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

re: Project KISS

Dear Secretary Kirkpatrick:

Thank you very much for the opportunity to comment on the regulations regarding swap execution facilities. During 2016, I was employed as Chief Compliance Officer at Seed SEF, which was established to offer swaps on industrial hemp and its derivative products. My duties included not only setting up the compliance function but also to pursue the registration of Seed SEF with the Commission. We filed our application on January 26, 2016 and it was approved on August 23, 2016 – very quickly!

Among the reasons that application was approved so quickly were not just the diligence of the Commission staff who worked on it but also the explicitness of Part 37 of the Commission's rules. The rules and the accompanying guidance are sufficiently clear to instruct a potential registrant of the minimum standards for SEF registration and also serve as an instruction manual for establishing a trading platform.

Along the way to the registration of Seed SEF by the Commission, it became clear to me that the Commission's current SEF regulations would be inappropriate for almost any inchoate marketplace or for experimentation by existing cash market platforms considering expanding into derivatives trades. While this concern may apply generally, the SEF regulatory regime seems truly burdensome for new commodity markets (like those that Seed CX and Seed SEF were trying to foster). The likeliest early users of such markets generally operate remote from Federal market regulation not due to avoidance but because their cash transactions are often unregulated at every level. In our case, for example, the concept of SDR-reporting of (and maintaining the reports!) the small value options that would be traded on Seed SEF was alien for almost all potential market participants. Also, requiring a trading system to offer standardized contract terms for a market that is just starting out not only is costly but also risky for the market organizer when cash marketing channels are likely further to evolve and change. The mechanics of regulated swap trading, let alone the attendant legal risks and responsibilities, are probably much more familiar to participants in financial swaps and swaps involving physical commodities already traded on DCMs.

In another example, the Commission's rules regarding the appointment and responsibilities of a Chief Compliance Officer may be reasonable for a large, active interest rate- or FX-trading SEF (for which they probably were originally designed), but they are overkill for a start-up enterprise. In my experience the requirements for a newly founded SEF to appoint a qualified CCO to carry out the numerous specific responsibilities set forth in the Commission's rules far outstrip the risks presented to the public by the likely market constellation of a handful of eligible contract participants trading among themselves and a few merchandisers and hedgers.

Prior to enactment of the Dodd Frank Act, the law provided for commercial markets to be exempt from Federal regulation. There were numerous benefits to that approach as well, of course, as risks. Nodal Exchange, which is now a registered DCM with its own registered DCO, began as an exempt commercial marketplace. From the start, it offered unique products traded in an unconventional market model. In contrast, since the Commission's adoption of the Part 37 rules for swap execution facilities, there has been little relatively little innovation in swaps trading by commodity platforms. This phenomenon may in part be attributable to the high costs of experimentation and development under the CFTC's rules.

I strongly encourage the Commission to review its SEF rules in order to identify those rules from which a market that is transacting a low number of contracts per day (ADV of 10, e.g.) and/or is transacting less than, say, \$1 million in notional value could be exempted after initial registration. Another alternative would be to establish a temporary registration program that could significantly alleviate pressure on new entrants, thereby inviting product and trading experimentation.

I am also separately submitting to Project Kiss earlier correspondence to the Commissioners touching on some of these issues, in particular the idea of a temporary registration for SEFs.

I wish the Commission every success in reviewing its rules and I hope that it can adopt measures that act as hurdles and barriers for commodity businesses to innovate and implement new trading instruments, platforms and market models.

Thank you.

Best regards,

(signed)

Thomas G. Thompson