June 24, 2016

Bloomberg LP
731 Lexington Avenue
New York, NY 10022
Attention Bloomberg Editors

Re: Request for Follow Up: "Regulator Pledges to Keep Secret for High Frequency Traders" 3/16/16

Dear Editors at Bloomberg,

The Bloomberg March 16, 2016 Article Regulator Pledges to Keep Secrets for High-Frequency Traders stated *"The CFTC wants the ability to examine algorithms to determine* ***who to blame*** *when markets crash".* The defeatist presumption of "markets crashing" due to algorithmic trading error assumes he CFTC is incapable to meet is stated mission "to avoid systemic risk"

Risk becomes systemic when the firm's trading activity forces losses which exceed the firm's ability to pay street-side counterparties. Regulatory Net Capital serves as a buffer of sufficient liquidity for the firm to cover their trading losses on their own without relying on a third party such as a bank or government.

The Clear Alternative to Regulation AT is this: *If net-capital can be calculated in real-time through an automated system, then it is possible that an electronic transmission of a deficiency in liquidity can be sent to a designated contract markets (DCM) or an exchange to block trading in real-time for the deficient market participant.*

If this structure of regulation were in place before the algorithmic trading error which dissolved the capital of Knight Clearing a few years back, then the investors of Knight would not have lost the majority of their investment in KCG years ago. If an algorithmic trading error would rip through all of a firm's net capital, 'who to blame" would glaringly apparent firm insolvent to pay counterparties at settlement date.

I should be providing real-time deductions from trading positions known as SEC Rule 15c3-1 Haircuts to the 125 algorithmic trading firms which no longer qualify with the SEC 15b9-1, and look to offer the same to all CFTC regulated participants who regulatory capital requirements fall to SEC Rule 15c3-1 "The Net Capital Rule".

It is my intention to send the exchanges free of charge electronic notifications of insolvency of market participants for the intent of insulating our markets from systemic risk. As it is the mission of the CFTC to "avoid systemic risk", then the CFTC must utilize this preventative form of regulation.

As for the 125 algorithmic trading firms who will soon be paying trading activity fees; the least the regulator can do is adopt a structure which insures their algorithms do not vaporize their capital the way the algorithm of KCG did to their investors. Real time protection of investors justifies the payment of TAF on algorithmic trading. TAF for the same level of protection KCG received is a raw deal.

The regulated HFT Firm should maintain privacy of their source code as long as their source code does not provoke systemic risk. Source code will not be needed to determine which firm's algorithm caused the crash as firm "to blame" will be apparent on settlement date. As Edward Snowden sold secrets to the Chinese and there have been fifty cyber breaches at the U.S. central bank between 2011 and 2015, the owners of source code have just reason not to trust the government with their secrets.

The common solution to protecting both customers and the privacy of source code is not for the referee to examine the player's source code playbook but to remain focused on the sideline of insolvency. When a player steps off the field of solvency the whistle needs to be blown with immediacy loud enough for exchanges, market participants and regulators to hear.

"Who to blame" may not be solvent to fine or to make the customers whole. Knowing "who to blame" in scandals such as Madoff and MF Global has not made all of the customers whole. It simply falls short of the CFTC mission. Regulation AT falling short of the CFTC mission may be the reason that CFTC Commissioner Christopher J. Giancarlo "*struggle*(s) *to figure out if it will benefit the safety and soundness of America's futures markets enough to outweigh its additional costs and burdens".* Statement 11/24/15 Proposed Rulemaking of Regulation AT 11/24/15 CFTC.GOV.

I request Bloomberg follow up with Commissioner Massad with a follow up question, "***If the CFTC is being compensated to protect customers and avoid systemic risk, and CFTC ignores the opportunity to meet those objectives through fine tuning regulating existing rules on intraday solvency, who would to blame for the next market crash?"***

To regulate is defined as "Control or maintain the rate or speed of (a machine or process) so that it operates properly". Regulators compensated through our tax dollars to control intend to shift control over the speed of algorithms back to market participants though Regulation AT's "*additional costs and burdens".* With this shift they subtly alleviate themselves of liability of the process which they are compensated to control. Dispersed and diluted control puts investors and market stability at greater risk

Americans are weary of the deflection of blame. Americans would prefer access to their deposits held by an entity confirmed as solvent, and prefer not to be blaming anyone in the first place. The regulators must now follow the fine example of the algorithmic traders who they regulate and capitalize on modern real-time technology. Bloomberg must now report all alternatives public in the CFTC Regulation AT comments to in the interest fairly welcoming diverse points of view.

SystemicRiskRegulation.com looks forward to filling the gap where our regulators fall short. As someone who reviewed each risk position for the nation's largest market maker Herzog, Heine, Geduld from 1990 to 1997, I look forward to challenging the CFTC and SEC for higher standards of regulation.

Sincerely,

Peter Schwartz