OneChicago

Via Electronic Mail

February 14, 2014

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

Re: Concept Release on Risks Controls and System Safeguards for Automated Trading Environments – RIN # 3038-AD52

Dear Ms. Jurgens:

OneChicago, LLC ("OneChicago," "OCX," or the "Exchange") appreciates the opportunity to comment on the Commodity Futures Trading Commission's (the "CFTC" or "Commission") Concept Release on Risk Controls and System Safeguards for Automated Trading Environments ("Concept Release"). OCX is the only domestic security futures exchange offering single stock futures; we provide a marketplace for trading over 2,800 futures on more than 1,500 individual equities and ETFs. Security futures were authorized by the Commodity Futures Modernization Act of 2000, which placed security futures under the joint regulation of the CFTC and the Securities and Exchange Commission ("SEC").

OCX hopes that in providing responses to the CFTC's questions, the Exchange may assist the Commission in forming responsible regulations that encourage innovation, while avoiding regulations that are prescriptive, unnecessary, and unduly burdensome. As the Commission will note, OCX has selected to comment only in those areas that OCX feels it may proffer an informed opinion on or which are directly applicable to the Exchange considering its role as a designated contract market ("DCM"). In response to the CFTC's questions contained in the Concept Release, please find below OneChicago's comments on certain issues raised by the Commission in the Concept Release.

Order Execution Message Latency

As a preliminary matter, OCX believes that it should not be considered an unfair advantage for a market participant to receive data regarding its own order before other market participants so long as that time difference is de minimis. The status of an order is important for the submitter not simply for its value as market data, but more importantly as a reflection of the submitter's risk level.

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Self-Trading

The responsibility and obligation to impose self-trading controls should fall directly and squarely on the clearing firms, and not on DCMs or designated clearing organizations ("DCOs"). However, if an exchange does choose to impose such controls, it should be allowed to offer solutions that make the most business and regulatory sense for that particular exchange. A one-size-fits-all approach would not be the most effective way to prevent self-trading. One exchange might find that the most effective way to prevent self-trades is by introducing a self-trade prevention modifier in its orders, while other exchanges may find more success in taking regulatory action against self-trades. For example, imposing summary fines for self-trades is one way an exchange may choose to address self-trades.

Order and Trade Reports

Order and trade reports should not be standardized. The format of these reports should be the product of independent business decisions made by each exchange offering the report to its clearing members. The exchanges are best suited to know what types of reports are most beneficial to its members.

Error Trade Decisions

Error trade policies should not be standardized across exchanges. If these policies were to be made consistent, market participants in all market environments would have to agree on the definition of an error trade, which is unworkable because of the material differences between market environments.

A measure that would obligate exchanges to make error trade decisions within a specified amount of time after an error trade is identified would not be prudent. Decisions regarding potential error trades take varying amounts of time depending on the facts and circumstances of the error trade, as well as the particular market and exchange technology platform involved. As long as an exchange informs its community that a particular trade is under review, there is no further benefit from forcing an exchange to make that decision within the constraints of a pre-defined schedule. In fact, such a restraint may actually pressure exchange staff to mistakenly choose whether to bust a trade, adjust it, or let it stand. OCX believes that it is more beneficial to the marketplace as a whole for an exchange to make the correct choice slowly, rather than the incorrect choice quickly.

OCX further believes that the best way to mitigate risk for market participants that are counterparties to potential error trades is to impose a policy that prevents error trades in the first place. Exchanges should create disincentives—such as a fine schedule—to prevent market participants from causing error trades.

Standardized Procedures

OCX would like to note that the Commission already has the ability to review procedures regarding the development, change management, and testing of systems as part of its DCM oversight program. Requiring exchanges to standardize these procedures would have the effect of stifling innovation. Each exchange has different resources, different technology platforms, and different methodologies. Standardizing these procedures may cause each exchange to have to overhaul it software development life cycle and modify its current methodologies at great cost to achieve little gain.

Certification of Risk Controls

We do not believe that self-certification of a market participant's risk controls is an effective way to protect that firm or the marketplace in general from a malfunctioning algorithm. Self-certifications provide a false sense of security. These certifications are generally a way of testifying that a firm's systems are working as intended. However, a glitch, by definition, occurs when a system fails to work as intended. Therefore, self-certification would fail to prevent a glitch because the glitch would only become apparent to the firm once the system malfunctions, regardless whether there was a self-certification made or not.

For example, self-certification would not have prevented the large trading error that generated hundreds of millions of dollars of losses for a trading firm in the equities markets in August of 2012. The firm could have self-certified its systems a mere day before the incident and still suffered the catastrophic losses that it did. Additionally, while OCX does not believe that self-certifications are generally effective, if a self-certification is required, we believe the Chief Executive Officer is ultimately responsible for the firm's activity and should be required to make any such certification.

