December 11, 2013

Via Electronic Submission

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

Re: Comment Letter Regarding Concept Release on Risk Controls and System Safeguards for Automated Trading Environments; RIN 3038-AD52, 78 FR 56542 (September 12, 2013)

Dear Ms. Jurgens:

CBOE Futures Exchange, LLC ("CFE") appreciates the opportunity to provide its comments to the Commodity Futures Trading Commission ("Commission") with respect to the above-referenced concept release ("Concept Release"). The Concept Release seeks public comment regarding a series of existing and potential pre-trade risk controls; post trade reports and other post-trade measures; system safeguards related to the design, testing, and supervision of automated trading systems; and additional related measures (collectively, "Risk Controls"). Because CFE is a Designated Contract Market ("DCM"), CFE's comments are focused on the provisions of the Concept Release as they relate to DCMs.

In response to the request in the Concept Release that each commenter identify the Risk Controls that it already employs, CFE is providing the attached summary chart for the Commission's reference regarding the Risk Controls employed by CFE. Specifically, the summary chart reflects for each potential Risk Control applicable to trading platforms identified in the Concept Release Appendices if CFE employs that Risk Control or a similar risk control.

CFE also has the following general comments in relation to the Concept Release.

- CFE agrees with the Commission that it is important to manage the risks associated with automated trading. However, CFE also believes that there is already sufficient regulation of DCMs in relation to risk controls, and CFE questions the need for further regulation of DCMs in this regard. DCMs are already subject to, among other things, DCM Core Principles 4 and 11 under Section 5 of the Commodity Exchange Act ("CEA") regarding the prevention of market disruption and the financial integrity of transactions as well as Commission Regulations 38.255 and 38.607 thereunder. Commission Regulation 38.255 requires DCMs to establish and maintain risk control mechanisms to prevent and reduce the potential risk of price distortions and market disruptions. Commission Regulation 38.607 requires DCMs that permit direct electronic access by customers to have in place effective systems and controls reasonably designed to facilitate a Future Commission Merchant's ("FCM's") management of financial risk, such as automated pre-trade

controls that enable member FCMs to implement appropriate financial risk limits.

- CFE believes that the Commission should adhere to the principles-based regulatory regime applicable to DCMs under the CEA which sets forth core principles that are applicable to DCMs rather than establishing new prescriptive requirements relating to Risk Controls. Establishing one-size-fits-all standards does not allow for DCMs to appropriately tailor their Risk Controls to their individual market models, products, and market participants, all of which vary across DCMs. Prescriptive requirements also inhibit competition by setting standards in stone and not allowing for the implementation of new technology and innovative methods for addressing the issues discussed in the Concept Release. Commissioner Scott O'Malia asked the following overarching question in his statement regarding the Concept Release: "whether there is a need for regulatory action with regard to any of the measures currently in the market. In other words, should the Commission federalize any current industry practices/standards?" CFE believes that the Commission should not federalize practices and standards with regard to DCM Risk Controls and instead should allow DCM Risk Control practices and standards to evolve as technology and markets evolve, subject to the existing requirements under the core principles that are already applicable to DCMs. Technology and industry practices and standards are continually evolving and this evolution should not be stifled by prescriptive requirements. In addition to the existing requirements, DCMs have strong economic incentives to implement appropriate risk controls. Otherwise, clearing members will be disinclined to guarantee transactions on that DCM's market and the DCM will have difficulty attracting market participants.

- If the Commission were to determine to propose any new Risk Control requirements applicable to DCMs, it is important for the Commission to conduct a careful and thorough cost-benefit analysis which clearly demonstrates that the benefit of any additional regulation beyond what is already required outweighs its cost given the significant cost to DCMs and their market participants when system changes are required to be made to DCM trading systems. It is also important that DCMs be provided with adequate time to put any new required systems changes in place. If DCMs are not given sufficient time to develop, implement, and test new required systems functionality, it increases the very risks of the potential systems issues that the Concept Release discusses. Accordingly, CFE believes that DCMs should be provided with a minimum of two years to implement any new required Risk Controls.

