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December 7, 2017

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

Re: Order Scheduling Filing of Statements on Review for an Order Granting the Approval of Proposed Rule Change to Adopt the CHX Liquidity Enhancing Access Delay on a Pilot Basis
Release No. 34-82034; File No. SR-CHX-2017-04

Dear Mr. Fields:

The FIA Principal Traders Group ("FIA PTG")[1] was surprised and highly concerned when the Division of Trading and Markets of the U.S. Securities and Exchange Commission (the "Commission"), used its delegated authority to approve the CHX Liquidity Enhancing Access Delay ("LEAD") on October 19, 2017. We thus strongly support the Commission's October 24, 2017 decision to review the Division's delegated action, and stay the approval. To date, FIA PTG has commented four times[2] on the various access delays proposed by Chicago Stock Exchange, Inc. ("CHX"), each time opposing the proposals primarily because of their discriminatory nature and inconsistency with the Securities Exchange Act of 1934 (the "Exchange Act") and Regulation NMS ("Reg NMS").

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[1] FIA PTG is an association of more than 20 firms that trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and data-driven policy and has previously made recommendations about a variety of equity market structure issues, including Regulation NMS (*See* https://ptg.fia.org/keywords/equity-market-structure).

[2] https://www.sec.gov/comments/sr-chx-2016-16/chx201616-5.pdf,
https://www.sec.gov/comments/sr-chx-2016-16/chx201616-1502061-130587.pdf,
https://ptg.fia.org/sites/default/files/content_attachments/2017_03_13_SEC_CHX_LEAD.pdf, and
https://ptg.fia.org/sites/default/files/content_attachments/2017-06-16_SEC_CHX_LEAD.pdf

Here again, we reiterate our view that the result of the proposed asymmetric CHX speed bump would be unfair discrimination among market participants. Allowing some favored market participants to have a structural latency advantage over all others frustrates the purposes of Rule 611 by impairing fair and efficient access to an exchange's quotations. Accordingly, we urge the Commission to reject this proposal.

While CHX argues that the LEAD would improve market quality on its platform, we are very concerned about the systemic effects on market quality across the entire national market system. Allowing such an asymmetrical delay in the presence of Reg NMS linkages would lead to a variety of risky market distortions. Specifically, we are concerned that the order protection rule (Rule 611) would require brokers (including those that route for other exchanges) to send orders to CHX that the brokers do not expect to fill. In many circumstances, by the time the broker would hear back from CHX that their orders, in fact, had not filled, the market would have moved and the original prices that were available on other exchanges might no longer be available. Feedback loops from this type of routing would be particularly problematic during times of market stress and could easily contribute to future flash crashes and similar disruptions.[3]

Moreover, the Commission should consider the interaction between programs like the LEAD proposal and the Securities Information Processor ("SIP") revenue sharing structure. The existing formulas for sharing SIP revenue among the exchanges were developed to encourage displayed, accessible quotes. We are concerned that the ability of the LEAD Market Makers ("MMs") to quote large size with a reduced risk of adverse fills would allow CHX and the LEAD MMs to collect disproportionate market-data revenue under these formulas. Essentially, CHX would collect payments and would, in turn, share them with their LEAD MMs[4] for displaying largely inaccessible quotes. As a result, if the LEAD proposal is allowed, it is highly likely that other exchanges would introduce similar programs for competitive reasons, leading to even more phantom liquidity in fast moving markets.

The fact that CHX has re-cast the LEAD proposal as a two-year pilot program does not address its fundamental flaws. It would simply mean that we would have at least two years of unfair discrimination and market distortions. FIA PTG continues to be supportive of thoughtful pilot programs, but this one is simply too disruptive and creates too much risk.

In addition to our objections to this specific proposal, we would like to restate our general objection to proposals that add unnecessary complexity to our already overly complex equity market structure and to reiterate our call for the Commission to impose a moratorium

[3] The publication of slow or inaccessible quotes can exacerbate market stress. During the 2010 "Flash Crash" there was an exchange that had technology issues causing its quotes to be delayed. This was broadly viewed as a contributing factor to the market disruption.

[4] Fee Schedule of the Chicago Stock Exchange, Inc. (Updated through July 27, 2017), Section P, Market Data Revenue ("MDR") Rebates.

on exchange proposals like this one until it is able to complete a holistic review of U.S. equity market structure.

FIA PTG has been advocating for comprehensive market structure reform for years and has specifically called for a holistic review of Reg NMS and its effects on markets since 2014.[5] While we recognize that this is a significant undertaking, we believe there are several broad goals for market reform that enjoy substantial support from a wide variety of market participants. Those goals include:

1. Reducing complexity, order type proliferation and fragmentation;
2. Enhancing true exchange competition;
3. Preserving the benefits of best execution for investors;
4. Enhancing the value of displayed quotes;
5. Enhancing competition between lit and dark venues; and
6. Improving transparency for investors.

We strongly support action by the Commission to address the fundamental issues in equity market structure rather than taking a reactive and piecemeal approach to individual exchange proposals.

If you have any questions about these comments, or if we can provide further information, please do not hesitate to contact Joanna Mallers (jmallers@fia.org).

Respectfully,

FIA Principal Traders Group

Joanna Mallers

Joanna Mallers
Secretary

cc: Walter J. Clayton, Chairman
Michael S. Piwowar, Commissioner
Kara M. Stein, Commissioner

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5 See FIA PTG *Equity Market Structure Position Paper* (Sept. 30, 2014) available at https://ptg.fia.org/sites/default/files/content_attachments/FIA%20PTG%20Equity%20Market%20Structure%20Postion%20Paper%20-%20final.pdf and *FIA PTG Position Paper on Simplifying U.S. Equity Market Structure* (Jan. 28, 2015) available at https://ptg.fia.org/sites/default/files/content_attachments/FIA%20PTG%20Position%20-%20Simplifying%20US%20Equity%20Market%20Structure.pdf.