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February 22, 2010

Elizabeth M. Murphy  
Secretary  
United States Securities and Exchange Commission  
100 F Street, N.E.  
Washington D.C. 20549-1090

**Re: Regulation of Non-Public Trading Interest  
File No. S7-27-09**

Dear Ms. Murphy:

UBS Securities LLC (“UBS”) respectfully submits this letter in response to the U.S. Securities and Exchange Commission’s (“Commission’s”) proposal<sup>1</sup> to amend the regulatory requirements of the Securities Exchange Act of 1934 (“Exchange Act”) that apply to non-public trading interest in National Market System (“NMS”) stocks, including so-called “dark pools” of liquidity. We appreciate the opportunity the Commission has provided by soliciting additional comments to this important proposal.

### **Summary**

On October 21<sup>st</sup>, 2009, the Securities and Exchange Commission voted to issue proposals designed to expand and amend the current regulations governing “dark pools” of liquidity<sup>2</sup>. Dark pools of liquidity, which are often registered as alternative trading systems (ATSS), are trading venues that do not display quotations to the public. The Commission’s proposals relate specifically to regulation of the ATS form of non-displayed liquidity pools – commonly called Dark Pools and Grey Pools. UBS Investment Bank believes this is a good opportunity to comment on these proposals and their related market structure issues.

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<sup>1</sup> Securities Exchange Act Release No. 60997; File No. S7-27-09.

<sup>2</sup> Securities Exchange Commission Open Meeting, October 21, 2009; available at <http://www.sec.gov/news/press/2009/2009-223.htm>

Our views are based on extensive client conversations with a range of professional investment firms (institutional asset managers and hedge funds) and broker dealer clients (institutional and retail brokers), and are reflective of our commitment to four guiding principles with regard to US Equity market structure:

**Four Guiding Principles for UBS Investment Bank**

- Transparency
- Competition
- Efficiency
- Investor Choice

**With regard to the current SEC proposal: Regulation of Non-Public Trading Interest:**

- A) The first proposal would require Actionable IOIs– which are similar to a typical buy or sell quote – to be treated like other quotes and subject to the same disclosure rules. We are in agreement with this new rule (as specified for ATS actionable IOIs), as such messages constitute information leakage with no guarantee of an execution.

The Commission has expressed primary concerns related to the creation of a “two-tiered market” as a result of the use of Actionable IOIs, since they selectively disclose trading interest information to a subset of market participants.

**Our View**

UBS Investment Bank is in support of the rule to treat actionable IOIs as quotes, subject to quote disclosure rules. Actionable IOIs are generally considered to differ from traditional IOIs in that they may be executed immediately without further negotiation, though the current definition within the proposing release leaves some definitional ambiguity.<sup>3</sup>

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<sup>3</sup> There is some marketplace debate relating to the clear definition of an “Actionable IOI.” In the proposing release, the Commission states that an IOI should be considered “actionable” if it explicitly or implicitly conveys all of the following information about available trading interest: 1) symbol; 2) side (buy or sell); 3) price that is equal to or better than the NBBO; and 4) a size at least equal to one round lot. The proposal further states that the determination of whether the IOI conveys all of this information must include all “facts and circumstances surrounding the IOI” including the course of dealing between the IOI sender and recipient. This last subjective component injects a level of ambiguity into an otherwise objective test as to whether an IOI of any type might ultimately be defined as actionable. In the current, highly automated, trading environment, ambiguous and subjective definitions generally prove to be impracticable to implement for regulatory purposes.

It is important that any final rule carefully distinguish among different types of IOIs, as there are many efficient and effective uses of IOIs in full-service worked orders and other asset classes (*e.g.* listed options). Such uses of IOI type messages, and traditional worked order desk IOIs, should not be part of this rule as drafted, and should not be swept up into the same quote rule discussions. The concerns expressed by the SEC that prompted the current rule relate to the creation of perceived “market tiers” in non-displayed venues, and the inconsistent use of quote-like information that does not conform to public display rules. The traditional uses of IOIs on a worked order desk are simply part of the normal practice of seeking natural block-sized liquidity for clients, and are part of a broker’s obligation to seek best execution.

