PTG Driving Efficient Markets

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October 5, 2026

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

Re: Conflicts and Affiliations, Notice of Proposed Rulemaking (RIN 3038-AF76)

Dear Mr. Kirkpatrick:

PTG, formerly the FIA Principal Traders Group,[1] appreciates the opportunity to comment on the Commodity Futures Trading Commission's (the "Commission") notice of proposed rulemaking on conflicts and affiliations (the "Proposal").[2] PTG welcomes the Commission's recognition that affiliations between exchanges and market participants warrant a consistent, codified regulatory baseline. We support the Commission's central distinction between affiliated intermediaries, which generally act as agents for their customers, and affiliated principal trading firms, which trade for their own accounts and can directly monetize advantages that arise from their relationship with the venue.

PTG does not oppose vertical integration as a general matter. Certain integrated structures, including common ownership of a designated contract market and a derivatives clearing organization, can produce operational efficiencies, improve coordination, and strengthen risk management. Those structures create conflicts that require meaningful safeguards, but the conflicts can generally be managed through effective governance, information barriers, independent oversight, and disclosure. Affiliate principal trading presents a different problem. When an exchange is affiliated with a firm that trades as principal on that exchange, the venue has an economic interest in transactions between its affiliate and the participants the venue is obligated to treat impartially. The conflict therefore reaches the execution, surveillance, disciplinary, and, where applicable, clearing functions themselves. Disclosure and internal controls can reduce the risk of preferential treatment, but they cannot eliminate the underlying economic conflict. For that

[1] PTG, formerly known as the FIA Principal Traders Group, is a leading trade association of principal trading firms advocating for fair, transparent, and robust markets. Members provide essential liquidity and facilitate price discovery, both critical to well-functioning markets. PTG engages with policymakers and regulators to safeguard market integrity by offering expert guidance on market structure while highlighting the positive contributions of liquidity providers.

[2] Conflicts and Affiliations, 91 Fed. Reg. [50926] (Aug. 6, 2026), https://www.federalregister.gov/documents/2026/08/06/2026-15948/conflicts-and-affiliations. Citations below to the Proposal are to the Federal Register version.

reason, PTG believes that vertical integration ordinarily should not extend to principal market making on an affiliated venue.

Neutral market structure is particularly important as event-contract markets develop. These contracts may create new exchange-traded markets for economic risks that have historically been difficult or expensive to hedge but realizing that opportunity depends on independent firms being able to compete on neutral terms. Exchange design, including the design of request-for-quote and combination-trading mechanisms, should not make a venue-affiliated firm the default or preferred counterparty. PTG develops this point in Section II below.

PTG offers four principal recommendations, which are summarized here and developed in the sections that follow.

1. **The Commission should prohibit affiliate principal trading on an affiliated exchange.** This is PTG's first-best position because the conflict is structural and cannot be fully cured through procedures, information barriers, or disclosure.

2. **If the Commission retains a bona fide market-maker exception, it should adopt and strengthen the proposed safeguards and it should exclude request-for-quote and combination markets from the exception.** PTG supports the Commission's default-prohibition and narrow-exception framework as a second-best alternative. Any exception should be limited through mandatory quantitative requirements, incentive parity, order-priority subordination, a phased cap on affiliate activity, independent verification, and point-of-transaction disclosure. The affiliate should operate only as a residual source of liquidity and should not displace or deter independent liquidity providers. Order-priority subordination is designed for a central limit order book. It has little or no application to request-for-quote and combination or package transactions, where there is no resting book and no time priority to surrender. In those market structures the proposed conditions cannot do the work the Commission asks of them, and affiliated market making should not be permitted. PTG develops this recommendation in Section II.C of this letter.

3. **The Commission should preserve beneficial non-controlling investment.** Minority equity investment by trading firms can fund market development and promote entry and competition without necessarily creating the operational-control and self-regulatory conflicts that affiliate principal trading presents. Non-controlling ownership should not, standing alone, trigger the affiliate regime. The Commission should retain a control-based definition while ensuring that nominal minority arrangements that confer de facto control or preferential access remain covered.

4. **The Commission should adopt the Proposal's broader conflicts framework, subject to targeted comments.** PTG supports codification of the conflicts-of-interest framework, the board and regulatory oversight committee provisions, and the derivatives clearing organization ("DCO") and futures commission merchant ("FCM") disclosure requirements. Those affiliations can generally be addressed through governance, controls, independent oversight, and disclosure because they do not necessarily place an affiliated principal trader on the opposite side of participants' transactions. PTG recommends one addition: a DCO's conflicts procedures should expressly address an affiliate clearing member that trades as principal, so that margin, auto-liquidation, and default-management

> rules are applied to it on the same terms as to any other clearing member. With that addition, these affiliations can generally be addressed through governance, controls, independent oversight, and disclosure, because they do not place an affiliated principal trader on the opposite side of participants' transactions.

These positions are consistent with PTG's longstanding advocacy for fair access, neutral market structure, and genuine price discovery, including our recent comments concerning prediction markets and affiliated trading arrangements.[3]

I. The Conflicts Posed by Affiliate Principal Trading Are Structural

PTG agrees with the Commission that an affiliate trading as principal on its own exchange presents the most acute and inherent of affiliation conflicts. The conflict inheres in the exchange's economic position and cannot be fully cured by procedures or disclosure. From PTG's vantage point, the advantage operates through several channels, three of which the Commission has identified itself.

The first is operational. An exchange controls matching priority, latency, market data, and the structure of fees and incentives, and it can tilt any of these in the affiliate's favor. The second is informational. The exchange holds non-public order-flow and resting-book information that a principal-trading affiliate is uniquely positioned to monetize. The third is self-regulatory. The exchange is asked to surveil and discipline its own profit center, a difficulty that is compounded where an affiliated clearing function controls margin, auto-liquidation, and default management.

