VOLANT TRADING
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November 28, 2016

VIA E-MAIL

Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street NE
Washington, D.C., 20549-1090

Re: Release No. 34-78860

Dear Mr. Fields:

Volant Trading ("Volant") welcomes the opportunity to comment on the Chicago Stock Exchange's LTAD Proposal (Release No. 34-78860).

Volant does business in the United States and Asia. In the US, Volant is registered as an options market maker on 14 options exchanges and its activity in the US equities market is limited to hedging transactions related to our options business. We submit limit orders to the equities markets, about half of which are liquidity taking. We do not quote equities, and trading in equities is not a source of revenue for us.

As such, our involvement in the US equities market is different than some of the other broker dealers who have submitted comment letters, and whose revenue streams could be significantly impacted by changes to the status quo. Our interests lie in seeing tighter, deeper equity markets, which we strongly believe this proposal would promote.

LTAD WOULD PROMOTE DISPLAYED LIQUIDITY

An asymmetric speed bump such as LTAD, which is applied only to new liquidity taking orders and to the cancellation of orders being delayed by such a speed bump, would result in tighter NBBO spreads and/or increased displayed size. No commenter has suggested otherwise.

In fact, several commenters opposing LTAD admit this is an expected result of LTAD. However, these commenters go on to speculate that the liquidity provided by LTAD would not be “accessible.” Some argue that CHX quotes would be inaccessible due to the 350 microsecond delay that LTAD would impose on any liquidity taking order. We believe the Commission should disregard this argument because the Commission has already approved a 350 microsecond delay in accessing displayed liquidity at IEX.

Others argue the possibility that an order reflected in a protected quote at CHX may no longer be present when a new liquidity taking order (“New Order”) is released from LTAD making a CHX quote inaccessible. The same is true at IEX today. During the 350 microsecond period that IEX delays a liquidity taking order, IEX may already hold a queued message to cancel resting displayed liquidity, and that displayed liquidity would be gone before the New Order is released from the IEX queue. Also, IEX may already hold another liquidity taking order in its delay queue which would trade against the displayed liquidity before the New Order is released from the IEX queue. Again, the displayed liquidity would be gone before a subsequent New Order could be matched with it. We believe the Commission should disregard this argument because the Commission has already approved IEX’s rules which lead to the same result.

Others argue that LTAD, unlike the IEX rules, would permit the cancellation of a resting order to occur without delay. This is true. They argue that this would inherently make a CHX protected quote inaccessible and speculate about scenarios where this might happen. In the case of an intermarket sweep, order routers already have technology in place to ensure all displayed liquidity can be taken simultaneously without risk of cancellation. Employing this existing technology would prevent tipping off CHX liquidity providers that an intermarket sweep is underway. For this reason, LTAD would not inherently tip off CHX liquidity providers and give them time to cancel resting orders. CHX’s recent response to these comments makes that clear. We believe that arguments based purely on speculation and nothing more should be rejected by the Commission.

Rather than base approval or disapproval of CHX’s LTAD proposal on speculation, we believe that the Commission should approve LTAD and require CHX to gather data after implementation, analyze that data, and report to the Commission what actually happens when LTAD is implemented. We believe that this data-driven approach is the only reasonable way to determine whether any speculators’ arguments are true.

LTAD IS SUPERIOR TO IEX IN PROVIDING TIMELY UPDATES OF QUOTES

LTAD is superior to the IEX speed bump because LTAD is designed to provide accurate updates to market data faster than IEX.

LTAD would not delay cancelling a resting order -- IEX does. Therefore, with LTAD in place, CHX will update its quote to reflect order cancellations faster than IEX, which always waits 350 microseconds to process the cancellation and only then updates its quote. This result is superior because it will reduce the number of liquidity taking orders directed to CHX seeking to match against liquidity which is no longer available.

LTAD would not delay processing an inbound liquidity providing order -- IEX does. Therefore, with LTAD in place, CHX will update its protected quote to reflect additional liquidity faster than IEX which always waits 350 microseconds to process the order and only then updates its quote. This result is superior because it can only lead to increased displayed liquidity which the Commission has found to reduce short-term volatility to the benefit of long-term investors and issuers.

Those arguing against LTAD neglect the fact that LTAD will provide timely, accurate market data faster than IEX can do under the IEX rules recently approved by the Commission. While we do not criticize IEX, we do emphasize that LTAD is superior to IEX's delay in updating market data. We strongly believe that the Commission should take note of this when considering objections to LTAD which speculate that displayed liquidity will not be present when accessed. The fact that CHX will update its protected quote faster than IEX will reduce the likelihood of an order being routed to CHX and finding previously displayed liquidity to no longer be present.

INCREASED COMPETITION AMONG ORDERS

An asymmetric speed bump such as LTAD will lower barriers to entry for new liquidity providers. If latency arbitrage is thwarted by an asymmetric speed bump, then potential new liquidity providers no longer need to invest to be faster than the fastest latency arbitrageur. If latency arbitrage is not thwarted, new market entrants must either make a significant incremental investment in speed or pay a significant "tax" as cited by CHX, quoting Professor Budish at the University of Chicago. With LTAD in place, potential new liquidity providers will have reduced costs to build technology because they will not have to be faster than the fastest latency arbitrageur to avoid having stale quotes picked off. Lowering the cost of entry for new liquidity providers can only increase competition among orders. This can reasonably be predicted to enhance displayed liquidity and lead to reduced short-term volatility, which the Commission has found to be in the best interest of long-term investors and issuers.

By the same argument, existing liquidity providers will be able to be more aggressive in both price and size.

AN EXAMPLE

Consider the case of a latency arbitrage strategy that attempts to detect a significant price movement in S&P 500 index futures at CME and, upon seeing such a price movement, sends orders to one or more equities markets to take displayed liquidity in some or all of the 500 securities underlying the index before liquidity providers can reprice their orders in the underlying securities.

Liquidity providers who are monitoring the futures market but do not have the technology to react faster than the fastest latency arbitrageur will either expose themselves to significant losses or make wider markets or reduce the size of the liquidity they provide to protect themselves from being picked off. This is contrary to the public interest because it impairs provision of displayed liquidity in 500 component securities, and in any additional securities correlated to the S&P 500.

However, with a 350 microsecond speed bump applied to liquidity taking orders, equity liquidity providers will have a small bit of time to adjust their liquidity providing orders in response to the price movement in the futures market. A liquidity provider's technology cost to protect against latency arbitrage will be much lower with LTAD than without LTAD, because the liquidity provider does not have to have the fastest technology to avoid exposure to being picked off by firms with faster technology. LTAD will therefore lead to increased competition among orders which can reasonably be expected to result in some combination of tighter NBBO spreads and/or greater displayed size. Either of these outcomes is in the public interest because it will enhance displayed liquidity.

SUMMARY

Chair White has challenged trading venues to find creative, innovative solutions that deemphasize speed as a component to success in trading. LTAD does this, and in the best way we consider possible. The Commission should embrace LTAD as a constructive response to Chair White's challenge rather than reject LTAD to protect the status quo, which benefits a handful of technically adept firms at the expense of everyone else in the market.

For the reasons stated above, we encourage the Commission to approve the LTAD rule filing with subsequent data gathering and analysis to assess the actual, rather than speculative, consequences that result from an asymmetric speed bump in the equities market.

Respectfully submitted,

Brian Donnelly