XR SECURITIES LLC

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United States Securities and Exchange Commission

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I would like to thank the Commission in advance for the opportunity to respond to the recent Chicago Stock Exchange ("CHX") rule proposal whereby it withdrew its Liquidity Taking Access Delay ("LTAD") with the intention of replacing it with a Liquidity Enhancing Access Delay ("LEAD"). I am writing on behalf of XR Securities LLC, a proprietary trading firm based in Chicago, IL. While we had concerns with the prior LTAD plan, we are just as concerned with the LEAD proposal that appears similar to the former plan, somewhat "repackaged" and just as disconcerting as related to its potential impact on the National Market System.

We believe the CHX proposal of implementing an asymmetrical delay in their matching engine will have far-reaching consequences on true price discovery across the National Market System. In the absence of true price discovery, it is ultimately a disservice to the investing public. The original CHX LTAD proposal provided a 350-microsecond buffer allowing ALL liquidity providers to cancel resting orders in their book. The current proposal will offer this benefit solely to lead market makers of the CHX's choosing. In either case, this concept is likely to disrupt the current functioning of the broader market and will ultimately result in higher trading costs for the investing public. It is our impression that the prior comment letters to the initial proposal did not adequately explain these potential implications.

We believe that giving any liquidity provider an asymmetric ability to cancel their resting orders before incoming orders have the ability to access them undermines the market as a whole[1]. While we respectfully disagree with the CHX assertion that its plan is consistent with Rule 600(b)(3) of Regulation NMS (which states that protected quotes must be automatically and immediately executable), and contend it would violate the rule, we would like to address concerns of potential market behavior we would expect to see if such a delay was approved as drafted.

CHX is a registered exchange and this access delay protects displayed quotations. This, combined with the Order Protection Rule, creates the unfair situation which forces all market participants into trading agreements with these lead market makers who have the benefit of making their trading decisions with more information than any of their potential counterparties. The implications of these forced interactions will be costly to investors and liquidity providers alike and, it has the potential to create a huge impediment to actual price discovery across the greater market. Below are two quick examples to illustrate this point: assume that CHX and NASDAQ are the sole exchanges that make up the National Market System and their respective books appear as displayed:

[1] Similar view expressed by Mr. David Weisburger (President, Exquam) via his article for TABB FORUM ["Are Speed Bumps Market Structure's 'Back to the Future'? (And Is the CHX Biff Tannen?)]

	CHX			NASDAQ	
Bid Size	*Price*	*Ask Size*	*Bid Size*	*Price*	*Ask Size*
	11	10000		11	10000
	10	40000		10	100
40000	9		15000	9	
10000	8		10000	8	

Suppose a liquidity provider at NASDAQ is working a quote that is made up of a bid at 9 and an offer at 10. Now, suppose his pricing model suggests that the true price of this particular security is 10.5. He now needs to cancel his offer at 10, move it up to 11, and improve his bid from 9 to 10. To abide by the RegNMS Order Protection rule, the 10 offer has to be cleared prior to posting a new bid at 10 anywhere. The liquidity provider's bid cannot be moved up to 10 without using an Intermarket Sweep Order ("ISO") which requires him to send an order to trade against and remove the 40,000 share offer that is displayed on CHX's book. This is a situation any liquidity provider faces today. The ability to improve their bid quote is dependent on the confidence in their pricing model in conjunction with the costs of their model being wrong (e.g. if the model is correct, the resting 40,000 share order on CHX's book will have rightfully been canceled by the time the new order will have had the opportunity to trade against it; if the pricing model is incorrect, the liquidity provider will have paid a heavy price in an adverse 40,000 share fill). The asymmetrical delay provided by LEAD will give CHX lead market makers an unfair advantage that will guarantee counterparties (the liquidity provider at NASDAQ in this case) will have very low fill-rates when their pricing models are accurate and considerably higher fill-rates when their pricing models are not accurate.

While this is an inherent risk to the market making model, the CHX proposal affects the entire risk/reward dynamic that all liquidity providers face today when trading on any market. The protected nature of CHX's quotes and the implementation of this asymmetrical access delay will create a situation whereby liquidity providers will be forced to route orders to an exchange where they're subject to an expensive selection bias. This proposal will essentially become a tax on liquidity providers across the market that will ultimately be paid to whomever the lead market makers are that are subjectively chosen by CHX (as they are the ones on the opposite side of these routed orders that liquidity providers would rather not send in the first place given the extremely low likelihood that any of their profitable orders are actually filled). While overall spreads and liquidity may improve, it will all be due to fleeting quotes at CHX. The spreads made by real liquidity providers, who are forced to make trading decisions based on the same amount of data provided to their potential counterparties, will most certainly widen.

The same selection bias that will negatively affect *real* market maker spreads will also have substantial negative impacts on investors who seek optimal order execution by using any kind of smart order router. Order routers will be obligated to send orders to CHX to remain compliant with the Order Protection Rule. Under the LEAD proposal, the frequency of this will increase as liquidity grows. Investors who utilize these routers will be forced to trade with these lead market makers who will have the distinct advantage of making their trading decisions with more information because they have more time to process data and make their decision. This will have an obvious negative impact on the quality of executions from the smart routers perspective. To make matters worse, the routers will not be able to do anything about it. The Order Protection Rule forces investors into these unfair trading situations with informationally advantaged lead market makers.

We feel compelled to impress upon you that the LEAD proposal has far-reaching consequences that are beyond the CHX. This would create a situation where, all of a sudden, the costs of being wrong might be so insurmountable that the market's best and tightest liquidity providers will only be able to compensate by being wider and more selective with their quotes. It will prevent liquidity providers, who are not informationally advantaged through one-way speed bumps, from providing the best market they otherwise could. It will prevent investors from achieving optimal executions as they will now be forced into potential trading agreements with lead market makers who get to make all of their trading decisions with extra information.

We can appreciate the desire for an exchange to compete based upon something other than fees and rebates. That being said, a proposal like this, which has far reaching consequences, cannot be approved. It's worth noting that this proposal is different than what the IEX model is doing in that, the only quotes on IEX's book that are asymmetrically accessible are non-displayed quotes meaning, they are not protected and market participants are not required to interact with them. This single distinction stands out to us as the largest flaw with this proposal. That being said, it is by no means our only concern with the LEAD proposal. We strongly believe that earlier LTAD response comment letters still apply to LEAD and they do a good job at explaining our additional reservations with this proposal.

In summary, the implications of this asymmetrical speed bump are far reaching. When considering this proposal, it is imperative that the SEC recognizes the impact this proposal will have on the broader market. An asymmetrical access delay in conjunction with protected quotations will have substantial negative consequences on true price discovery in our markets.

Respectfully Submitted,

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