A fourth channel is less tangible but no less real, and formal information barriers are unlikely to eliminate it. A principal-trading affiliate benefits from knowing where the business is headed, which new contracts are expected to list, and where to deploy quantitative-research resources, and from understanding how the venue's matching engine behaves in practice. Similar advantages arise from informal access to exchange or clearing personnel, including ordinary conversations about how margin, collateral, auto-liquidation, and other clearing processes interact under real market conditions. An affiliated trader might, for example, gain valuable operational insight simply by speaking with a clearing-organization colleague over lunch. That knowledge is not necessarily material non-public information, but a principal-trading affiliate can incorporate it into its pricing, position management, and liquidation-risk models. The concern is distinct from ordinary integration between a designated contract market and a clearing organization, where a shared understanding of clearing operations may improve market administration without handing a trading counterparty a proprietary advantage. When the recipient is an affiliated principal trader, even informal operational insight can be monetized directly and can place independent firms at a persistent disadvantage.

The risk is not hypothetical. The Commission's own complaint against FTX and Alameda Research alleged that a venue's affiliated principal trader received preferential treatment, including exemption from the venue's ordinary auto-liquidation controls, while personnel, information, and resources moved freely between the two entities.[4] That platform was not registered with the Commission and its structure differed from those the Proposal addresses, but the episode illustrates

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[3] *See* PTG Responds to CFTC Prediction Markets; Public Interest Determinations: Notice of Proposed Rulemaking.

[4] *See* Complaint, CFTC v. Samuel Bankman-Fried, FTX Trading Ltd., and Alameda Research LLC, No. 1:22-cv-10503 (S.D.N.Y. filed Dec. 13, 2022), and Amended Complaint (Dec. 21, 2022).

the point. Where a venue had an economic interest in an affiliated principal trader, written policies and entity boundaries did not prevent preferential treatment or compromised risk management.

These advantages fall hardest on independent liquidity providers, and they matter most in thin or newly listed contracts, where even a modest structural edge can crowd out the independent liquidity that the Proposal's own price-discovery rationale presupposes.

The conflict maps directly onto the designated contract market ("DCM") Core Principles.[5] It implicates, most immediately, Core Principle 16 (Conflicts of Interest), which requires a DCM to minimize conflicts in its decision-making and to establish a process for resolving them. It implicates Core Principle 12 (Protection of Markets and Market Participants), which requires the exchange to protect participants from abusive practices and to promote fair and equitable trading. It implicates Core Principle 9 (Execution of Transactions), which requires a competitive, open, and efficient market that protects the price-discovery process. And it implicates Core Principle 2 (Compliance with Rules), which requires impartial access. Because the conflict is structural and self-reinforcing, its mitigation must be structural and quantitative rather than merely procedural, which is why PTG supports the Commission's decision to go beyond a principles-based approach for principal trading.

II. PTG's Position on Affiliate Principal Trading: Prohibition First, Tightened Conditions If Not

PTG's comments proceed in two steps. First, PTG urges the Commission to prohibit affiliate principal trading outright. Second, if the Commission declines to do so, PTG supports the conditions proposed in Regulation 38.852, urges the Commission to tighten them, and recommends that the Commission go further than the Proposal. The architecture the Commission has proposed, a prohibition on affiliate principal trading subject only to an independently verified, bona fide market-maker exception, is the right frame, and it is consistent with PTG's previous comments on affiliated trading in prediction markets.

A. The Commission Should Prohibit Affiliate Principal Trading (Question 40)

In response to Question 40, PTG supports prohibiting affiliate principal trading altogether, with no market-maker exception. The conflict is structural, it inheres in the exchange's economic position, and it cannot be fully cured by procedures or disclosure. A prohibition is the most direct way for an exchange to satisfy its obligations to minimize conflicts (Core Principle 16), to protect participants and promote fair and equitable trading (Core Principle 12), to protect the price-discovery process in a competitive and open market (Core Principle 9), and to provide impartial access (Core Principle 2).

PTG recognizes that a prohibition would mean that some contracts are not listed, or do not trade, because no independent firm will quote them. PTG does not regard that outcome as a loss to market quality. Contract count is not a measure of market quality; contestable liquidity is. A contract that cannot attract independent liquidity on neutral and economically reasonable terms has not yet

[5] CEA 5(d)(2), (3), (9), (12), (16), (19), and (21), 7 U.S.C. 7(d)(2), (3), (9), (12), (16), (19), and (21), see also 17 C.F.R. 38.151(b). References in this letter to a numbered Core Principle are to the corresponding designated contract market core principle in section 5(d) of the Act.

demonstrated that it supports reliable price discovery or meaningful hedging demand, and a two-sided quote that exists only because the venue's affiliate has been directed to post it does not supply that evidence. Persistent dependence on a single affiliated liquidity source may also raise concerns under Core Principle 3, because it leaves a contract's prices, including settlement prices, exposed to the positions of one firm.

The benefits of that outcome are real even though they are difficult to observe, and they belong in the Commission's analysis. Participants are not shown depth that would disappear the moment the affiliate withdrew. Hedgers do not carry positions against a settlement price that reflects the marks of a single conflicted firm. Participants who reasonably read a two-sided quote as evidence that a product can be priced are not misled. And the Commission's surveillance and enforcement resources are not spent on products that never had an economic constituency.

The Proposal also notes that a flat prohibition would be the most disruptive alternative for existing market structure.[6] PTG agrees that the transition should be orderly and recommends that a prohibition take effect through a phase-out. An affiliate trading today would be permitted to continue for a defined period, subject to a declining limit on its share of volume in each product and to the conditions in proposed Regulation 38.852(c) and would cease trading at the end of the period. A schedule of that kind gives independent firms time to enter and gives exchanges time to establish open liquidity-provider programs in their place.

