

April 14, 2015

Kevin M. O'Neill, Deputy Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

[rule-comments@sec.gov](mailto:rule-comments@sec.gov)

RE: File No. 10-214  
Automated Matching Systems Exchange, LLC

Deputy Secretary O'Neill:

We are providing this communication in response to the Commission's request for comments on the aforementioned filing as it relates to Automated Matching Systems, LLC ("AMSE").

We agree with all of the Commission's assertions regarding AMSE's filing which include previous submissions, comments and responses. We believe the language of the filing is confusing, contradictory and conflicting in many areas and we come away without a clear understanding of what they want to do or how they plan to support it. The filings are very general in nature and not specific.

Therefore, we would like to introduce additional points that we believe creates many concerns. For reference purposes we are citing the most recent communication between the SEC and AMSE and all attachments totaling 285 pages (<https://www.sec.gov/comments/10-214/10214-1.pdf>). Our concerns are listed accordingly:

1. We're unclear as to how the AMSE platform helps the investing public and what needs their platform serves that doesn't already exist. It appears AMSE is attempting to create a platform that may be beneficial to only a small percentage of investors.
2. In the filing, AMSE states that they request an exemption from being an exchange, though they want to be an exchange, due to low volume but there is no mention on projected volume, no limitations stated to volume, nor process or procedures described to ensure compliance with volume limitations. The application is very general as to what market sector they propose to cover, now or in the future, and there is no way to judge the expected volume of the sector.
3. Within AMSE's Rules of Operations (Page 154), Rule 11.8 is written in an incredibly contradictory manner as compared to Financial Industry Regulatory Authority ("FINRA") Rule 5310 which states, "*In any transaction for or with a customer or a customer of another broker-dealer, a member and persons associated with a member shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions.*"

In its current format AMSE'S Rule 11.8 completely ignores the spirit of 'Best Execution' and essentially throws it out the window if a transaction is deemed to be unsolicited. Yet as you read through the core of AMSE's filing, it appears the implied intent is that all transactions will be unsolicited.

4. The language is somewhat ambiguous as to the lack of rules that pertains to its "Members". There is no clear-cut definition or parameters when engaging AMSE as a Member. Although there are loosely written Rules of Operations, there is nothing specific to a Member's actions other than the obligatory "play nice".
5. With respect to garnering membership with AMSE the filing indicates AMSE will utilize a standardized Form U4 application. However, this would only be applicable to persons and entities that are registered within the securities industry. In their filing they indicate they would permit non-registered persons to gain membership. As such, what steps does AMSE have in place to hold those non-registered persons/entities to the same standards as registered persons?
6. In addition to item #5 above, we disagree that non-registered persons should be permitted to engage in the activities of any exchange. However, pursuant to pages 41, 42 and 277 there is no language that specifies the guidelines as to an individual persons' accreditation, financial wherewithal, investing history and other significant items found in 17 CFR 240.17a-3(a)(17).

There is no benchmark for what that financial status must be. There is no one providing any suitability requirements or offering any assistance or protection for the customer in any way. BDs are big boys and can be responsible for knowing the securities and taking ownership of responsibility for what they are trading, but individuals historically cannot be left in a marketplace without protection.

7. There is no mention of specific market sectors to be included. For instance, a good general description that incorporates a specific path to settlement would be to limit the exchange to "DTC eligible" transactions only. If they cannot do this, they must address larger operational support and also conduct requirements for failed transactions; transfer processing policies for dealing with security restrictions (that could vary from security to security within a specified sector and who is responsible for determining any restrictions). Without a narrower focus within their security type specifications, their Member rules are lacking and their explanation of support is lacking.
8. Due to the general description of which securities would be permitted to trade on their platform and the very wide description of how they are to be processed and handled from an operations perspective, it is difficult to ascertain how the exchange plans to deal with transactions that are transacted on their own platform. If done on the books of Members and simply reported to the exchange, it is of no concern from an operations standpoint. However, if it is executed on the exchange itself, there is no description as to how they will operationally support the trading activity.
9. The rules for requirements of an issuer of a security are very general. As we understand it, the suggestion of a security viable for listing is submitted by a Member. There is no clarity as to whether the issuer becomes a Member. The Member provides an "offering circular, operating agreement (or other like incorporation documents), a certification from the issuer (no clue as to what they are certifying)" and an attorney or CPA reviews the documentation to make sure he/she is holding that in their hands and it's approved for trading. There is no mention of any parameters that must be met and there is no review of financial viability of the security by way of financial statements or anything else from the issuer. Again, if membership was regulated to Broker/Dealers only, this may be adequate - a simple verification that a security is valid.

However, if the platform is open to individuals there should be a more stringent due diligence process for a security prior to listing.

10. The membership rules pertaining to the requirements to become a Member include many things that are already a requirement for a Broker/Dealer by virtue of registration with FINRA such as Written Supervisory Procedures ("WSPs") for their participation; AML policies and other contingency plans. It does not appear that AMSE will require additional protections or whether they are simply relying on that which is already in existence. If they are relying on what is already required for a Broker/Dealer, what is the value-add to the financial services industry; the relief for regulatory oversight; the transparency value for regulators and if the Member is an individual, are they expected to provide WSPs or AML policies? If they are not a traditional customer, covered by FINRA requirements of a customer, who is verifying that they are AML compliant or that they have a clear understanding of the system with which they are interacting?
11. There are written statements from AMSE as to what they plan to do but are very vague and do not discuss the infrastructure to support those plans. There is no mention of regulatory interfaces and how they may improve the industry. They take no oversight and/or responsibility of anyone's shoulders but they charge a fee to be a Member. They do not provide any centralization for information that could be a benefit to any move towards standardization or true transparency. There is no consolidation of responsibility or liability and no shared responsibility with their Members. They are attempting to operate with the most lenient regulatory constraint possible and in this attempt are circumventing many accepted practices and regulatory requirements. There is no clear value to their platform and no clear improvement to the regulatory compliance environment and absolutely no improvement to customer protection.

Thank you for allowing 1st Trade the opportunity to provide comments on the aforementioned matter and we trust that our opinions will assist the Securities and Exchange Commission in achieving its goals. 1st Trade has been providing specialized services to the financial services industry for more than twenty years.

Respectfully,



Lori C. Sarian  
Managing Partner