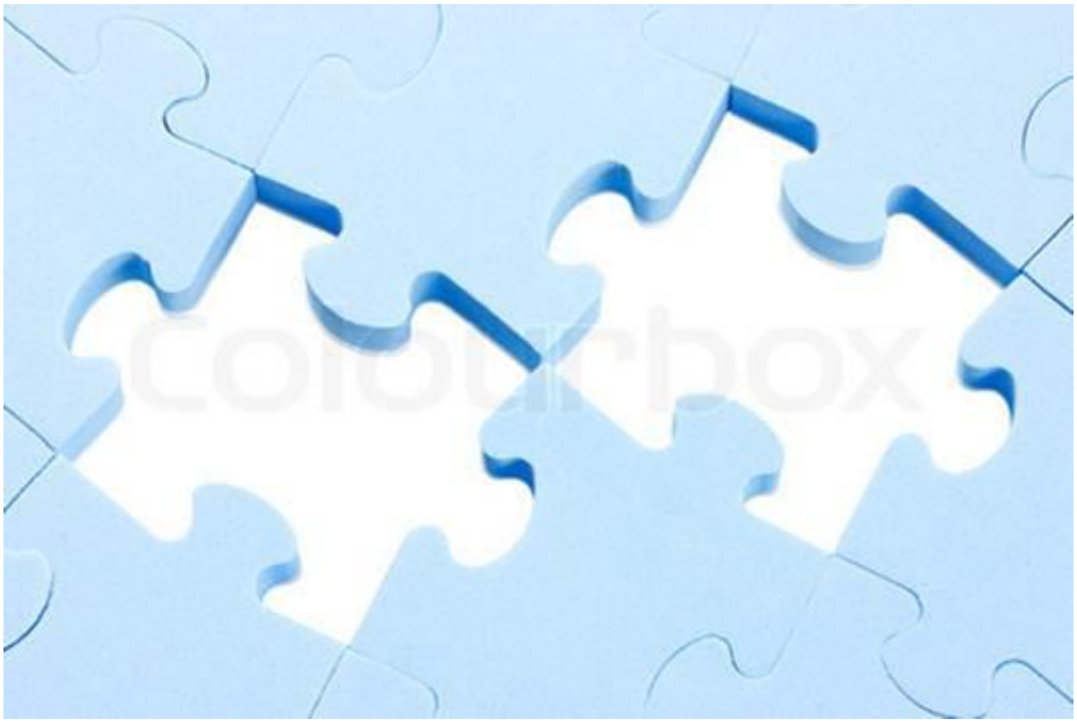
Dear SEC: Please View The Complete Picture!



The SEC in an October 1st 2013 Bloomberg article, has just telegraphed what we can expect from them with regard to regulation and curbs on high-speed trading. They are going to soon release their own research on high speed trading activity.

After years of witnessing

- Jaw-dropping price moves and volatility during the financial crisis, with documented instances of short-sale violations by high speed firms,
- The Flash Crash,
- The epic failure of the largest IPO in history (FB) due to high speed traders placing and canceling orders in a structure created for them, which could not deal with those orders and cancellations in the 2 millisecond window needed to open the IPO,
- The BATS IPO meltdown in 2 seconds,
- The Knightmare,
- The Goldmare,
- The NASDAQ SIP Flash Freeze, resulting from speed and data infrastructure issues due to a speed-addicted two tiered market structure,
- Option market shutdowns due to speedy traders again flooding the SIP,
- And Liquidity vacuums in mini flash crashes resulting from the fair-weather whims of high frequency market makers combined with a market structure that bestows on them perks that aid in reacting to ~~slower players' next move~~ sweep risk,

And having access to a plethora of independent academic studies that portray and predict how their HFT-encouraging market structure can and does damage public markets, **the SEC's MIDAS collaboration will enable this in-house research.**

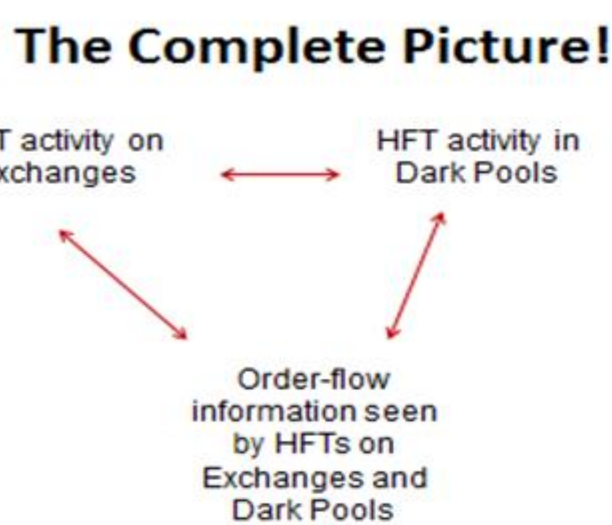
Their first report will "present information on whether stock-market liquidity is affected by the high volume of orders that are canceled before being filled, which can give the false appearance of real bids and offers for stocks," as HFTs reportedly cancel over 90% of the orders they send to exchanges. According to the SEC's Berman,

> *"Midas gives the SEC a view into market behavior that some of the most sophisticated trading firms don't have."*

From reading the Bloomberg article, there appears to be an in-between-the-lines tone that suggests that the SEC's research will likely show that our market structure is fine, and that the real issue for the public is that they need to better understand how the markets work. Stated another way, the problem with modern markets is solely one of education.

The SEC's report is designed to "shed light and help people better understand markets." If that is the goal of these research pieces, we all will be disappointed. More importantly, we will all be disappointed if the SEC plans to draw conclusions about something as complex as our market structure without having analyzed the complete picture, which Berman does acknowledge that the SEC does not have (MIDAS aids a view of lit markets only).

What is the complete picture? This is:



MIDAS only aids the SEC in one of these things – activity by high speed traders on the exchanges. The SEC has limited visibility into activity by high speed traders, or any traders for that matter, in dark pools and wholesaling internalization engines. And despite having MIDAS, they also have limited visibility into *where orders travel on their way to being executed.*

Given that the exact same high speed players are operating in dark pools as well as exchanges, and that dark pools generally price off a slower SIP (latency arbitrage), and that order flow is leaked via numerous IOI-type mechanisms on exchanges and dark pools, these two puzzle pieces represent substantial and inter-related parts of the picture that they are missing. Those pieces are crucial in the strategy and motivation of so much HFT activity. And without those important pieces, we would view cautiously any conclusions that the SEC might draw from just being able to examine orders and cancellations on public exchanges.

We wish the SEC every success, and believe that the regulators need to be in the business of objectively analyzing market metrics. MIDAS is a good start. However its time they approached the market structure as a whole, and understand how it is all related, before they make judgments about the benefits and costs of any type of trading or structure. With all due respect, there are no shortage of staked industry players who have been “educating the public” on the benefits of high speed trading and the for-profit exchange models. We hope the SEC looks at our market structure in a holistic way, and at all of the pieces of the puzzle and not just one.