Furthermore, DCMs should not be required to audit market participant's certifications on a routine basis. It is the clearing firms who may receive certifications from their customers, because they guarantee their customers' market activity. Also, if a clearing firm decides to require certifications from its customers, it should be up to the clearing firm to decide whether to audit its customers' certifications.

Regulatory Coordination

We strongly believe that any course of regulatory action should involve strong cooperation between the CFTC and the SEC, as well as the NFA and FINRA. As the financial markets have evolved, new instruments have been created that essentially serve the same purpose, but due to the nature of the dual regulatory regime in place fall under the purview of one regulator or the other (or in some instances, both). One example would be stock index futures, which are regulated by the CFTC, and their corresponding ETFs, which are regulated by the SEC. Similarly, single stock futures are particularly susceptible to regulatory fragmentation, as equities, equity options, equity futures, equity swaps, and securities lending and repo transactions can all serve as synthetic replacements for each other. As the nation's sole single stock futures exchange, OCX is dually regulated by both agencies, and is acutely aware of the difficulties that arise for market participants when faced with conflicting viewpoints or opinions from each agency. Therefore, we strongly urge the Commissions to coordinate all their oversight of like products including registrations, margins, and guidance for all registrants.

Regarding definitions used by regulators, OCX agrees that it is important for the CFTC and SEC to harmonize these definitions. Oftentimes we are faced with conflicting definitions that frustrate the Commodity Futures Modernization Act's purpose of dual regulation. For example, the CFTC defines ATS as "automated trading system," whereas the SEC defines ATS as "alternative trading system." Such differences in not only definitions, but also agency values, guiding principles, and culture generally make regulation confusing and more burdensome than it otherwise should be.

Market Quality

Market quality measurements are not relevant for all markets because not all markets trade in the same fashion. For example, some markets have significant market depth with liquidity up and down the price ladder, others have their liquidity concentrated in a particular contract or at the top of the book, and some others have liquidity spread out across various price levels. With regard to matching algorithms, some markets use price-time priority matching algorithms, whereas others use pro-rata algorithms, or a combination of these two.

It would be inappropriate to compare market statistics between two different markets, including comparing market statistics between front and back months of the same product. Each market statistic would need to be viewed in light of the respective market, the time of day, days left to expiry, transaction frequency, notional value of transactions, and numerous other factors in order to understand the context of the market at that point in time. While it could be an interesting exercise to analyze an individual market's statistics in isolation, presenting statistics across several markets may actually confuse the community.

Exchanges and market participants who truly find value in these statistics should be free to calculate them. In addition, exchanges could sell generalized statistics to the marketplace, while some parties may choose to self-calculate these statistics and incorporate them in their proprietary models. The decision whether to provide market quality statistics should be left to the discretion of each individual exchange. There is no regulatory value to be gained, or increase in market integrity or customer protection to be had, through the mandated dissemination of various market quality statistics.

Minimum Order Times

Market participants should be free to enter, cancel, or cancel/replace their orders at will, as they assume the risk of execution or non-execution. Exchanges are in a unique position to understand the strain on their systems caused by orders and should be allowed to independently govern throughput into those systems. Accordingly, we oppose the Commission mandating that exchanges impose minimum time periods for orders.

Exchange Controls

OCX strongly believes that market integrity is paramount, and that risk controls are one aspect of market integrity. Each market participant bears responsibility and related costs for ensuring market integrity, including risk controls. Each participant has differing business processes and technologies, and therefore will not only have different costs, but different approaches based on their business model. Proprietary firms' risk management systems will be very different from customer firms' risk management systems.

The CFTC and the SEC already mandate that DCMs and exchange have controls in place on direct market access in order to protect market integrity. Additional mandates may not necessarily increase market integrity, but will certainly increase costs and complexity. The Commission should refrain from any prescriptive regulations. Instead the Commission should provide for a broad principles-based approach under which the trading community will innovate and move the industry forward in ensuring risk controls and market integrity.

As a final note, regarding message limits, DCMs and exchanges are in a unique position to understand the limits of their technology and should be free to set either a hard limit on message throughput or regulate throughput by incentivizing participants to moderate their activity by charging higher fees for higher throughputs. Different exchanges should be free to provide messaging throughput to their customers on a non-discriminatory basis and based on those measures that the exchange finds will add the most value to market liquidity and growth.

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OCX appreciates the opportunity to provide comments on the Concept Release. Please feel free to contact the undersigned at (312) 424-8512 or tmccabe@onechicago.com with any questions regarding these comments.

Respectfully Submitted,

Thomas G. McCabe

Thomas G. McCabe
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