SEC File Number 10-222 Comment Letter

To the SEC Commissioners: You know you can't actually approve IEX as an exchange with a protected quote under Reg NMS as it exists today, despite what the staffer who leaked to the WSJ thinks. Don't let what you perceive to be the people-pleasing choice here cloud your judgement. If you like the IEX guys and think they have a cool concept, great…change the rules in a fair, transparent way (you might even get more comment letters than IEX) and then approve them to become an exchange with a protected quote with the speed bump intact (On second thought, don't do that. If you think market structure is complex now, wait until multiple exchanges are employing intentional delays – you'll have to hire a couple hundred more staffers just to research all of the additional locked/crossed markets and trade-throughs). Maybe you should talk to the Canadian regulators – they just amended their order protection rules. A 2.5% volume threshold to have the privilege of a protected quote sounds about right.

To IEX: You are not the savior of the US equities world. You are an opportunistic group of people with exceptional marketing skills that feels the same sense of entitlement towards being approved as a stock exchange that a millennial kid feels towards entitled to a well-paying job straight out of college and the latest iPhone. It's crazy that you want to join the existing 12 stock exchanges whose quotes are protected without adding any real value and without some of the bare essentials that demonstrate a minimal level of competence and understanding of market structure. For example, you don't offer a depth of book market data feed. Why? You probably don't even have a rational reason. Here's what will happen if you are approved to become an exchange with a protected quote. Let's say you have three clients (who, and I think everyone keeps forgetting this, are technically brokers – not pension funds or individual investors or whoever else you're attempting to appeal to in this utterly over the top marketing video and website. By the way, it's interesting that you took down the 'strong arm' letter that used to be posted here. It's probably stashed somewhere with that hand-drawn/animated anti-HFT shark filled (HFTs were the sharks…clever) marketing video that you used to have on your website in the early days), one with an offer at the NBBO, one with an offer one penny below the NBBO, and another with an offer two pennies below the NBBO. Some broker has a big order and decides to sweep the market down through three price levels by routing IOC ISO orders to the exchanges that show offers with prices within the broker's limit price (including IEX) and also routes a Day ISO order to another exchange (let's call it ABC exchange), buying all of the shares offered at the NBBO as well as all of the shares offered at the next two price levels at every exchange, with the remaining quantity of the Day ISO posting to ABC exchange three price levels down from the original NBBO. In this scenario, the only shares that were executed on IEX were those belonging to the client whose shares were priced at the NBBO. But what about the other two clients (let's contradict my earlier comment that IEX clients are all brokers and assume the orders actually belonged indirectly to buyside clients who twisted their broker's arms into providing a DMA route to IEX)? Ah, well their orders weren't filled because they weren't protected…because they weren't displayed…because IEX only displays quotes at the top of its book and non-displayed orders are, by definition, not protected! How's that for protecting disadvantaging the "investor"? Their orders should have been filled in this scenario. I wonder if this was explained in any of the IEX pitch books for IEX investors or presentations at buyside conferences. Please build a depth of book/integrated (yes integrated, meaning quotes and trades in the same feed) data feed like everyone else has (even NYSE, who's been by far the slowest adopter of modern exchange functionality). What's also nuts about this scenario is that after the IOC ISO (which will swirl around the magic shoebox for a while before hitting your matching engine) executes, IEX, who subscribes to all of those evil direct market data feeds from other exchange (I thought only HFTs paid for those elitist feeds? Oh, wait – everyone that takes themselves seriously subscribes to direct data feeds, either directly or via their OMS/market data terminal), will intentionally/knowingly cross the new quote set by the Day ISO on exchange ABC (IEX will see the Day ISO post at exchange ABC before it sees the IOC ISO hit its own book and proceeds with displaying the order that was previously one penny below the NBBO). This is explicitly prohibited by Reg NMS (hey SEC, you might want to check into this – please tell me this isn't the first time you're hearing about it). Speaking of Reg NMS, you should thank the SEC for trying to go to bat for you with that absurd de minimis/1 millisecond proposal, which everyone hated. I think they were trying to force a non-sensical interpretation of the word 'immediate' on your behalf, but the thing is, everyone already knows what immediate means and it doesn't mean intentionally delayed (yet asymmetrical in favor of midpoint pegged orders on IEX). Speaking of midpoint pegged orders – don't they make up something like 90% of the orders executed on IEX (measured by notional value)? Those aren't displayed, which means they don't contribute to public price discovery. Who needs another exchange, especially one who is so dark and brings so little actual innovation to the table? Oh yeah, back to that anti-HFT video you used to have. Did you take it down before or after you realized that the majority of the transactions on IEX include HFTs? I hope it was before, otherwise you might be in the same boat as Barclays (you know, "omitted facts" and "materially misleading statement"). By the way, do you tell all of those buyside fans of yours what % of your quotes and volume comes from HFTs? HFTs actually like IEX because IEX has done a great job (again, kudos on the marketing – nothing works better than conspiracy theories and scare tactics) collecting order flow from buysides via their brokers (again, via that whole strong arm campaign) for the HFTs to trade against. Speaking of brokers – shouldn't you guys still be a little pissed about IEX telling buysides how crappy you are and encouraging them to force you to route their orders to the IEX router, bypassing whatever perceived value proposition you are offering? Anyways IEX, I think its swell that you're trying to innovate, I just think your marketing techniques are a little sleazy and you should expect to have to innovate within the existing regulatory structure like everyone else (I still can't believe you thought there was a chance of you getting approved as an exchange with your original router setup – pure hubris).

