LTSE LONG-TERM STOCK EXCHANGE

LONG-TERM STOCK EXCHANGE, INC.

14 Wall Street, 20th Floor
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July 8, 2026

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File No. 4–757 (Proposed Third Amendment to the Limited Liability Company Agreement of CT Plan LLC To Revise the Revenue Allocation Formula; Comments of the Long-Term Stock Exchange)

Ms. Countryman:

The Long-Term Stock Exchange, Inc. ("LTSE" or the "Exchange") appreciates the opportunity to comment on the proposed amendment of the Limited Liability Company Agreement of the CT Plan LLC ("CT Plan") to revise the allocation of net revenues among members ("Proposal").[1]

The Proposal would modify the CT Plan's Revenue Allocation Formula ("RAF") by limiting the amount of revenue attributable to a CT Plan member's quoting activity relative to the revenue that member receives from trading activity. In effect, the proposal would establish a cap on the ratio of quoting-based revenues to trading-based revenues under the existing allocation framework.

The current RAF reflects Commission-approved goals designed to remunerate contributions to price discovery. These values should not be compromised now, especially in light of an absence of data showing the existence of any deficiency in the current RAF, much less a severe, existing one.[2] As discussed below, the historic activity

1 The Securities and Exchange Commission ("Commission") noticed the filing of the Proposal on June 12, 2026, and the notice was published in the Federal Register on June 17, 2026. See Securities Exchange Act Release No. 105680 (June 12, 2026), 91 FR 36633 (June 17, 2026) ("Notice"). The Exchange is a member of the CT Plan. See id., note 5.

2 The Commission has recognized that reforming revenue allocation formulas that have remained unchanged for many years could affect the competitive position of various markets. See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37563 (June 29, 2005) (approving revenue allocation changes to reflect current market conditions where the current formulas had "severe deficiencies").

complained about by the Proposal's proponents was consistent with the CT Plan's objectives and the Commission's broader market structure goals. In contrast, the objectives embedded within the proposed RAF are unsupported and controversial. For these reasons, which are discussed in greater detail below, LTSE believes that the Commission should disapprove the Proposal.

Quoting Activity and the Objectives of the Revenue Allocation Formula

The Proposal states that LTSE and NYSE Texas (formerly NYSE Chicago), during discrete periods of time in the past, received a comparatively larger share of quoting-related revenues relative to trading-related revenues. The proponents describe a pattern characterized by "frequent or continuous quoting at the national best bid and offer—often in size and in high-priced securities—accompanied by relatively little increase in the level of trading activity on those venues."[3] LTSE respectfully submits that the conduct described is not evidence of any deficiency in the RAF.

To the contrary, frequent and sustained quoting at the National Best Bid/Offer ("NBBO") has long been recognized as an important contributor to price discovery and market quality. The RAF was specifically designed to reward exchanges that contribute meaningful displayed liquidity and improve the quality of publicly available quotations. In adopting the current RAF, the Commission expressly rejected aspects of the prior formula that failed to recognize the value of quotations that were fully accessible and established the NBBO for a substantial period. Those quotations contribute directly to price discovery, including for trades executed on other markets that internalize orders at prices that reference the NBBO. The Commission reasoned:

> such formulas based solely on an SRO's trading activity may have been adequate many years ago when a single market dominated each group of securities, but are seriously outdated now that trading is split among many different markets whose contributions to the public data stream can vary considerably.[4]

Of course, trading is considerably *more* fragmented today than it was in 2005.[5]

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[3] Notice at 36634.

[4] Securities Exchange Act Release No. 51808 at 37563.

[5] See Securities Exchange Act Release No. 105655 (June 11, 2026), 91 FR 36656 (June 17,2026), 36657 ("since the adoption of Rules 611 and 610(e), U.S. equity markets have become increasingly fragmented…"), 36701 notes 562-564 and accompanying text (describing trading fragmentation in January 2026).

