

December 8, 2017

Eduardo A. Aleman
Assistant Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Release No. 34-82034;¹ In the Matter of the Chicago Stock Exchange, Inc. (“Exchange” or “CHX”) - For an Order² Granting the Approval of Proposed Rule Change³ to Adopt the CHX Liquidity Enhancing Access Delay on a Pilot Basis (File No. SR-CHX-2017-04)

Dear Mr. Aleman:

The Exchange thanks the U.S. Securities and Exchange Commission (“Commission”) for the opportunity to comment on the Commission staff’s comprehensive Approval Order related to the CHX Liquidity Enhancing Access Delay (“LEAD”). For the reasons explained below, the Exchange requests that the Commission affirm the Approval Order without further delay.

LEAD is an intentional access delay designed to enhance displayed liquidity at CHX by minimizing the effectiveness of certain predatory trading strategies that seek to execute against stale quotes during times of market transition. Specifically, LEAD will apply a 350-microsecond intentional delay to all incoming order-related messages submitted to the Exchange’s matching system, except that non-marketable liquidity providing orders and related cancel messages submitted by LEAD Market Makers will not be delayed. In addition, LEAD Market Makers will be subject to heightened market quality obligations, which will ensure that CHX quotes remain reliable and accessible. Moreover, so that the Commission and the Exchange could evaluate the actual impact of LEAD on the market before making any final determination as to the appropriateness of LEAD implementation on a permanent basis, the Commission staff approved LEAD as a two-year pilot program, during which time the Exchange will be subject to comprehensive data collection and analysis obligations. All data collected and analyzed during the pilot will be made publicly available, subject to certain member confidentiality considerations, which will further a robust and transparent colloquy regarding LEAD’s actual market impact.

The Exchange appreciates the need for a careful review of the LEAD proposal. LEAD is an innovation without precedence in our markets. In addition to enhancing price discovery and further reducing execution costs for public investors, LEAD has the potential to positively transform how institutional

¹ Exchange Act Release No. 82034 (November 8, 2017), 82 FR 52762 (November 14, 2017).

² Exchange Act Release No. 81913 (October 19, 2017), 82 FR 49433 (October 25, 2017) (“Approval Order”).

³ Id.; also Securities Exchange Act Release No. 80041 (February 14, 2017), 82 FR 11252 (February 21, 2017).

and retail orders are handled and executed. As nearly 40% of all equity volume⁴ comes from off-exchange trading centers that lean on protected quotations displayed by the exchanges to meet their best execution requirements, and the vast majority of retail order flow is executed in such venues, small improvements in market quality derived from LEAD will result in material execution cost savings to public investors by way of tighter spreads.⁵ Inevitably, such savings will come at the cost of reduced profits for broker internalizers, wholesalers and latency arbitrageurs, some of whom have gone through great lengths, publicly and privately, to undermine LEAD approval.⁶

However, the Exchange believes that the record before the Commission is full and complete. During the course of over 240 days of Commission review of the proposal, (1) a comprehensive Rule 19b-4 filing and two subsequent partial amendments were filed by the Exchange, (2) 20 comment letters were published and (3) a 55-page Approval Order was issued by Commission staff outlining precisely why LEAD and the pilot are consistent with the Securities Exchange Act of 1934 (“Exchange Act”) and the rules and regulations thereunder. As such, the only information of incremental value to the Commission’s review would be data and analysis related to the actual impact of LEAD on market quality, which requires that the stay of the Approval Order be lifted and the pilot implemented.

The Exchange notes that permitting LEAD to be implemented as a pilot and the Commission’s analysis of pilot data would be consistent with Chair Clayton’s statement regarding the importance of data in the Commission’s oversight function:

Just as investors look for material information upon which to base their investment decisions, the Commission uses data to support and enhance our oversight function, including in our analysis of market structure, as well as for investigations, examinations and market analyses and reconstructions.⁷

In light of the Chair’s comments, the Exchange asks that the Commission be mindful of the conjecture and speculation that is the cornerstone to the arguments of many of LEAD’s critics, as well as the chilling effect on innovation and competition, especially from smaller markets like CHX, which will result if such self-serving representations are successful in undermining innovative proposals that are otherwise consistent with the objectives of the Exchange Act. Accordingly, the Exchange submits that permitting CHX to implement LEAD is consistent with the Commission’s mandate to promote fair competition among market participants.⁸

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⁴ CBOE, “U.S. Equities Market Volume Summary.” www.cboe.com/markets.cboe.com/us/equities/market_share/

⁵ See Letter to Eduardo A. Aleman, Assistant Secretary, Commission, from James G. Ongena, Executive Vice President, General Counsel, CHX (June 30, 2017) at 10. All comment letters on the LEAD proposal may be found at <https://www.sec.gov/comments/sr-chx-2017-04/chx201704.htm>.

⁶ See *id.*

⁷ Chair Jay Clayton, “Oversight of the U.S. Securities and Exchange Commission” (testimony, Washington, DC, September 26, 2017), <https://www.sec.gov/news/testimony/testimony-clayton-2017-09-26>.

⁸ See 15 U.S.C. 78f.

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For these reasons, I respectfully request that the Commission affirm the Approval Order without further delay.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Ongena".

James G. Ongena

cc: Chairman Jay Clayton
Commissioner Kara M. Stein
Commissioner Michael S. Piwowar
Brett Redfearn, Director, Division of Trading and Markets
John Roeser, Associate Director, Division of Trading and Markets
Theodore Venuti, Assistant Director, Division of Trading and Markets