### **Dark Liquidity Should Be Dark**

In addition to the concerns related to creating “tiers” in the market, UBS opposes the practice of sending IOIs on flow within a dark pool, as this is contrary to the very idea of dark liquidity<sup>4</sup>. Depending on the nature or behavior of the recipients of such IOIs, this practice potentially poses an unquantifiable risk of information leakage, gaming, and negative selection.<sup>5</sup>

When a client order matches with a corresponding order in a non-displayed venue, information related to that order is thereby provided to the counterparty and to the marketplace at the time of execution. This exchange of information in consideration of an execution is generally an acceptable “trade” from the standpoint of seeking the order’s best execution. The use of an actionable IOI means that an order is exposed to the potential downside risks of information leakage without the guaranteed benefit of an execution in exchange. The unknown nature of the counterparty receiving the IOI, and the compromise of the order’s non-displayed status, poses an unknown degree of price impact risk.

UBS Investment Bank believes that, for its clients, any potential benefit of this use of IOIs does not substantiate the degree of risk due to information leakage for an order that has been routed to a non-displayed venue. It is reasonable to require that, when used within the context of non-displayed electronic trading venues, such “actionable messages” should be considered actual quotes, and governed by the appropriate quote rules. Further, UBS does not believe that there should be any block exemption for Actionable IOIs in non-displayed ATSS, because the risks of information leakage, gaming and negative selection are only further compounded when the order is of significant size.

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<sup>4</sup> This view does not include IOIs that are facilitated as one-to-one interaction between two specific participants within the same ATS, for example such as the model used within BIDS Trading. UBS’s concerns relate to trading interest messages on otherwise non-displayed orders that are sent broadly to an unknown number of participants, delivering information sufficient enough to be immediately executed.

<sup>5</sup> “Gaming” is generally understood to be any practice in which a market participant interprets trading signals in order to gain advantage by deliberately trading ahead of or against another participant. “Negative selection” is viewed as a disadvantageous execution as a result of price moving against you.

It is useful to note here that, for this reason, UBS neither sends nor responds to electronic IOIs in its non-displayed network (collectively called from a marketing standpoint “UBS Price Improvement Network” – which includes internal crossing liquidity as well as “UBS ATS,” our registered alternative trading system.)

- B)** The second proposal would lower the trading volume threshold applicable to alternative trading systems for displaying best-priced orders from the current 5.0% to 0.25% for ATSs, including dark pools that use actionable IOIs. The decision to propose such a low percentage, has elicited active commentary in the industry, though it is important to note that for non-displayed pools that are already entirely dark (*i.e.*, ATSs such as UBS ATS that do not send or accept IOIs or share quotes with more than one participant), this proposal may have little to no impact.

Although the SEC requested comment during the original Regulation ATS adopting process<sup>6</sup> as to whether these requirements should apply to all securities traded in an ATS once it reached the volume threshold in a specified number or percentage of the securities it trades, the SEC ultimately decided to adopt the requirements on a security-by-security basis. In the Regulation ATS Adopting Release,<sup>7</sup> the SEC noted that in addition to the display of better prices in the public quotation system, the availability of such trading interest to public investors is an essential element of the National Market System.

#### **Our View**

As stated above, UBS maintains “100% dark” liquidity pools. Since it is our view that providing signals of any type within non-displayed pools is a practice counterproductive to a client’s interests, our view of an ideal marketplace would not require such ATS display thresholds.

