



February 12, 2016

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

**Re: Investors' Exchange, LLC; Notice of Filing of Application, as Amended, for Registration as a National Securities Exchange under Section 6 of the Securities Exchange Act of 1934; Release No. 34-75925; File No. 10-222.**

Dear Mr. Fields:

Franklin Resources, Inc. ("FRI") is a global investment manager with offices in 35 countries and clients in over 150. Founded in 1947 and known to our clients as Franklin Templeton Investments, we actively manage \$728 billion<sup>1</sup> in assets across 25.3 million<sup>2</sup> shareholder accounts. FRI is also a publicly listed company on the New York Stock Exchange.

We are pleased to have this opportunity to submit a letter in support of the exchange application of Investors' Exchange LLC ("IEX") with the Securities and Exchange Commission. This is in addition to earlier support submitted as signatories to the Southeastern Asset Management, Inc. letter dated September 30, 2015.<sup>3</sup>

As a promoter of innovation and enhancements to the capital markets, FRI became an investor in IEX in 2014, along with other like-minded asset managers who believed that the complexity of the U.S. market structure created unfair advantages for certain market participants. While we do not believe that the U.S. markets are 'rigged', we do feel that there are improvements that can and should be made – improvements that will enhance the overall quality of trade execution on behalf of our clients.

When it comes to any new trade facility introduced to the market, we are natural skeptics. This was even the case with IEX when we first began discussions with their executive team back in 2012. We only became convinced of the merits of their approach when we conducted our own analysis of the trade execution data and saw an improvement of quality over time. More specifically, we measured the price reversion of each order route and fill rates, which were overlaid with a 'uniqueness' measure of their resident liquidity. This is analysis we perform across all exchanges and alternative trading systems (ATS) both in the U.S. and abroad. Within approximately six months of using IEX, it had scored amongst our top destinations. Other investors seem to have come to this same realization, as IEX has now garnered market share upwards of 2.0%<sup>4</sup> of the U.S. consolidated volume.

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<sup>1</sup> As of January 31, 2016

<sup>2</sup> As of June 30, 2015

<sup>3</sup> Southeastern Asset Management, Inc. comment letter <http://edgar.sec.gov/comments/10-222/10222-3.pdf>

<sup>4</sup> IEX record market share <https://iextrading.com/stats/>

There are three areas of the IEX process that we want to focus on in this letter:

- The 350 micro-second ‘speed bump’
- The outbound IEX router
- Conflict-free and fair pricing

### **The 350 micro-second ‘speed bump’**

It is our belief that the speed bump is an innovative mechanism that helps ensure our investors are properly protected from other market participants who have a speed advantage due to faster technology or their proximity to exchange matching engines. This speed bump helps reduce latency arbitrage by reducing signal value via an inbound and outbound delay, applied equally and deterministically for *all* market participants. While we are keenly aware of the needed interplay between both long-only investors and that of market makers, we were encouraged to hear that a major technology-enabled market maker<sup>5</sup> has stated that the speed bump has no impact on their market making and liquidity provisioning on IEX and will have no impact on their business and trading strategies as an exchange. Tortured interpretations of phrases plucked from Commission releases should not obscure the simple fact that the delay is entirely consistent with the overall policy objectives of Regulation NMS.

### **The outbound IEX router**

We believe that the IEX outbound router should not be subject to the 350 micro-second speed bump for the reasons set forth on page four of IEX’s most recent comment letter.<sup>6</sup> The type of behavior described therein is not theoretical, as is well illustrated by the real-life example described by Nanex<sup>7</sup> relating to Ford Motor Co. We also have experienced such ‘quote fading’ and/or front running, which results in additional trading costs that are borne by our clients. If the IEX router were subject to the speed bump, this problem would remain. In short, the treatment of the IEX outbound router is a feature, not a bug – a feature designed to ensure that investors are able to achieve the best available prices and liquidity at the time of a decision to transact.

### **Conflict free and fair pricing**

At FRI, we have spent a great deal of time and effort requesting, normalizing, and analyzing the effectiveness of various brokers’ order routing decision logic within the algorithmic strategies they employ for our client orders. We, along with many of our peers, have found that this logic is often dictated by rebate schemes utilized by the various exchanges and broker sponsored ATSs. The embedded complexities of the maker/taker system, along with the order types that are designed to maximize rebates (or reduce fees), have created a multitude of conflicts between the users and providers of these strategies. Due to these economic incentives, certain market participants can take advantage of institutional sized orders because of the predictability of such strategies. We are in favor of IEX’s elimination of rebates and lower pricing structure, which both minimize conflicts and result in fairer costs to all market participants.

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<sup>5</sup> Virtu Financial comment letter <https://www.sec.gov/comments/10-222/10222-12.pdf>

<sup>6</sup> IEX comment letter <https://www.sec.gov/comments/10-222/10222-380.pdf>

<sup>7</sup> Nanex comment letter <https://www.sec.gov/comments/10-222/10222-328.pdf>

In conclusion, we feel IEX will build and maintain an exchange that will benefit long-term investors by delivering innovations that will lead to a fair and competitive platform for all market participants. We applaud their ability to address the issues in the marketplace and look forward to lower costs for our clients.

Sincerely,



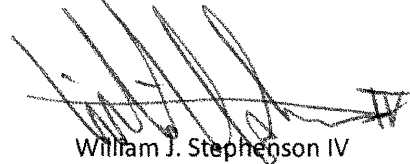
Madison S. Gulley  
EVP, Head of Investment Management Strategic Services



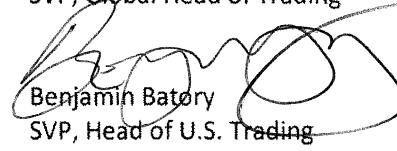
David A. Lewis  
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