

October 19, 2012

Ms. Elizabeth M. Murphy  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

Re: Roundtable Discussion "Technology and Trading: Promoting Stability in Today's Markets" (File No.: 4-652)

Dear Ms. Murphy:

We thank you for the opportunity to send comments following the SEC Market Technology Roundtable which took place on October 2<sup>nd</sup>. A number of themes which came out of the session are topics that are addressed within our organization. We wanted to take the opportunity to notify you about some of the initiatives which we are focusing on that are directly in line with some of what was discussed during the roundtable.

By way of background, FIX Protocol Ltd (FPL) is a not-for-profit, industry standards organization that sits at the heart of the global electronic trading community. It is industry-driven, independent and neutral, with a membership that is comprised of over 260 firms from the global financial services industry.

FPL aims to address the business challenges impacting the trading community through the use of standards. Central to these efforts is the continuous development and promotion of the FIX Protocol, the non-proprietary, free and open de-facto messaging standard used for pre-trade, trade and post-trade communication globally. It is used in all asset classes including equities, derivatives, foreign exchange and fixed income. FIX is utilized by virtually every major stock exchange and investment bank as well as the world's largest clearing houses, clearing firms, central clearing corporations, investment managers and money managers. Of note amongst the FPL membership is the Canadian (IIROC) and Australian (ASIC) regulatory bodies, both of whom use FIX for their market surveillance and reporting requirements.

We wanted to pick up on a few specific themes that were discussed during the session on October 2<sup>nd</sup> and those were the need to develop standardized best practices for the industry to follow as well as a desire to advocate the use of test symbols by all exchanges in their production environments. We also wanted to inform you about two additional initiatives we are engaged in with regards to the development of a quality management system standard for automated trading as well as our collaboration around the Consolidated Audit Trail.

#### Development of Standardized Best Practices

Creating standardized guidelines for the industry to follow is right at the core of the FPL organization. As an example, within FPL, there is a Risk Management Working Group whose objective is to raise awareness regarding the implications of electronic trading on risk management and to encourage the development and adoption of standardized best practices that help mitigate against risk. The group created such a set of best practices to provide brokers with practical guidelines that can be implemented into their electronic trading platforms to further support efforts to increase market stability and provide guidance on risk management in global electronic trading for institutional market participants.

The overall aim of the best practices is to help firms more effectively manage risk in an environment where trading strategies are becoming increasingly complex and prevent situations where the parties to a trade, or the wider market could be adversely impacted by flawed electronic orders. The automation of complex electronic trading strategies in a volatile marketplace increasingly demands a rational set of standardized pre-trade and intra-day risk controls, which are recommended in the paper, to protect the interests of the buy side client, the broker and the integrity of the market. The application of these risk controls should lessen the probability of unintended trades being executed. The paper covers:

- Benefits of Risk Controls
- Client/Broker Relationship
- Broker/Exchange Relationship
- Exchange Mandated Risk Checks
- Typical Electronic Order Workflow
- Implementation of Risk Controls
- Assessing Current Risk Management Practices
- Risk Management Process and Procedures
- Risk Control Matrix

These risk checks can also be utilized as an input to a 'kill switch' process. This serves as a great example for a set of industry best practices and the link to that paper can be found here: [http://www.fixprotocol.org/documents/6715/FPL%20Risk%20Controls\\_June2012.pdf](http://www.fixprotocol.org/documents/6715/FPL%20Risk%20Controls_June2012.pdf).

### Creation of Test Symbols

During the roundtable session, the use of test symbols by all execution venues in their production environments was advocated, which would allow broker-dealers to get hands-on experience with new algorithms or order types to see if any potential problems exist. Electronic trading specialists have an ever increasing need to validate their production deployments before turning them over for live trading. The industry requires a tool set so as not to harm the reputation or financial stability of their firms nor the market as a whole with test trades being executed.

As a result, there is a need for test symbology for all electronically traded asset types to ensure a secure, reliable and compliant business process. A successful placement/execution of a zero-funded test symbol will ensure that all testing / pre-production configurations were copied and configured accurately to production.

There is a working group within FPL whose objective is to provide the financial community with no-risk test symbology for production validation of complex trading and portfolio management systems by recommending an increase in the availability of 'listed' test financial instruments in the industry. Some of the benefits will include:

- Reduction of Risks
- Increased client confidence
- Traders no longer have to expose real positions/orders for production test purposes
- Ability to test and validate any new algorithms or order types in a production environment (Note: test environments cannot replicate production environments)
- Post-Production release validation under controlled conditions
- Verification of executing venue availability

As an initial step, the FPL Risk Mitigation Symbology Working Group is simply aiming for a global set of listed symbology for all electronically traded asset types that can safely be used to test order placement and execution flow. The first priority and what the group is currently focused on is having one symbol for equities, options, and futures for each major region. Using test symbols for allocations will receive more attention as this initiative progresses.

#### Development of a Quality Management System Standard for Automated Trading

As discussed, events over the last few years have focused attention on how algorithms are used within today's markets. The use of an automated trading system carries a responsibility to ensure that it protects the integrity of the market. FPL has been involved in helping the industry develop an ANSI standard for the ISO 9000/9001 standard. The Quality Management System standard is intended to improve the overall safety and quality of markets by providing an industry driven and maintained international standard for the development, testing, deployment, control and monitoring of automated trading systems.

#### Consolidated Audit Trail

With regards to the Consolidated Audit Trail which was touched upon during the October 2<sup>nd</sup> session, FPL has been working with the Financial Information Forum (FIF) to promote standardization in trade reporting and together have collaborated on numerous regulatory initiatives over the years with the most recent focus being CAT. FIX has been encouraging the standardization of data items and data content across the securities and commodities markets to support a common view of market participation. As Chairman Shapiro stated in her opening comments at the Roundtable, "thanks to technology our securities markets are more accessible than ever". The FIX Protocol has been a key contributor to that success. Being that the FIX Protocol provides a standard point of reference with industry participants and is typically used across the order lifecycle and within a firm's order management processes, leveraging it could result in more reliable implementation and simplify data aggregation at the SRO and CAT level.

We thank you for allowing us to submit our comments and for coordinating the SEC Market Technology Roundtable. Please feel free to contact us directly with any questions and we would be more than happy to discuss any of these initiatives in more detail.

Sincerely,



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Courtney Doyle McGuinn  
FPL Operations Director  
FIX Protocol Limited