However, we understand that the practice of sharing communications related to trading interests in non-displayed venues is likely to continue. We are therefore in agreement with the goal of examining the optimal threshold “pivot point” that is meaningful to the marketplace in general. In discussions with many of our buy side clients, they have expressed to us their concerns that the proposed new limit is an extreme measure that may potentially impact liquidity -- particularly in thinly-traded or small-cap securities. The new threshold being proposed is viewed as a dramatic reduction of the current volume limit (a 95% reduction).

As an alternative to the drastic decrease proposed by the Commission, our clients have indicated a preference for additional quantitative study of the potential impact of

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<sup>6</sup> Securities Exchange Act Release No. 40760; *Regulation of Exchanges and Alternative Trading Systems* (December 8, 1998).

<sup>7</sup> See Exchange Act Rel. No. 49325 (Feb 26, 2004)

this change, and favor an initial incremental, less acute volume limit reduction in the range of 1.0% to 2.0%, with the potential to further reduce the limit if warranted.

The compelling uses of non-displayed liquidity are numerous, and include such goals as the trading of price-sensitive, less liquid and/or thinly-traded securities, and the buying or selling significant positions in securities that are less widely held. If these proposed rules are implemented, there may not be widespread triggering of the display threshold – partly due to the fact that many venues will “throttle” trading in securities that approach the volume limit irrespective of whether they utilize Actionable IOIs (particularly since, as noted earlier, the proposed actionable IOI definition contains an element of ambiguity). There is potential for the dramatic reduction as proposed in the quote display threshold to have a significant impact on the kinds of strategies and securities most likely to trigger the rule. This impact can occur either because venues may adopt a highly conservative policy and stop trading in these names when the threshold approaches (in order to avoid triggering the display requirement), or as a result of forcing many ATSS to publish publicly displayed quotes more frequently in names more likely to hit the threshold – thus potentially widening the spreads or impacting price more frequently in these stocks. For small cap securities, the current narrowly-defined block exemption of \$200,000 would not necessarily provide commensurate relief, because small cap securities require trading in significant order size to achieve block status (*vis a vis* a large cap stock, which would achieve the exemption at a much lower comparative volume level, and yet tend generally to be less price-sensitive).

While the use of selective display behavior – such as flash-type orders or the sending of actionable IOIs -- does not appear to be prevalent behavior among the majority of non-displayed venues (given the disclosures made in publicly available surveys and questionnaires), many non-displayed pools of liquidity indicate that they do currently react to inbound IOIs (actionable or otherwise), or may use IOI type messages to indicate significant size (so called “size discovery IOIs”) and thus may not meet the 100% dark criteria established by these rule proposals. Therefore, in light of our clients’ best interests, we believe that a quantitative study should be undertaken before establishing the optimal threshold level to prevent the rule from negatively impacting the market through spread-widening or liquidity dampening within a subset of US securities.

- C) The third proposal seeks to create the same level of post-trade transparency for dark pools – and other ATSS – as for registered exchanges. The proposal would amend existing rules to require real-time disclosure of the identity of the dark pool that executed the trade. This requirement has elicited significant discussions among both the buy and sell side market participants due to its potential impact on current market structure and the underlying principle in utilizing hidden liquidity.

Specifically the proposal would amend existing rules to require real-time disclosure of the identity of the dark pool that executed the trade. Currently, dark pools and

other ATSS must report their trades in the publicly available consolidated trade data,<sup>8</sup> albeit without publicly disclosing the identity of the particular dark pool that executed the trade.

### **Our View**

All equity trades, including non-displayed, are already required by regulation to be immediately reported to the tape. UBS agrees with this important rule and believe that the transparency afforded by this requirement is an essential part of an orderly marketplace. Real-time trade execution reporting serves an important price discovery function allowing the market to gauge relative actionable demand. The new component of the proposed rule would require that the venue in which a non-displayed execution took place be identified in real time. UBS is concerned that the public dissemination of this real-time venue information with substantially increased information leakage, gaming risks, negative selection, and have a significant price impact.

