February 3, 2017

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

**Re: File No. SR-CHX-2016-16; Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change to Adopt the CHX Liquidity Taking Access Delay (Release No. 34-78860; File No. SR-CHX-2016-16)**

Dear Mr. Fields:

The Chicago Stock Exchange, Inc. (the "Exchange" or "CHX") is writing to inform the U.S. Securities and Exchange Commission ("Commission") that on February 3, 2017, the Exchange withdrew its proposed rule change[1] to implement the CHX Liquidity Taking Access Delay ("LTAD")[2] and filed a new proposed rule change[3] to implement the CHX Liquidity Enhancing Access Delay ("LEAD"), which modifies the proposed access delay to address concerns raised by certain commenters regarding the LTAD Proposal.[4]

In sum, LEAD will require all new incoming order-related messages to be subject to a 350-microsecond intentional delay; provided, however, that certain liquidity providing orders and related cancel messages submitted by LEAD Market Makers, a new class of market maker subject to heightened quoting and trading obligations, would not be delayed.

By tying the benefits afforded by LEAD to heightened market quality requirements, the Exchange believes that LEAD adequately addresses concerns raised by various commenters that LTAD would have introduced incremental risk of manipulative practices or that CHX quotes

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1 See Securities Exchange Act Release No. 78860 (September 16, 2016), 81 FR 65442 (September 22, 2016) (SR-CHX-2016-16) ("LTAD Proposal").

2 LTAD is an intentional delay designed to enhance displayed liquidity and price discovery by minimizing the effectiveness of latency arbitrage. See infra note 7. Specifically, LTAD would have required all new liquidity taking orders, as well as certain related cancel messages, to be intentionally delayed for 350 microseconds before such delayed messages would have been processed by the CHX Matching System. See LTAD Proposal, supra note 1, at 65443. All other messages, including new liquidity providing orders and cancel messages for resting orders, would have been immediately processed without delay. See id.

3 SR-CHX-2017-04 ("LEAD Proposal") may be found at http://www.chx.com/regulatory-operations/rule-filings/.

4 All comment letters may be found at https://www.sec.gov/rules/sro/chx/chxarchive/chxarchive2016.shtml.

would have become less valuable, which the Exchange continues to believe are either misplaced or self-serving.[5] Moreover, since the heightened market quality requirements for LEAD Market Makers will not be applied to non-LEAD Market Makers, the Exchange believes that LEAD is not designed to permit unfair discrimination and is in this respect similar to operational advantages afforded to DMMs on other exchanges.[6] Thus, as described under the LEAD Proposal, the Exchange believes that LEAD will minimize the effectiveness of latency arbitrage,[7] while ensuring that CHX quotes remain reliable, valuable and accessible.

As a final matter, the Exchange recognizes that not all market participants would benefit from enhanced displayed liquidity, optimized public price discovery, tighter spreads and de-emphasis on speed as a key to trading success, all of which LEAD is designed to achieve. In fact, certain market participants have greatly profited from the *status quo* and thus have a clear interest in ensuring that LEAD and other similar innovations are not approved by the Commission, which harms the public investor. The Exchange submits that the Commission should embrace innovation that is designed to make our markets fairer and more efficient. Accordingly, the Exchange respectfully requests that the Commission consider these factors when reviewing the LEAD Proposal and the persuasiveness of any comments submitted thereto.

Sincerely,

James Ongena
Executive Vice President and General Counsel

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5 See Letter to Brent J. Fields, Commission, from James Ongena, Executive Vice President and General Counsel, CHX (October 28, 2016).

6 See, e.g., NYSE Rules 103 and 104B, which afford, among other things, execution parity privileges to DMMs in return for heightened quoting and trading obligations.

7 As described in detail under the LEAD Proposal, "latency arbitrage" means the practice of exploiting disparities in the price of a security or related securities that are being traded in different markets by taking advantage of the time it takes to access and respond to symmetric market information. See supra note 3. In 2016, latency arbitrage resulted in a dramatic decrease in displayed liquidity and volume at CHX. See id. Latency arbitrage is built-in to the current market structure, which is biased in favor of latency arbitrageurs and imposes a tax on liquidity provision that diminishes displayed liquidity, which is contrary to the protection of investors and the public interest and is incompatible with a primary goal of Regulation NMS to enhance displayed liquidity. See id.