3Red

February 14, 2014

Via Electronic Submission

Ms. Melissa D. Jurgens
Secretary
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: CFTC Concept Release on Risk Controls and System Safeguards for Automated Trading Environments (RIN 3038-AD52)

Dear Ms. Jurgens:

3Red Trading LLC ("3Red" or the "Firm") appreciates the opportunity to comment on the U.S. Commodity Futures Trading Commission's (the "CFTC's" or "Commission's") Concept Release on Risk Controls and System Safeguards for Automated Trading Environments (the "Concept Release").[1] We believe the Concept Release and the extensive work conducted by the CFTC staff and the Technology Advisory Committee ("TAC") demonstrate effective progress towards protecting our financial markets, while recognizing the complexity of the issue and taking a methodical and calculated approach to devise an efficient, viable approach to implementing a sound regulatory framework to meet this goal.

While the CFTC encourages commenters to address the specific points and questions thoughtfully laid out within the Concept Release, 3Red believes the sentiments and recommendations detailed by the Futures Industry Association's Principal Traders Group ("FIA PTG") appropriately echo those of our Firm as well. Therefore, rather than repeat each item of the FIA PTG letter, 3Red prefers to reiterate the following points made by other comment letters as well as address portions of the discussion during the most recent TAC meeting held on Monday, February 10, 2014.

Defining "High Frequency Trading"

3Red does not believe that a line between "High Frequency Trading" or "HFT" and other forms of electronic, algorithmic trading exists nor should one exist. The efforts of the Commission would be lost on reasonably attempting to formalize a definition of HFT and the markets would be better served by creating a uniform standard of risk controls and system safeguards applicable to all participants.

The term "HFT" has simply taken on a life of its own and has become a distraction from forming a basic process to mitigate broader risk in the marketplace. 3Red agrees with the comments made during the TAC meeting where evidence surrounding market issues arising during recent years, such as the "Flash

[1] *See* CFTC Concept Release on Risk Controls and System Safeguards for Automated Trading Environments, 78 FR 56542 (September 12, 2013).

Crash," were not caused by HFT but by other forms of basic electronic trading. Without equal risk requirements across the industry, the market would remain susceptible to further disturbances.

Principals-Based Approach to Risk

3Red supports a principals-based approach to rule-making as it relates to risk controls and/or system safeguards. As the industry continues to evolve, a prescriptive approach would likely be counterproductive to the future efforts of the Commission to adapt to further advancements in the market.

While the FIA PTG has published a well thought out response to the Commission's Concept Release, we believe the rule making of the CFTC should require a reasonability standard that will allow flexibility for each market participant based on the systems used and products traded, and grant the exchanges and the Commission flexibility in their review of such systems and processes adopted.

Separately, 3Red agrees with the comments made by CME Group, Inc.[2] in that basic, effective risk controls should be set at the exchange level to ensure fairness and equal compliance while affording the exchange greater insight into the thresholds established by each member firm. 3Red believes three core risk controls would offer reasonable and immediate protections to the market while the participants continue to implement other recommendations noted by FIA PTG to meet a reasonability standard within the new rule. These basic, exchange-level risk controls would be:

- Maximum order size [pre-trade check];
- Maximum number of messages (new orders, modifications, or cancellations) within a set time interval (e.g., 100 milliseconds) [pre-trade check]; and
- Maximum number of executions within a set time interval [post-trade check].

Through an internal process that involves senior personnel independent of or ultimately responsible for the trading system for which they will be set, each of these controls may be assigned a value that is deemed reasonable and that may be produced at a later time if requested by a regulator.

Coupled with pre-determined price collars and trading pause thresholds, these basic risk controls would effectively serve the market by greatly reducing undesirable activity. The markets overseen by the CFTC have great advantages from those for which the Securities and Exchange Commission is responsible, most notably in the aspect of single point of execution for listed contracts. The more protections the futures exchanges may build at their session, gateway or matching engine level, the more fair these protections (and perceived delays) will be to all market participants, leveling the playing field and further promoting a healthy marketplace. Additionally through this approach, any potential conflict of interest that may arise where speed and risk controls are at odds for a market participant would be removed from the equation.

[2] *See* Letter from Brian Durkin, CME Group, Inc., to Melissa D. Jurgens, CFTC, dated December 11, 2013 (Page 5).

To foster a healthy debate, we believe the following questions should be asked as the issue of risk is discussed:

- When an issue arises, is it better to limit risk to a participant that is experiencing system issues, or allow that issue to affect the market?
- If a firm is concerned about ceasing a system's operations too abruptly due to risk to the firm, is the firm properly managing risk throughout the trading day?
- Are a firm's risk process and procedures adequate if, in the event an automated trading system is suddenly shut off or disconnected, the firm does not have an alternate method to exit or hedge the existing positions?

<u>Summary</u>

Overall, 3Red believes the evolution of the markets to now include electronic trading as an equal or predominant means of order entry has yielded positive results that may not yet be fully appreciated by all in terms of competition, price discovery and transparency. These changes, driven by technology, are similar to other industries where professionals bear the cost of ingenuity and the public greatly benefits from such advancements in the long run.

We again thank you for the opportunity to participate in this dialogue through the submission of these comments, and appreciate the Commission taking our response into consideration.

Sincerely,

/s/ Greg O'Connor
Chief Compliance Officer