
Addressing the Need for Speed: CFTC Seeks Comment on Risk Controls for Automated Trading Environments

2013-10-07

On September 12, 2013, the Commodity Futures Trading Commission (“CFTC” or “Commission”) published a Concept Release on Risk Controls and System Safeguards for Automated Trading Environments (“Concept Release” or “Release”). In light of the fundamental shift from human-centered derivatives markets to highly automated and interconnected trading environments, and against the backdrop of several recent highly publicized market disruptions, the Release seeks to catalogue and obtain comment on the efficacy of existing risk controls in US derivatives markets. It also seeks comment on a variety of other risk-mitigating measures.

The Release highlights the current prominence of automated trading systems (“ATs”)—including high-frequency trading (“HFT”) systems—that generate and route orders to markets that are themselves automated systems for the matching and execution of orders. The Release notes that while these systems have conferred many benefits upon market participants, they present challenges unique to their speed, interconnectedness, and reliance on algorithmic systems. While the Commission and market participants have taken a number of steps to address and manage the risks posed by highly-automated trading systems, the Release evidences the Commission’s commitment to assess the adequacy of the existing regulatory framework and adapt it, as appropriate, to meet the challenges presented by automated systems.

In total, the Release seeks comment on 124 questions. The vast majority of those questions relate to specific categories of pre-trade risk controls, post-trade reports and measures, system safeguards, and additional risk-mitigating measures described in the Release. The Release also poses a series of overarching questions about whether the controls described are already in use, the costs and benefits associated with each, and the value of and extent to which redundant controls should be imposed upon different types of market participants. Finally, the Release poses a series of questions about HFT, latency differences in order handling or trade reporting that provide opportunities for informational advantage, and communications between exchanges’ informational technology systems.

Section II of this alert provides an overview of automated trading environments, their associated

risks, and the current regulatory landscape for derivatives (both futures and swaps), as discussed in the Concept Release. Section III provides a summary of the risk controls and other measures discussed in the Release, and highlights key questions posed by the Release.

Of course, increased automation and its attendant risks are not unique to the derivatives markets. The Securities and Exchange Commission (“SEC”), as we have discussed in prior alerts and note briefly here, also is addressing many of the same issues discussed in the Concept Release. Although the CFTC and the SEC oversee different markets, those markets are, in fact, highly interconnected.

Read [Addressing the Need for Speed: CFTC Seeks Comment on Risk Controls for Automated Trading Environments](#).

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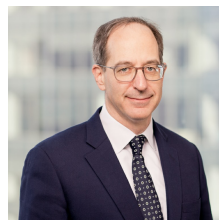


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