B. Reduced Reliance on Affiliated Market-Makers Improves Contract Quality and Invites New Entrants

Fair terms for independent participants, meaning incentive parity together with order-priority subordination, will encourage a new generation of independent trading firms, including smaller firms, that specialize in narrow, niche, or newly listed contracts. That is especially true in request-for-quote and combination markets, where difficult-to-price contracts, such as combinations of economic-indicator contracts, benefit most from the participation of firms with specific subject-matter expertise.

Narrow, niche, or newly listed contracts are the segment that is said to require an affiliate. Where specialist firms decline to quote such a contract on fair terms, the absence is informative for the reasons given above, and an affiliate market-maker that props up the contract masks that signal. Conditions that limit reliance on affiliate liquidity therefore serve two purposes: they raise the quality of listed contracts, and they create room for independent specialists to enter. That entry is the mechanism by which the Commission's own price-discovery rationale is realized, and it does not occur if the affiliate is permitted to occupy the field first. The benefit advances Core Principle 19 (Antitrust Considerations) and the price-discovery purpose of Core Principle 9.

The Commission's fair access rules allow exchanges to offer incentives to bolster liquidity in listed contracts through market maker incentive programs.[7] Those programs can be a key contributor to the healthy symbiotic relationship between an exchange and its liquidity providers, but they need

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[6] Proposal, 91 Fed. Reg. (stating that "[a] flat prohibition would also be the most disruptive to existing market structure").

[7] 17 C.F.R. §40.5, and §40.6(b)(5)(v); *see also*, 7 U.S.C. § 7(d)(2), (12) (DCM Core Principles 2, and 12) and 17 C.F.R. §38.151 (the "Fair Access" rule).

to be made available on a transparent and non-discriminatory basis in accordance with DCM core principles 2 and 12.[8] In situations where an affiliated market maker participates in these programs, the conflicts of interest discussed above are especially acute, because the exchange is in effect setting the terms of incentives it pays to its own affiliates. Nevertheless, this year a number of DCMs have filed for confidential treatment of their market maker incentive programs as trade secrets, begging the question of whether those incentives are available fairly to all market makers, including potentially affiliated trading arms.[9] PTG encourages the Commission to work with DCMs to review these incentive programs, with particular attention to programs in which affiliated market makers participate, to confirm that their terms are offered on a transparent and nondiscriminatory basis.

C. Affiliated Market Making Should Not Be Permitted in Request-for-Quote and Combination Markets (Questions 45, 46, and 47)

Whatever the Commission decides about affiliate principal trading generally, it should not permit that activity in request-for-quote and combination or package markets. The Proposal acknowledges that a DCM may operate a trade matching system other than a central limit order book, and it asks whether the proposed subordination provision adequately addresses that circumstance and whether subordination would be effective where market-making activity occurs through other execution methods. In PTG's view it would not, and the appropriate response is to place those execution methods outside the exception rather than to adapt the subordination rule to them.

Order-priority subordination is a central-limit-order-book remedy. It moves the affiliate to the back of the queue at each price level, which presupposes a resting book, a displayed price ladder, and a time priority that can be surrendered. A request-for-quote market has none of these. Each request is a discrete auction in which the venue, rather than a matching algorithm, determines which firms are asked, when they are asked, what information they receive, how long they have to respond, and how the resulting quotes are allocated. Applied to that structure, subordination becomes a tie-break rule that binds only when the affiliate and an unaffiliated firm submit exactly the same quote, while every other determinant of the outcome remains within the venue's control. A condition that operates only at the margin of the conflict is not a safeguard.

This is a difference in market structure, and the rule should be differentiated accordingly. Question 45 asks whether subordination is technically and operationally feasible across the matching systems in use. In a central limit order book it is both feasible and meaningful. In a request-for-quote or combination market it may be implementable and still have no practical effect, which is the problem the Commission should address. Question 46 asks what should happen where the affiliate faces no competing orders against which to be subordinated. In these markets that is not

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[8] *Id.*

[9] *See e.g.,* KalshiEx LLC May 2026 Liquidity Provider Program Request available at www.cftc.gov/filings/orgrules/rules0504262797.pdf ("Confidential Appendix B describes the process through which the Exchange selects participants in the program."); QCX LLC – Certification Pursuant to CFTC Regulation 40.6(a): Liquidity Provider Program available at: www.cftc.gov/filings/orgrules/rules0303260254.pdf ("A complete description of the Program is included and segregated as Appendix B, for which the Exchanges seeks confidential treatment."); ProphetX LLC – Self-Certification of Rule Amendment Adding Chapter 8 (Market Makers) to the ProphetX Rulebook, and Implementation of the ProphetX Market Maker Program, available at www.cftc.gov/filings/orgrules/rules0713269515.pdf (asserting confidential treatment).

an edge case but the ordinary condition, because the venue controls whether competing responses are solicited at all. A condition written for one execution method and extended to the others will under-protect participants in the venues where the conflict is least visible. Combination and package transactions compound the problem. The economically relevant price of a combination is the net package price, which reflects the correlations among the legs, leg risk, execution certainty, and the cost of hedging the resulting exposure in related markets. An affiliate can be subordinated on every individual leg and still win the package, because a leg-level test does not measure what is actually being traded. More fundamentally, the venue's affiliate should not be the only firm able to price a combination. Where combination functionality is built so that only the affiliate is positioned to respond to a package request, the venue is not operating a market in combinations; it is operating a dealing desk. The Commission should require that combination markets be structured to accommodate multiple independent responders, and the most reliable way to achieve that is to exclude the venue's affiliate from responding.