- Any Risk Control requirements applicable to DCMs should also apply to swap execution facilities ("SEFs"). The Dodd-Frank Act contemplates that both DCMs and SEFs may list swap contracts and thus compete with one another. Accordingly, it is crucial that there be a level playing field between both DCMs and SEFs and that there be no regulatory disparities that would make it more advantageous to list a swap on a SEF as opposed to a DCM.

Finally, CFE has the following comments in relation to a few of the specific potential Risk Controls discussed in the Concept Release (which are referenced below by the number of the applicable Risk Control in the Appendices to the Concept Release).

- In relation to testing by DCMs of changes to DCM trading systems, DCMs are already subject to, among other things, DCM Core Principle 20 under Section 5 of the CEA regarding system safeguards and to CFTC Regulation 38.1051(h) thereunder which

requires DCMs to conduct periodic, objective testing and review of their automated systems to ensure that they are reliable, secure, and have adequate scalable capacity. If the Commission were to impose any additional requirements on DCMs to test DCM system changes with their users, no such requirement should apply to any DCM system change which does not necessitate system changes to be made by the DCM's users as a result of the DCM system change. Internal testing by a DCM is sufficient in these instances. (Item 15c)

- The Commission should not mandate the type of allocation algorithm that DCMs may utilize in their trading systems, subject to compliance by DCMs with existing requirements under the DCM core principles. DCMs need the ability to tailor and adjust the allocation algorithm for each product based on the unique characteristics of that product. DCMs also need the ability to use an allocation algorithm that attracts and retains liquidity in a product and incentivizes liquidity providers to provide markets with size and competitive bid-ask spreads in that product. If a DCM is required to use an allocation algorithm for a product that does not promote liquidity, this harms all market participants, including customers, because there will not be a competitive, liquid market in which to transact in the product. Additionally, it is important to recognize that a DCM's market model is a key attribute on which DCMs compete and differentiate themselves from one another. Requiring every DCM to use the same allocation algorithm limits competition and innovation. (Item 21(1))

- The Commission should not require DCMs to prioritize limit orders that remain resting in the order book for some minimum period of time; to aggregate multiple orders from the same legal entity entered contemporaneously at the same price level and assign them the lowest priority at that price level; to use batch auctions once per half-second at random times rather than using continuous trade matching; or to implement similar order execution methods. Doing so would also be mandating what form of allocation algorithm a DCM must utilize with all of the pitfalls described above since these execution methods would alter a DCM's matching algorithm. Market conditions change quickly and not allowing orders to execute immediately as market conditions change limits the utility of a market. In particular, it limits market opportunities, price discovery, and market transparency and would likely have a detrimental impact on liquidity. If market participants are not able to obtain immediate execution and to know when their orders will be executed and what the market conditions will be at that time, they are less likely to enter orders into the market. CFE believes that changes of this kind are likely to lead to unintended consequences and that these execution methods are no less subject to potential gaming than is the case with other execution methods. The Commission and DCMs already have extensive prohibitions against, among other things, manipulative and deceptive devices, price manipulation, and disruptive trading practices and these are the provisions that should be used to address any improper manipulative or disruptive activity. (Items 21(2), 21(4), and 21(5))

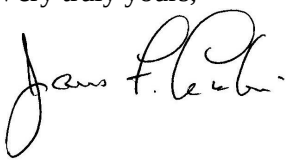
- CFE supports the current circuit breaker trading halt regime for equities and equity-related products which is coordinated across the securities and futures exchanges. If the Commission determines that there should be additional required coordinated trading halts, CFE believes that this should be accomplished through augmentation to the existing circuit breaker trading halt regime rather than on a one-off basis. In the context of significant market declines which invariably are accompanied by uncertainty in the market, it is important for there to be a standardized and across-the-board approach to trading halts across the securities and futures markets rather than a patchwork of a

number of different trading halt regimes between different trading venues. (Item 22)

* * * * *

CFE is available to provide any further input desired by the Commission regarding the issues discussed in the Concept Release and to work cooperatively with the Commission to address them. Please contact me at (212) 344-4023 or lubin@cboe.com if you have any questions regarding our comments.

