December 21, 2016

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F. Street N.E.
Washington, D.C. 20549-1090

RE: Securities Exchange Act Release No. 78860 (September 16, 2016); SR-CHX-2016-16

Dear Mr. Fields:

Instinet, LLC ("Instinet") appreciates the opportunity to comment on the above-referenced proposed rule change submitted by the Chicago Stock Exchange ("CHX"). This proposal would require incoming orders that could immediately execute against orders resting on the CHX book to be intentionally delayed 350 microseconds before submission to the CHX matching engine. CHX calls this intentional delay a Liquidity Taking Access Delay ("LTAD"). During the LTAD period, resting orders could be freely cancelled or modified. It is important to bear in mind that suppliers of liquidity would not *see* incoming marketable order flow. However, liquidity suppliers could modify their resting orders in response to events observed on other markets.

Instinet believes that the implications of this proposal are, perhaps, more far-reaching than has been widely appreciated. We believe that the proposal, if approved in its current form, would eventually alter the very meaning of a quote in the National Market System.

The crux of the matter, as we see it, is that a quote from CHX under this proposal would not be the same as a firm, immediately accessible quote from another exchange, but CHX's application asks the Commission to treat their quotes *as if* they are the same. CHX would be offering contingent liquidity, while other exchanges would be offering liquidity with no strings attached.

CHX's quotes would be inherently less valuable than firm quotes from other exchanges. If the Commission approves this proposal in its current form and, thereby, accords order-book protection to these less-valuable contingent quotes, the SEC will have, in effect, assigned an equivalent value to these two objects. This is where an economist would cite Gresham's law, a monetary principle that states that bad money drives good money out of circulation. The principle applies to any object (like a currency) to which the government can assign a value. In our example we would have two "currencies" (quotes) that are assigned the same value (protected status) but where one, CHX's contingent quote, is of lower value.

Put yourself in the position of a market maker. If you are making a two-sided market, wouldn't you be willing to bid and offer more aggressively if you are given a time window to alter your quote before your quote can be accessed? Of course you would. That's the whole premise of this proposal.

Take the argument one step further. Since contingent quotes should, all else equal, be more aggressive than firm quotes, contingent quotes should rise to the top of the NBBO heap more often than firm quotes. Under the terms of competition defined by Reg. NMS, he who quotes most aggressively wins.

Eventually, the other exchanges will be forced to adopt contingent quotes as well in order to enjoy the regulated benefits of quote protection, not to mention the higher tape revenues that come from quoting at the BBO.

Viewed this way, we see that the CHX proposal encompasses nothing less than the essential nature of liquidity in U.S. markets. It may well be that a market of more aggressive but contingent quotes is preferable to wider but firm markets, but we need to be very clear that the CHX proposal is asking the Commission to make this very fundamental decision. Such a decision demands thorough examination.

Instinet appreciates the opportunity to comment on a proposal that, we believe, has the potential to alter the very nature of liquidity supply in the National Market System. Please feel free to contact me if you have any questions related to this matter.

Sincerely,

John P. Comerford
Managing Director
Instinet