Excluding the affiliate does not remove liquidity from these markets; it removes the one respondent that faces no competitive discipline. A request-for-quote market produces a good price through competitive bidding, which works when several independent firms, each with its own pricing models and hedging capacity, respond simultaneously and without knowledge of one another's quotes. An affiliated respondent weakens that process in two ways. It has less reason to price aggressively, because its parent earns the venue's revenue whether or not the affiliate wins the trade, and its presence discourages independent firms from investing in the pricing capability that competing would require. Excluding the affiliate restores the competitive auction, and it is the auction, not the subordination rule, that produces the best available price.

The stakes are significant. Exchange-traded combination and request-for-quote markets in economic indicators can deliver tailored risk transfer at a fraction of the cost of a bespoke over-the-counter swap or a dealer-structured product, because the price is contestable and the resulting position is centrally cleared, margined, and can be unwound. That benefit is realized only if independent firms are permitted to compete for the package. An affiliated default counterparty reproduces single-dealer over-the-counter economics inside a regulated exchange, with the pricing opacity of the bilateral market and the appearance of exchange competition. For end users, a competitive request-for-quote market can be the difference between a hedge that is economical and one that is not.

PTG therefore recommends that the final rule state expressly that the market-maker exception in proposed Regulation 38.852(c) is unavailable for request-for-quote transactions, auctions, combination and package transactions, block trades, and functionally equivalent execution methods, and that a DCM may not permit an affiliate to respond to or otherwise participate in them. If the Commission declines to adopt that exclusion, the conditions described in Section II.E, including package-level comparison on economically equivalent terms, simultaneous and impartial dissemination, a strict residual-counterparty standard, and independent monitoring of recipient selection and win rates, should apply as a minimum. PTG offers those conditions in the alternative and does not regard them as an adequate substitute for the exclusion. Question 47 asks what other conditions could mitigate the conflict while preserving the ability of exchanges to use affiliate market-makers to launch new contracts. For these execution methods, PTG does not believe that any set of conditions would do so.

D. Absent a Prohibition, PTG Supports the Proposed Conditions

PTG's recommended exclusions for the execution methods identified in Section II.C should apply to any market-maker exception. If the Commission retains a market-maker exception for central limit order book markets, PTG recommends that it be available only on a product-specific basis, where the DCM demonstrates in its Part 40 filing that affiliated liquidity is reasonably necessary for the product, and that it be subject to a phased cap on the affiliate's share of volume in that product that tightens as unaffiliated liquidity develops, as discussed in Section II.E. PTG recognizes that liquidity needs can recur in short-lived or continuously refreshed contracts; a product-specific showing accommodates that. Subject to those limitations, PTG supports each of the following proposed conditions and urges that they be adopted together.

Incentive parity, Regulation 38.852(b)(2). Unaffiliated members should be able to participate in any incentive or market-maker program on terms no less favorable than those offered to the affiliate.

Order-priority subordination, Regulation 38.852(c)(1)(i). The affiliate's bids and offers should be filled last at every price level, without regard to time priority, that is, after all unaffiliated members at that price.

Market-maker agreement, Regulation 38.852(c)(1)(ii). The agreement should require continuous two-sided quotes, minimum quoting hours, maximum bid-ask spreads, and a fair-and-orderly-market standard, should prohibit directional positions except as needed to maintain two-sided quotes, and should be on terms no less favorable to the exchange than those available to unaffiliated members.

Independent third-party regulatory service provider, Regulation 38.852(c)(2). PTG supports the Commission's decision to make an independent provider a mandatory condition of the exception, rather than the optional engagement proposed in Regulation 38.606 for an affiliate FCM. The provider should conduct financial surveillance of the affiliate under Regulation 38.604 as if the affiliate were an FCM, monitor the exchange's conflicts procedures, and certify annually to the Commission and to the board.

If the Commission declines to prohibit affiliated principal trading, PTG believes that further public comment and, as necessary, additional rulemaking should address the scope and operation of the proposed third-party oversight framework. Assigning an SRO responsibility for overseeing an exchange-affiliated proprietary trading firm raises questions concerning supervisory capacity and the boundaries of the SRO's responsibility.

Point-of-transaction disclosure, Regulation 38.852(c)(3). Before order entry, participants should receive clear, conspicuous, plain-language notice, for each trading session, that an affiliate market-maker is active and subject to subordination, and the notice should require affirmative acknowledgment, as proposed. In response to Question 52, PTG does not support replacing the per-session notice with a one-time disclosure at account opening; the information is most relevant at the time of trading. Members and interface operators should be responsible for delivering that notice.

As the Commission itself recognizes, these conditions map onto the Core Principles, and PTG supports them on that basis. The additional buffers described below serve the same Core Principles.

E. The Commission Should Tighten the Conditions and Go Further (Questions 39 and 41 through 51)

Sufficiency of the principles-based framework (Question 39). The procedures and disclosure that Section III.A of the Proposal would require of any affiliate market participant would not, on their own, adequately minimize the conflicts presented by an affiliate principal trading firm. Those procedures address the flow of information and the separation of personnel. They do not address the exchange's economic interest in the affiliate's trading, which persists however carefully the procedures are administered.

Scope (Question 41). PTG does not support limiting the regime by market access or by a measure of the affiliate's significance in a product. The conflict does not depend on whether the participants on the other side of the affiliate's trades are retail customers or eligible contract participants. Independent liquidity providers on institutional markets face the same structural disadvantage, and many of the request-for-quote and combination markets discussed above are likely to be institutional. A significance threshold would exempt the case in which the protections matter most, because an affiliate that is small in a product is often the only firm quoting it. If the Commission adopts any threshold, it should operate only to add requirements above the threshold, never to remove them below it, and compliance should be monitored by the independent regulatory service provider.