Very truly yours,



James F. Lubin
Senior Managing Director
CBOE Futures Exchange, LLC

Summary Chart Regarding Whether CFE Employs Risk Controls Applicable to Trading Platforms Identified in Grids in Appendices to Concept Release

This summary chart reflects for each potential Risk Control applicable to trading platforms identified in the Concept Release Appendices if CFE employs that Risk Control or a similar risk control. If CFE employs a similar risk control, the summary chart simply notes the type of similar risk control that CFE employs. For ease of reference, the summary chart excerpts the portions of the grids relating to potential Risk Controls applicable to trading platforms and does not include the other portions of the grids.

POTENTIAL PRE-TRADE RISK CONTROL	PARTY(S) TO IMPLEMENT RISK CONTROL	SUBSTANCE OF CONTROL	CFE COMMENT
1a. Maximum Message Rate (Message Throttle)	*Market Participants Operating ATSs, Trading Platforms, and Clearing Firms*	1a. * * * * Trading platforms' systems must prevent the acceptance of messages in excess of their own specified rates and must log instances when each ATS attempted to exceed such limits. Separately, trading platforms must establish systems enabling clearing firms to set rate limits directly at the trading platform. Trading platforms, clearing firms and market participants may set rates independently of each other. In all cases, human monitors must be alerted when limits are breached.	CFE employs message rate limits set by CFE and rejects quotes or orders if the limits are exceeded. (See Policy and Procedure VI of the Policies and Procedures portion of the CFE Rulebook.) All occurrences of a CFE message rate limit being exceeded are logged.
1b. Maximum Execution Rate (Execution Throttle)	*Market Participants Operating ATSs, Trading Platforms, and Clearing Firms*	1b. * * * * Trading platforms must establish a maximum number of orders in the same direction they will execute per unit time from a uniquely identified ATS, and must prevent execution of trades that would violate this limit. Separately, trading platforms must establish systems enabling clearing firms to set per-	CFE employs a risk control that allows CFE Clearing Members to set limits on the number of contracts bought per trading day and on the number of contracts sold per trading day by a CFE Trading Privilege Holder ("TPH") or TPH login. This limit and other limits set by CFE

		customer message rate limits directly at the trading platform. Trading platforms, clearing firms and market participants may set rates independently of each other.	Clearing Members that are described in this summary chart apply with respect to orders and quotes for which the Clearing Member is identified in the order or quote submission as the Clearing Member for the execution of the order or quote. (See CFE Rule 513A(d).)
2. Volatility Awareness Alerts	*Market Participants Operating ATSs*	* * * *	N/A
3. Self-Trade Controls	*Trading Platforms and All Market Participants*	Trading platforms must provide, and all market participants must apply, technologies to identify and limit the transmission of orders from their systems to a trading platform that would result in self-trades.	CFE will be employing functionality in the near future that will allow TPHs to elect to mark their orders and quotes with a Self-Trade Prevention modifier. (See CFE Rule Certification Submission Number CFE-2013-039.)
4. Price Collars	*Trading platforms and All Market Participants*	Trading platforms must assign a range of acceptable order and execution prices for each of their products. All orders outside of this range would be automatically rejected, and orders already in the order book but outside of the acceptable range should not be elected by the matching engine. * * * *	CFE employs functionality that rejects buy orders with a limit price that is more than a designated amount above the prevailing best offer and sell orders with a limit price that is more than a designated amount below the prevailing best bid. Because these orders are rejected, they do not cause the execution of orders in the order book. (See CFE Rule 513A(b).) CFE employs market order

			processing functionality that prevents the execution of market orders if the width between the prevailing bid and offer exceeds a designated threshold width, and CFE does not allow market orders to be submitted during extended trading hours. (See CFE Policy and Procedure I of the Policies and Procedures portion of the CFE Rulebook and CFE Rule 1202(b).)
5. Maximum Order Size	*Trading platforms, Clearing Firms, and All Market Participants*	Trading platforms, clearing firms, and all market participants must each establish default maximum order sizes for orders submitted, transmitted, or processed by their systems. * * * * Trading platforms must prevent their systems from processing or executing orders in excess of the limit specified by the trading platform. In addition, for DMA customers, trading platforms must establish similar systems enabling clearing firms to set per-customer order size limits directly at the trading platform. Limits set by market participants, clearing firms, and trading platforms may be different from, and operate independently, of each other.	CFE sets a default maximum order size limit for each of its products. CFE Clearing Members may set different maximum order size limits by product and may set maximum order and quote size limits by TPH or TPH login. Orders and quotes that exceed the applicable limit are rejected. (See CFE Rules 513A(a) and 513A(d).) CFE only permits TPHs to directly access CFE's trading system. (See CFE Rule 302(e)-(g).)
6. Trading Pauses	*Trading platforms*	Trading platforms would be required to institute trading pauses, similar in nature	CFE rules provide for CFE to halt trading pursuant to the market-wide

