



February 24, 2016

Brent Fields
Secretary
Securities and Exchange Commission
100 F Street NE
Washington DC 20549-1090

RE: Investors' Exchange Form 1 Application (Release No. 34-75925, File No. 10-222)

Dear Mr. Fields,

I'd like to thank the commission for the opportunity to comment on the IEX Form 1 application. The public comment process is one of the best elements of the US regulatory regime and the IEX comment period has been one of the best examples of that process. The comments on the application have addressed technical issues with regard to the systems that differentiate IEX as well as the implications of an approval on the existing regulatory regime. For my part, I have practical experience with the technical issues raised by the IEX application from my time as a developer of a US Equities dark pool at Getco, the creator of Getco's bi-lateral US Treasuries streaming venue (now known as "KCG Acknowledge FI"), and as an algorithmic trader of US Treasuries at KCG and Jefferies. In addition, I have a great appreciation for the market structure issues the application raises as the founder and CEO of Direct Match, the first all-to-all venue for the trading US Treasury securities. It is towards the implications for the general equity market, and to markets beyond equities, that I would like to address my comments.

The IEX application has been remarkable for the level of interest it has received. Nearly 400 comment letters have been written, most from retail investors, many of whom are responding to the narrative of a best seller. Investment banks, exchanges, and institutional investors have weighed in as well. Of particular interest is the letter from Norges Bank Investment Management. Norges Bank manages \$824 billion with \$277 billion in US equities. As intended, Reg ATS and Reg NMS, have generated competition between venues, but Norges Bank is concerned about the form that competition has taken. Their support for the application is driven by their view that it represents an "attempt to re-assert the centrality of exchanges to the market place." Norges Bank is an investor so large that it generates a fee pool which grants it access to any technology, all advice, and every trading venue that can be obtained by a firm. Norges Bank feels current market structure trends, perhaps inadvertently driven by the success of prior regulation, leave it at a disadvantage vis-a-vis other market participants. That an organization of the size and sophistication of Norges Bank should feel itself at

the mercy of market structure changes is illustrative of the seriousness of the issues the IEX application raises.

Fundamentally, this is because those are the same issues that were central to the creation of Reg ATS and Reg NMS in the first place: the need to balance the desire for innovation and competition to improve private markets with the desire for order and fairness to preserve the public good. In the mid 1990s, the Commission recognized that new, technologically innovative trading venues might draw volume away from traditional exchanges, where the regulatory regime gave investors a great degree of protection. They also recognized that requiring new entrants to comply with the regulatory burden of being a nationally recognized exchange might stifle innovation. In response, the Commission created Reg ATS, a regulatory status less onerous than exchange status but more rigorous than that of a broker-dealer. This was highly successful at spurring innovation and competition. As a result, in the early 2000s The Commission moved to ensure that competition among venues did not come at the expense of competition among orders. To achieve this, the Commission established market wide standards for order handling across venues. Specifically, through Reg NMS, the Commission created an order protection rule, and established standards for dissemination of, as well as access to, posted quotes. While the Commission did not establish a uniform linkage between venues, it did establish uniform rules by which they would operate. Together Reg ATS and Reg NMS have been extremely successful.

The IEX application itself is evidence of this success. Given the contentious nature of the debate over whether it should qualify as an exchange, it goes without saying that the innovation of the IEX speed bump would have been impossible but for Reg ATS. As for Reg NMS, the competition among orders that Reg NMS sought to preserve has become so intense that marginal improvements in the speed of order routing between markets have become extremely valuable. Efforts to capture that value have led to an arms race among market making firms, which has spread to exchanges that cater to them hoping to capture some of that value themselves. IEX was formed for the explicit purpose of reducing the value of that speed on the theory that it disadvantages those unable to compete in that arms race. Yet, even as IEX creates an asynchronous order book shifted by a standard 350 microseconds from the National Market System, it seeks to join it in order to secure for its clients the benefits of order protection. What better validation for Reg NMS could there be than that a firm created to address its second order effects still wants, and needs, its first order benefits?

As a result, both sides of the dispute are able to quote Reg NMS in support of their arguments. IEX proponents point to the Objectives section of the release and its preference for the interests of long-term investors over those of short-term investors, while opponents point to the Order Protection Rule's requirement that protected orders be immediately accessible. Thus the IEX application puts the SEC in an awkward position. It is asked to clarify the definition of "immediately" in the Order Protection Rule and is asked to opine on whether it is in fact the case that inter-market order

competition under Reg NMS, as currently written, does indeed favor short-term investors over long-term investors to an extent that it contravenes its objectives. Furthermore, it is asked to make itself felt through the blunt instrument of an approval or rejection of a Form 1. The use of a blunt instrument to make such fine points would diminish the clarity that Reg NMS has given the markets up to now and which has served them so well.

