

## EXECUTIVE SUMMARY

After nearly five years of advocacy work on what effective regulation of automated trading should look like, FIA PTG members were happy to hear in October that the Commodity Futures Trading Commission (CFTC) had abandoned the original version of proposed Regulation Automated Trading (Reg AT). Since the publication of its first paper on the subject in 2010, [Recommendations for Risk Controls for Trading Firms](#), FIA PTG has taken an active role in identifying risks and working to strengthen safeguards in futures markets globally. Rather than very prescriptive regulation like Reg AT, FIA PTG believes that principles-based requirements, appropriate to the role of the market participant, that can evolve with the market and avoid unnecessary complexity will ultimately best serve the market.

In 2018 FIA PTG continued to build relationships at the regulatory agencies through 14 meetings with Commissioners and staff. The meetings covered a variety of topics, including digital assets, equity, swap and treasury market structure, regulation of automated trading (Reg AT), and capital and supplemental leverage ratio (SLR) constraints. Unlike 2017 where nearly a third of FIA PTG's advocacy letters were comments to regulators about the problems, complexity, and costs introduced by proposed artificial latency mechanisms on various equity exchanges, the topics covered in comments submitted in 2018 were spread across a wide variety of topics. Advocacy continued in opposition to artificial latency mechanisms in the US as well as the EU, but was expanded to cover market structure issues more broadly, including letters on treasury and swap market structure concerns, as well as a comprehensive [white paper](#) on suggested equity market structure, specifically Regulation NMS, reforms.

As part of a continuing effort to foster a productive, data-driven discussion about the nature of liquidity and liquidity provision, in March, FIA PTG released a white paper entitled [Liquidity in Today's Markets](#). The paper included a comprehensive discussion regarding the definition and measurement of liquidity as well as setting forth principles that FIA PTG believes are foundational to healthy, liquid markets. FIA PTG also released a Quick Byte highlighting a presentation at the CFTC Technology Advisory Committee (TAC) meeting on the impact the Supplemental Leverage Ratio is having on liquidity.

In 2019, FIA PTG will continue to be a strong voice on market structure issues across all asset classes, as well as to continue to advocate for fair and open access to markets, transparency, principles-based regulation and data-driven policy.

## 2018 HIGHLIGHTS

- Submitted or contributed to nine comment letters to regulators, policymakers and exchanges.
- Published two white papers.
- Developed FIA PTG Principles for Digital Asset Markets document.

- Developed FIA PTG Message Summary document for internal use to assist members when interacting with reporters, regulators and policymakers.
- Earned more than 8,500 page views, drawing nearly 3,900 viewers.
- Expanded social media presence through Twitter, Storify, and elink.
- Maintained FIA PTG representation on two CFTC Advisory Committees:
  - Energy and Environmental Advisory Committee (EEAC).
  - Market Risk Advisory Committee (MRAC).
- Maintained presence on CFTC TAC through member firm representation.
- Continued to develop and expand relationships with other trade associations and industry groups including: SIFMA, Managed Funds Association (MFA), Modern Markets Initiative (MMI) and Treasury Market Practices Group (TMPG).
- FIA PTG Members participated in:
  - 14 meetings with CFTC and Securities and Exchange Commission (SEC) Commissioners and staff members.
  - One media roundtable.

## **MISSION OF THE FIA PRINCIPAL TRADERS GROUP**

- Provide a forum for proprietary trading firms to identify and discuss issues confronting the PTG community;
- Define common positions on public policy issues and advance the group’s collective interests through the FIA;
- Improve public understanding of the constructive role played by proprietary trading firms in the exchange-traded equities and derivatives markets; and
- Promote cost-effective, transparent access to U.S. and non-U.S. markets.

## **ADVOCACY GOALS – 2018**

1. Continued emphasis on relationship building in 2018, with a focus on new senior staff members and Commissioners at the primary agencies (SEC and CFTC) and Treasury.
2. Continue educational efforts for policymakers on Capitol Hill and at the regulatory agencies/departments about the principal trading market sector in general and about particular issues of interest to our group.
3. Pursue additional representation on regulatory advisory committees of interest to members.
4. Continue efforts on Capitol Hill to inform Members and Member offices of our regulatory positions.
5. Specific regulatory initiatives including:
  - Regulation AT (CFTC) and any other new rules and oversight of automated trading (CFTC and SEC)
  - Rules related to changes in Treasury market structure (Treasury, Fed, CFTC, SEC)

- Rules related to broker-dealer and FINRA registration requirements for principal trading firms (SEC)
- Rules related to changes to equity market structure including Regulation NMS (SEC)
- Engagement with the SEC as the Equity Market Structure Advisory Committee transitions to a roundtable format
- Monitor the regulatory developments of cryptocurrencies/digital assets and consider engagement where appropriate (CFTC, SEC, Administration)
- Engage the CFTC on upcoming proposals related to swap dealer registration
- Fair access to centrally traded and cleared OTC markets
- Capital requirements for Swap Dealers and Major Swap Participants and discussion of capital requirements for principal trading firms (CFTC, SEC, and Prudential Regulators)
- Position limits and aggregation of positions (CFTC)
- CCP recovery and resolution – variation margin gains haircutting, waterfall, other issues (CFTC)
- Monitor any developments on transaction tax (Administration)
- MAT process revisions (CFTC)

