March 8, 2016

Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Attention: Commissioner Sharon Bowen,

Re: Request to Address the CFTC HFT Technical Advisory Committee

Dear Commissioner Sharon Bowen,

On September 17, 2015 at ISDA North American Conference you analogized algorithmic trading to driving a car: “these ground rules would be the precautions people take before they drive the car”. One precaution necessary for driving is to make vehicles are insured before the driven on the road. Given your former experience with SIPC you are in a unique position to understand the impact of an algorithmic error can have on an insurance company.

In an ideal state of regulation insurance such as FDIC or SIPC is not needed as the bank or broker-dealer’s ability to trade is circumvented at the exchanges the moment the regulatory capital is compromised. If the capital buffer is intact, then customer assets, insurance for those assets and the broader market is unharmed. “Damage from errors and infections” does indeed travel “instantaneously” and warrants the need for real-time automated halts at the exchanges.

Staying on the road with your car analogy: precautions should be built like the new Mercedes E Class whose systems stop the vehicle before there is a crash. As the patent holder of the system which calculates Net Capital in real-time I have been in touch with Kenneth W. Goodman of the SEC Examinations Office who is following up on centralized review of a patented system which calculate the effect of trading positions in real-time. Firms subject to SEC Rule 15c3-1 inclusive of specific CFTC Rule 1.17 participants must maintain sufficient net capital all of the time.

Control and Supervision of one standardized system which calculates the effect of trades on net capital would satisfy both the objectives of solvency and market stability. As explained to Justin Slaughter of your office there would be **no fee** to the regulators for access to the system or for the electronic transmission of to halt trading. Also **free of charge** would be email notifications to the crucial staff at the firm, regulators, exchanges, etc.

*Why would the CFTC spend the costs to examine each and every algorithm of every firm if a more efficient service is offered for **free**?*

As firms already required to have methods in place to meet capital requirements all of the time, then why would it be necessary to force additional ***"costs and burdens"*** on market participants as well? Commissioner Giancarlo asked in November, 2015:

"*Does this proposal sufficiently benefit the safety and soundness of America's futures markets so as to outweigh its additional **costs and burdens**? I wish the answer was clearer.*"

The answer is very clear: The fact an algorithm can be altered or maliciously hacked the day after the technical examination is complete presents a glaring gap in controls. Is the CFTC going to send a technical examiner each time a firm affects program logic? Will this be done for each program change for each at algorithmic account at each HFT firm for the form of trading which you have described as growing at a "ferocious clip"?

On September 17, 2015 you stated with accuracy "*A failure to notify someone about a problem for even a minute could be the difference between a minor issue and a major threat to the markets*" The $440 million which Knight Clearing Group lost in matter of minutes August 1, 2012 validates that statement. The costs of the monthly FOCUS report required by the SEC the following month of September did not work to benefit the investors in KCG on August 1, 2012.

What does work is the real-time comparison of trades versus equity in an account. If a major online retail broker can protect its investors from risk through the electronic comparison of millions of customer trades to net-capital, then why is not possible to circumvent firm trading when a specific trade when firm regulatory capital is breached? The same effective model can be applied on the macro level with the coordination of our exchanges and regulators at the TAC.

I request the opportunity to present the clear alternative to Regulation AT to the CFTC Technical Advisory Committee on HFT Trading. Good decisions are never made without hearing and researching all the alternatives thoroughly. Why would it not be possible that a nobody from the general public be the one to provide solutions for HFT and systemic risk?

Government participation in development of sound regulatory infrastructure is just as necessary as making our highway infrastructure safe for all of our drivers. Let the new CFTC policy be a policy of insurance which proactively eliminates the potential for accidents which will cause damage our customers, participants, market stability and SIPC reserves.

The efforts of all the staff at the CFTC are appreciated. This letter will be uploaded to the CFTC Regulation AT Comments time you receive it. I look forward to your response.

Sincerely

Peter Schwartz

www.systemicriskregulation.com