Quantitative market-maker parameters (Question 44). The Commission should not leave the substance of the exception entirely to an agreement negotiated between the exchange and its own affiliate. The rule should prescribe mandatory quantitative elements, including minimum quoting coverage, maximum spreads, minimum executable size, inventory or net-risk limits, and consequences for noncompliance. Given the heterogeneity of products, the Commission may set minimum floors or methodologies by product class while requiring each exchange to file product-specific values under Part 40. The independent regulatory service provider should verify that the parameters are meaningful and are not set so loosely that they fail to constrain the affiliate.

Subordination, request-for-quote systems, and circumvention (Question 45). If the Commission retains a market-maker exception, PTG supports proposed Regulation 38.852(c)(1)(i) for central limit order books. For the reasons given in Section II.C, PTG's primary recommendation remains that affiliated market making be excluded from request-for-quote and combination markets altogether. The safeguards below are offered only if the Commission declines to adopt those exclusions; PTG does not regard them as an adequate substitute. In that event, the final rule should specify how subordination applies outside a central limit order book.

Request-for-quote systems are especially susceptible to affiliate favoritism because the venue controls distribution, timing, information fields, response windows, and allocation. The affiliate should be a strictly residual counterparty whose quote may execute only if no unaffiliated firm provides a firm quote at the same or a better price. Requests should be disseminated simultaneously and impartially to qualified unaffiliated liquidity providers. The affiliate should receive no advance

notice, no last look, no match right, no additional information, and no discretionary preference, and allocation should be anonymous and objective. The independent regulatory service provider should monitor recipient selection, response times, quote quality, win rates, and allocations. These requirements should extend to directed requests, auctions, combination markets, block trades, and functionally equivalent methods, so that execution design cannot become a means of avoiding subordination. The Commission also asks whether an exchange could circumvent subordination by adopting a pro rata matching algorithm. It could, and the final rule should provide that, whatever the matching algorithm, the affiliate receives an allocation only after all unaffiliated interest at the price has been filled.

Neutral request-for-quote design matters most for the economic-indicator markets discussed above. Exchange-traded event contracts could offer a more transparent and cost-effective alternative to the bespoke economic-risk products traditionally offered by large dealers, but only if independent trading firms with sophisticated global and cross-asset pricing capabilities can compete for requests on equal terms. A venue-affiliated firm, particularly one without comparable pricing sophistication, should not become the default counterparty by design and thereby deter investment and entry by independent liquidity providers.

The same concerns are amplified for combination or package transactions. A combination can be difficult to value because the relevant economic comparison is the net package price, which takes account of correlations, leg risk, execution certainty, and the cost of hedging the resulting exposure across related markets. An affiliate should not receive advance knowledge of the package, preferential access to its component legs, or discretion to match an unaffiliated firm's net price after competing responses have been received. The Commission should require package-level comparison on economically equivalent terms, simultaneous dissemination to eligible unaffiliated firms, and objective allocation based on the complete package, rather than permitting the venue to satisfy subordination only nominally at the individual-leg level.

A phased cap and additional buffers (Questions 45, 46, and 47). The Proposal asks whether subordination should be replaced or supplemented by a volume- or value-based cap, including a phased or sunset cap.[10] PTG recommends that a cap be adopted in addition to subordination. Subordination operates only where unaffiliated orders are present at the same price; a cap operates where they are not, which is the circumstance the Commission identifies as most concerning. A cap that begins at a level sufficient to support a new contract, declines on a published schedule, and ends the affiliate's participation in a product once unaffiliated liquidity meets a defined standard would give effect to the Commission's stated intention that the affiliate be a residual source of liquidity. The administrative burden is modest: the cap is computed from volume data the exchange already collects, and compliance can be verified by the independent regulatory service provider. Where the affiliate is the sole source of liquidity, order-priority subordination has no competing orders to defer to and is therefore inert, so additional buffers are also warranted. PTG recommends that the Commission consider participation limits, such as position limits and volume limitations; economic constraints, such as profit caps and loss caps that remove both the

[10] Proposal, 91 Fed. Reg. at 50953–54 (considering a volume- or value-based cap on affiliate market-maker activity, including a phased or sunset cap); id. at 50954 (Questions 45–47).

incentive and the capacity to trade for the affiliate's own advantage while protecting the financial stability of the exchange; and disclosure obligations, including prominent disclosure that an affiliated market-maker is active together with periodic disclosure of its positions, volumes, and trading results, including losses. Loss caps serve Core Principle 21 (Financial Resources) by protecting the financial stability of the exchange, while profit caps and the disclosure obligations serve Core Principles 16 and 12 by removing the incentive for own-advantage trading and by giving participants and the Commission visibility into the affiliate's market impact.

Capital independence (Question 48). PTG supports a capital-independence condition in principle, while recognizing the difficulty of tracing fungible capital within a common-parent structure. At a minimum, the affiliate should be separately capitalized, should receive no loans, guarantees, loss absorption, or trading capital from the exchange, and should transact with the exchange and the common parent on documented arm's-length terms. The independent regulatory service provider should test these arrangements and report any direct or indirect financial support to the Commission.

