



March 15, 2019

VIA E-MAIL

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

Re: **RIN 3038-AE25: Swap Execution Facilities and Trade Execution Requirement, 83 Fed. Reg. 61946 (November 30, 2018)**

Dear Mr. Kirkpatrick:

CTC Trading Group, LLC (“CTC”) is a major market making firm providing liquidity in the listed equity, index, and futures options markets. Founded in 1995, CTC has over 370 employees and makes markets across multiple asset classes and geographies. We appreciate the opportunity to comment on the Commodity Futures Trading Commission’s (“Commission”) Notice of Proposed Rulemaking on Swap Execution Facilities (“SEFs”) and Trade Execution Requirement (“Proposed Rulemaking”). CTC believes that financial markets are the bedrock of a robust economy, and that markets should be competitive, transparent, and fair.

While the Commission’s current SEF rules have led to increases in market transparency and competition in swaps markets, barriers remain that continue to prevent many liquidity providers from fully participating in these markets—to the detriment of investors, hedgers, and end users, who often depend on liquidity providers to facilitate price discovery and risk transfer. Rather than addressing these shortcomings in order to bring more participants into these markets, as was the clear intent of the derivatives reforms following the financial crisis, the Proposed Rulemaking represents a major step backwards that would reduce transparency and competition.

First, the Proposed Rulemaking circumvents impartial access by allowing SEFs to arbitrarily define and determine which participants are “similarly situated”—and thus entitled to impartial access—under the rule. Without clear parameters, SEFs could narrowly define the categories in a way to effectively exclude liquidity providers like CTC and our peers, as well as end user firms, for example by restricting access based on an excessively high capitalization, making access available only to bank holding companies, or creating other unnecessary and exclusionary qualifications that are not related to how a firm would interact with a particular liquidity pool—but rather just based on the type of market participant. Such a narrowly tailored use would significantly reduce competition, directly harm end users by permitting discrimination against liquidity providers who are often able to offer the best price for a given contract, and ultimately result in a

less healthy market. We urge the Commission to ensure that the final rule promotes real impartial access and avoids discriminatory and anticompetitive outcomes.

Second, we strongly encourage the Commission to ensure that execution methods do not have an anticompetitive impact. We support a regulatory framework that provides reasonable flexibility and encourages appropriate market-driven innovations. Allowing a SEF to offer “RFQ-to-1” or single-dealer trading protocols works directly against both of these principles. RFQ-to-1 would result in an increase in private bilateral discussions and trades between two market participants and represents a return to the opaque and often anticompetitive swap market trading practices used prior to the introduction of SEFs. Further, such practices benefit entrenched players to the detriment of newer participants and a more diverse marketplace. Such a closed system will necessarily inhibit innovation in favor of preserving the status quo simply by virtue of restricting participation, and again, restricting competition in dealing and liquidity provision almost always has the same outcome: inferior prices for end users and investors. We recall very clearly the long discussions and careful contemplation of the Commission prior to finalizing this aspect of the SEF rules, and continue to strongly believe that RFQ-to-3 remains an appropriate standard that (1) sets a minimum bar for multilateral trading, (2) serves to mitigate potential conflicts of interest and (3) supports greater price discovery, transparency and competition. All of this goes to the benefit of end users and sets the conditions for healthy market evolution.

Third, the proposed changes to straight-through-processing represent yet another step backwards in swaps trading reforms. The changes would introduce greater operational uncertainty, increase complexity, and reduce clearing certainty. These issues may then serve as a pretext for requiring additional and otherwise unnecessary documentation and bilateral credit agreements and assessments, the effect (and quite possibly intent) of which are to exclude many market participants altogether. This is a major step backwards that undoes much of the progress we have seen in the last 5 years to open up these markets to greater participation, increase systemic soundness, and improve competition and transparency. Further, these changes are wholly inconsistent with the intent and language of the derivatives reforms in the U.S. as well as MiFID II. We strongly encourage the Commission to rethink the benefits of this proposal and to assess the costs and the perceived benefits before changing the straight-through-processing standards as proposed.

Finally, we appreciate the interest by the Commission in hearing our thoughts and endorse the reforms put forward by Commissioner Berkovitz in his February 27 speech, which we believe to be shared by many others at the Commission. In particular, we respectfully recommend that the CFTC (and, as necessary, other regulators) take steps to expand floor trader registration; abolish name give-up; enable average pricing; and fix the leverage ratio.¹

If you have any questions about these comments or if we can provide further information, please do not hesitate to contact us.

¹ Improving Swap Market Regulation: Four Reforms; Keynote Address of Commissioner Dan M. Berkovitz at DerivCon 2019, New York, New York; February 27, 2019

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Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steve Crutchfield". The signature is fluid and cursive, with the first name "Steve" being more prominent than the last name "Crutchfield".

Steve Crutchfield
Head of Market Structure
Chicago Trading Company

copy: Chairman J. Christopher Giancarlo
Commissioner Brian Quintenz
Commissioner Rostin Behnam
Commissioner Dan Berkovitz
Dan Bucsa, Chief of Staff & Senior Policy Advisor to Commissioner Stump