		to stop-logic functionality, but covering a wider array of adverse states of an automated central limit order book.	circuit breaker trading halt regime for equities and equity-related products, to halt trading in security futures on narrow-based security indexes due to regulatory halts in the underlying securities, and to halt trading during extended trading hours in CBOE Volatility Index ("VIX") futures due to designated VIX futures price movements and price limits in the E-mini S&P 500 Index futures contract traded on Chicago Mercantile Exchange. (See CFE Rules 417A, 417, and 1202(i).) CFE may also halt trading due to an Emergency. (See CFE Rule 418.)
7. Credit Risk Limits	*Trading platforms, Clearing Firms and/or Market Participants Operating ATSs*	* * * *	N/A
8. Order Report (Post-order drop copy)	*Trading platforms*	Trading platforms must provide a duplicate copy of each order to the originating market participant and to the market participant's clearing firm(s) simultaneously with such order's receipt by the trading platform.	CFE provides an acknowledgment of receipt of an order to the originating TPH upon CFE's receipt of the order.
9. Trade Report (Post-trade drop copy)	*Trading platforms*	Trading platforms must provide a duplicate copy of each executed trade to the originating market participant and to the market participant's clearing firm(s) simultaneously with such trade's execution by the trading platform.	CFE provides duplicate copies of executed trades upon trade execution to CFE Clearing Members and TPHs that request to receive this information. CFE does not charge a fee for the receipt of

			this information.
10. Position Report (Post-clearing drop copy)	*DCOs*	* * * *	N/A
11a. Uniform Adjust or Bust Error Trade Policies	*Trading platforms and All Market Participants*	11a. Trading platforms must establish policies for adjusting the price of trades or breaking trades that have been executed due to an error. Policies must favor price adjustments rather than trade cancellation. To the extent possible, policies must require decisions by the trading platform to be made on the basis of readily available objective criteria in order to facilitate rapid or immediate decisions.	CFE has a policy regarding the resolution of error trades which sets forth criteria for error trade determinations. (See Policy and Procedure III in the Policies and Procedures portion of the CFE Rulebook.)
11b. Standardized Reporting Window for Error Trades	*Trading platforms and All Market Participants*	11b. Market participants must report error trades to the trading platform within five minutes after the trades are executed. Trading platforms must notify market participants of a potential adjust-or-bust situation immediately. Trading platforms must make a decision and notify market participants of that decision within a specified period of time.	TPHs that desire to invoke CFE's error trade policy must notify CFE's Help Desk as soon as possible and in no event later than eight minutes after the relevant trade occurred. CFE's Help Desk provides notice to TPHs of potential error trades and of CFE Help Desk determinations regarding potential error trades. (See Policy and Procedure III in the Policies and Procedures portion of the CFE Rulebook.)
CONTROLS OVER ORDER	*Trading platforms, Clearing Firms, and All Market*	Trading platforms, clearing members, and market participants must have systems and	CFE provides a cancel on disconnect option to TPHs on a per

