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Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Via Electronic Submission

Re: Request for Comment on 24/7 Trading and Clearing in CFTC-Regulated Markets

Dear Mr. Kirkpatrick,

The Commodity Markets Council (CMC) appreciates the opportunity to respond to the Commodity Futures Trading Commission's (CFTC) Request for Comment (RFC) regarding the potential for 24/7 trading and clearing in CFTC-regulated markets. CMC represents major commercial end-users of derivatives across the agriculture, energy, and natural resource sectors. Our members depend on stable and well-functioning derivatives markets to hedge risk and support price discovery.

CMC acknowledges the evolving nature of digital asset markets and recognizes that continuous trading may be appropriate for certain spot digital assets. However, we believe that extending 24/7 trading and clearing to traditional futures markets presents significant challenges that could adversely affect market liquidity, market integrity, customer protection, and operational resilience.

Liquidity

Given the lack of access to the banking system during weekend periods, an enhanced margin requirement would add an additional financial burden to an already stressed U.S. agricultural economy and the farmers and energy producers who rely on futures exchanges for their hedging. The possibility of auto-liquidation during non-traditional hours would unduly leave hedgers exposed to speculative whims and algorithm-based volatility, to say nothing of the increased human capital required to adequately service the farmer and end-user.

Price Discovery

Another concern CMC members share is the potential impact of 24/7 trading on price discovery. Unlike digital assets (and possibly other asset classes), there is usually a specific futures contract that serves as the place for price discovery. Physical agriculture and energy markets need consolidated liquidity to have healthy price discovery from which global benchmarks are derived. These markets set the price for every trade. Our members believe there is great concern that 24/7 trading could disrupt the price discovery function these markets serve and could displace the U.S. futures market role as a benchmark price discovery venue. This would be disruptive to our members and disastrous for the U.S.

Auto Liquidation

The risk of a hedger's futures position being subject to auto liquidation during a trading session when the banking system is closed could significantly increase their cost of doing business. For instance, if a commercial agriculture company holds futures to hedge cash commodity positions, it cannot afford the potential liquidation of its futures over a weekend trading session. Consequently, under a 24/7 trading model with auto liquidation, this agriculture company would need to pre-fund its futures account at the end of each week to prepare for a worst-case scenario. This requirement would substantially raise its operating costs, which would ultimately be passed on to both farmers and consumers.

Next Steps

Prior to any further consideration of extending trading hours, the CFTC should work with industry to develop standards or principles that would define when extending hours is appropriate and when it is not, given the complexity of each specific futures market and market participants' use of the markets.

Our responses to the specific questions posed in the RFC are as follows:

General Themes

I. Unaddressed Areas of Concern:

- *Operational Resilience:* Continuous operations without scheduled downtime increase the risk of system failures and limit opportunities for maintenance and upgrades.
- *Staffing and Oversight:* Ensuring adequate staffing for risk management, compliance, and technical support around the clock is resource-intensive and may not be sustainable.
- *Banking Infrastructure:* The current banking system does not support 24/7 operations, limiting the ability to process margin payments and settlements outside traditional hours.

II. Potential Negative Impacts:

- *Market Integrity:* Reduced liquidity during weekend hours could lead to increased volatility and susceptibility to market manipulation.
- *Customer Protection:* Retail customers may be exposed to heightened risks due to limited access to support and the inability to respond promptly to margin calls during non-business hours.

Specific Questions

I. Risks of 24/7 Clearing:

- *Market and Liquidity Risks:* Lower participation during off-hours could exacerbate price swings and reduce market depth.
- *Operational Risks:* Continuous operations strain systems and personnel, increasing the likelihood of errors and outages.
- *Mitigations:* Implementing robust risk management protocols, including real-time monitoring and automated controls, is essential but may not fully offset the inherent risks.

II. Pre- and Post-Trade Risk Controls:

- *Enhanced Controls:* Additional safeguards, such as dynamic margining and automated liquidation thresholds, may be necessary.
- *Prefunding Margin:* Requiring customers to prefund margin for weekend positions could mitigate risk but may also limit market participation.
- Neither enhanced controls nor prefunding margin are seen as positive or efficient additions to current market structure.

