



September 29, 2017

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

VIA ONLINE SUBMISSION

Re: CFTC Requests Public Input on Simplifying Rules (“Project KISS”) – Miscellaneous

Dear Secretary Kirkpatrick:

The Minneapolis Grain Exchange, Inc. (“MGEX”) would like to thank the Commodity Futures Trading Commission (“CFTC” or “Commission”) for its Project KISS initiative, as set forth in a May 3, 2017 news release.¹ MGEX appreciates an opportunity to respond to the Commission’s request for public input.

Introduction

MGEX, a Designated Contract Market (“DCM”) and Subpart C Derivatives Clearing Organization, has been monitoring how exchanges, participants, and independent software vendors have been responding to the increasing use and reliance of electronic trading, which includes automated and algorithmic trading. This subject came into particular focus when the Commission released Regulation Automated Trading, Notice of Proposed Rulemaking, which was published in the December 17, 2015 Federal Register Vol. 80, No. 2015. The Commission subsequently made modifications in a Supplemental Rulemaking, which was published in the November 25, 2016 Federal Register Vol. 81, No. 227. Collectively, the initial proposal and supplemental are hereinafter referred to as “RegAT”. While the Commission has not taken further action on RegAT, MGEX believes

¹ <http://www.cftc.gov/PressRoom/PressReleases/pr7555-17>.

it is important to provide additional input on this subject.

As discussed in more detail below, MGEX believes the following:

- 1) The Commission should withdraw RegAT.
- 2) Existing CFTC Regulations could be leveraged to ensure that there are adequate protections in place to guard against the various risks presented by electronic trading, including the risk of market disruption that may be caused by automated or algorithmic trading.
- 3) If existing CFTC Regulations are insufficient, the Commission could evaluate the benefits of issuing an interpretive guidance on existing regulations, or, alternatively, a new, narrowly-focused rulemaking on electronic trading.

MGEX thanks the Commission in advance for reviewing this comment letter.

1. The Commission should withdraw RegAT.

Withdrawing RegAT would remove the angst that the prescriptive rulemaking created and provide for a more predictable regulatory environment under which exchanges and others can continue to guard against the various risks presented by electronic trading. MGEX and others spent a considerable amount of time and resources reviewing and commenting on RegAT, including planning to make operational and technological changes to ensure compliance with any final rulemaking. While it appears that the Commission may not take any immediate action to implement RegAT as it currently exists, it remains a possibility. That possibility creates a level of uncertainty and interferes with MGEX's ability to plan in the near, medium, and long term. Withdrawing RegAT would provide more certainty and allow exchanges and others to continue to focus on managing the risks presented by electronic trading.

Withdrawing RegAT will likely result in MGEX and others in doing more, not less to guard against the risks that electronic trading presents. Indeed, the industry has already responded by implementing, among other things, pre-trade controls and rules to deter or prevent market disruption from occurring.² The paucity of disruptive market events directly attributable to electronic trading (either algorithmic systems that were intentionally designed to manipulate a market or systems that failed and unintentionally caused issues) is a strong indication that the efforts the industry has done (and will continue to do) is working. Allowing exchanges and others to focus on innovating and creating tailored solutions to protect against the risks presented by electronic trading is a more cost-effective and beneficial situation than trying to salvage RegAT as it currently exists. As such, exchanges, industry participants, and the public would be well served if the Commission withdrew RegAT.

² For instance, the CME Group, Inc. has developed an optional self-match prevention tool. <http://www.cmegroup.com/globex/trade-on-cme-globex/self-match-faq.html>

2. The Commission could rely on existing CFTC authority and regulations to guard against the risk of market disruption that may be caused by electronic trading.

At the outset, MGEX is committed to ensuring that its contracts are traded on a platform that is secure, reliable, and transparent. MGEX, as other DCMs, have a self-interest to take measures to prevent actors from abusing a DCM. Indeed, MGEX has a long history of doing this. Put simply, if MGEX and other DCMs did not have resources, technology, and rules in place to protect against abusive practices in any form, there would not be confidence in the marketplace. Without confidence, participants would not trade and MGEX would therefore not exist. This is why, in part, trading controls and rules have been implemented – to prevent abuse (intentional or unintentional) from occurring on electronic trading platforms.

Beyond mere self-interest, MGEX is held to the requirements of DCM Core Principles. Core Principle 9, for instance, requires that a DCM “provide a competitive, open, and efficient market and mechanism for executing transactions that protects the price discovery process of trading” Core Principle 12 requires a DCM to have and enforce rules “to protect markets and market participants from abusive practices committed by any party” Core Principle 4 requires that a DCM “have the capacity and responsibility to prevent manipulation, price distortion, and disruptions of the delivery or cash settlement process through market surveillance, compliance, and enforcement practices and procedures.” Core Principle 6 requires that a DCM adopt rules for emergency situations to allow the DCM “to suspend or curtail trading”. Under Part 38.156, a DCM must “conduct real-time market monitoring of all trading activity on its electronic trading platform(s) to identify disorderly trading and any market or system anomalies.” Further, to respond to such events, a DCM must “have authority to adjust trade prices or cancel trades.” Taken together, these seem to encourage, if not compel, a DCM to have technology and rules in place to detect and prevent abusive practices that jeopardize competitive, open trading. Accordingly, under the status quo, MGEX believes there are existing principles and regulations that adequately require DCMs to take measures to mitigate or prevent the risk of market disruption that electronic trading (including automated and algorithmic trading) poses.

3. If existing CFTC Regulations are insufficient, the Commission should still withdraw RegAT and then either issue interpretive guidance or start a new rulemaking.

If the Commission concludes that existing regulations are insufficient, MGEX suggests that the Commission still withdraw RegAT and then either issue interpretative guidance or pursue a new rulemaking. The Commission could issue interpretive guidance under existing DCM Core Principles to stress that the principles apply to electronic trading, including automated and algorithmic trading. Alternatively, the Commission could consider a new rulemaking that is modeled on the Core Principle framework. MGEX believes the regulatory approach utilized via Core Principles noted above serve as a good foundational model than additional prescriptive regulations for electronic trading. In

general, the DCM Core Principles appropriately balance the Commission's need to fulfill its legislative mandates and responsibilities, the desire from exchanges and others to have flexibility and room to innovate, while ensuring that markets continue to provide their intended benefits to participants and the broader public. This type of principles-based rulemaking would be more workable and beneficial, especially if it builds upon existing work that exchanges and others have already done, while still allowing room for different approaches. Further, it would permit ongoing innovation since exchanges and others would not be confined to prescriptive technological requirements.

In addition, if the Commission does pursue either interpretive guidance or a new rulemaking, MGEX asks that a series of roundtables be held. While MGEX was pleased that the Commission held roundtables and discussions leading up to issuing RegAT, some topics deserve more attention in a public setting. MGEX suggests having roundtables that address the following:

- 1) The existing and ideal role of exchanges, FCMs, market participants, and independent software vendors for developing and implementing pre-trade risk controls.
- 2) Any potential gaps in existing technologies that have been deployed either by exchanges, FCMs, market participants, and independent software vendors.
- 3) Should there be common standards for pre-trade risk controls for electronic, including automated or algorithmic, trading systems.

MGEX believes these roundtables would be insightful and would appropriately influence any new Commission action.

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If you have any questions or concerns regarding this letter, please feel free to contact me at (612) 321-7141 or awysopal@mgex.com. Thank you for your attention to this matter.

Sincerely,



Adam Wysopal

Associate Corporate Counsel

cc: Mark G. Bagan, President & CEO, MGEX

Layne G. Carlson, Treasurer & Corporate Secretary, MGEX