

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87221; File No. SR-LTSE-2019-02)

October 3, 2019

Self-Regulatory Organizations; Long-Term Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Make the Exchange a Display-Only Market by Removing References to Non-Displayed and Reserve Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on September 27, 2019, Long-Term Stock Exchange, Inc. (“LTSE” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

LTSE proposes to operate as a display-only market, and in furtherance thereof, proposes to delete references to non-displayed and reserve orders, and make other conforming changes.

The text of the proposed rule change is available at the Exchange’s website at

<https://longtermstockexchange.com/>, at the principal office of the Exchange, and at the

Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement on the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement on the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

On May 10, 2019, the Commission granted the Exchange’s application for registration as a national securities exchange under Section 6 of the Act,³ including approval of rules applicable to trading of securities on the Exchange.

LTSE is being built primarily to serve companies and investors who focus long-term. To date, LTSE has differentiated itself from other exchanges primarily by promoting long-term policies and governing practices for listed companies.⁴ LTSE seeks to further differentiate itself by offering a trading model that appeals to the interests and needs of long-term investors.

In particular, LTSE believes that long-term investors are seeking a simplified trading model that emphasizes displayed liquidity; that is, trading on LTSE will occur exclusively at prices displayed to all participants. The Exchange describes this model as a Very Simple Market (“VSM”). In the proposed VSM:

- (i) All orders resting on LTSE would be fully displayed;⁵

³ See Securities Exchange Act Release No. 85828 (May 10, 2019), 84 FR 21841 (May 15, 2019).

⁴ See Securities Exchange Act Release No. 86722 (August 21, 2019), 84 FR 44952 (August 27, 2019) (SR-LTSE-2019-01) (Order Approving Proposed Rule Change To Adopt Rule 14.425, Which Would Require Companies Listed on the Exchange To Develop and Publish Certain Long-Term Policies).

⁵ Certain order types, such as market orders, Immediate-or-Cancel (“IOC”), and Inter-market Sweep Orders (“ISO”), are by their very terms never displayable, and the proposed rule change would not eliminate these order types. The description of LTSE as a “fully-displayed” exchange in the proposed rule change refers to the fact there will be no hidden resting orders.

- (ii) There would be no hidden or reserve orders; and
- (iii) All trades would occur at displayed prices.

Because all orders would be fully displayed and all trades would occur at displayed prices, the VSM would dispense with both the need for midpoint executions (e.g., traders accessing non-displayed prices) and complex order types (e.g., orders that aim primarily to advance trading strategies).

LTSE believes that the VSM also would appeal to market makers who, by virtue of the simple nature of the market, would be able to effectively manage their quoting behavior.

LTSE's existing rulebook closely resembles the desired state of the VSM, with the exception of certain provisions referencing or permitting non-displayed and reserve orders.⁶ Accordingly, LTSE is making the following amendments:⁷

Rule 11.151 (Market Maker Obligations)

For each security in which a Member is registered as a Market Maker, the Member shall on a continuous basis during regular market hours meet a Two-Sided Quote Obligation, which requires a displayed quotation size of at least one normal unit of trading. Insofar as all quotations will be displayed, the reference to a "displayed" quotation size in paragraph (a)(1) of the rule is redundant and is proposed to be deleted. Likewise, in the discussion of a Market Maker's firm quote obligations, the reference to a Market Maker's "non-displayed" size in paragraph (b)(1) would be deleted. Additionally, the discussion of locked and crossed markets in paragraph (e)(1) has a provision that contrasts how "displayed orders" are handled, which will be unnecessary and, therefore, is proposed to be deleted.

⁶ In some instances, use of the term "display" or "displayed" will remain in the rulebook as the term refers to the operation of the Exchange in displaying orders, rather than as an order attribute.

⁷ Capitalized terms have the meaning as defined in LTSE Rule 1.160.

