

Melissa D. Jurgens
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street N.W.
Washington, DC 20581

Re: Concept Release on Risk Controls and System Safeguards for Automated Trading

FIX Trading Community ("FIX") (www.fixtradingcommunity.org) would like to thank the CFTC for the opportunity to comment on RIN 3038-AD52 Concept Release on Risk Controls and System Safeguards for Automated Trading Environments ("Concept Release"). FIX is a global not-for-profit industry association consisting of over 280 firms in the financial services industry that owns and maintains the FIX Protocol which is the free and open de-facto messaging standard for usage from pre-trade to trade reporting across multiple asset classes.

The importance of standards is recognized in the Concept Release in that the term "standards" is used 41 times. Standards increase reliability of systems, lower costs and lessen implementation timeframes. Consistency in communications is even more important as the industry infrastructure becomes more cross asset class and global in nature. FIX is utilized by Designated Contract Markets ("DCMs"), Derivatives Clearing Organizations ("DCOs"), swap execution facilities ("SEFs"), futures commission merchants ("FCMs"), swap dealers ("SDs"), major swap participants ("MSPs"), third party service providers and regulatory bodies across the globe.

The Concept Release recognizes that orders and trades pass through multiple stages from order generation to execution to clearing and allocation in proprietary or customer accounts. The FIX Protocol codifies industry standard flexible business processes, definitions and message formats for the complete order life cycle, excluding cash market settlement and payments.

FIX Trading Community has significant background and experience in Risk Controls for Automated Trading environment and has worked closely with the CFTC over the last number of years. Some examples:

- FIX Trading Community Risk Management Working Group developed and published best practices in electronic trading for institutional market participants. It was created for equities but expanded to include futures in 2012: http://www.fixtradingcommunity.org/mod/file/download.php?file_guid=32127.
- Enhancements were made to FIX to support the trade capture requirements of the CFTC, including the near doubling of the size of the FIX Protocol to support OTC Derivatives.

- Leadership within the FIX Trading Community have been involved in sub-committees of the CFTC's Technology Advisory Committee ("TAC"):
    - Jim Northey, The LaSalle Technology Group, Co-Chair FIX Trading Community Global Technical Committee, participated on the Subcommittee on Automated and High Frequency Trading of the CFTC TAC
    - Greg Wood, Deutsche Bank, Co-Chair FIX Trading Community Global Derivatives Subcommittee, participated on the Subcommittee on Automated and High Frequency Trading of the CFTC TAC

Our response to the Concept Release is limited to best practices for electronic trading and focusing on the role and benefits of standards, specifically the FIX standard. The goal was to stay within the remit of the FIX Trading Community organization, which is to focus on implementing easy to use, flexible, fit-for-purpose, solutions to requirements of the community, which includes regulators and self-regulatory agents. We have included responses to any questions applicable to the FIX Trading Community below.

Q. 7. Risk Controls – Applicable in the Case of DMA – Are there distinct pre-trade risk controls, including measures not listed below [see Section III.C.], or measures in addition to those already adopted by the Commission, that should apply specifically in the case of DMA?

The FIX Trading Community Risk Management Working Group developed and published a set of Best Practices in Electronic Trading to help firms more effectively manage risk in an environment where trading strategies are becoming increasingly complex and to prevent situations where the parties to a trade, or the wider market could be adversely impacted by flawed electronic orders. The automation of complex electronic trading strategies in a volatile marketplace increasingly demands a rational set of standardized pre-trade and intra-day risk controls, which are recommended in the paper, to protect the interests of the buy side client, the broker and the integrity of the market. The application of these risk controls should lessen the probability of unintended trades being executed. The document includes a recommended matrix of risk control factors for Pre Order, Intra Day and Pattern Controls that supports different criteria for low latency, algorithmic and DMA order flow and the link to that paper can be found here: http://www.fixtradingcommunity.org/mod/file/download.php?file_guid=32127.

The FIX Protocol messages already have the capabilities to provide the following functionalities which enable risk management as described in our above mentioned guidelines:

- a set of Parties Reference data messages that allow firms to setup and enable trading relationships, entitlement management and risk limit management
- a set of Parties Action messages that allow firms to halt the trading activities of a trading partner
- messages and fields are in place to communicate trading limits in real time
- credit limits can be managed, checked and set with the enhancements made recently to the Protocol to support Rule 1.73 including the ability to support the ping, push and plus-one pre-trade credit limit check models

Q16. Self-Trade Controls - What specific practices or tools have been effective in blocking self-trades, and what are the costs associated with wide-spread adoption of such practices or tools?

As stated in the concept release, market participants can utilize a FIX tag on orders which indicates a "Self Match Prevention Identifier". FIX is flexible in adding new support which then is available to all participants with consistency which reduces errors that result from misunderstanding in communications. FIX is willing to provide a forum for the standardization of an industry best practice for self-match prevention.

Q27. Maximum Order Sizes - Would additional standardization in the capabilities of this technology or more uniform application of this technology to all customers and contracts improve the effectiveness of such controls?

FIX Trading Community's mission is to increase standardization so yes uniformity would most definitely improve the effectiveness of such controls. Many exchanges apply risk checks on inbound orders that serve as the "last line of defense", applied after upstream risk checks are applied by the broker or FCM. Depending on the securities traded, and corresponding market structure, the exchanges apply a variety of pre-trade risk checks.

It is becoming increasingly common for futures and equities exchanges to provide sophisticated risk management tools and allow an FCM the granularity to set checks for each client that accesses the exchange directly. Such tools allow FCMs to facilitate direct access without having to impose their own or 3rd party risk management tools between the client and the exchange, should they choose to take this approach. Please see the risk management best practices as referenced in question 7 above for further details.

