

---

620 8th Avenue  
35th Floor  
New York, NY 10018  
United States



+1 212 931 4900 Phone  
+1 212 221 9860 Fax

[www.markit.com](http://www.markit.com)

December 23, 2015

**By Electronic Mail**

Mr. Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

Re: *Investor's Exchange LLC Form 1 Application*, Release No. 34-75925; File No. 10-222

Dear Mr. Fields,

Markit appreciates the opportunity to provide its views on the Investors' Exchange LLC ("IEX") Form 1 application for registration as a national securities exchange ("Application").

Markit<sup>1</sup> is a leading global diversified provider of financial information services.<sup>2</sup> Founded in 2003, we employ over 4,000 people in 11 countries, including over 1,600 in the US, and our shares are listed on Nasdaq (ticker: MRKT). Markit has been actively and constructively engaged in the debate about regulatory reform in financial markets, including topics such as the implementation of G20 commitments for OTC derivatives and the design of a regulatory regime for benchmarks. Over the past years, we have submitted more than 130 comment letters to regulatory authorities around the world and have participated in numerous roundtables.

Markit's Information Services division includes RegOne Solutions by Markit,<sup>3</sup> a leading provider of compliance, analysis, and reporting of best execution and related execution quality data for broker-dealers, Alternative Trading Systems, and stock exchanges. We believe our expertise in U.S. equity market structure and our experience in collecting, analysing and publishing execution statistics for retail, institutional and regulatory market participants gives us a unique perspective on equity order routing, which is the issue we wish to address in this letter.

**1. Executive Summary**

Our purpose in writing this letter is not to oppose the Application. Rather, we seek to highlight matters raised by the Application that have the potential to impact the transparency and fairness of the U.S. equity markets. For reasons described in additional detail below we believe:

- a. IEX's router should be subject to the same "speed bump" as unaffiliated routers;

---

<sup>1</sup> See [www.Markit.com](http://www.Markit.com) for more details.

<sup>2</sup> We provide products and services that enhance transparency, reduce risk and improve operational efficiency of financial market activities. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. By setting common standards and facilitating market participants' compliance with various regulatory requirements, many of our services help level the playing field between small and large firms and foster a competitive marketplace.

<sup>3</sup> See <http://regonesolutions.com/regone/web/me.get?web.home#products> for more details.

- b. Approving IEX's Application without subjecting IEX's router to the "speed bump" could have negative consequences for U.S. equity market structure; and
- c. Order routing reporting requirements should be updated to bring more transparency to issues of fairness relating to order routing.

## 2. Discussion

### a. IEX's router should be subject to the same "speed bump" as unaffiliated routers

Routing is a key component of broker-dealer electronic trading offerings. Those with more efficient routers are positioned to provide better quality of execution and attract incremental order flow.<sup>4</sup> Thus, since IEX offers routing in direct competition with broker-dealers and other exchanges, it is vital that IEX's exchange platform not provide any inherent advantages to their router.

Unfortunately, the fact that IEX's affiliated router, IEXS ("IEXS"), is not subject to IEX's 350 microsecond "speed bump" provides IEXS a clear advantage. This advantage does not achieve the fairness that IEX promotes as a part of its core principles<sup>5</sup> and would therefore have negative implications for the integrity of the markets.

Some market participants have already commented on the competitive disparity between IEXS and other routers and raised questions concerning, among other things, fair access under Rule 610 of Regulation NMS.<sup>6</sup> IEX's response was that IEXS does not receive special treatment since it does not even receive market data from the IEX matching engine.<sup>7</sup> This argument, however, conceals a very important fact: IEXS does not need to receive market data from IEX's own book. That is because IEXS only receives orders when the IEX book no longer has quantity available at that price. Thus, IEXS can infer that a quote has updated while that update is working its way through the "speed bump." In other words, IEXS will be able to start routing orders to other exchanges before those exchanges "see" the IEX quote disappear. Other competing commercial routers, however, would not be able to do so, and would therefore be at a disadvantage.