The regulatory service provider (Questions 49, 50, and 51). Because the independent regulatory service provider is the mechanism by which every other condition is verified, the provisions defining that role should be firm. On Question 49, Regulation 38.604 is a workable vehicle,[11] but the Commission should confirm that its application to an affiliate holding no customer funds is directed at capital adequacy, position and inventory risk, and the affiliate's capacity to meet its quoting obligations, rather than at customer-protection metrics that have no analogue here. On Question 50, the rule should state expressly that an affiliate market-maker for which the required certification is not provided ceases to qualify for the exception and must stop trading, and it should address orderly close-out of open positions and the conditions for resuming activity. On Question 51, independence should be defined functionally. The provider should not be controlled by, under common control with, or materially economically dependent on the exchange, the affiliate, or their common parent; should not have its compensation tied to the affiliate's trading results; and should report to the Commission and to the board rather than to exchange management. The Commission should also confirm that the framework in Regulation 38.606 affords sufficient capacity for this function before making it a precondition to trading.

Scope of the conditions across an affiliate's trading. The Commission solicits comment on whether some or all of the requirements should apply only to an affiliate's market-making activity rather than to all of its trading. PTG urges the Commission to apply the conditions entity-wide, as proposed. The structural advantages described in Section I attach to the firm, not to a particular order, and an affiliate permitted to run a directional book alongside its quoting obligations could use the exception as a gateway to precisely the principal trading the rule is meant to prevent. An activity-based line would also be difficult to police because the same firm, systems, and information would sit behind both categories of order.

Extension to swap execution facilities (Question 43). The Proposal excludes swap execution facilities from the affiliate principal trading provisions on the understanding that market-makers are less prevalent on those facilities. PTG members are active liquidity providers on swap

[11] 17 CFR 38.604 (financial surveillance of members); 17 CFR 38.606 (services provided by a regulatory service provider).

execution facilities, and the conflict presented by a facility-affiliated principal trader is the same as on a DCM. PTG recommends that the prohibition, or absent a prohibition the same conditions and buffers, extend to swap execution facilities. Because execution on those facilities is predominantly by request for quote, the analysis in Section II.C applies there with particular force.

III. The Broader Benefits of Constraining Affiliate Market Making

Beyond the specific conditions, constraining conflicted affiliate market making serves three broad public interests, each of which the Commission should weigh in its analysis. First, it supports the health of the exchange. An exchange that does not depend on a conflicted affiliate for its liquidity or its revenue is more resilient. It can administer its markets impartially, surveil and discipline participants without conflict, and avoid the financial fragility that comes from leaning on a single affiliated profit center, consistent with Core Principles 2, 16, and 21. Second, it supports competition. Fair and neutral terms of access and execution let independent liquidity providers compete on the merits, which deepens liquidity, narrows spreads, and prevents any single affiliated firm from entrenching itself as the permanent backbone of a market, consistent with Core Principles 9 and 19 and with the Commission's obligation to consider the public interest protected by the antitrust laws. Third, it protects customers and market participants. Impartial markets with genuine, independent price discovery protect the customers and participants who rely on these contracts, and they filter out contracts that exist only because an affiliate is manufacturing the appearance of liquidity, consistent with Core Principles 12 and 3.

The Commission's cost-benefit analysis should account for deterred independent entry, market distortion, and user savings from competitive bidding. Section 15(a) of the Act directs the Commission to weigh the costs and benefits of its discretionary determinations against five areas of market and public concern, including the protection of market participants and the public, the efficiency and competitiveness of the markets, and price discovery.[12] The Proposal's analysis is detailed on the cost side. It estimates the cost of engaging an independent regulatory service provider, the cost of building the point-of-transaction disclosure, the cost of conforming rulebook amendments, and the cost of the corresponding clearing organization disclosures.[13] On the benefit side, the Commission states that it is unable to quantify the gains it expects, considers them in qualitative terms, and invites commenters to supply data.[14] PTG recognizes the difficulty of measurement and offers three considerations for the benefit side of the analysis: deterred independent entry, distortion of exchange incentives, and savings to end users from competitive bidding.

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[12] 7 U.S.C. 19(a). The five areas are protection of market participants and the public; efficiency, competitiveness, and financial integrity of futures markets; price discovery; sound risk management practices; and other public interest considerations.

[13] Proposal, 91 Fed. Reg. at 50981 (estimating certification-related implementation, software, and cloud costs of approximately $500,000, $1,000,000, and $700,000, respectively, using the phrase "on an annual basis"); id. at 50968, 50981 (estimating $434,000 in total annual labor costs across covered designated contract markets for delivery of the disclosures required by proposed 17 CFR 38.852(c)(3)); id. at 50967, 50977 (estimating $1,250 in total annual labor costs across covered designated contract markets for rulebook updates); id. at 50968, 50985 (estimating $3,000 in total annual labor costs across covered derivatives clearing organizations for affiliate-clearing-member disclosures).

[14] Proposal, 91 Fed. Reg. at 50970 (explaining that costs and benefits that cannot be quantified are considered in qualitative terms and requesting information that would facilitate quantification); id. at 50978–79 (anticipating that increased competition and liquidity would narrow bid-ask spreads and reduce transaction costs).

First, deterred independent entry. The Proposal measures costs principally as compliance burdens on exchanges and their affiliates, assessed against a status quo baseline in which affiliate principal trading is already occurring. That framing omits a cost that runs in the other direction. When an affiliate occupies the field on preferential terms, independent firms that would otherwise quote in a contract do not enter, and the depth, spread improvement, and pricing competition they would have supplied are never observed. Because the harm takes the form of an absence, it does not appear in the baseline, but it is an economic cost, and it bears directly on the second and third of the Section 15(a) factors.