## **OUTREACH GOALS – 2018**

1. Continue writing and distributing press releases on important content
  - Maintain open rate above 28%.
2. Continue to post regular blog/quick byte content.
3. Increase twitter following by 20%.
4. Find new medium for collecting and distributing news highlights as Storify closes.
5. Produce at least 1 infographic on key topic.
6. Conduct 2 media roundtables or editorial board meetings
7. Provide training for interested FIA PTG members on interview preparation and panel speaking.

## **FIA PTG ADVOCACY**

### *Regulatory Initiatives*

#### **Committee Participation**

- FIA PTG members continue to participate on the CFTC Technology Advisory Committee (TAC) and participated in the January 23 and October 5 meetings.
- FIA PTG has a representative on the CFTC Energy and Environmental Advisory Committee (EEAC). The CFTC EEAC did not meet in 2018.
- FIA PTG has a representative on the CFTC Market Risk Advisory Committee (MRAC) and participated in the January 31, July 12 and December 4 meetings.

## CFTC

- On March 13, FIA PTG members attending the FIA Boca Conference met with CFTC Chairman Chris Giancarlo and Commissioners Rostin Behnam and Brian Quintenz. Topics discussed included Reg AT, swaps execution and de minimis calculation, digital assets, position limits, and the SLR.
- On March 20, FIA, with contributions from FIA PTG, submitted a [letter](#) to the CFTC responding to the CFTC's proposed interpretation of how its rules apply to retail trading in bitcoin and other virtual currencies - specifically the "actual delivery" requirement.
- On July 13, representatives from FIA PTG traveled to Washington, D.C. to discuss the Proposed Amended Swap Dealer De Minimis Exception Rule. They met with CFTC Chairman Chris Giancarlo, CFTC Commissioner Brian Quintenz, and CFTC staff responsible for drafting the rule.
- On August 13, FIA and FIA PTG jointly filed a [comment letter](#) in response to Proposed Amended Swap Dealer De Minimis Exception Rule.
- On October 20, representatives from FIA PTG met with CFTC Commissioner Dan Berkovitz in Chicago to discuss the limited principal trading firm (PTF) participation in SEF markets and what regulators can do to increase participation.

## SEC

- On January 12, FIA PTG filed a [comment letter](#) with the SEC opposing the amended proposed Consolidated Audit Trail (CAT) pricing structure.
- On March 7, three representatives of FIA PTG traveled to Washington D.C. for meetings with SEC Chairman Jay Clayton and Commissioners Kara Stein and Hester Peirce. Topics discussed included digital assets, equity market structure, and the proposed transaction fee pilot.
- On May 24, FIA PTG filed a [comment letter](#) with the SEC raising concerns with the proposed transaction fee pilot.
- On September 17, FIA PTG filed a [comment letter](#) with the SEC supporting the Managed Funds Association (MFA) - Alternative Investment Management Association (AIMA) Petition for Rulemaking Regarding Market Data Fees and Request for Guidance on Market Data Licensing Practices; Investor Access to Market Data.
- On October 3, four representatives of FIA PTG met with SEC Commissioner Elad Roisman in Washington D.C. Topics discussed included the recently released [white paper on Reg NMS reform](#) and market data fees.
- On October 5, two representatives of FIA PTG met with SEC Division of Trading & Markets and Department of Economic & Risk Analysis staff in Washington D.C. Topics discussed included the recently released [white paper on Reg NMS reform](#) and market data fees.
- On November 14, three representatives of FIA PTG met with SEC Chairman Clayton and Commissioner Peirce. Topics discussed included the recently released [white paper on Reg NMS reform](#) and the proposed transaction fee pilot.

## OTHER

- FIA PTG continued to liaise with FIA EPTA on issues of common interest, notably European regulation (MiFID II, MIFIR and IFR) and European market structure changes.
- FIA PTG contributed to the joint FIA, MFA and FIA PTG response to TSE and OSE Proposed Rule Changes for Low Latency Traders comments filed on January 18.

