

February 6, 2020

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Proposed Rule Change to Add a New Discretionary Limit Order Type - File No. SR-IEX-2019-15

Dear Ms. Countryman,

Themis Trading appreciates the opportunity to comment in support of the proposal submitted by the Investors Exchange LLC (“IEX”) to introduce a new Discretionary Limit order type (“D-Limit”).

For your background, Themis Trading is an institutional agency brokerage, providing investment managers of all sizes with the best possible execution on their equity trade orders. We represent long-term investors who form the backbone of our capital markets system by investing in the growth of public companies and the US economy.

Since becoming a registered US stock exchange, IEX has created innovative tools that have enabled members like us to source liquidity with less information leakage and adverse selection. Their speedbump and the Discretionary Peg order type have proved to be very valuable tools when executing orders for our customers. IEX is proposing to bring similar protections to the lit quote with D-Limit, to encourage displayed liquidity, which is very much needed in the equity markets.

Many US exchanges, whether intended or not, are providing certain members the means to isolate, identify and exploit traditional brokers’ resting orders in their own order books. This creates disincentives for disadvantaged brokers to post displayed orders. Some exchanges also offer specialized order types and features to attain queue priority over resting orders that may have arrived earlier. This behavior causes an override of the typical price/time priority in the order books leaving the disadvantaged to suffer with more information leakage and poorer fill quality. Collectively, this reduces displayed liquidity and promotes more hidden trading; an outcome that seems counter to the SEC’s stated objectives of encouraging deeper and more liquid equity markets.

Examples of queue position boosters that override price/time rules include the following: queue priority for retail orders at EDGX, parity for DMMs and floor brokers on the NYSE and order types like Post Only Day ISOs, which are offered by all exchanges, except IEX.

Many exchanges also sell stratified speed products. This increases the likelihood of adverse selection for brokers who display institutional orders, who may not be fast enough to avoid fills at stale prices. Many also sell order-book level information on their direct data feeds. This contributes to information leakage and likely adds to an institutions' cost of trading. IEX offers neither of these products.

When taken all together, we feel an environment has been created that is more toxic than it needs to be for the display of institutional orders. We believe that the D-Limit order type will democratize the display of limit orders since it does not require the enormous investment that is currently required to avoid adverse selection. Rather than spend millions of dollars investing in speed products sold by the major exchanges, institutions can instead use these resources to help fund research on potential investments in public companies.

[According to IEX](#), this is the definition of a D-Limit order:

"D-Limit is an IEX order type that behaves like a regular displayed limit order for nearly all of the trading day. It differs from a regular limit order by leveraging the IEX Signal (i.e., the Crumbling Quote Indicator or CQI), which identifies brief moments in time when the quote is "crumbling" — a strong indication that the price is about to change."

In other words, D-Limit orders are designed to help displayed orders not get picked off when a quote is about to change. We found this statistic from IEX to be extremely telling:

"The Signal is "on" for only 0.02% of the trading day on a volume-weighted basis — but 24% of all IEX displayed trading happens when the Signal is "on."

We interpret this to mean that there is a massive race to pick off stale investor orders. Those who have paid top-dollar for high speed data related products, race each other to pick off stale orders from investors who haven't necessarily paid for the same low latency technology. And within this predatory trading category, there are a few that seem to be winning the latency arbitrage race. According to IEX:

"In November 2019, just 3 member firms at IEX were responsible for 55% of all the lit taking volume while the Signal was "on," even though those firms accounted for only 13% of the total volume on IEX."

A recent paper from the UK's Financial Conduct Authority titled "[Quantifying the High-Frequency Trading 'Arms Race': A Simple New Methodology and Estimates](#)" estimates that latency arbitrage costs U.S. investors \$3 billion per year. They estimate that "latency arbitrage accounts for about 31% of all price impact, and that eliminating latency arbitrage would reduce the cost of liquidity for investors by 17%". The D-Limit order will

help prevent predatory firms from picking off stale limit orders and will therefore help investors avoid the negative consequences of latency arbitrage.

Unlike many of the offerings on other exchanges, IEX's Discretionary Limit will provide equal protection to all of its users and it will promote more displayed liquidity. IEX is trying to address the displayed limit order problem that has plagued the market for years. Their solution is truly innovative and we believe it will result in an increase in the amount of displayed limit orders and therefore will help contribute to the price discovery process.

One last point we would like to make is that usage of this new proposed D-Limit order type is voluntary. A member can choose to take advantage of the protections of D-Limit, or not. If a member does not believe in the mechanism, or the rationale behind it, they could simply choose to not use it. The US equity market is often championed and touted for the choice and innovation offered to participants – the D-Limit order is one such choice that is designed to help real liquidity providers. We welcome this innovation and believe that it will help us protect our orders from getting picked off by speed-oriented participants, in a speed war we never signed up to fight.

We appreciate the opportunity to comment on the IEX D-Limit proposal. Please do not hesitate to contact us if you have any questions or wish to discuss our letter.

Sincerely,

Sal Arnuk & Joseph Saluzzi
Partners and Co-Founders
Themis Trading LLC

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