[XTX]
MARKETS

May 22, 2018

Via Electronic Mail rule-comments@sec.gov

Mr. Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street NE Washington, DC 20549

Re: File No. S7-05-18, Transaction Fee Pilot for NMS Stocks

Dear Mr. Fields,

XTX Markets appreciates the opportunity to comment on the Transaction Fee Pilot for National Market System securities ("Pilot") proposed by the Securities and Exchange Commission ("SEC"). By way of background, XTX Markets LLC is a recently-formed U.S. broker-dealer and an affiliate of XTX Markets Ltd. (collectively "XTX Markets"), a London-based proprietary trading firm. XTX Markets is a quantitative-driven and regulated electronic market maker with global trading operations. We provide liquidity in equities, FX, Futures, Commodities, Options, and U.S. Treasuries. XTX Markets executes daily volume of approximately $120 billion across all asset classes and geographies. XTX Markets is a strong advocate globally for fair and transparent markets, and is committed to making markets more efficient and competitive, in part by advocating for policies that reduces barriers to entry. XTX Markets' depth of experience trading global markets and a variety of asset classes provides it with a well-informed view of market structure in general, as well as the challenges presented by each market's local micro-market structure.

With respect to our views on market structure, XTX advocates for regulatory structures that support certain core principles. The first is that regulators should recognize the benefits of liquidity provision and enact policy that can incent market makers to provide meaningful liquidity that tightens spreads and furthers the goals of price formation. The second is that regardless of the fee structure of any market, it should be transparent and available on a non-discriminatory basis to all market participants satisfying its conditions.

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And, the third is that regulators should discourage liquidity taking strategies that are based simply on arbitraging market data feeds between data centers to react to market developments in microsecond time frames. XTX Markets believes such strategies are harmful to liquidity providers and provide no discernable benefit to end investors. Latency arbitrage strategies are harmful to liquidity providers because they result in adverse selection, which in turn causes liquidity providers to widen their quotes to avoid being "picked off" by a firm using, for example, dedicated microwave or millimeter wave technology to consume and transmit data mere microseconds before the liquidity provider. This technological arms race was beneficial in the past to the extent it resulted in creating real efficiency through the electronification of trading systems. But today, the price of wringing additional microseconds or even nanoseconds out of the system is so high it becomes a meaningful barrier to entry. For those firms that have instead invested extensive resources into research and development to create alternative predictive models that improve displayed prices, they are at a substantial risk of adverse selection by these strategies

Moreover, latency arbitrage strategies also encourage liquidity providers to seek out alternative methods to provide prices to counterparties in venues, such as single-dealer platforms, where a liquidity provider can exercise more control over its counterparties and avoid latency arbitrageurs all together. This has the obvious effect of encouraging fragmentation and further degrading the public price discovery process. And to the extent the public price discovery process is degraded, these strategies commensurately harm natural investors who receive worse prices as a result.

As it relates to the Pilot, XTX Markets recognizes the SEC's concerns about the potential conflicts of interest presented for firms routing agency orders in the markets. In as much as the Pilot would apply to market participants' exchange activity on a non-discriminatory basis, XTX Markets has no specific objection to the Pilot. XTX Markets does, however, support the SEC's previous proposal that would enhance transparency into broker-dealer institutional order routing practices and would encourage the SEC to act on that proposal before finalizing its review of the necessity for the Pilot.*

Importantly, XTX Markets believes the SEC should be looking at incentives broadly across the U.S. equity market landscape, and we believe the SEC should be open to alternative models that incent liquidity provision through means other than fee and rebate structures. In particular, XTX Markets supports latency floors, or asymmetric speedbumps, that provide a small delay to incoming liquidity taking orders. XTX Markets' experience with other markets globally, including in equities and FX that include such latency floors, is that they enable market

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* *Disclosure of Order Handling Information*, Exchange Act Release No. 78309 (July 27, 2016).

makers to provide quality liquidity at better prices by removing latency arbitrage from the trading equation. As a result, liquidity takers that are not engaging in latency arbitrage strategies continue to experience high fill rates on such markets at meaningfully better prices than they would experience without the latency floor. Prices are meaningfully better, because latency floors negate the risk of adverse selection by latency arbitrageurs, allowing liquidity providers to more confidently display better prices than they could otherwise. In the case of the Pilot, we believe the SEC should remain open-minded about the benefits of such structures, particularly in Test Group 3 in which rebates are banned.

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Thank you for the opportunity for XTX Markets to provide its comments. If you have any questions about our views please don't hesitate to contact me.

Sincerely,

Eric Swanson
CEO, XTX Markets LLC (Americas)

Cc: The Honorable Jay Clayton, Chairman
The Honorable Michael S. Piwowar, Commissioner
The Honorable Kara M. Stein, Commissioner
The Honorable Robert J. Jackson, Jr., Commissioner
The Honorable Hester M. Peirce, Commissioner
Brett Redfearn, Director, Division of Trading and Markets