August 16th, 2018

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Dear Mr. Fields,

Themis Trading appreciates the opportunity to comment a second time ***in support*** **of the Transaction Fee Pilot for National Market System Stocks (TFP) proposed by the Commission. (**Our first comment letter can be read here).

In our first comment letter, we mentioned that we expected to see many comment letters against the undertaking of a transaction fee pilot, particularly from stock exchanges that "sell speed", and whose arguments would be based on their own profit incentives, and not what is best for the market and investors as a whole. One argument against the TFP we anticipated was this one:

> *3) Spreads will widen and liquidity will decrease.*
>
> There is no evidence of this. In fact, rebates of 1/3 of a penny represent only
> fraction of the spread in many securities that are not in the top 100 volume. T
> purpose of the pilot is to test this hypothesis with actual data. Before exchan
> market makers make this argument, they should wait to see the data.

We were correct in our anticipation. In fact, one colocation – data – speed – selling exchange (NYSE) embarked upon a PR campaign that enlisted the aid of many of its issuers to express concern and dismay at the SEC for undertaking such a pilot. For example here is the letter from Farmer Mac (symbols AGM and AGM/A), which specifically states,

> *"As a company listed on the New York Stock Exchange ("NYSE"), Farmer Mac has received a copy of the comment letter provided to you by Elizabeth K. King, General Counsel and Corporate Secretary, NYSE Group, Inc., dated May 31, 2018. We encourage the Commission to thoughtfully consider the arguments raised by NYSE, including specifically:*
>
> ***1. the potential for bid-ask spreads to widen****, resulting in higher costs for issuers conducting a share repurchase program…"*

There are many other NYSE-issuer letters making the same argument.

Upon reading some NYSE-issuer letters, each claiming that the TFP would widen spreads in their own stocks, as the lack of a rebate would reduce incentives for market makers to make markets in their stocks, *we decided to delve into actual trading data metrics around those issuers' securities*:

Company	Ticker	Spread Cents	10-Aug Close	Spread as % of price	Tier 1 Rebate (mils)	Rebate as % Spread	ADV
FarmerMac	AGM/A	95.2	$ 73.44	129.6	22	0%	636
FarmerMac	AGM	60.2	$ 78.88	76.3	22	0%	36,053
Unitil Corporation	UTL	40.8	$ 49.68	82.1	22	1%	45,383
National HealthCare Corp.	NHC	55.5	$ 74.23	74.7	45	1%	29,161
Trex Company	TREX	16.2	$ 76.78	21.1	22	1%	396,107
Curtiss-Wright	CW	15.4	$ 131.75	11.7	22	1%	328,851
Standard Motor Products	SMP	14.8	$ 48.89	30.3	22	1%	96,202
SIFCO Industries	SIF	29.1	$ 5.25	554.8	45	2%	3,482
Anixter	AXE	12.8	$ 69.90	18.3	22	2%	201,239
Era Group	ERA	11.6	$ 11.92	97.0	22	2%	58,229
Bank of Hawaii	BOH	11.3	$ 82.03	13.8	22	2%	217,599
Leaf Group	LEAF	8.9	$ 11.00	81.0	22	2%	60,704
Sensient Technologies Corp	SXT	8.7	$ 68.03	12.7	22	3%	281,614
Tredegar Corp	TG	8.1	$ 22.50	36.2	22	3%	89,822
Mexco Energy	MXC	16.3	$ 5.18	314.5	45	3%	72,119
ProAssurance Corp	PRA	7.7	$ 45.90	16.7	22	3%	418,200
Ethan Allen Interiors	ETH	7.5	$ 22.35	33.4	22	3%	243,625
Ennis, Inc	EBF	7.4	$ 20.40	36.3	22	3%	89,901

Please note the bid-ask spread in Farmer Mac's listed securities (95.2 and 60.2 cents).

Please note the rebate NYSE pays on Farmer Mac's listed securities (22 mils – about 1/5th a cent).

Please note what % that rebate is of the bid-ask spread in Farmer Mac's listed securities (zero).

Please note similar verifiable metrics for a few other NYSE-issuer TRP comment writers in the above chart.

What point are we making?

The above issuers are writing the SEC to object to a TFP pilot because they claim that rebates are needed to incentivize market makers to quote tight spreads in their stocks. **And their NYSE-solicited/provided argument is flawed**.

A fifth of a cent rebate is not incentivizing a tight bid-ask spread in these issuers' stocks, particularly Farmer Mac's listings. Then again, maybe Farmer Mac is concerned that the bid-ask spread in AGM/A might widen from 95.2 cents to 95.4 cents.

We don't mean to poke fun at Farmer Mac; they are just parroting the talking point that a conflicted speed-selling stock exchange asked them to make. One can't expect Farmer Mac's CFO to be as well-versed in trading market structure as the NYSE is. Their mistake was trusting that NYSE presented the facts and issues around trading in their particular stock accurately.

While we can excuse Farmer Mac from not looking at or understanding their own stock's trading data, we do take comfort that the SEC is sophisticated, and will appropriately examine all data, as well as the economic conflicted interests being hurled at them from all sides on the TFP.

Conclusion

Let's please keep in mind the reason for the TFP, and not be distracted by shiny lures cast by conflicted stock exchanges desperately fearful that their business models might come crashing down.

We would like to recommend that the SEC use **The 5 Whys** to remain focused on why the TFP is needed (The 5 Whys is an iterative interrogative technique used to explore the cause-and effect relationships underlying a particular problem. The primary goal of the technique is to determine the root cause of a defect or problem by repeating the question "Why?" Each answer forms the basis of the next question).

We believe this is a pretty accurate use of 5 Whys as it relates to equity rebates:

> ***1. Why does the US Equity market need rebates?***
> *To incentivize market makers to provide liquidity and tighten spreads.*
>
> ***2. Why do market makers need an incentive to tighten the spread?***
> *They need to be compensated for the risk of adverse selection (see this BATS Open Letter from 2015)*
>
> > *BATS believes that exchange liquidity rebates, which are transparent, rule-based, and open to all, provide a meaningful incentive for liquidity providers to display narrow spreads by mitigating the potential impact of being adversely selected.*
>
> ***3. Why are market makers being adversely selected?***
> *HFT firms use speed advantages to frequently trade right before the market moves.*

(see this from IEX on the topic of latency arbitrage, which is based on broker self-classifications)

4. Why do the HFT firms have speed advantages?
The stock exchanges sell them speed advantages.

5. Why do the stock exchanges sell HFT speed advantages?
Stock exchanges are publicly traded companies and need to grow revenue.

Again, thank you for undertaking a Transaction Fee Pilot.
Again, thank you for allowing us to weigh in with a few of our thoughts.
Again, thank you for remembering that the markets are here to serve investors, and not intermediaries.

Respectfully submitted,

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