Rule 11.190 (Orders and Modifiers)

This rule establishes the allowable order types and attributes. The Exchange proposes to add an introductory statement to the first paragraph providing that “All orders resting on the Order Book shall be displayable; this requirement shall not preclude the use of market orders, Immediate-or-Cancel Orders, or Inter-market Sweep Orders which, by their terms, are ineligible to rest on the Order Book.”

Consistent with foregoing, references to non-displayed, partially-displayed, and reserve orders are proposed to be deleted. In particular, the descriptions of a “Non-Displayed Order” in paragraph (b)(3), and “Reserve Order” in paragraph (b)(2), would be deleted. Similarly, the description of a “Displayed Order” in paragraph (b)(1) would be deleted because it will be redundant of the General Order Types in paragraph (a).

As originally adopted, odd lot orders, and the odd lot portion of mixed lot orders, were treated as non-displayed orders. To accommodate LTSE’s transition to a fully-displayed market as described above, provisions in paragraph (b)(4) treating odd lot orders as non-displayed orders would be deleted. Similarly, provisions in paragraph (b)(5) explaining that mixed lot orders that are decremented to an odd lot size are converted to non-displayed orders would be deleted. Additionally, the provisions in paragraph (b)(5) explaining how odd lot portions of mixed lot orders must be marked for display to be eligible to be a Protected Quotation would be deleted as all portions of a mixed lot order will be displayed. In addition, the Minimum Quantity Order (“MQTY”) designation in paragraph (b)(11) would be changed to no longer be limited to non-displayed orders. The supplementary material .01 describing the priority of non-display portions of reserve orders also would be deleted. Conforming amendments to the rule text are proposed

in paragraph (c)(1) to delete references to the fact that IOC orders are non-displayable orders, and in paragraph (f)(1) to remove references to “displayed and non-displayed portions” of orders.

The provisions in paragraph (f)(4) addressing One-Sided Markets also would be revised to account for the fact that the Exchange would be a display-only market as described above, by deleting the provisions describing how non-displayed interest is handled. Relatedly, the provisions describing how displayed interest in One-Sided Markets is handled would be modified to replace references to “displayable interest” with the phrase “limit order” marked LTSE Only, as previously used elsewhere in paragraph (f)(4). Finally, there are proposed technical and stylistic amendments to improve the readability of the rule in view the changes described above.

Additionally, the provisions in paragraph (f)(5) pertaining to Zero Markets, defined as a condition which neither a Protected Bid nor Protected Offer exists, are proposed to be deleted. The Zero Market provisions address the condition where resting, non-displayed interest is unavailable to trade. Because LTSE will be a fully-displayed market as described above, provisions addressing how non-displayed orders in a Zero Market will post when a Two-Sided Market returns would be unnecessary.⁸

In what is purely a change in nomenclature, the Exchange’s price sliding process will now use the term “price sliding” in lieu of “display - price sliding.” The phrase “order eligible for display by the Exchange” in paragraph (g)(1)(A) would be deleted. Additionally, paragraph (g)(2) pertaining to “non-displayed price sliding” would be deleted. The sections of the rule in paragraph (g)(3) addressing locked and crossed markets contain redundant references to display orders, which along with obsolete references to non-displayed or partially displayed orders, such

⁸ References to Zero Markets are also proposed to be deleted in Rule 11.231, below.

as in paragraphs (a)(1)(G), (b)(1)(H), (b)(2), (b)(3)-(5), (b)(11), (f)(1), (f)(4)(A)(i)-(iii), (f)(5)(A), (g)(1)(C)(ii), and (g)(2) and in the Supplementary Material, are proposed to be deleted.

Conforming changes are also proposed to the section addressing short sale price sliding in paragraph (g)(4).