In a market environment that has moved dramatically toward algorithmic trading, we believe that the provision of this additional information could have a major impact on the nature of liquidity and on how algorithmic trading strategies ultimately react and behave. Further, when one considers the nature of quantitative automated trading and how such high speed strategies would naturally react to this new level of information, this requirement potentially reverses many client-valued benefits currently made available to the investor by non-displayed liquidity.

To further explain, in algorithmic trading, there are “parent” and “child orders” within an automated strategy. When a client enters an order into an algorithmic trading strategy order ticket, he may, for example, enter a size of 10,000 shares with specific pricing parameters – directing the algorithm to execute the order with minimal price impact over the course of the trading day; this is the “parent” order. The strategy would then manage the order by slicing the 10,000 shares into smaller “child” orders, perhaps in lots of 500 or 1000 shares, as it routes these child orders to various trading destinations over time. In some cases, upon receiving an execution in a particular destination, the parent algorithmic order will “reload” another child order back to that same venue. In a 100% dark environment, the first child execution will be publicly disseminated via the consolidated tape, therein providing meaningful market-wide price discovery information, yet the venue in which the child order was executed would not be displayed, thus limiting the potential for gaming the remaining parent order or causing negative selection information that could be easily acted upon.

If the real-time venue reporting rule were implemented, those subsequent child orders would, in our view, create a significant informational disadvantage and cause the order to be greatly exposed to gaming and/or negative selection. Sophisticated market participants utilizing high-frequency trading systems would be able to more

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<sup>8</sup> See NMS Rule 601(b). See also, e.g., FINRA Rule 6380A

easily interpret the signals of an algorithmic trading order being worked in these non-displayed venues than under the current rules. Considering how most liquidity-seeking algorithms currently function, there are likely to be other “child” orders of a similar size and nature in other non-displayed venues – which then are also collaterally exposed and could be used to the counterparty’s advantage at the expense of the other investor. The kind of information gleaned or interpreted from such real time trade reporting requirements could constitute precisely the type of signaling risk that investors who employ non-displayed liquidity are generally seeking to avoid.

Moreover, since not all ATSs and non-displayed venues are accessible to all market participants, this venue disclosure requirement will merely result in making more specific liquidity information available to participants who are not subscribers and therefore unable to then access the venue conveying information. A basic tenet of a healthy competitive marketplace is the ability of its participants to make choices, and to support multiple, diverse business models and strategies. ATSs and non-displayed venues currently have, and should continue to have, the ability to define and communicate to their participants the nature of the liquidity with which they will interact. UBS believes that the maintenance of a level playing field, and the premises underlying ATS Fair Access,<sup>9</sup> should continue to offer fairness and an efficiently competitive marketplace that provides consistent and unbiased access according to a venue’s business model. This current framework appropriately enables venues to identify uniformly implemented criteria for access – and thus diversity and choice – to market participants. This framework also means, however, that the real-time venue report requirement will provide information leakage to participants who cannot then access the liquidity being exposed.

UBS believes that the proposed real-time attribution proposal goes beyond the notion of meaningful transparency of information and creates a potentially harmful leakage of order information. If the Commission’s intention is to provide more objective, uniform non-displayed execution information to the marketplace, we believe that superior alternatives are available.

On October 20, 2009, the NYSE announced that it would provide a means for participating broker-dealers alternative trading systems (ATSs) and off-exchange market centers to create transparency regarding volume and individual “dark pool” activity by allowing the firms to “print” trades on the FINRA/NYSE Trade Reporting Facility (TRF) and display the daily activity of each trading venue on NYSE.com. The following day, NASDAQ announced similar enhancements to the FINRA/NASDAQ TRF that would offer a more condensed presentation of market share statistics related to TRF participants operating ATS venues.

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<sup>9</sup> Regulation ATS Rule 301(b) (5).

