Recommended Practices
for
Trading Firms, Clearing Firms and Exchanges Involved in Direct market Access

Pre-Trade Functionality Subcommittee

of the

CFTC Technology Advisory Committee

The PFS Subcommittee

- Gary DeWaal – Newedge
- Bryan Durkin – CME Group
- Michael Gorham – IIT Stuart School of Business
- Charles Vice – ICE
- Charles Whitman – Infinium

PFS Objective

- PFS is charged with recommending pre-trade measures that would preserve market integrity in cases of direct market access.

There is a Lot to Love about Electronic Trading

- Much greater transparency
- Much lower costs
- Much greater liquidity
- Much broader participation in markets
- Much faster access to markets

And we want to preserve all of these benefits.

Our Guiding Principles

- Preserve the dynamism of a rapidly evolving industry
- Bring all hands on deck
- Recognize incentives of each player
  - Trading firms
  - Brokers
  - Exchanges

Our Guiding Principles

- Fairness
  - Don't advantage a clearing firm or trading firm that acts less responsibly
  - Treat DCMs, SEFs and FBOTs the same
- Coordinate with the SEC
  - FCM clearing firms that are also broker-dealers would benefit greatly if the SEC adopted pre-trade rules similar to those adopted by the CFTC

The Earlier Reports

- We have great respect for the work done by the FIA, specifically,
  - The April 2010 Market Access Recommendations
  - The Nov 2010 PTG Recommendations for Trading Firms
  - We tried to distill from those reports the most critical and effective measures

Trading Firms Must Establish

- Pre-trade quantity limits
- Pre-trade price collars
- Execution throttles
- Message throttles
- A kill button

Clearing Firms Must

- Ensure client trading firms
  - Establish pre-trade functionalities listed above
  - Utilize these PTFs for all trading
  - Use parameters agreed to by the clearing firm
  - Obtain written certification of the above from the client and ISV when trading is done from the ISV's server
- Have access to the firm's kill button

The Exchange

- Is the key anchor in controlling risk
- Must require all firms to use the following exchange risk controls
  - Pre-trade quantity limits on individual orders
  - Intra-day position limits
  - Pre-trade price collars
  - Message throttles
- Allow clearing & trading firms to
  - Set auto cancellation of orders upon disconnect
  - View working & filled orders & cancel working orders
- Have clear error trade policies favoring trade price adjustment