PLACEMENT Order Cancellation Capabilities **12a. Auto-cancel on disconnect**	*Participants*	processes in place to: 12a. Exchanges should implement a flexible system that allows a user to determine whether their orders should be left in the market upon disconnection. This should only be implemented if the clearing firm's risk manager has the ability to cancel working orders for the trader if the trading system is disconnected. The exchange should establish a policy whether the default setting for all market participants should be to maintain or to cancel all working orders.	login basis for orders, and TPH quotes are cancelled on disconnect. (See CFE Rule 513A(e).) CFE provides a kill button function to CFE Clearing Members that enables the cancellation of all orders and quotes from a TPH. (See CFE Rule 513A(c).)
12b. Selective working order cancellation	*Trading platforms, Clearing Firms, and All Market Participants*	12b. Immediately cancel one, multiple, or all resting orders from a market participant as deemed necessary in an emergency situation.	CFE has the ability to cancel individual or all orders and quotes from a TPH upon request, in an Emergency, to ensure proper performance of CFE's trading system, or to protect the integrity of the market. (See CFE Rules 418, 513(a), and 513(d).)
12c. Kill switch	*Trading platforms, Clearing Firms, and All Market Participants*	12c. Immediately cancel all working orders, and the ability to prevent submission (market participant), transmittal (clearing member), or acceptance (trading platform) of any new orders from a market participant, or particular trader or ATS of such market participant.	CFE has the ability to cancel individual or all orders and quotes from a TPH upon request, in an Emergency, to ensure proper performance of CFE's trading system, or to protect the integrity of the market. (See CFE Rules 418, 513(a), and 513(d).) CFE provides a kill button function to CFE Clearing Members that enables the

			cancellation of all orders and quotes from a TPH. (See CFE Rule 513A(c).) CFE can restrict a TPH's access to its trading system, and the initiation of the kill button by a Clearing Member for a TPH will cause the rejection of any new orders and quotes by the TPH. (See the above-referenced CFE rules.)
13. Repeated Automated Execution Throttle	*Trading platforms, Clearing Firms, and All Market Participants*	13. Market participants operating ATSs must establish a limit on the maximum number of orders that each ATS can submit. When an ATS reaches that maximum it must be automatically disabled until a human re-enables it.	CFE TPHs may utilize a Quote Risk Monitor Mechanism which will cancel a TPH's quotes, until they are refreshed by the TPH, when the number of contracts executed by the TPH through quotes exceeds a designated amount over a rolling period of time. (See CFE Rule 513A(f).)
14. System heartbeats (see section III.E.1.a and footnote 90)	*Trading platforms, Clearing Firms, and All Market Participants*	14. Trading platforms must provide, and market participants operating ATSs must utilize, heartbeats that indicate proper connectivity between the trading platform and the ATS. Such heartbeats must also indicate the status of connectivity between an ATS and any systems used by the trading platform to provide the ATS with market data. If connectivity to any system is lost, the ATS should be disabled, and resting orders should be maintained or cancelled based on the pre-determined preferences of the firm that lost connectivity.	CFE provides a cancel on disconnect option to TPHs on a per login basis for orders, and TPH quotes are cancelled on disconnect. (See CFE Rule 513A(e).)

POLICIES AND PROCEDURES FOR THE DESIGN, TESTING, AND SUPERVISION OF ATSs **15a. ATS Design**	*Market Participants Operating ATSs*	15a. * * * *	N/A
15b. ATS Development and Change Management	*Trading platforms and Market Participants Operating ATSs*	15b. Trading platforms * * * * must maintain a development environment that is adequately isolated from the production trading environment. The development environment may include computers, networks, and databases, and should be used by software engineers while developing, modifying, and testing source code. * * * *	CFE has a separate development and testing environment that it utilizes for all development and testing.
15c. ATS Testing	*Trading Platforms and Market Participants Operating ATSs*	15c. * * * * Trading platforms must provide test environments that simulate the production trading environment so that market participants may conduct exchange-based conformance testing on their ATSs once they have completed internal testing. Conformance testing must include tests for all ATS risk mitigation controls that are able to be tested by the exchange. Exchange-based conformance testing must be done after certain modifications to the operating code.	CFE provides a user testing environment that simulates the production environment on which any TPH can test.

15d. ATS Monitoring and Supervision	*Market Participants Operating ATSs*	15d. * * * *	N/A
15e. Training for ATS Monitoring Staff (see section III(E)(2)(b) and footnote 97).	*Market Participants Operating ATSs*	15e. * * * *	N/A
15f. Crisis Management Procedures	*Trading Platforms and Market Participants Operating ATSs*	15f. Trading platforms and market participants operating ATSs must develop and document procedures that direct the actions of ATS supervisors, exchange trading monitors, and support staff in the event that an algorithm malfunctions or responds to market signals in an unanticipated manner. Procedures should direct the process for evaluating, managing, and mitigating market disruption and firm risk. The procedures should also specify people to be notified in the event of an error that results in violations of risk profiles or potential violations of exchange or Commission rules.	CFE conducts monitoring of market conditions, price movements, and volumes in order to detect abnormalities and, when necessary, makes a good faith effort to resolve conditions that are, or threaten to be, disruptive to the market pursuant to Commission Regulation 38.251(c).
SELF-CERTIFICATIONS AND NOTIFICATIONS **16a. Self-Certification and Clearing Firm Certification**	*Market Participants Operating ATSs*	16a. * * * *	N/A

