



March 2, 2016  
Brent J. Fields  
Secretary  
United States Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

RE: Investors' Exchange, LLC; Notice of Filing of Application, as Amended, for Registration as a National Securities Exchange under Section 6 of the Securities Exchange Act of 1934; Release No. 34-75925; File No. 10-222.

Dear Mr. Fields:

Instinet Holdings Incorporated ("Instinet")<sup>1</sup> welcomes the opportunity to comment on Investors' Exchange, LLC's ("IEX") application seeking registration as a national securities exchange.

Instinet recently raised with IEX a concern regarding IEX's application. IEX has been very responsive and has urged Instinet to file this comment letter so that the discussion can continue publicly.

Our concern is that the structure of the IEX exchange, as proposed, might supercharge predatory quoting behavior. In particular, by leveraging the behavior of IEX's incoming and outgoing point-of-presence ("POP"), one easily could implement a strategy that places into the public data stream materially unexecutable quotes that persist for, on order, one millisecond.

To illustrate, consider the following example. Assume an NBBO of .10 x .15. An IEX subscriber could send a new order to buy at .11, followed 700 microseconds later by a cancel. The .11 bid would traverse the 350 microsecond incoming POP, pass through the matching engine, and traverse the 350 microsecond outgoing POP before any party, other than IEX, could see the new quote of .11. By this time, the cancel would already be in flight; there is no chance any external party could see, process and act on the new bid of .11 before it is cancelled. The "zombie" quote would persist in the public market data for 700 microseconds until the in-flight cancel passed through both POPs.

IEX has stated that this concern is not unique to IEX, and that IEX has monitoring tools in place to surveil this type of activity.

---

<sup>1</sup> Instinet subsidiaries provide agency execution services and advanced electronic trading tools in markets throughout the world. Instinet launched the first automated system for U.S. institutions to trade directly with each other 47 years ago, and it continues to produce game-changing market innovations.  
<http://www.instinet.com/>

It is true that some semblance of the referenced activity already exists -- reviewing SEC MIDAS data, one can see that 5% of all orders are canceled within 100 microseconds of initial placement, which is on order the speed of the exchanges' matching engines. What makes IEX different, however, is that the design of its POP could be leveraged to materially increase the duration of these quotes, while simultaneously reducing the possibility of execution to near zero, as noted above.

IEX very well may have appropriate surveillance tools to identify these sorts of manipulative practices. However, as a regulated exchange, it would be subject to Regulation NMS and the much more involved processes to block or suspend participants than the processes to which it currently is subject as an ATS. And during any suspension proceedings, the problematic quoting activity could continue unabated.

As agency-model brokers, Instinet subsidiaries already deal with noise inherent in the public market data stream. We have built filters and models designed to help avoid "flicker" quotes. We are concerned that IEX, if approved as proposed, will become the quoting destination of choice for bad actors, and that the resulting longer duration quotes will have corresponding negative effects on other market participants' trading strategies and liquidity pools.

As we believe the cost of dealing with such quotes will be externalized to market participants, we ask the Commission to consider the potentially deleterious effects to the public market data stream that may occur should IEX's application be approved as proposed. We welcome solutions that would empower IEX and other exchanges to remove predatory actors in a more timely fashion, such as BATS' Rule 8.17.<sup>2</sup>

Sincerely,

John Comerford  
Executive Managing Director  
Global Head of Trading Research

---

<sup>2</sup><https://www.sec.gov/rules/sro/bats/2016/34-77171.pdf>