Rule 11.220 (Priority of Orders)

As originally adopted, the rules of LTSE established a Price – Display – Time priority. In becoming a fully-displayed market as described above, the Exchange would operate with a Price – Time priority. Accordingly, this rule would be changed in paragraphs (a)(1) and (2) to reflect this new priority scheme, and throughout the rule to eliminate redundant or inaccurate references to displayed or non-displayed orders. Notably, because odd lot orders and the odd lot portion of mixed lot orders would be displayed, the provisions in paragraph (a)(1)(C)(vii), which would have given a new time stamp to an order that is decremented to an odd lot size are proposed to be deleted. Conforming changes to paragraph (a)(3) also are proposed to reflect the deletion of paragraph (a)(1)(C)(vii). References to displayed portions of reserve orders and displayable orders are also proposed to be deleted from paragraph (a)(6) and (b), respectively.

Rule 11.230 (Order Execution)

This rule describes how orders are matched for execution against the LTSE Book. The provisions in paragraph (a)(4)(C) related to how non-displayed orders are posted to the Order Book would be deleted. The “Reserved.” provision in paragraph (a)(4)(D) would also be deleted.

Rule 11.231 (Regular Market Session Opening Process for Non-LTSE-Listed Securities)

The description of the Opening Process for non-LTSE-listed securities contemplates ranking non-displayed orders and non-displayed portions of reserve orders. These provisions,

found in paragraph (a)(1)(E), would be deleted. Additionally, the reference to “displayed” limit orders would be deleted from paragraph (a)(1)(F). Elsewhere, provisions in paragraph (b)(1) addressing execution priority are proposed to be changed to reflect that LTSE would have a Price – Time priority. The reference to Zero Market in paragraph (c)(3) also would be deleted.

Rule 11.240 (Trade Execution, Reporting, and Dissemination of Quotations)

LTSE will operate as an “automated market center,” and in furtherance thereof, will display “automated quotations” within the meaning of Regulation NMS. Accordingly, the aggregate of the best-ranked order(s) will be collected and made available to quotation vendors for dissemination pursuant to the requirements of Rule 602 of Regulation NMS. A reference in paragraph (c)(1) to the fact that only displayable orders will be disseminated is proposed to be deleted because all ranked orders on the Exchange will be displayed and retaining the rule text could suggest otherwise.

Rule 11.280 (Limit Up-Limit Down Plan and Trading Halts)

This rule incorporates the elements of the NMS Plan to Address Extraordinary Market Volatility, to establish for market-wide limit up-limit down requirements that prevent trades in individual NMS Stocks from occurring outside of the specified Price Bands. These limit up-limit down requirements are coupled with Trading Pauses to accommodate more fundamental price moves. Minor edits are proposed to the section on Re-pricing and Cancellation of Interest in paragraphs (e)(5)(B) and (E) to reflect the fact that LTSE will not have non-displayed orders.

Rule 11.330 (Data Products)

Among the data products offered by LTSE free of charge is the LTSE Web Platform, a data feed made available through the Exchange’s public website. In view of the fact that LTSE

would be a fully-displayed market, references to “displayed” orders in paragraph (a)(1) are redundant and are proposed to be deleted.

Rule 11.350 (Auctions)

The rules governing the auction processes are extensive and reference order types which allow for a user instructed display quantity, such as Limit-On-Close, Limit-On-Open, Market-On-Close, and Market-On-Open. Because the user instructed display quantity would no longer be permitted, this attribute is proposed to be deleted from these order types as provided in paragraphs (a)(20), (a)(21), (a)(24) and (a)(25), respectively. There are also references throughout the rule to displayable and non-displayable interest, which are proposed to be deleted. Additionally, because the Continuous Book would have only displayed interest, the term “Auction Ineligible Orders,” defined in paragraph (a)(3), and whose only operative provisions address “non-displayed interest,” would no longer be relevant, and would be deleted in paragraph (a)(3) and elsewhere as referenced throughout the rule. Other conforming changes are proposed to paragraphs (b) through (f) to reflect, as discussed above, that LTSE would have a Price – Time priority. Finally, periods would be added after “Reserved” in paragraphs (a)(3)(C)(i) and (a)(3)(D)(i), and the duplicative numeric heading in (c)(1) would be deleted.

