December 5, 2015

Mr. 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)

I am submitting this comment letter <u>anonymously</u> and in editorial format for the following reasons:

1) It does not matter who writes a letter but only the content and policy points in the letter. In light of this, a strong argument can be made that a good proportion of comment letters to the SEC should be anonymous.
2) The editorial format allows for a much more informal yet effective writing style. Many of the points made here have been made before but constrained by the construct of "comment letterese."
3) While this letter may be viewed as unnecessarily caustic and sarcastic to some, the purpose is to jolt readers into the realization that they have been sold a narrative that is backwards. Since IEX supporters have made statements and even written a book unconstrained by fact and designed to foster a mythical, self-serving and false narrative, attempting to walk that back merely using accurate logic without engaging other emotions plays into their hands.
4) Despite the unusual nature of this comment letter, the points in here are serious. The SEC should address them head-on and not allow market structure to be shaped by the most popular narrative as opposed to the best policy.

<u>From Handcuffs to Hero, How a Good Narrative Changes Everything</u>

In the summer of 1998, the NASD announced a ground breaking $950,000 fine of one of the oldest and largest market making firms, Troster Singer. According to the New York Times, the fine was "for fraud in connection with a series of 28 intentional late trade reporting violations..." Troster Singer, like all traders in every market since the beginning of time, found that delaying trade reports made it much easier to unload its position on unsuspecting market participants. Regulators have long deemed such conduct illegal and incompatible with fair and transparent markets.

According to the modern day Herodotus of financial markets, Michael Lewis, more than 10 years later the so-called Puzzle Masters at IEX were trying to solve a similar problem for their institutional customers. IEX wanted to ensure that an institution that just traded on IEX could still trade with the rest of the markets before the barbarian HFTs caused the other markets to update their quotes in response to the IEX trade. According to Flash Boys, the IEX heroes observed that "[T]he delay only needed to be long enough for IEX, once it had executed a part of a customer's buy order, to beat HFT in a race to any other share available in the marketplace at the same price – that is, to prevent electronic front running." Lewis then dramatically recounts that, "[A] bright idea came from a new employee, James Cape, who had just joined from an HFT firm: coil the fiber." Though Lewis disappointingly failed to mention whether Mr. Cape unsheathed his sword at that critical moment, the result of this "insight" is the now infamous 350 microsecond delay that Lewis proclaims magically makes markets fair, ends internalization of retail orders and cures pattern baldness.

Strangely, however, Flash Boys does not recount the reaction of the Troster Singer traders that were fined for a similar "insight" a decade ago. If only the traders at Troster Singer had named themselves the "Puzzle Masters" and exaggerated every detail of their biography to portray their illegal actions as an act of honor they could have not only avoided the fine but perhaps been cast as the heroes of a Hollywood movie! When reading Michael Lewis' alleged history in Flash Boys, one is reminded of Plutarch's comments about pseudo historian Herodotus; "[he] is engaged in the worst kinds of deception: lies dressed up in elegant prose and engaging style that will attract readers."

Now I know what many are thinking, Troster Singer deserved a fine because they withheld trade reports for more than 90 seconds. IEX, on the other hand, is only delaying their executions by a mere 350 microseconds. Such a short delay imposed by Lewis' coiled Snake God of fairness, therefore, only impacts evil HFTs that add no value anyways. Further, some commentators say: "what's wrong with a little delay? The market is too fast anyways and it will level the playing field."

Not so fast.

Delaying trade reports has always been prohibited by regulators because it is a form of unfair insider trading. In both the case of IEX and Troster Singer, the <u>motive</u> is exactly the same: to gain enough time to execute the balance of the order before the market can react. For example, if a large institutional buy order hits IEX, the purpose of the intentional delay is to allow the large institutional buyer to essentially trade with insider information; that is, trade against the offers on all other markets that would have presumably been adjusted in the absence of the coiled fiber. By definition, this means all the parties selling to the IEX buyer likely lost money by selling just before the market was about to move up. Those harmed could be HFT but certainly could also include retail and institutional investors.

But that's only a first order effect. y intentionally adding delay to the market to favor one party, many are harmed. Delays in stock markets have the same impact as delaying a commuter train. If every morning the Long Island Railroad commuter train was held for 2 minutes to ensure that the President of IEX gets to work on time, then, by definition, everyone else on the train would be 2 minutes late. Every train delay that benefits one party, negatively impacts multiple other parties. Similarly, while delaying a stock price increase saves the buyer money, it by definition costs sellers money. Not just the seller caught directly by the delay but every other seller in the market. And given that IEX is only approximately 2% of the market, most sellers are on other markets.

The obvious result of the IEX proposal is that every exchange will need to create a competing new "delay" exchange to give institutions with large orders the chance to front-run their own orders. The same commentators who complain markets are too fast also complain about the proliferation of exchanges in recent years. The IEX proposal will lead to even more exchanges as eleven exchanges will soon balloon to 15 or more. Of course, the SEC will be forced to then set the maximum delay as each exchange will try to maximize the "fairness" of their market.

Finally, and perhaps most importantly, the IEX delay doesn't level the playing field for investors. t <u>tilts</u> the playing field for the sole benefit of the large institution placing the order through IEX at the expense of every other investor; meaning that the cost of this "fairness" exponentially exceeds the purported benefit. The IEX innovation is actually no different from Troster Singer's illegal behavior that harms investors but through the mythical narrative of Michael Herodotus Lewis has been transformed into a heroic stance to help the little guy. Nothing could be further from the truth.