Chair White, SEC Commissioners, Committee Members, and Division Staff, thank you for the opportunity to submit my comments and suggestions to the Equity Market Structure Advisory Committee.

Comments:

1) Off exchange trading at the NBBO creates disincentive to quote on lit venues because of the adverse selection risk to lit quotes. This adverse selection against the lit quotes both forces wider spreads, and thins lit book liquidity to compensate for the risk of quoting. This becomes positive feedback loop as more volume is traded off-exchange to capture the wider spreads and on and on.
2) If seventeen percent of lit exchange trades are against hidden orders posted between the NBBO, then off exchange trading at the NBBO fails to provide best price execution at least some of the time for all orders, and most likely, more than seventeen percent of the time for small retail orders.
3) The idea has been introduced that internalized order flow benefits marketable retail orders by avoiding maker/taker fees that effectively widen the spread. I posit that order internalization is a net negative to retail orders given:
    a. The wider spreads on lit exchanges due to the adverse selection premium that forces marketable limit orders to pay more and sell for less than if the adverse selection risk premium didn't exist.
    b. Off exchange trading at the NBBO queue jumps the retail limit orders at the NBBO thus reducing executions for retail non-marketable limit orders; that generally post to lit venues.
    c. Retail resting limit orders on lit exchanges are subject to the adverse selection that exists on lit markets.
    d. Marketable limit orders internalized at the NBBO fail to discover the hidden orders between the NBBO on lit exchanges that would provide price improvement of the NBBO.
4) Lit quotes are sounder than unlit quotes for the purpose of pricing and for the purpose of liquidity. A lit quote takes the risk of anonymous, on demand, counter party execution. An unlit quote does not have stand up for any counter party execution. The public markets should reward sounder quotes by executing them first. Public markets for public equities exist for public participation in issuance and in investing. It runs counter to the purpose of public markets that off-exchange trading, with no price improvement, can queue jump lit quotes.

Suggestions:

1) A trade-at rule and the normalization of access fees across venues would help drive volume back to lit markets and tighten spreads and improve liquidity.
2) For the trade-at rule to work, the order of executions at any given price should be based on the timestamp of the lit orders at that price, regardless of which lit exchange they are on. This

avoids the problem of ‘flash quotes’, which would only appear for the microsecond it would take to provide counter party execution to off exchange routes on a ‘lit’ exchange.

3) There should be a minimum price improvement size off the NBBO for unlit trading.
4) Payment received for retail order flow should pass through to the retail client, thus eliminating this obvious conflict of interest for the broker’s routing choice particularly to their own internal ATS.