

March 11, 2016

Brent J. Fields  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549

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

Dear Mr. Fields:

AK Financial Engineering Consultants LLC ("AK FEC") appreciates the opportunity to submit a comment letter on the proposed Investors' Exchange LLC ("IEX") exchange application.

AK FEC is a consultancy catering to the electronic trading community and would like to share its thoughts with the Commission.

I write as both a consultant and as a retail trader.

A number of issues have been raised by the more than 440 comment letters. Many of the letters have been very informative and educational.

However, the only question before the Commission is whether to grant IEX exchange status.

The Commission, as I see it, has three choices:

1. Grant IEX exchange status, which could irreparably harm Regulation NMS and market quality.
2. Deny exchange status for IEX and have it continue to operate as an ATS. IEX could gain exchange like obligations / privileges through "no-action letters."
3. Create a new class of a hybrid ATS/exchange with all the obligations and rights of an exchange, with one major exception - entities have the right, but not the obligation, to route to a hybrid. This compromise preserves Reg NMS and allows IEX to grow.

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The IEX Form 1 application is not a vote of confidence on Reg NMS, nor a forum on whether Reg NMS needs to be mended or ended. Yet many of the comment letters appear to devolve to such issues.

The Commission's emphasis on Reg NMS and on decimalization has created a best of breed world class market system for true retail traders.

I was previously an institutional trader, but I have traded on the retail level, starting in the late 1980s, for my personal account and now I trade exclusively retail. My first retail trade in the late 1980s was quoted as 4.00 at 4.25 and I paid 4.25 and a huge commission on top of that. On a more recent trade, the quote was 7.00 at 7.01. I paid 7.01 and a small commission. Why would a retail trader, want to break Reg NMS? No HFT is going to "front-run" my small retail order in any liquid name. On the other hand, if I was bidding for an illiquid stock I would be inclined to pay the ask price, rather than chase the stock. Retail traders have never had it so good.

I strongly concur with the opinion expressed by Mary Ann Burns, Chief Operating Office, FIA writing on behalf of FIA PTG, in comment letter 10222-427 that an intentional delay is not in compliance with Reg NMS.

So despite Michael Lewis and some retail traders imagining some huge HFT conspiracy, the only ones truly impacted by rejection of the Form 1 application are buy side traders, some of whom are IEX investors, moving institutional size trades. But if those institutional traders are so happy with the IEX ATS, let them continue to trade on IEX as an ATS or as a hybrid, without forcing and disadvantaging other traders from routing there with the deliberate delay. The deliberate delay disadvantages many other institutional traders, including, but not limited to, arbitrage traders who keep disparate markets and disparate assets in sync.

As shown by the problems on August 24, 2015, uncertainty creates volatility, and market makers are forced to widen spreads as NAVs don't capture expected prices. So it is with the uncertainty of price discovery caused by routing to an exchange with a deliberate delay, that spreads widen and volatility increases.

Please do not hesitate to contact me if you have any questions or would like to discuss this letter.

Sincerely,

/s/ Abraham Kohen

Abraham (Abe) Kohen  
AK Financial Engineering Consultants, LLC  
President

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## Appendix A

How does the IEX deliberate delay break NMS?

An ETF market maker will price her ETF based on the anticipation of buying the ETF constituent components at the prevailing bid and ask prices. If a number of components have to be Reg NMS routed to IEX, the market maker is forced to widen her bid-ask spread to account for the additional uncertainty in buying or selling those components. IEX routing means that the reported NAV of the ETF is a bad indicator of where the ETF can be transacted. This was most obvious during the events of August 24, 2015 when market makers widened their ETF spreads as components were delayed in their openings.

To show just how uncertainty wreaks havoc on pricing ETFs, let's look at an imaginary ETF with two components, AAA and BBB of equal weights. Now suppose, AAA closed at 60.00, BBB closed at 40.00, and the ETF divisor is 1. So the ETF closed at  $60 + 40 = 100$ . Now suppose AAA opens at 30.00 (down 50%), and BBB has not yet opened and has no indicative quote. The current ETF NAV is 70 (AAA @ 30 + BBB closing price of 40). But an ETF market maker bidding 70 is likely to lose a lot of money if BBB opens down just 30%, where the "true" NAV would be 58 (AAA @ 30 + BBB @ 28). But to protect herself the ETF market maker might bid even lower, perhaps 30, with AAA @ 30 and assuming BBB @ 0.

2 Components ETF and the Effect of Uncertainty or Why the NAV is Misleading at Times of Volatility / Uncertainty								
	weight	close	AAA	AAA	AAA	AAA	AAA	
			-50%					
			BBB	BBB	BBB	BBB	BBB	
			not open	assume	price at	opens	opens	
				same -%	zero	-30%	-60%	
			as AAA					
AAA	0.5	60	30	30	30	30	30	
BBB	0.5	40		20	0	28	16	
ETF	1	100		50	30	58	46	
NAV		100	70	70	70	58	46	
			nav uses BBB=40 until BBB opens					
The NAV always uses the last available price - even if it's from a few days ago.								
Scenarios:								
D	AAA opens down 50%, but BBB has not opened							
E	Mkt Maker assumes BBB will open down by same % as AAA							
F	Mkt Maker "conservatively" prices BBB at zero							
G	BBB opens down 30%							
H	BBB opens down 60%							

The above example explains market maker behavior on August 24, 2015, but it also illustrates the propagation of uncertainty, something that the IEX delay would exacerbate on a daily basis.

## Appendix B

Retail traders who want to use IEX

Any retail client wishing to trade with the IEX ATS can take their business to Interactive Brokers ("IB") among others. I am quite certain that my fellow refugee from Hungary, Mr. Thomas Peterffy, would be delighted to have additional clients.

For quantitative retail customers, Quantopian allows you to run your algos on their platform and to route orders to IB, where

**"you can specify if you want your order routed to exchanges via IB's Smart Routing or to be routed to IEX. ... For example,**

**order(symbol('AAPL'), 100, style=MarketOrder(exchange=IBExchange.IEX))**

**will send a market order to IEX for 100 shares of Apple."**

IEX can remain an ATS (or hybrid) and retail customers can gain access to them through various venues.