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Via Electronic Submission

Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: 17 CFR Parts 1, 38, 40 and 170 Public Staff Roundtable on Elements of Regulation Automated Trading; Reopening of Comment Period

Dear Mr. Kirkpatrick:

A. Introduction

Quantitative Investment Management, LLC ("QIM") would like to thank the Commodity Futures Trading Commission ("CFTC" or "Commission") for the opportunity to participate in the CFTC Roundtable on Regulation Automated Trading ("Reg AT") held on June 10, 2016 ("Roundtable") and for the chance to make additional comments during this re-opened comment period. We applaud the CFTC as it seeks to ensure markets are insulated from disruption with various risk management policies. However, as written, Reg AT would have extensive impacts on almost all participants and service providers in the futures trading community. We therefore re-emphasize our suggestion in our prior comment letter submitted on March 16, 2016 that the Commission should continue to employ existing pre-trade rules and frameworks that we believe are already effective in managing risk at each stage of the trading process. We further commend Commissioner Massad's comments regarding his willingness to consider finalizing Reg AT in phases. We believe such phasing will allow the Commission more time to thoughtfully develop regulations and market participants to develop and implement best practices that suit the different constituents in the futures marketplace.

B. Definition of Direct Electronic Access

We would like to reiterate comments made at the Roundtable that only the person or agent directly placing trades on a designated contract market ("DCM") should be considered to possess direct electronic access ("DEA"). Participants who choose to use futures commission merchants' ("FCM"'s') gateways and thereby pass through an additional risk layer to access the market should be exempt from the definition of DEA, Reg AT registration and other requirements. In such a circumstance the participant faces a two-tiered set of risk control layers, which joins FCM "Know-Your-Customer" requirements with the protections of the DCM matching engine and an orderly market. This system places the responsibilities of DEA with FCMs, operating under the regulatory supervision of the CFTC, who currently set risk controls based on a comprehensive understanding of their client's trading style and assets.

For these reasons we support a revised definition of DEA such as the one proposed during the Roundtable by Mr. Moran of the CME Group: "An arrangement where a person electronically transmits an order to a DCM without the order first passing through a risk control administered by a DCO (derivatives clearing organization) under revised 1.82." This version uses more specific language to draw a distinction between direct and indirect electronic access. This definition clarifies the exception created in the original definition for those who "route through a separate person," with language that specifies that the exception for DEA is created by utilizing a "risk control administered by a DCO." In our opinion, making this language more explicit will clarify and appropriately narrow the potential pool of affected persons, while still ensuring that all orders placed at a DCM have passed through a series of risk controls provided by entities that maintain DEA.

C. Impact of Independent Software Vendors

QIM believes it will be extremely difficult to adhere to the requirements for development, testing, monitoring, compliance and documentation as outlined in proposed § 1.81 of Reg AT when using an algorithm provided or operated by an independent software vendor ("ISV"). We therefore believe ISVs must bear regulatory responsibility if their algorithms engage in DEA. Clients of ISVs often have limited visibility into the internal workings of ISV algorithms. In the case of execution algorithms, there are expectations that the parent orders will be sliced in predictable and explainable ways, but the logic that manages order placement on DCMs is often the guarded intellectual property of the ISV.

Despite contrary assertions at the Roundtable, clients of many ISVs have limited ability to comprehensively test ISV algorithms. The test environments at DCMs, where available, are not built to test algorithms under realistic market conditions; instead they address very basic questions about single orders and how they interact with the matching engine. To properly test an algorithm, one must create, configure and utilize a market simulator that better mimics actual market activity with specific test cases. Without access to source code and more robust testing environments, there is little opportunity for the ISV's client to thoroughly and independently test algorithms. The client would therefore have to rely on the ISV for some or all of the standards outlined in proposed § 1.81.

D. Intellectual Property

QIM stands with many other market participants in our strong belief that a regulation which allows regulators and other government bodies to inspect our proprietary source code on demand and without a subpoena is unprecedented, unjust and would not provide the benefits envisioned by the Commission. We would also like to reiterate a suggestion from our March 16 comment letter to embrace a clear distinction between investment decision algorithms and execution algorithms, with the former exempted from any source code standards that may be finalized in Reg AT.
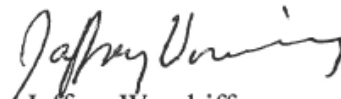
E. Conclusion

Thank you for your time and attention to this comment letter. We appreciate the Commission's willingness to reopen the comment period and their thoroughness with respect to the proposed regulation. Please let us know if we can answer any questions or be helpful in any way.

Sincerely,

Michael Geismar
President

Jaffray Woodriff
Chairman & CEO

Greyson Williams
Co-Founder