



Brent J. Fields
Secretary, U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

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

November 23, 2015

Dear Mr. Fields:

I am Larry Tabb, CEO of TABB Group, a financial markets research and advisory firm. We focus on providing research and advisory services to the financial markets industry. Our customers are banks, brokers, exchanges, industry utilities, regulators, asset managers, hedge funds, high-frequency trading firms, and a host of technology vendors and service providers.

I would like to offer my opinion on the IEX exchange application and some of the benefits, and issues, surrounding the application.

I am on record in the belief that a market with competitive execution facilities is beneficial to investors. The competing exchange, ATS, and internalizing broker model enables liquidity providers to segment and better understand the risks of interacting with different liquidity streams and provide the appropriate pricing for each liquidity stream. While this type of market increases execution complexity, I believe – given the desire, insight and investment – that it provides a more open and fair market with tighter spreads. This gives the majority of investors a higher-quality execution.

IEX particulars

The IEX ATS (dark pool) had a novel approach to ensuring the fair pricing of orders. It delayed access to its execution engine (and subsequent fills) for 350 microseconds, enabling the IEX ATS to align market data and ensure the appropriate calculation and application of a midpoint price. This protected its clients from exceptionally speedy traders who could rush in and take advantage of the timeliness gap between the point of execution and the calculation of a midpoint price.

While the "speed bump" works in a dark, non-price discovery market, however, it is questionable how this speed bump provides benefit in a lit market where priced non-marketable limit orders and marketable orders interact directly and are not matched at the prevailing midpoint of away markets.

While I have questions on how delaying the order flow in a price discovery market benefits investors, I don't find it particularly problematic, as the time gap is minimal, and (even including the speed bump) IEX matches orders faster than a number of other markets.

The problem, however, is not in the IEX exchange or how orders interact with the market, but what happens after the order leaves the exchange. The challenge is in the operation of the IEX router.

While I don't have an issue with a 350-microsecond speed bump, how the exchange leverages its router is a bit more questionable.

From what I understand, the IEX matching engine employs a speed bump to slow orders arriving from/departing to clients of the IEX exchange. Each and every **customer** interaction goes over this speed bump. While all customer interactions go over the speed bump, I am under the impression that the ***speed bump is not employed when routing orders from IEX to other protected markets***. This provides IEX routing customers with a competitive advantage as it routes Reg NMS "order protected" orders and partially filled orders to other markets. This advantage will force brokers to use the IEX router or be at a competitive disadvantage to brokers that do use the IEX router.

Let me explain. Assume we have two brokers with the same infrastructure routing identical orders of 500 shares to IEX. One of these brokers uses the IEX router and the other doesn't. IEX executes 300 shares of each broker's order, leaving 200 shares of each order unexecuted and needing to be filled. The broker using its own routing infrastructure must wait 350 microseconds (as the fill goes over the speed bump) to receive its partial fill and reroute the remaining balance to another market. However, the broker employing the IEX router, while needing to wait 350 microseconds to receive its fill, is advantaged by using the IEX router to send the 200-share balance to other protected markets immediately, bypassing the speed bump. This provides the broker using the IEX router with a 350-microsecond jump when routing to away markets over the broker using its own routing infrastructure.

In this instance, the IEX-routed order would always be advantaged over the same order that was not routed by IEX. In fact, given this speed advantage, it is likely that the IEX-routed order would be executed at an away exchange before the broker of the non-IEX-routed order even knew its order's status.

This would also be the case for a non-ISO order being sent to IEX and subsequently routed out, as it would take 350 microseconds for the broker to know its order's status, while a broker using the IEX router would have its order immediately rerouted to the exchange displaying the best price.

While this doesn't really provide either broker/trader with an arbitrage opportunity (because both brokers/traders fills go over the speed bump and are received simultaneously), it does give the IEX routing broker a head start in filling its customer's order over a competitor not using the IEX router.

On the other side of this debate, putting the speed bump in front of the IEX router puts IEX at a competitive disadvantage over other protected venues, as an order leaving IEX to another protected venue would be delayed 350 microseconds compared to an order routed out by another exchange. Putting the IEX router on the other side of the speed bump most likely makes IEX's order protection routing less effective.

Whether this is enough of a problem to deny the IEX exchange application, I am not in a position to opine; however, it does give IEX a competitive advantage over brokers using their own routing infrastructure. Conversely, putting the IEX router behind the speed bump puts IEX's routing, and its client's fills, at a competitive disadvantage over other protected venues.

There seem to be three options to resolve this challenge. The first option is to do nothing and leave things status quo. Brokers will be forced to use the IEX router, but IEX routing to away markets will be competitive. In addition, orders will be routed out and possibly executed before their sending broker even knows the status of the original order.

Second, IEX could place its router after the speed bump. This ensures that the IEX router is at the same competitive position as other routers, but this makes the IEX routing less effective.

Third, IEX could eliminate the speed bump altogether, which, at least to me, increasingly seems obsolete given IEX's transition away from a dark to a lit price discovery market model.

My view is that only way to ensure that the routing broker, IEX and the client order are on a level playing field is to eliminate the IEX speed bump. If IEX doesn't, it will either force brokers to use the IEX router, or (if IEX puts the router behind the speed bump) it puts the client's order at a competitive disadvantage when IEX is forced to route to other exchanges. And given IEX is transitioning to a lit market, where priced limit orders interact with marketable order flow, the speed bump seems less important than if IEX remained a dark ATS.

Sincerely,



Larry Tabb
CEO, TABB Group