To Michael Lewis: You sir, are quite the entertainer. Why do people continue to want to hear your opinions on US equity market structure (do they know you're not even close to being an expert?)? I really enjoyed your other books, though I must admit that I question the veracity of them after having read Flash Boys (or "the book" as it's annoyingly referred to). I can't believe you didn't have the intellectual curiosity to talk to informed market participants when you were researching/writing Flash Boys, not to mention the journalistic integrity. You should take up Dave Weisberger's open offer to debate you, and then you should stop pretending to know what you're talking about when it comes to US equity market structure (or Canadian equity market structure for that matter).

Please do yourself a favor and read Peter Kovac's rebuttal to your book. Also, thanks for utterly bastardizing the term front running.

To the buyside: Wake up and do some market structure research. Or don't if it's not a good use of your time….whatever. But don't be so quick to freak out when you read a poorly researched fear mongering book about the stock market being rigged (side note, you should also read Peter Kovac's rebuttal to Flash Boys). Send your orders to better brokers that use direct data feeds and have their algos in the same data centers as the exchanges (they aren't that hard to find). Measure their performance…not with the meaningless quarterly TCA reports that you don't actually understand but pay for so you can check whatever box it is you're checking in those copied/pasted Form ADVs of yours. Start actually measuring performance, and then make routing decisions based on your performance observations instead of sending all of your order flow to bulge bracket guys in return for 'free' research at the expense of your underlying clients. There's just something so ironic about buyside guys fretting about maker/taker conflicts of interest when those same guys direct trades to big brokers and pay them $.03/share (ten times an exchange rebate) or more which comes out of their client's assets all so that they don't have to pay for research out of their own pockets…talk about a conflict of interest. Spend less time listening to Brad Katsuyama preach the virtues of IEX and more time figuring out how to get better returns for your investors and how to charge them less when your performance sucks. I know you're upset about not being able to trade in blocks anymore. Try that new buyside-only dark pool Luminex. When you don't get much done there because it turns out that market makers (who, these days, are those terrible HFT guys) actually do serve a purpose, find a few good algo brokers and start using all day vwap or whatever. Pick a benchmark and let your broker(s) figure out how to achieve it.

To the individual investors that took the time to write hundreds of comment letters: IEX doesn't impact your trading at all. Not even a little. Well, maybe a little if you trade through one of the few online brokerages that was opportunistic enough to take advantage of all of this non-sense and lets you route orders directly to IEX, but I bet if anything you get worse executions than when you let your online brokerage route your orders to Citadel, KCG, Two Sigma, etc. You have never had it better. You can even trade for free these days! Do your research. Unless your investment time horizon is measured in seconds, this whole 'market is rigged' story is a complete waste of the <15 minutes you spent googling HFT after reading Flash Boys to formalize your opinions and the 3 minutes you spent writing a letter to the SEC parroting the IEX propaganda. I'm a little embarrassed to be one of you these days.

To the Exchanges: Stop charging so much for ports and market data and other stuff. Build more robust platforms that don't have issues so often. Shut down your smaller order books – they obviously aren't providing any value. If you have an exchange that warrants volume because of something clever that you are doing, you will get it...but stop forcing a bunch of fixed costs on brokers that have to connect to exchanges that execute less in terms of ADV than the larger dark pools.

To the Market Structure Talking Heads: It's ok to acknowledge that the IEX model has flaws. Just because you are anti-HFT doesn't mean you have to support IEX without any scrutiny. Hop off the bandwagon and do some of your own research. Do you really think that IEX provides the benefits they claim to provide? If yes, based on what? Clarify what exactly about HFT bothers you using some sort of empirical data analysis. Of course some HFT guys run manipulative trading strategies and that's wrong, but you act like the majority of them do. Lots of non-HFT firms have their gear in the same data centers as the exchanges (not just in the US, but worldwide across asset classes). Lots of industry participants take direct data feeds in addition to the SIP. IEX isn't the only trading venue that doesn't have maker/taker (way to go NSX!...but seriously, you should shut down. 500k ADV isn't doing anyone any favors).

To the News Media that keeps framing the IEX debate as Exchanges/HFTs vs. "Investors": You've cleverly noticed that most of the comment letters in favor of IEX's exchange application being approved are from institutional and retail investors, while most of the comment letters that are critical of IEX becoming an exchange are from other exchanges and their HFT clients. You quickly draw two conclusions: 1) Exchanges don't want IEX to become an exchange because they don't want any more competition and are trying to preserve the status quo; and 2) HFTs don't want IEX to become an exchange because IEX will change the US equity trading landscape to the detriment of HFT profitability. Allow me to point out another notable difference in the comment letters from each camp: the comment letters opposing IEX becoming an exchange have specific examples, data driven analysis, and rule references while the comment letters in favor of IEX becoming an exchange are unsurprisingly void of those very same things. Maybe you should characterize the debate as being between those who understand US equity market structure and the associated rules and regulations and those who don't. Seems like a more insightful grouping doesn't it?

To the HFTs: Most of you that made money solely from market structure nuances don't make money anymore, which is fine. If you have good alpha and can trade and make money, great. Do it. If you are just looking for the next market structure oriented arbitrage opportunity, you probably won't be in business much longer. For those of you who trade on IEX, I bet IEX very quietly pats you on the back for being such a big player in their dark pool, while continuing to publicly criticize you. Does that rub you the wrong way? Maybe you should do something about it. Wouldn't it be a neat experiment if you all decided to stop trading on IEX for a week? Yeah, you should do that. How about next week? Really, you should do this. I bet IEX's market share would drop to around .5%.