I want to thank the Commission for the opportunity to comment on this proposed regulation. I have worked over 30 years in the futures industry and made my living there; I still do. My experience includes employment by a FCM as a research analyst; I was a floor broker in the Live Cattle and Feeder Cattle pits; I have traded actively for my own account in those pits, and for the past five years I have traded over 30 different commodity markets exclusively on a screen. My approach from a traditional understanding would not be considered Algorithmic Trading.

I would like to begin by stating I believe this regulation is needed, but what I see here is only an attempt to catch up with where the industry has already gone. I believe the shift of trading from the pit/paper flow to electronic platforms has overall been a great improvement for customers and the industry. Speed of execution and reporting, ease of spread trading, and—compared to someone trading from the floor in the past—certainty of execution and positions are all pluses. However, this same shift has in some cases sacrificed other elements, including relevant market information and orderliness.

My comments are colored by my past experience in the industry, and in some cases will stray from or reach beyond the specific elements of the proposed regulation. Having noted this, before I offer my comments on the proposed regulation I would like to reflect on the transition to electronic trading. Prior to and since the advent of electronic execution, rules were in place and enforced by the CFTC and respective exchanges. Adherence to these rules was and is closely watched by the regulatory bodies, especially the process of entry and execution of orders. In the past orders came from a number of sources and for multiple reasons, but execution wound up in the hands of the floor broker or floor local. The floor broker was closely monitored by the CFTC and exchanges and was required to follow a number of rules and requirements. With the transition to an electronic trading platform the point of execution moved from a pit to a server, and the role/concept of a floor broker was effectively expanded to a much greater community: anyone and everyone entering orders now, regardless of whether manual or automated, is in essence a floor broker. I would suggest to the CFTC that the AT and other regulations should keep this in view, and that each entity taking on that role/responsibility of order entry should be held to a standard in the same way floor brokers had been previously.

Please bear with me as I try to explain and go further with this comparison. In addition to the rules and regulations of the CFTC and commodity exchanges, what is not often realized is that each pit on the old trading floors had their own set of “rules.” They were never in print, nor did they ever circumvent or counter the official regulations, but they were just as real and practically enforced within the pit. These “rules” included elements such as how bids and offers were announced and honored, how spread transactions were handled, how transactions would be split up among identical bids and offers, the length of time a bid or offer was to be considered in effect. These informal rules could and did vary from pit to pit. The element they had in common is that they were established by years of practice and experience driven by the order flow and peculiarities of that specific market and industry represented by that pit. They led to effective and timely executions of orders, and made the market “fit” the industry it represented.

While there are a number of commonalities between markets, it is just as true that trading action can vary across markets: Live Cattle trades differently than Ten Year Notes, which trade differently than Japanese Yen, which trades differently than Coffee. This shift from pit-based trade to an electronic platform and the dispersal of the role of floor broker from the pit to anyone entering orders has changed things. The electronic platform is one optimal for AT and other forms of automation, but in its early stages has tended to be a "one size fits all" world. The special rules/etiquette/controls of the pit were lost, and it is unclear if the official regulatory framework has been extended to the new and expanded roster of those who execute orders. I would like to summarize my lengthy diversion and come to my initial recommendation: First, all regulations, including AT, need to be focused on providing orderly and timely markets, which at a minimum encompasses how bids and offers are entered, matched, and/or cancelled. Second, these regulations must acknowledge that different markets have unique characteristics, and flexibility in setting regulatory parameters is necessary.

At this point I would like to comment on a few of the questions raised in the printed comments by CFTC Commissioners:

Expanded definition of AT

One question raised in the documents online is whether the definition of algorithmic trading should be expanded to include those where trade ideas are generated by algorithmic methods but then entered manually. I think this question misses the point. I think there should be great freedom for individual traders to use whatever methods they wish to generate their trading ideas. If it is via a bank of computers, fine. If someone wishes to slaughter a goat and read the entrails for market signals, OK. I think the underlying reason or motivation for entering whatever bids and offers is outside the scope of the Commission's purview, and to cross that line is problematic in several ways. Where I think the Commission needs to exert its focus is on making sure that the process of entering and executing the orders is done in an orderly fashion and held to a consistent standard.

Submission of code to a Repository

Another issue raised was the idea of the CFTC requiring AT traders to submit their code to a repository for present or future analysis of some sort. I find this objectionable for two reasons. First, I believe it would be beyond the scope or resources of the CFTC to effectively utilize such information. Deciphering simple Excel spreadsheets is complicated enough, let alone trying to analyze thousands or millions of lines of code in multiple computer languages. Second, to do so crosses the line from market regulation to issues of privacy and intellectual content. Regulations and enforcement should be focused on the behavior or trading action, not the basis behind it.

Relationships between ATs and DCEs

Revealing relationships that exist between certain ATs and DCEs is a good thing. The transition to trading on an electronic platform is well-advanced if not complete. If there are any preferential arrangements still in existence, they should be revealed for what they are. And if there are none in effect, this element of the regulation will show everyone there is no one behind that curtain and reduce the degree to which conspiracy theorists operate.

Conclusion

I am somewhat surprised at the lack of comments to date, and also disappointed that most of those that do exist simply mention that a meeting was held rather than express a public opinion on the issue at hand. While the AT regulation itself may not have a lot of impact on actual practice, I think it can set the stage or develop channels for improving an industry that has been significantly changed by technology. I hope it leads to effective and orderly markets. I thank you for the opportunity to express my opinion.

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