In agreement with these exchange-offered proposals, UBS believes that an aggregated, end of day or periodic display for ATS liquidity would address concerns related to consistency and transparency of volume advertising among non-displayed venues. This solution more appropriately balances the need to provide market transparency, while enabling investors to protect themselves from disadvantageous information leakage. UBS would support, however, the provision of real-time ATS information to regulators to enhance surveillance, so long as such information was not publicly disseminated until the end-of-day.

- D) The Block Exemption:** These proposals would exclude from their requirements certain narrowly-targeted IOIs related to large orders. These size discovery mechanisms are offered by dark pools that specialize in large trades. In particular, the proposal would exclude IOIs for \$200,000 or more that are communicated only to those who are reasonably believed to represent current contra-side trading interest of equally large size.

As stated previously, UBS views the block exemption for actionable IOIs used in non-displayed ATSs to be unnecessary and not beneficial to clients who wish to avail themselves of the benefits of non-displayed liquidity. Therefore we do not support a block exemption to the Actionable IOI proposal, preferring instead a uniform adoption of Regulation NMS quote rules, (provided the market has a thorough and objective definition for an Actionable IOI), when used within ATSs operating as dark pools. UBS has no self-interested opinion in the provision of a block exemption to the proposed public quote threshold for venues that choose to display certain IOI type information regarding their ATS orders. However, in the context of providing investors with choices in the routing of their orders, we understand that our buy side clients may be supportive of a block exemption for venues subject to this public quote rule, and, as expressed earlier, they would likely prefer further quantitative study on the optimal volume threshold level. Finally, with regard to the real-time attribution proposal – since our recommendation is that no such real-time public venue attribution requirements exist – the provision of a block exemption becomes a moot point.

While the Commission included a well-intentioned block exemption to their IOI display, ATS volume threshold limits and real-time reporting requirements for instances of block trading in order to facilitate the execution of significantly-sized orders, we do not agree with the proposed definition of what constitutes a block order based upon how the market current operates, and extensive feedback from our buy side clients and other industry participants.

This proposal is also inconsistent with other previously published block definitions in the US equities marketplace. Based on the current proposed definition, the



Commission views a “block order” to be a single execution with the notional value of at least \$200,000<sup>10</sup>.

Long-only institutional investing clients frequently trade what they would consider to be “block positions” over the course of the trading day, or even over a multi-day or multi-week period. When this is factored into an algorithmic trading marketplace of the parent and child order framework described above, the definition of a block becomes even more complex.

One open question for which the Commission should seek public comment is whether a block should be defined at the parent order entry level, or at the execution level. UBS would encourage the Commission to carefully review and consider that the definition of block trading is far more nuanced than that which a single notional valuation could accommodate. When considering the transfer of ownership of a large position, clients consider issues such as cap size, time horizon, trade size, and notional value. Should not a block in a small cap stock have lower notional value than a block in a large cap stock? Further, according to other block definitions that currently exist within the Securities Exchange Act of 1934<sup>11</sup>, a block has been defined as either 10,000 shares or \$200,000 in notional value. Some definitional consistency across the realm of US equities electronic trading would be useful for all participants, if in fact a single electronic block trade definition is possible or practical to implement.

## **Rule Justification**

### **Transparency and Fairness**

Transparency undoubtedly serves a vital role in the financial markets, and UBS Investment Bank is an active proponent of meaningful transparency at all stages of the trade cycle. The quest for transparency, however, must be balanced with protection from the risks of gaming.

A functional definition of transparency as it relates to the markets might be: “clarity and fair availability of information.” These should be basic tenets in non-displayed as well as displayed venues. “Clarity” means that information provided to a participant must be explicit, factual and unambiguous. It should be free from pretense or deceit, and easily understood. No participant should be misled or misinformed, either by design or by omission of data. Information should be delivered in a way that is consistent. “Fair availability” means that no participant should suffer singular discrimination or arbitrary exclusion from information. The availability of information should conform to established rules.

