TRADING SPEED BUMPS AND BLOCK TRADING

Background:

High-frequency trading (HFT) has generated considerable discussion as to their impact on futures prices. The concern is that computers using algorithms can make thousands if not tens of thousands of trades per second which could increase volatility and disadvantage slower traders and agricultural producers. On the reverse, HFT does offer potential benefits like increased competition in price discovery and cost reduction in trading, but agricultural interests are worried the spillover impacts of HFT could outweigh the benefits.

Charles Jones of the Columbia Business School spoke on HFT at a conference in April sponsored jointly by the Commodity Futures Trading Commission (CFTC) and Kansas State University. Jones said research has shown that current markets do not indicate more overall volatility, but temporary volatility or "flash moves" occur more frequently now than previously. Recent data has shown that almost 30 percent of the one-minute price change is reversed in the next minute. However, the research hasn't necessarily linked the increased temporary volatility to HFT. Overall, though, Jones concludes there is no evidence the futures markets are broken or rigged due to HFT.

One policy recommendation to address the increase in temporary volatility or flash moves is to implement "speed bumps." Speed bumps are short trading pauses triggered by large price movements. In effect, large price moves in a short period of time would trigger kill switches, stopping trade for a short period of time. Trading would then resume after the time period has expired. Speed bumps could replace daily price limits or be designed to work in conjunction with such limits.

Also generating considerable discussion is the expansion of a futures and option trading method known as "block trades." Prior to January 2018, the CME Group only allowed the practice for a limited number of agricultural products. Transparency concerns over this new method, which allows two parties to privately negotiate a future, option, or combination transaction outside of open outcry or outside of the electronic trading, began shortly after they were allowed.

On July 2, 2018, the Commodity Futures Trading Commission's Market Intelligence Branch issued a report that analyzed agricultural block trading in the grains, oilseeds, and livestock markets at the CME Group. Their analysis showed that while the option was utilized and were a significant total of total trading volume in an individual contract month on specific days, block trades remained numerically insignificant compared to total volume. The analysis also showed no increase in block trade volume relative to total trading volume. The CFTC indicated they would continue to monitor the practice.

Current Farm Bureau Policy:

CROP INSURANCE / RISK MARKETING

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1. Commodity futures and options trading serves a useful purpose for a number of commodities by providing a means to transfer certain types of risk. Other commodities should be included where need exists and research shows futures and options trading would be beneficial.
2. We support:
    - 2.1. Maintaining the integrity of all U.S. commodity futures and options exchanges as a pricing mechanism by the members of the exchanges and their overseeing governing bodies. Such integrity includes consistent convergence between cash prices at delivery points and futures prices at contract expiration;
    - 2.2. Strict enforcement of regulatory laws;
    - 2.3. Regular review and strengthening when necessary of the Commodity Exchange Act and Commodity Futures Trading Commission (CFTC) regulations which deal with the use, investment, and reporting of segregated customer funds to protect and preserve the value of individual margin accounts;
    - 2.4. The use of off-exchange agricultural trade option contracts in commodity marketing, which would include complete risk disclosure, vendor integrity,and the opportunity for cash settlement of the option;
    - *2.12. Increasing oversight by CFTC of futures exchanges and floor traders to ensure that integrity of these markets is maintained and to curb practices that result in manipulation or artificial price swings;*

Question:

1. Given that both of these issues are being discussed at length and our lack of policy on each topic, do you believe Farm Bureau should develop policy specifically addressing the addition of a trading "speed bump" or a policy on "block trades"?