Q30. Trading Pauses - Trading pauses, as currently implemented, can be triggered for multiple reasons. Are certain triggers more or less effective in mitigating the effects of market disruptions?

One of the other overlooked areas in trading systems is the standard definition and standard communication of trading events, such as trading pauses. FIX initially introduced messages that supported the management and conveyance of trading session status and financial instrument trading status in FIX.4.2 via contributory work from NYSE ("SIAC"), Archipelago, and CBOE. These messages have been enhanced multiple times. The last major enhancement occurred during FIX.5.0 with contributory work from Deutsche Boerse, OMX Group, and BVMF. These messages are widely implemented globally. The FIX Trading Community welcomes opportunities to assist the industry and regulators in providing industry wide practices for the management and communication of trading states.

Q38. Credit Risk Limits - Please describe any technological limitations that the Commission should be aware of with respect to applying credit limits.

The two major limitations that have confronted application of credit limits is the latency introduced and the costs to implement a high performance solution for assessing pre-trade credit risks. As of 2004-2005, a processing budget of 1 millisecond was afforded to any pre-

trade credit risk checking. The current market practice requires less than 100 microseconds for any credit checks.

The other issue is the aggregation of customer limits across multiple DCMs and multiple FCMs. The US futures industry has benefited from a low number of DCMs.

In terms of technical protocols to support pre-trade credit limits, the FIX Community has worked with the FIA to develop standard business practices and the technical message protocols to support pre-trade credit risk management.

Q43. Order, Trade and Position Drop Copy - If each order and trade report described above were to be standardized, please provide a detailed list of the appropriate content of the report, and how long after order receipt, order execution, or clearing the report should be delivered from the trading platform to the clearing member or other market participant.

The industry already has adopted a FIX "drop copy" model where order status (including trades) are simultaneously sent to the clearing organization in real time. The drop copy approach of sending FIX Execution Reports is highly standardized within the market and is the basis for risk management at clearing firms.

Q48. Order Cancellation Capabilities - The Commission's discussion of kill switches assumes that certain benefits accrue to their use across exchanges, trading and clearing firms, and DCOs. Please comment on whether such redundant use of kill switches is necessary for effective risk control.

The FIX Trading Community established recommended guidelines and supporting message protocol for the implementation of kill switches. Please note that the risk management best practices as referenced in question 7 above, can be utilized as an input to a 'kill switch' process.

Q58. ATS Testing - What challenges or benefits may result from exchanges implementing standardized procedures regarding the development, change management, and testing of exchange systems? Please describe, if any, the types of standardized procedures that would be most effective.

Within FIX Trading Community, we have developed a Risk Mitigation Symbology Working Group due to a desire from our membership for test symbology for all electronically traded asset types to ensure a secure, reliable and compliant business process. As expressed by our members, electronic trading specialists have an ever increasing need to validate their production deployments before turning them over for live trading. The industry requires a tool set so as not to harm the reputation or financial stability of firms nor the market as a whole with poorly timed test trades being executed.

The group is currently developing a set of best practices that recommends an increase in the availability of 'listed' test financial instruments in the industry. A successful placement and execution of a zero-funded test symbol will ensure that all testing / pre-production configurations were copied and configured accurately to production. Some of the benefits will include:

- Reduction of Risks
- Increased client confidence
- Traders no longer have to expose real positions/orders for production test purposes
- Ability to test and validate any new algorithms or order types in a production environment (Note: test environments cannot replicate production environments)
- Post-Production release validation under controlled conditions
- Verification of executing venue availability

Additionally, events over the last few years have focused attention on how algorithms are used within today's markets. The use of an automated trading system carries a responsibility to ensure that it protects the integrity of the market. FIX Trading Community has been involved in helping the industry develop an ISO 9000/9001 style quality management system standard. The standard is currently being developed via the X.9 Accredited Standards Committee, which represents the US in US and international financial services standards. This AT9000 Quality Management System for Automated Trading is intended to improve the overall safety and quality of markets by providing an industry driven and maintained international standard for the development, testing, deployment, control and monitoring of automated trading systems. The approach follows the successful strategy of the ISO 14000 environmental standards, which have served to reduce cost by normalizing practices and reporting globally.

Q115. General Questions Regarding All Risk Controls - To the extent that there is any need to standardize or provide greater specificity regarding any measures discussed in this Concept Release, including those that reflect industry best practices, please describe the best approach to achieve such standardization (i.e., through Commission regulation, Commission-sponsored committee or working group, or some other method).

The FIX Trading Community continues to be an ideal location for gathering industry participants to develop standard implementation approaches for industry requirements, including regulatory requirements. FIX provides an open environment for industry collaboration for all interested parties. The FIX community maintains, and academic research has shown, that it is in the best interests of all participants to develop and use standards to reduce overall costs, lower implementation risk and shorten time to implementation.

In summary, it is important that the US Derivatives markets serve as effective centers of price discovery and risk mitigation as the Automated Trading environments continues to evolve. The FIX Trading Community is ready to work with the CFTC to assist in accomplishing that goal. We have the infrastructure and tools to collaboratively bring the wider trading community together and would be more than willing to work with the CFTC to provide an increased understanding of the impact of certain rules and regulatory guidance on electronic trading infrastructure and in turn to offer the FIX Trading Community as an industry resource to support the CFTC's ongoing regulatory efforts.

Thank you for your consideration.

Sincerely,

Courtney Doyle McGuinn
Operations Director
FIX Trading Community