In the Government bond market, we have an acute understanding of the importance of making these decisions at the systemic level. There have been substantial technology advances within some segments of the Treasury market, yet to this day over half of buy-side volume trades over the telephone. The remainder of trades over bi-lateral RFQ platforms which electronically mimic up to 5 simultaneous telephone negotiations with dealers. In the panoply of Treasury market trading methods, bi-lateral streams operated by banks and third parties, multi-lateral platforms which include, futures exchanges, and yes, the telephone, only the futures market has a higher regulatory standard than that of a broker-dealer. Beyond the issues of venue registration, there is no Reg NMS equivalent in the Treasury market. Indeed, the building blocks do not even exist as there is no National Market System whatsoever: no pre- or post-trade reporting requirements, neither quote dissemination nor quote access requirements. Thus order protection is a practical impossibility.

Consider the issue IEX seeks to address: the claim that low-latency front running is a negative externality of the NMS that enables rent seeking. In the Treasury market, there are neither de jure nor de facto protections against front running: there is no statute, nor is there enough data available to the public to even determine whether or not a client has been victimized. In addition to this, the multiplicity of trading methods in the Treasury market would make detection and enforcement difficult even in the event that there were uniform standards. Thus, designing a system to prevent it is not even theoretically possible under the current regulatory regime. Because of this, at Direct Match, we feel it is very important that the SEC be mindful of all that it has achieved via Reg NMS and that it ensure that any adjustments preserve those achievements. In the interests of clarity and market integrity, it is important that market structure decisions be made systemically rather than venue by venue. We are especially mindful of this because in the Treasury market, these decisions have not been made at all.

There was a time when one might say that since the participants in the Treasury market are institutions, the kinds of investor protections appropriate for equities are unnecessary. But how can one read the Norges Bank letter and persist in that view? Here we have an organization, managing hundreds of billions, paying hundreds of millions in fees in order to ensure quality executions. They operate in a regulatory regime that requires pre- and post- trade transparency, has sophisticated measures of market impact, their orders on any exchange are protected from both trade through and front running, and yet they feel they are disadvantaged by the reduced centrality of

exchanges to the NMS. One wonders how the Norges Bank staff who manage their \$62 billion of US Treasury securities must feel as they read their colleagues IEX comment letter and wish they had a fraction of the regulatory protections their equities colleagues enjoy.

In addition to investors such as Norges Bank, it is important to keep in mind the interests of other stakeholders aside from those directly party to secondary market transactions. The SEC, in the release of Reg NMS, specifically refers to the goal of the equity market structure to provide the most efficient market possible, as this would reduce the cost of capital for equity issuers. In the case of the Treasury market, the issuer is the United States Federal Government. Therefore, any marginal improvement in the functioning of the Treasury market structure benefits all the taxpayers as well as all those who rely on the Federal Government for services. Establishing a robust market structure in Treasuries is of supreme importance.

In conclusion, at Direct Match we agree with the premise of the Norges Bank letter. We believe that the Commission should seek to assert the centrality of exchanges given their contribution to the price discovery role of a successful market structure. We do not, however, agree with the assertion that this objective is best served by an approval of the IEX application. We believe that if the Commission approved the application it would generate uncertainty about the SEC's intentions with regard to the objectives of Reg NMS and the Order Protection Rule. From our vantage point operating in a market that has none of the certainty of Reg ATS or Reg NMS, the value of those rules and the market clarity they provide is particularly clear. Addressing the issues raised by the IEX application can best be done at the level of Reg NMS itself, and doing so would not preclude future exchange status for IEX. But, addressing them in such a way as to generate uncertainty about its core meaning would undermine what the Commission has achieved up to this point. We hope that the Commission, through its membership of the Inter-Agency Working Group and in the wake of Chair White's keynote address at the Conference on Evolving Treasury Market Structure intends to bring the benefits of orderly competition among venues and orders to the Treasury market. As a result, we oppose anything that has the potential to undermine the achievements of Reg ATS and Reg NMS in their original markets. Thus we urge you to reject the IEX application.

Best Regards,



Jim Greco
CEO, Direct Match