As mentioned above,[6] the Proposal highlights that much of the complained about quoting activity occurred in higher-priced securities. However, the RAF already incorporates mechanisms that account for differences in trading activity across securities. In approving the current quoting-based allocation methodology, the Commission expressly recognized the value of larger displayed quotations at the NBBO, noting that a $50,000 quotation at the NBBO may provide greater utility to investors than a significantly smaller quotation in the same security.[7] The RAF intentionally assigns greater value to quotations that contribute meaningful size and enhance the informational quality of the National Market System. Accordingly, when an exchange earns quoting-related revenue because market participants on that venue consistently display larger quotations at the NBBO, the resulting allocation reflects the operation of incentives that were deliberately incorporated into the formula. Such outcomes are consistent with, rather than contrary to, the objectives underlying the Commission's approval of the RAF.

As the Commission observed when approving the allocation methodology, quotations in less actively traded securities are naturally associated with smaller quoting allocations because the formula ties quoting revenues to the proportional dollar volume of trading in the relevant security. This design helps ensure that quotations in securities with limited trading interest do not receive disproportionate compensation.

The proponents of the Proposal do not allege that it was abusive, like tape shredding;[8] that it constituted gaming;[9] or that any of the complained about quotes were inaccessible, as flickering quotes were.

The Proposed Modifications to the RAF

The amended CT Plan would limit the ratio of revenue distributed to each individual CT Plan member that is attributable to its quoting activity compared to

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6 See supra note 3 and accompanying text.

7 See Securities Exchange Act Release No. 51808 at 37563.

8 The RAF was last modified to prevent abuses, including tape shredding. See Securities Exchange Act Release No. 51808 at 37589. However, the proponents never identify any abusive practice in connection with the historic activity on NYSE Texas and LTSE. Nevertheless, they attempt to justify the proposed ratio cap by saying that it is designed to avoid potential abuses related to quoting activity not otherwise addressed by the existing formula. See Notice at 36635.

9 The proponents merely assert generally: "[w]hen quoting activity ceases to bear a meaningful relationship to trading, however, it becomes less useful for price discovery and *more likely to be associated with* gaming activity that distorts market data in the manner the Commission sought to avoid when it adopted the current formula." Notice at 36635 (emphasis added). Moreover, they offer no analysis to support this contention.

revenue such member receives for trading activity under the RAF. If adopted, an exchange that contributes greatly to price discovery by quoting at the NBBO 50% of the time but has little trading volume would be punished relative to an exchange which quotes at the NBBO 25% of the time but has higher trading volume. There is no empirical evidence to support the contention that exchanges with low quote/trade ratios contribute more to price discovery than exchanges that exceed the proposed cap, and therefore deserve to receive more quote revenue.

The Proposal's proponents' rationale for altering the over 20-year old RAF boils down to this:

> Quotes are useful for price discovery because they represent offers to trade at displayed prices. When quoting activity ceases to bear a meaningful relationship to trading, however, it becomes less useful for price discovery and more likely to be associated with activity that distorts market data in the manner the Commission sought to avoid when it adopted the current formula.[10]

LTSE strongly agrees with the first assertion, which is well-grounded in the existing formula approved by the Commission. However, the second contention is novel, inconsistent with the principles underlying the current RAF, and unsupported by the Proposal's proponents. Does effective price discovery require both quoting and trading activity, as reflected in the proposed cap? No data has been submitted to support this claim. Nor have the proponents explained why they believe this new tenet is true or appropriate, or why embedding it in the RAF would be in the public interest. Seemingly they expect the Commission to accept this unjustified precept as an article of faith.

There are several legitimate, i.e., non-gaming,[11] reasons why quoting activity may not have a "meaningful relationship" to trading. No regulation ensures that the venue that puts the most into price discovery by setting the NBBO receives a resulting execution. Other venues may quickly match the new price and, as explained below, routers' preference factors may greatly impact the distribution of executions.

Many smart order routers prioritize exchanges that historically[12] have had the most liquidity. For this scenario, assume that there is interest to sell 2,000 shares and

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10 Notice at 36634.