Rule 11.410 (Use of Market Data Feeds and Calculations of Necessary Price Reference Points)

The LTSE Top of Book is the aggregate of the best priced resting, displayed orders for which it publishes a protected quotation. Because all orders would be displayed, the term “displayed” is proposed to be deleted from the description of Top of Book in paragraph (a)(4). Additionally, to account for the fact that odd lot orders would be displayed interest, but are not a protected quotation (unless aggregated with other odd lot orders at the same or better prices to make a round lot), the rule would state that the “LTSE proprietary market data feeds will provide

information about odd lot-sized orders, including when such orders are at prices better than the LTSE Top of Book.”⁹

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,¹⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹¹ in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The proposed rule change is a series of substantive and conforming amendments to LTSE’s rules to reflect LTSE’s objective to operate as a fully-displayed market as described above. The Commission or its staff has on many occasions considered the benefits of displayed liquidity to the national market system.¹² The proposed rule change, which promotes the use of displayed liquidity, is consistent with the protection of investors and the public interest because it

⁹ Including such orders in an LTSE proprietary market data feed is necessary because odd-lot sized quotes, unless aggregated as part of a round lot at the BBO, would not be displayed in the market data feeds distributed by the Securities Information Processors.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

¹² See, e.g., Concept Release on Equity Market Structure, 75 FR 3593 (January 21, 2010), <https://www.sec.gov/rules/concept/2010/34-61358.pdf> (soliciting comment and noting concerns about market structure often have related to high frequency trading and various types of undisplayed liquidity); Equity Market Structure 2019: Looking Back & Moving Forward, speech by Jay Clayton, Chairman, SEC, and Brett Redfearn, Director, Division of Trading and Markets (March 8, 2019), <https://www.sec.gov/news/speech/clayton-redfearn-equity-market-structure-2019> (discussing the importance of displayed trading interest for thinly-traded securities); Memorandum on Rule 611 of Regulation NMS to SEC Market Structure Advisory Committee, from SEC Division of Trading and Markets (April 30, 2015), <https://www.sec.gov/spotlight/emsac/memo-rule-611-regulation-nms.pdf> (explaining that one of the objectives of Rule 611 was to promote the use of displayed “non-marketable” limit orders, which would improve the price discovery process and contribute to increased liquidity and depth).

further the goals of transparency and price discovery. In addition, the trading model proposed by LTSE would not impair the mechanism of a free and open market and a national market system insofar as it would not eliminate the ability of market participants to access or offer non-displayed liquidity on other trading venues.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in the furtherance of the purposes of the Act. The Exchange believes that removing the non-display functionality from its trading rules will, if anything, burden LTSE as it will offer less functionality than other exchanges. As a result of the proposed rule change, LTSE will be unable to compete for order flow from market participants seeking to post or trade against non-displayed interest, though it will continue to accept market orders, IOC orders and ISOs. It will, however, provide a venue in which market participants have full visibility into the order book.

The Exchange also believes that the effects of the proposed rule change will not burden competition because there are many other exchanges that offer the opportunity to post or trade against non-displayed interest. Finally, the Exchange believes that removing the non-display functionality as described above from its trading rules will not burden competition in that the proposed rule change will not impact LTSE's ability to comply with Regulation NMS or the ability of other exchanges to access its quotes.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act¹³ and Rule 19b-4(f)(6) thereunder.¹⁴ Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.¹⁵

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings under Section 19(b)(2)(B)¹⁶ to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

¹³ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁴ 17 CFR 240.19b-4(f)(6).

¹⁵ In addition, Rule 19b-4(f)(6) requires the Exchange to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

¹⁶ 15 U.S.C. 78s(b)(2)(B).

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-LTSE-2019-02 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-LTSE-2019-02. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying

information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-LTSE-2019-02 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

Jill M. Peterson
Assistant Secretary

¹⁷ 17 CFR 200.30-3(a)(12).