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May 20, 2015

Attention: Christopher Calabia and George Wyville
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Re: Assessing the Risks of Algorithmic Trading

Dear Mr. Calabia and Mr. Wyville,

We read with interest the briefing note on algorithmic trading issued by the Senior Supervisors Group on April 30. We appreciate the SSG's concerns about the risks associated with algorithmic trading and welcome your call for greater discussion across the industry.

We would like to bring to your attention the extensive work that our members have done over the past five years to strengthen risk controls and system safeguards across the futures marketplace. The members of FIA¹, the FIA Principal Traders Group², and the FIA European Principal Traders Association³ (collectively FIA) represent firms from more than 25 countries. Our membership includes clearing firms, exchanges, clearinghouses, and principal traders, which are active in a variety of markets and asset classes.

We have identified industry best practices with respect to controls that reduce the risk of market disruptions due to unauthorized access, software changes, system failures, and order entry errors.⁴ Since we published our first white paper, *Market Access Risk Management Recommendations*, in April of 2010, we have continued our collaborative approach to this issue, bringing together exchanges, brokers, and traders to share expertise, consider best practices, and develop thoughtful guidance for the development and operation of automated trading systems, including the controls that can be used to manage risk.

Our most recent effort on this issue was published in March of this year. The *Guide to the Development and Operation of Automated Trading Systems* was drafted by representatives of a broad cross-section of the industry and presents a comprehensive overview of the approaches that should be considered when building, managing, and operating automated trading systems. We think that the sections of the *Guide* that discuss current approaches to managing the risks of automated trading would be of particular interest to the members of the Senior Supervisory Group who participated in drafting the *Algorithmic Trading Briefing Note*.

As you note in your report, automated trading is a tool used across a wide variety of markets, asset classes, and financial institutions. In addition to the large financial institutions that your members supervise, automated trading systems are used by a growing number of market participant types including principal traders, asset managers, pension funds, commercial hedgers and even some individual investors.

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It is also important to note that automated trading tools are used by a variety of market participant types and in a number of different ways within individual organizations. For example, banking organizations may use these tools for internal proprietary trading, for executing orders on behalf of customers or may be providing automated trading tools to customers for their use. For that reason, we believe that risk control standards must be flexible and adaptable enough to encompass differences among market participants and organizational structures.

We appreciate the SSG's shared commitment to this principles-based approach to automated trading, and we look forward to discussing our work with you.

Regards,



Walt L. Lukken
President & Chief Executive Officer

¹ FIA is the leading trade organization for the futures, options and cleared swaps markets worldwide. FIA's membership includes clearing firms, exchanges, clearinghouses and trading firms from more than 25 countries as well as technology vendors, lawyers and other professionals serving the industry. FIA's mission is to support open, transparent and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct. As the principal members of derivatives clearinghouses worldwide, FIA's member firms play a critical role in the reduction of systemic risk in the global financial markets. FIA and its affiliates FIA Europe and FIA Asia make up the global alliance FIA Global, which seeks to address the common issues facing their collective memberships.

² FIA PTG is an association of more than 20 firms that trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated, and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. FIA PTG advocates for open access to markets, transparency, and data-driven policy.

³ FIA EPTA is an association of European principal traders formed in June 2011 under the auspices of the FIA. FIA EPTA members consist of 25 principal trading firms that provide significant amounts of liquidity to European regulated markets and multilateral trading facilities (MTFs). FIA EPTA members deal on own-account using proprietary capital and do not have clients or act as deposit takers in any form. FIA EPTA members are authorised by various EU national competent authorities and/or supervised by the regulated markets on which they trade, and are further subject to EU and national conduct of business regulation.

⁴ See: <https://ptg.fia.org/key-issues/automated-trading> for all our publications on this topic, including:

- [Guide to the Development and Operation of Automated Trading Systems, March 2015](#)
- [Response to the CFTC Concept Release on Risk Controls and System Safeguards for Automated Trading Environments, December 2013](#)
- [Drop Copy Recommendations, September 2013](#)
- [Order Handling Risk Management Recommendations for Executing Brokers, March, 2012](#)
- [Software Development and Change Management Recommendations, March 2012](#)
- [Recommendations for Risk Controls at Trading Firms, November 2010](#)
- [Market Access Risk Management Recommendations, April, 2010](#)