- FIA PTG contributed to the joint FIA, Association for Financial Markets in Europe (AFME) and UK Finance, [comments](#) on algorithmic trading policies submitted on May 4, in response to a recent consultation paper issued by the Bank of England's Prudential Regulatory Authority (PRA).
- On June 8, the FIA PTG Digital Assets Working Group finalized FIA PTG Principles for Digital Asset Markets document.
- On June 15, members of the FIA PTG Executive Committee met with representatives of Eurex Exchange in Chicago to discuss the impact of new capital regulations on liquidity providers.
- On August 22, the Treasury Market Practices Group hosted a call for FIA PTG members to discuss the TMPG White Paper on Clearing and Settlement in the Secondary Market for U.S. Treasury Securities.
- On October 5, FIA PTG submitted [comments](#) on the TMPG White Paper on Clearing and Settlement in the Secondary Market for U.S. Treasury Securities.
- On October 15, a representative of FIA PTG had an update call with representatives of the Bank of England to discuss issues in the markets that impact principal trading firms.
- On November 6, members of the Eurex Market Design Team hosted a working luncheon in Chicago for FIA PTG members to discuss their proposed passive liquidity protection mechanism.
- On December 7, along with FIA EPTA, FIA PTG submitted a [letter](#) to Eurex Exchange about their proposed passive liquidity protection mechanism.
- On December 20, FIA PTG hosted a call with ICE Futures US to discuss their planned passive order protection mechanism.

## FIA PTG OUTREACH

### Highlighted Media Outreach

- Media roundtable at FIA Boca Conference with representatives from Waters Tech, Bloomberg, Wall Street Journal, Reuters and Financial Times.

### New Media

- Continued to grow the FIA PTG Twitter page by 14% from 1,546 followers at the beginning of 2018 to 1,760 followers by yearend, earning more than 190,800 impressions, or 523 impressions per day.
- The FIA PTG website drew 8,500 page views, drawing nearly 3,900 viewers.
- Storify and elink earned nearly 800 views.
- Developed FIA PTG Message Summary document for internal use to assist members when interacting with reporters, regulators and policymakers.
- Continued FIA PTG Quick Bytes, a format to provide a brief, timely response to current news:
  - [Supplemental Leverage Ratio is having an impact on liquidity](#)

- Published two white papers:
  - [Liquidity in Today's Markets](#)
  - [Reg NMS: A Retrospective Review & Practical Reforms for Improvement](#)
- Hosted our first webinar:
  - [AML in the Context of Trading Cryptocurrencies](#) presented by Drinker Biddle & Reath.

## Conferences

- Members moderated and/or participated on various panels at FIA Boca, FIA Futures & Options Expo and FIA Market Technology Division programs.

## OTHER INITIATIVES

- Continued to closely monitor MiFID II developments in Europe concerning direct market access from the US (third country access). Assisted members with the BaFin transitional application for exemption process.
- Continued to work with the FIA Japan Principal Trading Group on matters related to the Japanese High Speed Trading Amendment including assisting members with completion of the new high-speed trading registration requirement.
- Contributed to the FIA Training initiative.

## ORGANIZATIONAL EVENTS

- Elected Executive Committee and Nominating Committee Members.
- Hosted 6 meetings of the group.
- Hosted 3 networking social events for members.

## ADVOCACY GOALS – 2019

1. Pursue additional representation opportunities on regulatory advisory committees, panels and roundtables.
2. Set up introductory meetings with incoming CFTC/SEC/Treasury personnel, as changes at senior positions are expected
3. Continue efforts on Capitol Hill to inform Members and Member offices of our regulatory positions with respect to possible legislative initiatives, as well as actions by the regulatory agencies they oversee. As for expected legislative initiatives, efforts from the previous Congress on the following issues will likely carry over, including:
  - CFTC Reauthorization (House and Senate)
  - Legislation related to the protection of algorithmic source code
  - Supplemental Leverage Ratio
  - Legislation on cryptocurrencies/digital assets

- Possible legislation related to equity market structure
  - Other relevant legislation to derivatives/securities regulation
4. Specific regulatory initiatives including:
- Monitor for rule proposals and oversight developments related to automated trading (CFTC, SEC and Exchanges).
  - Continue to engage with regulators on rule proposals introducing artificial latency mechanisms (CFTC, SEC and Exchanges).
  - Monitor for rule proposals related to changes in Treasury market structure, including the clearing and settlement processes. (Treasury, Fed, CFTC, SEC).
  - Continue to engage with the SEC on FIA PTG's suggested changes to equity market structure, including Regulation NMS.
  - Develop advocacy positions on suggested changes to equity options market structure.
  - Continue to engage with the CFTC on rule proposals related to swap execution/market structure.
  - Monitor for rule proposals related to new registration requirements for principal trading firms (Treasury, CFTC and SEC).
  - Continue to engage with Prudential Regulators on proposed changes to the Supplemental Leverage Ratio requirements.
  - Monitor CCP recovery and resolution developments – including variation margin gains haircutting, waterfall, and other issues (CFTC).
  - Monitor for any developments on transaction tax (Administration).
  - Monitor regulatory developments in digital asset markets and consider engagement where appropriate (CFTC, SEC, Administration).

## **OUTREACH GOALS – 2019**

1. Continue to grow social media following.
2. Use Twitter and elink to advance FIA PTG positions and advocacy goals.
3. Migrate to new FIA website without disruption.