16b. Risk Event Notification Requirements	*Market Participants Operating ATSs, Trading platforms*	16b. Market participants operating ATSs must notify the exchange, and the exchange must notify the Commission whenever an algorithm violates its design parameters or whenever risk control technologies or processes do not function as planned even if they do not result in destabilization of the markets. The exchange must also notify the Commission whenever any of its own risk management technologies or processes violate design parameters or do not function as planned.	CFE provides notifications to the Commission required pursuant to Commission Regulation 38.1051(c) through the Commission's Market Continuity Program system disruption notification process.
17. ATS or Algorithm Identification	*Market Participants Operating ATSs*	* * * *	N/A
18. Data Reasonability Checks	*Market Participants Operating ATSs*	* * * *	N/A
19. Registration of All Firms Operating ATSs	*Market Participants Operating ATSs*	* * * *	N/A
20. Market Quality Data	*Trading platforms*	* * * * Trading platforms must provide to all market participants a daily summary of market quality for each product traded on its platform. The feeds would include measures of execution quality including: (1) effective spreads; (2) order to fill ratios; (3)	CFE provides all market participants with the market data required to be made available by DCMs pursuant to Commission Regulation 16.01.

		execution speed for different types of orders and different order sizes; (4) aggressiveness imbalance; (5) price impact for given trade sizes; (6) average order duration; (7) order efficiency; (8) rejection order ratio; (9) net position changes versus volume; (10) branching ratios; (11) volume imbalance and trade intensity; (12) Herfindahl-Hirschman Indexes based on market share of open positions under common control; and (13) metrics on the number of price changing trades involving ATSs.	
21. Market Quality Incentives	*Trading Platforms*	Trading platforms must implement changes that will limit market participants' abilities to improperly advantage their own orders in ways that do not contribute to efficient price discovery, including, for example: (1) Utilize a trade allocation formula that is an intermediate between a cardinal ranking (time-weighted), Pro Rata allocation formula and a Price/Time allocation formula; (2) Create a new limit order type that would prioritize orders that remain resting in the order book for some minimum amount of time; (3) Require orders not fully visible in the order book to go to the end of the queue (within limit price) with respect to trade allocation; (4) Aggregate multiple, small orders from the same legal entity entered contemporaneously at the same price level and assign them the lowest priority time	CFE believes that it utilizes appropriate allocation algorithms. (See CFE Rule 406.) CFE does not support any dark order types in its trading system. (See CFE Rule 404.) CFE only provides visibility into its order book on an aggregate basis at each price level.

		stamp of all the orders so aggregated; (5) Require exchanges to use batch auctions once per half second at random times rather than use continuous trade matching; and (6) Limit visibility into the order book to aggregate size available at a limit price.	
22. Policies and Procedures for identifying "related" contracts	*Trading platforms*	Trading platforms must develop and implement policies and procedures for identifying securities or products listed on other exchanges that would constitute "related" contracts to those that are listed on their own exchange.	CFE rules provide for CFE to halt trading pursuant to the market-wide circuit breaker trading halt regime for equities and equity-related products, to halt trading in security futures on narrow-based security indexes due to regulatory halts in the underlying securities, and to halt trading during extended trading hours in VIX futures due to designated VIX futures price movements and price limits in the E-mini S&P 500 Index futures contract traded on Chicago Mercantile Exchange. (See CFE Rules 417A, 417, and 1202(i).)
23. Standardize and Simplify Order Types	*Trading platforms*	Trading platforms must work with the Commission to standardize order types across exchanges, and to reduce the overall number of order types that have complex logic embedded within them.	CFE supports a limited number of order types utilizing relatively basic logic. (See CFE Rule 404.)