That cost is the mirror image of a benefit the Commission already claims. The Proposal states that incentive parity will attract unaffiliated market participants to be active in making markets, and that order-priority subordination will entice non-affiliate principal trading firms to trade and provide liquidity.[15] PTG agrees. But if conditions of sufficient strength draw independent liquidity providers in, then conditions of insufficient strength keep them out, and the entry that is deterred is a cost properly attributable to the Commission's choices about how strong to make the conditions. Where the Commission declines to adopt an additional constraint, such as the phased cap or the profit and loss caps described above, it should explain why the resulting deterrence of independent entry is outweighed by the benefits of the looser standard, rather than treating today's observed liquidity as the relevant counterfactual. Section 15(b) reinforces the point, because it separately directs the Commission to take into consideration the public interest to be protected by the antitrust laws and to endeavor to use the least anticompetitive means of achieving the purposes of the Act.[16] The Commission has preliminarily identified no anticompetitive effects, and PTG agrees as to the Proposal's own requirements. The relevant anticompetitive effect lies in the conduct the Proposal would continue to permit. An affiliated firm entrenched as the standing liquidity provider in a product raises the cost of entry for every independent competitor and forecloses the contestable market that Core Principle 19 contemplates. On the Commission's own framing, the least anticompetitive means of achieving the purposes of the Act is the prohibition PTG recommends.

Second, distortion of exchange incentives. On the fourth Section 15(a) factor, sound risk management practices, the Proposal does not assign a cost to the incentive distortion that arises when an exchange, or an affiliated clearing organization, depends financially on the trading results of a firm whose positions it must margin, liquidate, and where necessary discipline. The treatment of Alameda Research by FTX, as alleged in the Commission's complaint, illustrates the direction in which that distortion runs. A related distortion operates on listing decisions. A venue that shares in its affiliate's trading profits has a reason to list contracts that are profitable for the affiliate to trade rather than contracts that serve a hedging or price-discovery purpose, and to keep them listed after independent participation fails to materialize. That is a cost to the integrity of the listing function under Core Principles 3 and 9, and it does not appear in an analysis limited to compliance costs. By the Commission's own count, approximately eight designated contract markets currently

[15] Proposal, 91 Fed. Reg. at 50983 (stating that incentive parity "would attract unaffiliated market participants to be active in making markets" and that the conditions in proposed Regulation 38.852(c)(1)(i) "will entice non-affiliate principal trading firms to trade and provide liquidity on the DCM").

[16] CEA 15(b), 7 U.S.C. 19(b).

have affiliated market-makers,[17] so the population in which the distortion operates is identifiable and small, while the benefit of removing it accrues market-wide.

Third, savings to end users from competitive bidding. The Commission expects increased competition and liquidity to narrow bid-ask spreads and reduce transaction costs but does not attempt to size that gain. The request-for-quote and combination markets discussed in Section II are where it is largest. A package in economic indicators priced by several independent firms competing for the order should be materially cheaper for the end user than the same exposure obtained through a bilateral swap or a structured product, and the resulting position is centrally cleared, margined, and can be unwound. The saving is a per-trade reduction in execution cost that recurs on every package traded and grows with institutional participation. The Commission's record notes that liquidity on these venues is presently regarded as too thin for institutional use.[18] The relevant base is therefore not today's volume but the over-the-counter and structured-product activity that could move to exchange if pricing were competitive. PTG does not ask the Commission to adopt a particular figure, and its members would be glad to provide supporting information. PTG asks that the benefit be recognized as significant, conditional on independent firms being permitted to compete for the package, and forfeited where an affiliated default counterparty reproduces single-dealer economics inside a regulated exchange.

These three considerations point in the same direction, and the measures PTG recommends are inexpensive to adopt. Profit, loss, volume, and position caps are computed from transaction and position data that an exchange already collects for surveillance. The independent regulatory service provider is already a mandatory element of the Proposal, and its cost is already reflected in the Commission's estimates. Excluding affiliated participation from request-for-quote and combination markets involves no incremental compliance cost, because it removes an activity rather than adding a control. The benefits described in Section II.A, including avoided exposure to liquidity that would vanish on the affiliate's withdrawal and to settlement prices that reflect one firm's marks, belong in the same accounting. Measured against a baseline that already includes the conduct under review, the costs of PTG's recommendations are contained and the benefits, properly counted, are market-wide.

IV. Non-Controlling Minority Equity Investment (Questions 31 and 42)

Minority, non-controlling equity investment by trading firms in exchanges is beneficial. It aligns incentives, funds market development, and deepens competition, advancing Core Principle 19, without producing the operational-control, information, and self-regulatory conflicts that Core Principle 16 targets. Because Questions 31 and 42 ask whether the proposed definitions capture the appropriate relationships, PTG responds to each in turn.

[17] Proposal, 91 Fed. Reg. at ("There are approximately eight DCMs with affiliated market makers.").

[18] Proposal, 91 Fed. Reg. (citing Rebecca Baird-Remba, Liquidity on Kalshi, Polymarket 'too thin' for institutional use, Risk.net (Jun. 11, 2026), https://www.risk.net/markets/7963633/liquidity-on-kalshi-polymarket-too-thin-for-institutional-use).

A. The Definition Should Not Reach Partial Ownership That Does Not Rise to Control (Question 31)

Question 31 asks whether the proposed definition of "affiliate market participant," and its related control formulation, captures the appropriate relationships, and in particular whether the definition should reach partial ownership interests that do not rise to control. In PTG's view, a partial ownership interest should not, by itself, trigger the affiliate-principal-trading regime. A fixed ownership-percentage test would sweep in passive and genuinely non-controlling investors, discouraging beneficial capital formation and competition, while at the same time failing to capture control exercised through contractual, governance, or other non-equity arrangements. The appropriate trigger is control, meaning the direct or indirect power to direct or cause the direction of the exchange's management and policies.

At the same time, the Commission should evaluate minority investments in substance rather than by label. Investor-specific information rights, board representation, veto or consent rights, management influence, and related commercial arrangements can establish de facto control even where the investor holds less than a majority of the voting equity. Where those rights confer de facto control, the affiliate regime should apply. Where they confer preferential access or information without rising to control, the conduct should be addressed through the Commission's impartial-access, conflicts-of-interest, and information-protection requirements, rather than by treating every minority investor as an affiliate.