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<sup>10</sup> Exchange Act Release No. 34-60997 (Nov. 19, 2009), at 9.

<sup>11</sup> See, e.g., Regulation NMS Rule 600(b) (9).

When combined with effective surveillance, another aspect of transparency that provides regulatory agencies with the information they require to monitor participants' rule compliance, will assist the marketplace in maintaining a level playing field.

A level playing field allows participants to compete on neutral ground. That does not mean that we must force — or attempt to regulate — that all the players are equal, have precisely the same resources, or behave in exactly the same way. We must recognize the foundational role and wide-ranging benefits that competition plays in the US equities markets.

The benefits of competition are manifest in every industry and are the cornerstone of a free market system. Competition results in innovation, greater efficiency, lower cost, and better service to the end client. When applied to the US equities markets these benefits ensure that an engine of the US economy — a major source of publically-traded company capital — can continue to drive growth, innovation, and employment in every industry.

Everyone benefits when we have competitive markets:

- All investors gain through the provision of lower costs and greater efficiency of access to equity investment opportunities.
- Retail investors benefit by a robust and liquid market in which to trade on their own behalf, or on a discretionary basis through their funds and pension plans.
- Corporations gain by having an active and healthy market in which their securities can be issued and traded, so that investors can provide them with capital critical to the pursuit of business.
- Institutional investors gain by having more efficient and effective ways to execute their trading strategies, deliver performance to their clients and stakeholders (including institutions, pension plans, individual investors, shareholders, etc.), thereby increasing their assets under management and overall profitability.

### **Efficiency and Investor Choice**

There are two other issues that we believe are critical to the maintenance of orderly financial markets and investor confidence: efficiency and choice.

If the existence of non-displayed liquidity and the high speed, high volume trading environment we have today were genuinely detrimental to an orderly market, we believe it would follow that efficiency and execution quality statistics would be declining, rather than increasing.

As we talk with and serve our clients on a daily basis, we hear consistent themes from the buy side regarding the issues that are important to them, including:

- **A variety of choices in non-displayed liquidity venues:** Clients value the ability to select specific venues based on their differentiation of order flow patterns and participant types.

- **Ability to protect themselves from information leakage:** Clients value the ability to protect their orders from pre-trade information leakage, and express serious concerns related to gaming and signaling risks.
- **Access to quality internal crossing opportunities:** Clients demand that their brokers provide them with opportunities to cross with quality order flow from other agency clients whenever appropriate, in order to achieve price improvement and minimize market impact. It is a regulatory imperative, as well, because a broker has an obligation to proffer best execution to its clients before routing them to the market.
- **High speed/low latency market access:** Speed is important to all electronic trading clients – not just “high frequency” traders who employ statistical arbitrage or other quantitative trading models. The ability to access liquidity quickly and efficiently is beneficial to execution algorithms, Direct Market Access (DMA) trading clients, and to providing real-time analytics and sub-millisecond market data feeds.

### **Recommendations**

In summary, UBS Investment Bank’s recommendations to the Commission with regard to the proposed Regulation of Non-Public Trading Interest include:

1. Actionable IOIs require a clear and objectively-observable definition. An uncertain aspect to the determination of an actionable, versus traditional, IOI, is impracticable from a regulatory standpoint.
2. Once clearly defined, when used within non-displayed ATSS, all Actionable IOIs (for example, those that can be executed electronically without further negotiation) should be treated like quotes, subject to the same publicly displayed quotation rules, because we believe that such messages constitute information leakage, with no guarantee of an execution.
3. Moreover, we believe that all defined Actionable IOIs used within non-displayed ATSS should always be treated like quotes – without any block exemption. If inconsistently dispersed information leakage is contrary to public interest and precluded for small orders, it should likewise be excluded for larger orders for which more notional market value is at stake.
4. Regarding the display threshold in an ATS, we believe we represent the views of our clients in this matter who are opposed to the drastic decrease as proposed. Instead, we recommend that the Commission undertake additional quantitative study of the potential impact of this change. Moreover, we favor an incremental volume limit reduction in the range of 1.0% to 2.0%.

