



October 2, 2020

Mr. Brett Redfearn  
Director, Division of Trading and Markets  
U.S. Securities & Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

Re: SIFMA Comments on LTSE Causing Critical Marketplace Disruptions

Dear Mr. Redfearn:

The Securities Industry and Financial Markets Association (“SIFMA”)<sup>1</sup> submits this letter to you at your request to highlight a critical marketplace disruption related to the operation of the Long-Term Stock Exchange (“LTSE”). SIFMA has long supported the efforts of the Securities and Exchange Commission (“Commission” or “SEC”) as the regulator of the national securities exchanges to facilitate a national market system for equity securities by, among other things, adopting a framework for the operation of fair and orderly markets by the exchanges. While we are supportive of competition and new entrants in the marketplace, we are deeply concerned that the recently launched LTSE is undermining the national market system for equity securities by its continuing and significant technological and operational failures, which are described below. We therefore request that the Commission take prompt action to provide broker-dealers with the ability to avoid having to route orders under Rule 611 of Regulation NMS<sup>2</sup> to LTSE and any other exchanges experiencing significant operational problems until those problems are addressed. SIFMA also recommends that the Commission take other actions to ensure that new exchanges are operationally ready before they formally launch with a protected quote that broker dealers are required to access.

## **I. Persistent Technological and Operational Failures at LTSE**

Prior to and after LTSE’s launch into a production environment in August of this year, LTSE has experienced significant and persistent technological and operational failures and consistently ignores member firms’ concerns about launching and operating without having conducted successful testing. SIFMA first raised concerns with LTSE launching in April 2020 in the middle of significant market volatility caused by COVID-19, and given the

---

<sup>1</sup> SIFMA is the leading trade association for broker-dealers, investment banks, and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity

<sup>2</sup> 17 C.F.R. § 242.611.

unresponsiveness of LTSE, SIFMA asked the Commission to request that the exchange push back its testing and launch dates. LTSE subsequently created a launch plan in which it initially would launch with test symbols at the beginning of August and then roll out live trading symbols in increasing numbers throughout the rest of August and September. During July and the first weekend in August, LTSE held multiple weekend and ongoing tests for member firms but was unable to conduct successful, error-free tests. SIFMA and individual member firms again requested during this timeframe that LTSE push back its launch date, but LTSE did not listen to member firms' concerns. After LTSE ignored these concerns, SIFMA again raised its concerns with the SEC staff, highlighting LTSE's ongoing issues and its plans to continue to launch in early August despite this unsuccessful testing.

Despite these concerns, LTSE moved ahead with its launch plan but has continued to experience significant and continuing technological and operational problems in the production environment with live trading symbols.

Since launching, SIFMA member firms do not feel that LTSE has demonstrated the ability to communicate and fix problems with its order-matching engine and otherwise operate a fair and orderly market. Members firms report that once a firm identifies an issue, LTSE takes multiple hours or days to resolve the issue, and in certain cases LTSE never responds or resolves the issue. For example, member firms report experiencing ongoing latency delays of up to 8 seconds when routing orders to access its protected quotes; yet, LTSE seems unable to fully fix the issue – an issue that was raised with them during testing. This latency is further evidenced by CTA's published exchange latencies where LTSE has significant (over 10x worse) quote latency as compared with other exchanges.<sup>3</sup> The latency issue has resulted in a number of member firms and other exchanges declaring self-help on LTSE. Additionally, member firms have experienced poor fill rates while attempting to access LTSE's protected quote. Member firms have also reported that LTSE fails to update symbol changes after corporate actions (resulting in order rejects), respect basic FIX message protocols, and in at least one instance, notify a member firm when dropping its trading connection.

On Friday, September 18, 2020, SIFMA reached out to LTSE and the SEC again to express concerns with expected additional LTSE quote latencies due to the expected increase in volumes at the close for the quadruple witching day. Fortunately, LTSE subsequently sent out a notice at 2:51pm that they intend for the industry to treat any quotes as "manual" for the remainder of the day. LTSE, however, on Monday, September 21, sent out another notice advising the industry that they had fixed the issues and that their quotes would again be protected as of the market open. This put market participants in the position of having to access LTSE quotes despite not believing LTSE's assertion that the issues were in fact fixed. Luckily, there has been little to no quoting on LTSE since that date while the SEC considers any further necessary action to protect the marketplace.

As expressed to LTSE, member firms' biggest concern is that having one exchange experience persistent failures, such as LTSE's delayed executions and other technological and

---

<sup>3</sup> CTA Plan, CQS Realized Latency 99.9 Percentile *available at* <https://www.ctaplan.com/latency-charts>.

operational problems, can disrupt the entire national market system for equity securities and impact investors. This is because all equity exchanges are interconnected pursuant to Regulation NMS, and particularly Rule 611 of Regulation NMS, which protects the best-priced quotes on exchanges and other trading centers. Based on its track record so far, member firms believe that LTSE currently lacks the ability to operate an exchange with a protected quote at this point. SIFMA member firms further note that they have not experienced similar significant problems with other exchange launches. Firms are particularly frustrated in this instance because they have consistently communicated their concerns to LTSE, but the exchange has failed to listen to them and has not been able to address the ongoing issues, which has resulted in poor fill rates and a negative client experience for trades executed on the exchange.

