

FIA PTG

PRINCIPAL TRADERS GROUP

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May 11, 2022

Mr. Christopher J. Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre 1155 21st Street, N.W.
Washington, D.C. 20581

Re: Request for Comment on FTX Request for Amended DCO Registration Order
(Filing Number: 22-001)

Dear Mr. Kirkpatrick,

The FIA Principal Traders Group (“FIA PTG”)¹ appreciates the opportunity to respond to the Commodity Futures Trading Commission’s (the “CFTC” or “Commission”) request for comment on the FTX Request for Amended DCO Registration Order (the “Request”). Since its inception in 2010, FIA PTG has supported innovation. As the primary liquidity providers in many exchange traded products, FIA PTG members have been critical players in the transition from the traditional open-outcry format to today’s predominately electronic trading market structure. Today’s markets are more accessible, more efficient and less expensive for all market participants - from commercial hedgers to retail investors. This transformation was not easy. For years, FIA PTG members invested heavily in technology – hardware and software, while continuing to support and provide liquidity on open-outcry venues. It was expensive, and challenging, but in the end, markets evolved and the ecosystem is better for it. Today the derivatives industry is presented with another potentially significant change to market infrastructure – this time in the central clearing space. FIA PTG welcomes the opportunity to be part of the discussion and offers our initial thoughts in this letter.²

¹ FIA PTG is an association of firms, who 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. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and data-driven policy.

² We will limit our comments to those of most significance to our role as liquidity providers.

Competition is good for markets. Over the past few decades, we have experienced significant consolidation across the derivatives industry — designated clearing organizations (“DCO”), designated contract markets (“DCM” or “Exchange”), futures commission merchants (“FCM”) and principal trading firms (“PTF”) to name a few. FIA PTG welcomes new entrants in any and all of these categories as competition promotes innovation, increases efficiency, improves pricing, and enhances market resiliency. The FTX Request proposes a non-intermediated clearing model (the “FTX Model”) for leveraged futures. This Request has forced the entire derivatives clearing industry to re-examine the proven, conventional model, and determine whether it could be enhanced by cutting-edge technologies and a more automated, streamlined business model. This is a good thing. Yet, while we applaud FTX’s novel approach and the impressive growth of their current fully collateralized model, their Request raises questions and concerns that must be answered and addressed.

The derivatives clearing infrastructure should welcome innovation. Today FCMs play a critical role in the derivatives clearing process and are essential in connection with some trading activities and strategies, but are they always necessary? Might they play a different role in a non-intermediated clearing model? Near real-time risk and margin management has always been the goal and FTX’s automated algorithmic risk management system potentially moves the industry closer to this goal becoming a reality. Moreover, the digital assets industry currently provides the ability to move collateral instantaneously 24-7 — this capability would certainly enhance the current risk management process and help mitigate the overall risks of derivatives clearing.

Existing regulatory principles must apply here. Innovation does not obviate the value of longstanding, thoughtfully established standards and requirements. We view this Request and process as a timely assessment of how those principles might be applied differently in a non-traditional model. The potential expansion of the FTX Model outside of digital assets would raise different questions and different issues and should be considered separately.

Do we have all the information we need to support the proposed FTX Model? Not yet. FIA PTG appreciates FTX’s willingness to engage with us as we work to gather the additional information we need and answers to the questions that have arisen from the information that was initially provided. This fact-finding process is underway – but it is not complete yet. We continue to work through concerns with, among others, the default waterfall, backstop and secondary liquidity provider roles and processes, auto-liquidation methodology specifics, and management of potential conflicts of interest. We are confident that FTX will continue to engage with market participants, and the Commission will continue to work through the normal DCO registration process. We look forward to playing an active role in this process.

If you have any questions or need more information, please contact Joanna Mallers (jmallers@fia.org).

Christopher J. Kirkpatrick, Commodity Futures Trading Commission

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Respectfully,

FIA Principal Traders Group



Joanna Mallers

Secretary

cc: Rostin Behnam, Chairman
Kristin N. Johnson, Commissioner
Christy Goldsmith Romero, Commissioner
Summer K. Mersinger, Commissioner
Caroline D. Pham, Commissioner