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Securities and Exchange Commission
100 F St. NW
Washington, DC 20549-9303
Rule-comments@sec.gov

Dear SEC:

Here are comments on market technology and stability issues that reflect the views of the Managing Partners and Board Advisors of Trade Ideas LLC.

Respectfully submitted,

David Aferiat

The Value of Real-Time Monitoring & Assessment to Promote Self-Correcting Market Behavior and Efficiency

Managing Partners of Trade Ideas LLC

It has been described to us that the SEC acts as the police officer or detective who shows up at the scene after an accident to sort through the details, write a report, and, as necessary, suggest improvements to signage and driving behavior. For decades this approach has served the SEC well in its ability to establish rules of the market by which all participants would abide.

The U.S. equity market today, however, has become a new frontier to which increasingly innovative technology is unleashed. These new technologies threaten to add systemic risks, costs and increased instability to our market infrastructure. Up until the last 24 months the network linking various market participants together from around the world (e.g., bankers, investors, traders, brokers, agencies, media, regulators, exchanges, and others) handled millions of transactions with little to no impact and annually squeezed out costs and improved market efficiency. In contrast today's new technologies, like adaptive execution algorithms, practice 'quote stuffing': exponentially increasing the number of quotes, often well outside typical spreads, to generate a fog of war through which other competitive algorithms must pass and process as they seek to fulfill their execution objectives. These technologies operate at increments smaller than nano-seconds and exceed human cognitive abilities to manage them without the aid of a new approach to monitoring market behavior.

The SEC should tap key, real-time technologies to identify the traffic patterns most likely to produce accidents and respond to the scene more rapidly than previously to register what happened and who is responsible. Here are some suggestions of how real-time monitoring and assessment capabilities will improve market efficiency and the public perception of SEC as an involved, engaged regulator.

1. Commit to real-time monitoring and assessment of market activity.

Market crashes occur almost daily in today's market. They only now reach the level of attention when multiple crashes occur at once and/or for a sustained period of time. The public perception of the SEC is that it regulates the excessive and illegal behaviors of market participants. Regardless of what the SEC's interpretation of its mandate may be, its <u>perception as a competent regulator is improved to the degree to which the SEC appears to be involved and capable of real-time monitoring and assessing</u> what has happened and who is responsible as quickly as events occur.

2. Deal with message overloads with intelligent load shedding.

Our suggestion builds on top of the excellent advice proffered by James J. Angel 's letter to the SEC dated September 5, 2012. We agree with all of Angel's suggestions. Below is his advice with respect to shedding load:

> *We have recently seen many instances of "quote pollution" – huge spikes in quote volumes that do nothing to enhance price discovery. These excessive cancellations raise bandwidth costs for everyone, and can cause market-wide network degradation. Implication: We should have reasonable market-wide programs to reduce quote pollution, and mechanisms for load shedding in times of peak demand*

Load shedding should be prioritized by the source of quote pollution responsible for the most activity. API channels, through which the vast majority of quote stuffing occurs, should be limited before retail channels like online and phone orders and other non-algorithmic order flow.

3. Harness real-time assessment and monitoring of structured (i.e., technical, fundamental data) and non-structured data (i.e., news, social media) to watch for incipient market failures.

Mr. Angel provides the following advice:

> *Our market stability measures (circuit breakers) should be based on more than just price. In particular, we need three dimensional stability measures based on 1) price, 2) volume and liquidity, 3) data integrity. Disruptions in any dimension should trigger protective measures such as trading pauses or load shedding.*

We concur. Real-time assessment and monitoring allows for an understanding of these market stability measures and what their baseline behavior looks like. A real-time statistical analysis determines what unusual looks like as events happen. Unusual activity across pairs such as price and volatility, volume and liquidity, and data integrity as measured by print and quote rates become alerts when one pair registers an extreme reading or a combination breach a number of standard deviations from baseline behavior.

4. Use sunlight as a disinfectant.

Market participants will do anything to keep themselves and their partners off of certain lists that point to poor performance and market inefficiencies. Even if the specific culprit of a market crash in a symbol is not identified in real-time or end of day, someone else along the value chain that handled the order can be. Spur self-regulation of all market participants along the value chain by maintaining hourly or daily lists of those involved in market inefficiencies as measured by the market stability measures (circuit breakers) described above.

Imagine the evening news and financial sites reporting not just the performance of the daily market indices like the Dow and S&P but also showing the list of market inefficiency contributors. Everyone from the exchanges down through the chain of other identified participants will work to get his or her organization off the daily list. They will also lean on and change behaviors of the participants, named or unnamed, that contribute to the inefficiency.