11 See supra note 9.

12 "Historically" could mean time periods of months, days, seconds or even a non-time based measure such as number of events, depending on the routing algorithm. For a general discussion, see https://complexevents.com/wp-content/uploads/2008/09/streambase_whitepaper_smart_order_routing.pdf

two exchanges are displaying the following number of shares at the national best bid ("NBB"):

- Exchange A: bidding 2,000 shares (NBB setter)
- Exchange B: bidding 2,000 shares (historically largest displayed size)

Exchange B with the largest historical displayed size would end up with an execution, even though Exchange A set the NBB.

Some routers prioritize routing to the venue with the largest displayed size (all else equal) because it may provide more certainty of execution. For this scenario, assume that two exchanges are reflecting selling interest at the national best offer ("NBO") for an aggregate of 3,900 shares:

- Exchange A: offering 1,900 shares (NBO setter)
- Exchange B: offering 2,000 shares (NBO joiner)

An order to buy 2,000 shares would be sent to Exchange B, even though Exchange A set the NBO.

Similarly, a firm may seek to lower its costs by programming its order router to maximize the number of shares being sent to a given exchange to ensure it reaches a certain volume "tier." For example:

- Exchange A: offering 1,000 shares (NBO setter)
- Exchange B (NTX): offering 1,000 shares (NBO joiner with a volume tier[13])

Even though Exchange A set the NBO, a 1,000 share buy order from a firm seeking to qualify for the NTX rebate tier would send the order there.

Lastly, exchanges compete for executions with the OTC market as well as with each other. For example, when only a single exchange is displaying liquidity at the NBB, its quote may not be hit if, for example, a trade is executed at the NBB on an Alternative Trading System. LTSE notes that the amount of shares being reported through the Trade Reporting Facilities is approximately the same number as executed on exchanges.[14]

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13 Nasdaq Texas (NTX) charges a firm 7 mils/share to remove liquidity, unless it adds and removes at least 0.05% TCV; and adds at least 50,000 ADV upon which it provides a 10 mil/share rebate. See https://www.nasdaqtrader.com/Trader.aspx?id=ntx_pricing.

14 For the month of June, 2026, the combined volume of the 3 TRFs was 48.85% of total volume. (53.43% excluding auction volume) Source: Cboe Global Markets: https://www.cboe.com/markets/us/equities/market-statistics.

To be clear, LTSE sees nothing wrong with these routing practices, but they help to explain why quoting activity at one venue may lead to trading at another. What is problematic is the distorted incentive and possibly anti-competitive outcome that would result from the Proposal. Under the proposed cap, exchanges with low quote to trade ratios would be less incentivized to encourage aggressive quoting that contributes most to price discovery. LTSE considers this outcome undesirable.

Conclusion

For more than two decades, the RAF has encouraged exchanges to enhance displayed liquidity and contribute to price discovery by rewarding high-quality quotations at the NBBO. The Proposal does not demonstrate that the identified outcomes are inconsistent with the principles underlying the current methodology or that the incentives created by the RAF have produced harmful or unintended results. All that is alleged is that a previously unrecognized proposition has been violated. LTSE respectfully submits that adoption of the Proposal, including the proposed cap, would weaken incentives for market participants and national securities exchanges to display at the NBBO, which would not be consistent with the public interest. For this reason, and on this record, the Exchange believes that the Commission should disapprove the Proposal.

Should the Commission conclude that the RAF warrants revisiting, the Exchange respectfully submits that the proper course would be to comprehensively re-examine the formula as a whole. Such re-examination should weigh unrecognized behaviors that the proponents passed over in their rush to advance a self-serving outcome.

Please feel free to contact me if you have any questions.

Sincerely,

William R. Harts

William R. Harts
Chief Executive Officer
Long-Term Stock Exchange

Cc: The Honorable Paul Atkins, Chairman, Commission
The Honorable, Hester Peirce, Commissioner, Commission
The Honorable Mark Uyeda, Commissioner, Commission
Jamie Selway, Director of the Division of Trading and Markets, Commission
Richard Holley III, Associate Director of the Office of Market Supervision, Division of Trading and Markets, Commission