In situations in which IEX was the last quote at a price level, competing routers would either have to wait the full 350 microseconds or send ISO orders (and wait for the delayed response) to the IEX exchange before commencing to route to other venues. For routing strategies that wait for a price level to be cleared before proceeding, IEX would be able to route to the next price level immediately after their quote updated, while competitors would have to wait until they saw the IEX quote change. Considering the speed of today's markets, this could be a very significant

---

<sup>4</sup> We define more efficient routers as those that access more liquidity at an advantageous price.

<sup>5</sup> See Letter to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, from Sophia Lee, General Counsel, IEX (November 13, 2015) ("IEX Letter").

<sup>6</sup> See, e.g., Letter to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, from Eric Swanson, EVP and General Counsel, BATS (November 3, 2015) ("BATS Letter"); Letter to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, from John C. Nagel, Deputy General Counsel, Citadel (November 6, 2015) ("Citadel Letter"); Letter to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, from Mary Ann Burns, Chief Operating Officer, FIA PTG (November 6, 2015) ("FIA Letter").

<sup>7</sup> IEX Letter at 14.

advantage. It's a speed advantage of the very kind that IEX and one of its biggest fans, Michael Lewis, criticize.

As a result, we recommend that the Securities and Exchange Commission ("Commission"), if it approves the Application with the "speed bump," require IEX to subject all orders sent to IEXS to the exact same delay.

**b. Approving IEX's Application without subjecting IEX's router to the "speed bump" could have negative consequences for U.S. equity market structure**

If IEXS remains free of the "speed bump," we believe it is important to consider the precedent that such a decision would set. If the Application were approved with IEXS having the advantage of not being subject to the "speed bump," then other exchanges may seek to provide their own routers with a similar advantage. As other commenters have noted,<sup>8</sup> different exchanges implementing different "speed bumps" would add complexity to U.S. equity market structure. Moreover, if all exchanges were allowed to provide a speed advantage to their own routers, it would alter the competitive landscape. Routers operated by broker-dealers would be at a structural disadvantage compared to routers operating by exchanges.

**c. Order routing reporting requirements should be updated to bring more transparency to issues of fairness relating to order routing**

Finally, we'd like to formally raise a concern regarding the disclosure of order routing. IEX mentions in its response that Rule 606 reports can offer evidence of discretionary routing.<sup>9</sup> While this is true, the routing disclosure currently required by Rule 606 of Regulation NMS falls short of the level of disclosure required to understand routing practices and allow for a meaningful comparison of all routers. In particular, Rule 606 does not require quantitative disclosure of fees paid or rebates collected. Additionally, most exchanges do not report their routing to Alternative Trading Systems or other external liquidity providers to which they route.

Routing is a key component used by broker-dealers and exchanges to achieve their best execution objectives and there is competition both within and between the two communities. With that as a backdrop, we think that bringing more transparency to the issues of fairness raised in this and other comment letters regarding routing is warranted. Therefore, we recommend that the Commission consider formal rulemaking or interpretive guidance to require the following Rule 606 enhancements:

- i. Cover all entities that route orders including exchange routing brokers and all venues that receive orders;
- ii. Include unexecuted routed orders, including IOCs;
- iii. Include new categories of routed orders, such as all marketable, fully marketable, partially marketable and nonmarketable, with aggregate fill percentages per venue per category; and
- iv. Disclose aggregate net fees paid or received from each routed venue.

---

<sup>8</sup> FIA Letter at 5.

<sup>9</sup> IEX Letter at 11.

We believe that such enhancements to Rule 606 will facilitate a meaningful comparison of execution quality and fees of all routers, including those of the exchanges.

\*\*\*\*\*

Markit thanks the Commission for the opportunity to submit these comments. If the Commission has any questions or would like additional information, please do not hesitate to contact us.

Respectfully submitted,



David M. Weisberger  
Managing Director, RegOne Solutions by Markit

[Redacted]

Cc:

The Honorable Mary Jo White, Chair  
The Honorable Luis A. Aguilar, Commissioner  
The Honorable Kara M. Stein, Commissioner  
The Honorable Michael S. Piwowar, Commissioner  
Stephen Luparello, Director, Division of Trading and Markets  
Gary Goldsholle, Deputy Director, Division of Trading and Markets  
David S. Shillman, Associate Director, Division of Trading and Markets  
Richard Holley III, Associate Director, Division of Trading and Markets