5. Regarding real-time venue disclosure requirement for non-displayed executions: We recommend that a better way to provide more consistent, transparent information to the marketplace that does not negatively impact investor trading strategies would be the formation and use of aggregated, end-of-day or periodic displays for ATS liquidity.
6. UBS would also support a real-time venue reporting mechanism disclosed only to a non-public supervisory entity, that was uniformly required, and included non-public ATS attribution used solely for the purposes of regulatory surveillance. Such a facility could serve as the objective, consistent basis for advertised ATS volume and crossing information, which would improve client understanding and transparency of these venues.
7. Regarding the Block Definition: The definition of a block for electronic trading should be more nuanced and precise than a notional execution threshold. The Commission should seek comment from participants on whether a block should be defined at the parent order (order entry) level or at the execution level. The Commission should also seek comment on how a block in the electronic trading marketplace could be optimally and efficiently defined: Whether there should be market capitalization-specific “tiers” of block definitions, or whether the market should simply adopt a less-nuanced but uniform standard consistent with other past US equity market definitions (for example: a block is a single execution of 10,000 shares or more **or** an execution with a notional value of \$200,000 or more). One definition of a block should be used for the electronic trading market, just as there is a clear block definition in the traditional worked order marketplace.

## **Conclusion**

From investment strategy creation to trading execution, the unique and ingenious variations and tactics investors apply all have a meaningful impact on their ability to seek profit opportunities. A broker must be a proactive ally to the investor in that process, delivering opportunities for competitive advantage via technological infrastructure, access to liquidity, and astutely innovative order execution capabilities. A basic premise of the broker’s role is to serve the buy side investing public and deliver best execution. Thus, it is our obligation to provide opportunities for reduced price impact, price improvement, and reduced trading costs, while additionally protecting our clients’ confidentiality. The emergence of non-displayed liquidity venues is a natural outgrowth of these obligations.

Non-displayed liquidity (popularly and negatively referred to as “dark liquidity”) is not a new phenomenon in the equities markets. It has always existed. In every market since the inception of trading, there have been market participants who have strategically decided to hold back information about their true intentions to buy or sell, in order to

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protect themselves from disadvantageous price movements. In the past, this hidden liquidity took much longer to make its way into the market – if it came into the market at all. The enhancements in market efficiency and in available liquidity are a benefit to the investing public that should be protected. We welcome regulatory oversight that evolves in pace with the evolving marketplace, and commend the Commission as they continue their current course of seeking active commentary and quantitative analysis as they implement gradual, incremental improvements to market oversight.

The healthy solution is the creation of rules that bring additional transparency, consistency and fairness to this burgeoning automated segment of the US equities marketplace, without obviating investors' rights to protect their investment strategies from the risks of information leakage; the ability to exercise choice in implementing their strategies within established rules and regulations, and the opportunity to continue to benefit from an efficient, open and competitive environment. We applaud the Commission for its openness to public dialogue and its expressed interest in further quantitative study. We believe both of those disciplines will assist the market in enhancing, rather than detracting from, its current state of efficiency.

Thank you again for the opportunity to provide our views on this important set of subjects.

We welcome the opportunity to respond to any questions from the Commission or Commission staff that may arise from the views expressed in this letter.

Sincerely,

John Ingrilli  
Managing Director  
COO, UBS Equities - Americas

CC:

Hon. Mary L. Shapiro, Chairman  
Hon. Kathleen L. Casey, Commissioner  
Hon. Elisse B. Walter, Commissioner  
Hon. Luis A. Aguilar, Commissioner  
Hon. Troy A. Paredes, Commissioner  
Robert W. Cook, Director, Division of Trading and Market