## **II. Potential Commission Actions to Address these Concerns**

SIFMA appreciates the Commission's consideration of these critical concerns and requests that the Commission take prompt action to protect the national market system for equity securities. SIFMA member firms have noted that if LTSE did not display protected quotes under Rule 611, they could simply not route orders to the exchange. However, given their regulatory obligations, SIFMA member firms need relief from the Order Protection Rule ("OPR") or additional guidance to allow them to ignore quotes displayed on LTSE until LTSE can demonstrate its ability to operate a functional exchange with immediately accessible quotes. For instance, member firms do not believe that they may rely on the "self-help"<sup>4</sup> exception under the OPR for a prolonged period of time or in the event that LTSE states it has addressed the issues. This is because when LTSE reports that its system issues are resolved, which LTSE has done multiple times even when those issues continue to persist, member firms believe they can no longer rely on the self-help exemption despite not believing LTSE's assertions. Without successful testing, firms have difficulty determining whether the issues have been resolved given the lack of quoting on LTSE and the history of LTSE pushing forward without being technologically and/or operationally sound. Member firms would also need the SEC and FINRA to address best execution expectations if LTSE is allowed to operate as an exchange with protected quotes, and whether LTSE's manual quotes need to be included in any NBBO calculation, which SIFMA believes they should not be included. It could be extremely detrimental to firms and clients if quoting were to increase on LTSE while these issues have not been resolved.

SIFMA therefore welcomes discussing further with SEC staff potential actions the Commission can take and provides the following for the staff's consideration:

1. Provide an exemptive order or relief from OPR and best execution requirements so that broker-dealers can avoid accessing and routing orders to LTSE until it addresses its issues. This relief should also specify that LTSE's inaccessible quotes should be excluded from the NBBO calculations. As noted above, broker-dealers feel compelled to access and route orders to LTSE due to OPR and best

---

execution considerations. This exemptive order to the OPR could be designed to only be applicable to LTSE and be lifted when LTSE can demonstrate the ability to operate without technological and operational issues.

2. Update Regulation NMS FAQs to permit broker-dealers to trade through exchanges like LTSE that experience persistent and significant technological and operational problems until they can demonstrate the ability to operate without technological and operational issues. In particular, Question 4.07 to Reg. NMS<sup>5</sup> identifies elements that must be included in a trading center's policies and procedures to implement the self-help exception. The Commission could update this, or another, FAQ to make clear that a broker-dealer may rely on the self-help exception for an extended period of time until the exchange conclusively demonstrates that it has addressed its technological and/or operational problems and the broker-dealer reasonably believes this to be the case. When updating its FAQ, the Commission should similarly specify that LTSE's inaccessible quotes should be excluded from the NBBO calculations.
3. Require LTSE to go back to test mode until it can operate without any persistent issues. As part of the Commission's approval of LTSE's Form 1, the Commission did not explicitly condition LTSE's launch on its ability to conduct successful testing. However, implicit in an exchange's approval to operate and its subsequent launch is its ability to operate a successful market. In the past, market participants have not experienced such significant technological and operational problems with an exchange launch, and market participants expect a reasonable exchange would not launch with any, let alone material, technological and operational issues. The Commission could deem LTSE's Form 1 ineffective, or impose some other restriction on its ability to operate as an exchange, until LTSE demonstrates the ability to conduct multiple, error-free tests. Member firms should not have to dedicate more time and resources than they already have during testing for the exchange to determine and fix its technological and operational issues. As a Regulation SCI entity, the exchange is obligated to operate without significant technological and/or operational issues.

In addition to the foregoing near-term actions, the Commission should consider whether it makes sense to update its regulations to clearly require an exchange to demonstrate successful testing to the Commission before it is able to launch in a production environment. We recognize the time involved in such an undertaking but think the staff should give some consideration to it to prevent future problems like the ones member firms and the national market system for equity securities are experiencing now with LTSE.

---

<sup>5</sup> SEC Division of Trading and Markets, Responses to Frequently Asked Questions Concerning Rule 611 and Rule 610 of Regulation NMS (Apr. 4, 2008) *available at* <https://www.sec.gov/divisions/marketreg/nmsfaq610-11.htm>.

Mr. Brett Redfearn, Securities and Exchange Commission  
SIFMA Comment Letter on LTSE Causing Critical Market Structure Issues  
October 2, 2020  
Page 5

\* \* \*

SIFMA greatly appreciates the Commission's consideration of the concerns raised above and would be pleased to discuss these recommendations in greater detail with the Commission and the Staff. If you have any questions, please contact me at 212-313-1287 or [egreene@sifma.org](mailto:egreene@sifma.org).

Sincerely,



Ellen Greene  
Managing Director  
Equity & Options Market Structure

cc: John Roeser, Associate Director, Division of Trading and Markets  
David S. Shillman, Associate Director, Division of Trading and Markets