FINRA is to be commended for the idea of bringing algorithms and their use under regulatory supervision.

Where I think that registering algo designers as associated persons is wrong, is in that it is equivalent to licensing car manufacturers instead of drivers, or gun manufacturers instead of gun users.

Some algorithms are fully automated. Some are semi-automated. Most allow traders to set parameters on how to trade. But all are ultimately controlled by the trader or portfolio manager initiating its use. Yes, education in particulars of any algorithm is important. Yes, algorithms, whether new or modified, should be rigorously tested and documented. But algo designers, especially consultants like myself, cannot prevent a trading firm from changing the logic or from misusing the algo.

One anecdote. A semaphore is a software construct to stop a procedure from using data which has not yet been updated. It's an idea drawn from railroads where a single track is used bidirectionally. When the semaphore is set, the other train must wait before proceeding. Similarly in software an algo may set a semaphore to prevent a "Sorcerer's Apprentice" scenario, where the algo keeps on flooding the market with repeated orders.

An software vendor provided a pairs trading algo to a non-US bank. The algo made use of a semaphore to prevent trading on not-yet-processed information regarding the quantity bought so far. A trader at the firm decided to speed up the algo on the production system by removing the semaphore - without first testing or consulting with the software vendor - resulting in disaster. The firm shut down the trading desk. Had the algo designer been registered as an associated person could the disaster have been avoided? No. Not really!

Furthermore the economic impact on independent algo designers could create an unfair economic barrier to entry.

The better solution is twofold. First of all, education. Second, registering algo USERS, which would include a trading entity's traders, quants, programmers, mangers and support people. The users are more likely to have direct control of the algo, than an outside designer, since they can (1) modify code, (2) set parameters, (3) test, and (4) deploy.

Respectfully,

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