B. The Control-Based Definitions Are Appropriately Scoped and Should Be Made Clearly Administrable (Question 42)

Question 42 asks whether the proposed definitions of control and affiliate are appropriately scoped. PTG supports a control-based formulation rather than a fixed ownership-percentage threshold, because it targets the power that creates the conflict, namely the ability to direct or influence the management and policies of the exchange, and because it avoids treating ordinary minority investment as equivalent to operational affiliation. The formulation the Commission has proposed is drawn from the familiar securities-law definitions of control, which gives it the further advantage of an established body of interpretation.[19]

Control is a fact-specific inquiry, and it does not by itself provide complete certainty. The Commission should make the standard more predictable and administrable by identifying the governance, contractual, and commercial rights that ordinarily indicate control or its absence. Relevant indicia should include board appointment rights, management rights, veto or consent rights over material decisions, contractual authority, investor-specific information rights, financing arrangements, and other means of exercising material influence. The Commission should also consider an administrable safe harbor or rebuttable presumption for genuinely passive investments that do not include board appointment rights, material veto rights, management participation, access to non-public trading or operational information, or preferential commercial treatment. Any such presumption should remain subject to a substance-over-form standard, so that an investment that is minority-owned on paper but conveys de facto control remains covered. This approach would permit beneficial non-controlling investment while ensuring that arrangements conveying

[19] See 17 CFR 230.405 (Securities Act of 1933); 17 CFR 240.12b-2 (Securities Exchange Act of 1934).

actual control cannot avoid the affiliate regime merely because the investor holds less than a specified percentage of equity. It would also support Core Principle 2's requirement of impartial and non-discriminatory access by focusing on the ability to direct the exchange or to obtain preferential treatment, rather than on equity ownership alone.

C. The Commission Should Correct Two Inconsistencies in the Proposed Text

PTG respectfully requests that the Commission correct two apparent inconsistencies in proposed Regulation 38.852.[20] First, although the preamble describes an "affiliate market participant" as a person that controls, is controlled by, or is under common control with the designated contract market, the codified definition in Regulation 38.852(a) appears to include only the requirement that the person execute, introduce, or otherwise facilitate trades on or subject to the rules of the exchange. As published, the definition contains a subclause (i) followed by a reserved subclause (ii), and it omits the control element. Read literally, that language could reach ordinary unaffiliated market participants, a result inconsistent with both the preamble and the Commission's stated purpose. The parallel definition proposed for swap execution facilities in Regulation 37.1201(a) contains both the control element and the trading element, which confirms that the omission in Regulation 38.852(a) is inadvertent. The final rule should define "affiliate market participant" as a person that both directly or indirectly executes, introduces, or otherwise facilitates trades on or subject to the rules of the exchange, and directly or indirectly controls, is controlled by, or is under common control with the exchange. That formulation would also align the DCM definition with the parallel swap execution facility ("SEF") definition.

Second, proposed Regulation 38.852(b)(1) requires a DCM to maintain conflicts procedures concerning an "affiliate market participant," but paragraphs (b)(1)(i) through (v) refer only to an "affiliate futures commission merchant." That narrower language could leave other affiliate market participants, including affiliate principal trading firms, outside the procedures that paragraph (b)(1) is meant to require. Unless the Commission intends those provisions to apply only to affiliate futures commission merchants, the final rule should replace "affiliate futures commission merchant" in paragraphs (b)(1)(i) through (v) with "affiliate market participant." The parallel SEF provision, Regulation 37.1201(b), already uses "affiliate market participant" throughout its corresponding subparagraphs, which again indicates that the narrower references in the DCM provision are an inadvertent drafting inconsistency. At a minimum, the Commission should clarify the intended scope and use the defined terms consistently.

V. Conclusion

PTG supports the Commission's decision to prohibit affiliate principal trading subject only to a narrow, independently verified exception, and agrees that this is the most acute of the affiliation conflicts. PTG's position proceeds in two steps. As a first-best matter, the Commission should prohibit affiliate principal trading, because the conflict is structural and cannot be cured by

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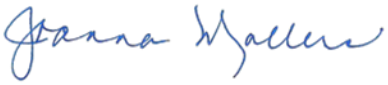
[20] Compare proposed 17 CFR 38.852(a) and (b)(1)(i)–(v), 91 Fed. Reg. at 50991–92, with proposed 17 CFR 37.1201(a) and (b)(1) – (5), id. at 50990; see also id. at 50946 (preamble describing the control-based definition of "affiliate market participant").

procedures or disclosure. If the Commission retains a market-maker exception, it should adopt the proposed conditions of Regulation 38.852 as an integrated package and go further, with mandatory quantitative parameters, a phased cap on affiliate activity, profit and loss caps, and an exclusion for request-for quote and combination markets. The Commission should also retain a clear, control-based affiliate definition that permits beneficial minority investment while capturing de facto control, and it should correct the two drafting inconsistencies identified above. In weighing these choices under Section 15(a), the Commission should treat the independent liquidity provision that a conflicted affiliate deters as a cost of the looser alternative, not as a neutral feature of the baseline. Each of these positions is anchored in the DCM Core Principles, principally Core Principles 2, 9, 12, and 16, together with Core Principles 19 and 21.

PTG appreciates the opportunity to comment on the Proposal. We would welcome the opportunity to provide supporting data and to discuss these recommendations with the Commission and its staff. Please contact the undersigned at jmallers@ptgmarkets.org with any questions.

Sincerely,

PTG



Joanna Mallers
Secretary

cc: Michael S. Selig, Chairman