III. Adequacy of Current Risk Disclosures:

- *Disclosure Enhancements:* Existing disclosures may not adequately address the unique risks of 24/7 trading. Updates to Regulation 1.55 should include information on liquidity risks, system availability, and customer support limitations during non-business hours.

IV. Auto-Liquidation of Customer Positions:

- *Risk Mitigation:* While auto-liquidation can prevent losses, it may also lead to unintended consequences, such as exacerbating market volatility.
- *Market Impact:* Sudden liquidations during illiquid periods could destabilize markets and harm customer trust. Commingling positions in traditional futures with those exposed to 24/7 trading creates a contagion channel whereby a margin crisis or forced liquidation in the 24/7 market can cascade into otherwise closed contracts during their off-hours, amplifying systemic risk and undermining the integrity of both markets

V. Differences in Risk Profiles:

- *Extended Exposure:* 24/7 trading increases the duration of exposure to market movements, amplifying potential losses.
- *Operational Strain:* Continuous operations demand higher levels of system reliability and human oversight.

VI. Competitive and Structural Issues:

- *Affiliated Support:* Allowing affiliates to guarantee margin payments during non-banking hours raises concerns about conflicts of interest and market fairness.

VII. Product Suitability:

- *Digital Assets:* Spot digital assets may be more amenable to 24/7 trading due to their decentralized nature.
- *Traditional Futures:* Products tied to physical commodities or dependent on traditional banking systems are less suited for continuous trading.

VIII. Market Structure and Operational Capabilities:

- *Collateral Management:* Innovations such as tokenized assets and distributed ledger technology could facilitate 24/7 collateral movement but are not yet widely adopted.
- *Necessary Changes:* Significant advancements in banking and settlement infrastructure are required before 24/7 trading can be safely implemented.

IX. Regulatory Hindrances:

- *Existing Regulations:* Current rules may not accommodate the continuous monitoring and reporting requirements of 24/7 markets, necessitating regulatory revisions.

X. Customer Protection and Financial Integrity:

- *Regulatory Enhancements:* To safeguard customers, the Commission should consider strengthening capital requirements, risk management protocols, and disclosure obligations for FCMs operating in a 24/7 environment.

Designated Contract Markets (DCMs) and Swap Execution Facilities (SEFs)

I. High-Availability Systems:

- *Best Practices:* DCMs and SEFs should adhere to industry standards for system redundancy, failover capabilities, and real-time monitoring to ensure continuous operation.

II. Live Deployment Capabilities:

- *Maintenance Protocols:* Implementing rolling updates and robust rollback mechanisms is critical to maintain system integrity without scheduled downtime.

III. Mitigating Unscheduled Disruptions:

- *Contingency Planning:* Establishing comprehensive incident response plans and communication strategies is essential to address unexpected outages.

IV. Staffing and Coordination:

- *Resource Allocation:* Ensuring adequate staffing levels and coordination with third-party service providers during all trading hours is necessary but may be challenging to sustain.

V. Self-Regulatory Practices:

- *Surveillance Enhancements:* Continuous trading requires real-time surveillance systems and compliance monitoring to detect and address market abuses promptly.

VI. System Safeguards Testing:

- *Business Continuity and Disaster Recovery:* Regular testing of backup systems and disaster recovery plans is vital to ensure resilience in a 24/7 trading environment.
- *Security Assessments:* Frequent penetration testing and vulnerability scanning are necessary to protect against cyber threats.

Conclusion

While the evolution of digital asset markets may warrant consideration of 24/7 trading models, extending such practices to traditional futures markets presents substantial challenges. The current limitations of banking infrastructure, operational capacities, and regulatory frameworks suggest that a cautious and measured approach is prudent and that further study would be warranted before taking any action. CMC recommends that the Commission study individual markets where such trading might be permitted and prioritize the development of principles for those specific markets around robust risk management protocols, infrastructure enhancements, and regulatory adjustments before even considering the implementation of 24/7 trading in any traditional futures markets.

We appreciate the Commission's efforts to engage stakeholders in this important discussion and welcome the opportunity to contribute to the ongoing evaluation of market structure innovations.

Sincerely,

Dr. James E. Newsome

President
Commodity Markets Council

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