



**NORGES BANK**  
INVESTMENT MANAGEMENT

Mr. Brent J. Fields  
Secretary  
U.S. Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

Date: 12/16/2015

via e-mail

**Re: Investors' Exchange LLC Form 1 Application (Release No. 34-75925; File No. 10-222)**

Dear Mr Fields,

Norges Bank Investment Management ("NBIM") appreciates the opportunity to express our support for the exchange application of Investors' Exchange LLC ("IEX") with the Securities and Exchange Commission ("Commission").

NBIM is the investment management division of the Norwegian Central Bank ("Norges Bank") and is responsible for investing the Norwegian Government Pension Fund Global (the "fund"). We are a large, long term investor in global financial instruments. The fund is invested in assets in excess of NOK 7,000 billion (USD 824 billion) of which approximately USD 288 billion is invested in US listed equities. We have a vested interest in having a regulatory environment that provides for well-functioning markets in financial instruments and encourages a vibrant and heterogeneous investor community. This requires balancing the interests and incentives of various types of market participants. In particular, the market structure has to be flexible enough to support the development of new solutions to maintain a balanced, level playing field for all market participants.

Exchanges provide two key services that are central to well-functioning markets – the supervision of listing privileges and the provision of price discovery<sup>1</sup>. In our view, innovation by exchanges in recent years has focused overwhelmingly on latency reduction and on services such as novel order types that tend to benefit market participants with shorter return horizons. There has perhaps been insufficient focus on maintaining the centrality of exchanges to the market place for other types of investors.

As a result, exchanges have often become a "venue of last resort" in today's fragmented market place. Off-exchange trading venues such as dark pools often provide superior economics to broker-dealers while still satisfying acceptable best execution standards for investors. This leads to a distinct "pecking order" in venue selection. As a result, trades that occur on exchanges have become more informative – a trade on an exchange is

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<sup>1</sup> See "Role of Exchanges in Well-Functioning Markets", NBIM Asset Manager Perspectives, <http://www.nbim.no/en/transparency/asset-manager-perspectives/2015/role-of-exchanges-in-well-functioning-markets/>, August 2015.

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an indication of the absence of liquidity on other, non-exchange trading venues. In our experience, this has led to a deterioration of liquidity quality on exchanges<sup>2</sup>.

We view IEX's exchange application with the Commission as one of the first differentiated attempts to re-assert the centrality of exchanges to the market place through competitive means, and strongly support the application. IEX's exchange application contains several innovations which we believe can assist in levelling the playing field for all market participants. In particular, the proposed 350-microsecond "speed bump" can help in reducing the rent extraction by market participants with latency advantages. Intermediation through liquidity provisioning is a necessary and beneficial component of asset markets, and should be adequately rewarded. Managing quotes to optimally control inventory risk is a key part of a liquidity provider's business model – reducing latency makes this process easier. However, this process may also lead to quote sizes which are smaller than necessary from an inventory risk control perspective, and intraday volatility that is greater than required for adequate compensation of liquidity provisioning services. We view this as a form of "rent extraction". As economic theory tells us, that represents a deadweight loss for the market overall.

We would expect that the "speed bump" as well as other proposed features of IEX, such as the relative simplicity of available order types, would mitigate the potential for such rent extraction. The features should change the behaviour of market participants, including latency-sensitive liquidity providers. If indeed the "speed bump" makes IEX less attractive to such market participants, we would expect them to quote less aggressively on IEX than on other exchanges. We would therefore expect IEX quotes to be at the NBBO relatively less frequently than those of other exchanges, but possibly less fleeting and potentially with more depth. This may be a positive development – quotes on IEX may be more indicative of true liquidity availability than those on other exchanges, which have been described as "phantom liquidity".

IEX's current application proposes the introduction of an order router, operated by an affiliated broker/dealer, which would handle routable orders after the IEX exchange can only provide a partial fill. The router would not route to the IEX exchange – its function is to source additional liquidity from other exchanges. The router would then cancel back to the IEX exchange with any fills received from other exchanges. The message flow between the IEX exchange and the router is not subject to the "speed bump". This has been seen as giving an unfair advantage to the order placer or, more implausibly, to IEX. We do not agree with this assessment, for two reasons. First, this is a common functionality offered by trading venues to fulfil ISO requirements. Second, the original order placer has pre-committed to a total order size. Cancelling this pre-commitment, or receiving information about the current state of the order, requires going through the "speed bump". This means that the order placer cannot contemporaneously make use of the information that is contained in the information passed between IEX exchange and the order router. The pre-commitment thus contains true option value. From a best execution perspective, IEX would be remiss if it introduced latency between its exchange and its order router, in the context of managing a customer's order as agent.

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<sup>2</sup> See "Sourcing Liquidity in Fragmented Markets", NBIM Asset Manager Perspectives, <http://www.nbim.no/en/transparency/asset-manager-perspectives/2015/sourcing-liquidity-in-fragmented-markets/>, April 2015 for more discussion on the evolving roles of different types of trading venues.

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Approving IEX's exchange application will further the Commission's goals of increasing market competition and providing differentiated services to end investors. IEX's exchange application contains a number of innovative features which we believe will benefit the equity market structure and all participants.

Sincerely,

Øyvind G. Schanke  
Chief Investment Officer Asset Strategies, NBIM

Simon Emrich  
Lead Analyst, NBIM

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