Big Boy Pants Trading

A Proprietary Quantitative Liquidity-Providing Trading Firm

December 28, 2015

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

Re: Release No. 34-76470, File No. SR-BATS-2015-101, Notice of Filing of a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to Adopt Rule 8.17 to Provide a Process for an Expedited Suspension Proceeding and Rule 12.15 to Prohibit Disruptive Quoting and Trading Activity

Dear Mr. Fields:

Thank you for the opportunity to comment on the above noted filing ("Filing"). Big Boy Pants Trading ("Pants") is a proprietary quantitative liquidity-providing market maker. We wanted to note our appreciation for the discussion of spoofing and modern market making in comments to the Filing. We especially appreciate the SEC Investor Advocate's comment letter. We are glad to see the Investor Advocate doesn't want anyone to confuse legitimate quantitative liquidity-providing market maker trading strategies like ours with even the shadow of an outline of a whisper of spoofing activity. Most important, it's nice to see that the Investor Advocate considers quantitative liquidity-providing market makers like Pants worthy of its investor advocating voice. We're investors too! Our investment horizons range from 10 or 20 microseconds or so and can extend out to even several minutes when a stock hits its LULD thresholds (if we can't get out in time), an investment timeline that varies by as much as 3,000,000,000%. How many investors can say something like that?

We have attached a draft of a request for no-action relief where we hope the Division of Trading and Markets will codify what the Investor Advocate implicitly advocates, and that is that strategies like the quantitative liquidity-providing market making strategies Pants deploys are "legitimate trading activities by market makers and other liquidity providers."[1] They sure aren't anything like "placing certain non-bona fide orders with the intention of cancelling those orders once they have triggered some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading certain other bona fide orders"[2] like some other people - *mostly foreigners!* - do.

Sincerely,

G. T. Spaulding

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[1] Letter to Brent J. Fields, Secretary, SEC, by Rick A. Fleming, Investor Advocate, SEC, December 15, 2015.

[2] BATS Y-Exchange, Inc. Letter of Acceptance, Waiver and Consent No. 20120310864-06.

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December 28, 2015

Stephen Luparello, Esq.
Director
Division of Trading and Markets
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Request for No Action Relief under Section 9(a)(2) of the Exchange Act

Dear Mr. Luparello:

Big Boy Pants Trading ("Pants") requests your assurance that the staff of the Division of Trading and Markets ("Staff') will not recommend that the Commission take any enforcement action under Section 9(a)(2) of the Securities Exchange Act of 1934 ("Exchange Act") in connection with a trading strategy Pants implements in National Market System securities. Specifically, Pants requests this relief for instances where Pants trading algorithms generate and send to securities exchanges bids and offers which Pants has absolutely no intent to fill and which will only be filled by accident if and only if Pants is not fast enough to cancel them.

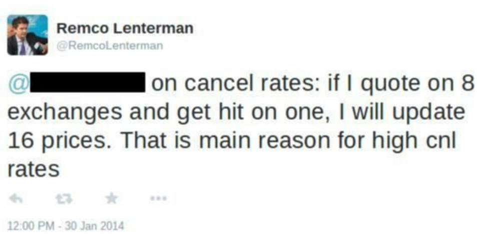
Background

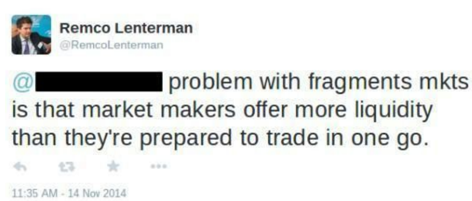
Pants is a proprietary quantitative liquidity-providing market maker. Our quantitative liquidity-providing market making strategy is to put up two-sided quantitative liquidity-providing quotes on multiple exchanges in the National Market System at the same time. In the aggregate across all the exchanges on which we quote, we vastly oversize our trading interest on the bid and offer because we don't know where we will get a fill. Oversizing our quantitative liquidity-providing market maker trading interest is acceptable in some futures markets but could be viewed as manipulative in the securities markets because in no way, shape, or form do we ever intend to let every order we send to the markets at the same time on the same side in the same stock at the same price get filled in whole or in part.

Because we believe the stock market should be more like the commodity markets, and because we make lots of money in the commodity markets and we want to make lots of money in the stock market too, we hope you will tell us you won't sue us even though we send millions of orders we never intend to fill to most, if not all, of the stock exchanges in the National Market System every day.

Someone could infer from academics and commentators[3] that our trading strategies may, as the SEC once wrote, "induce others to buy or sell the security at a price not representative of actual supply and demand." For example, a buy-side institution could believe we really mean it when we post 8,000 shares spread across eight exchanges to sell at a price and they might attempt to buy all that stock. Of course we spend millions every year and do everything we can to guarantee no one can trade with all our displayed orders, and those people who suppose otherwise are just muppets. As soon as our quantitative liquidity-providing market making algorithms get an inkling someone actually wants what we have posted to sell they will cancel everything they can and raise the price. That's just business.

In the old days it was called "backing away" when liquidity-providing market makers cancelled their quotes, and it was called "trading ahead" or "front running demand" when liquidity-providing market makers cancelled their quotes and outraced liquidity-demanding investor slowpokes to any remaining interest in the book, but in today's open-to-all, level playing field[4] markets it's just a normal feature of proprietary quantitative liquidity-providing market making, and we have our own lobby groups to say so:





Sure, yes, the buy-side institution might actually believe there are 8,000 shares in the market available at a price, and the buy-side institution might rely on decades of law and practice assuring it that any orders in the securities markets must be *bona fide* orders, submitted with the full intent to get an execution on each and every order, but, you know, c'mon: adverse selection, things change, futures prices, arbitrage, *price discovery!*, signals, tick tock, risk management,

[3] Hirschey, "Do High-Frequency Traders Anticipate Buying and Selling Pressure" (2013); Tong, "A Blessing or a Curse? The Impact of High-Frequency Trading on Institutional Investors" (2015); Toulson, "Do HFTs Really 'Game' Buy-Side Orders' (2013); Nasdaq, "Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing of Proposed Rules Change to Amend Rule 4758(a)(1)(A) to Reflect a Change in Nasdaq's Routing Functionality" (2012); Nanex, "Perfect Pilfering" (2014); McInish and Upton, "Strategic Liquidity Supply in a Market with Fast and Slow Traders" (2012); Breckenfelder, "Competition between High-Frequency Traders, and Market Quality" (2013); Lewis, *Flash Boys* (2014); and blah blah.

[4] Meaning you have somewhere between $10 million and $100 million per year to spend on co-location, high-speed data feeds, microwave towers and laser links, and of course the necessary technology and operations personnel, white shoe law firms, lobbyists, PAC donations, and various Division of Trading and Markets and OCIE alumni on staff or on retainer (hereinafter "open-to-all, level playing field").

technology!, stale quotes, 😉, whatever etc. etc. If buy-side institutions really believe National Market System quotes mean much of anything anymore, they just aren't up on the latest data-driven empirical quantitative market microstructure thinking we sponsored. Exchange quotes haven't meant much for years, and you can bet 99% or so of our quotes don't mean anything at all.

Request for Relief

For the reasons set forth above, Pants respectfully requests that the Staff not recommend that the Commission take any enforcement action under Section 9(a)(2) of the Securities Exchange Act of 1934 ("Exchange Act") in connection with the quantitative liquidity-providing market maker trading strategies described here Pants has implemented in National Market System securities.

Sincerely,

G. T. Spaulding