



MEMORANDUM

To: SIFMA's Equity Markets and Trading Committee
From: Ellen Greene, Managing Director, Equity and Options Market Structure, SIFMA
Date: November 10, 2020

Re: SIFMA Call with SEC Staff to Discuss Long Term Stock Exchange

On September 22, 2020, SIFMA coordinated a call with senior SEC Trading and Markets staff, including the Director, to discuss the concerns of member firms ("Firms") related to the launch and operation of the LTSE. On the call, Firms explained to the SEC staff the various technological and operational issues they were experiencing leading up to the exchange launch and then immediately following the launch. The biggest issue raised was LTSE's ongoing latency, which is demonstrated in the public CQS chart that can be accessed [here](#). Firms also raised low fill rates/delayed fills as a result of LTSE's latency issues, inadvertent dropping of sessions by LTSE, LTSE's inability to handle corporate actions resulting in rejection of orders and LTSE's delayed or non-existent response times on system fixes and lack of/poor communication overall. Firms specifically noted that they had raised these system issues at the most senior levels at LTSE and did not hear back for days, if at all.

Firms also expressed their dissatisfaction to the SEC that an exchange would be allowed to go-live with a protected quote prior to the exchange conducting clean testing and demonstrating an ability to operate efficiently as an exchange.

Additionally, it was highlighted that Firms will have to determine, in connection with routing to LTSE, whether to risk having unsatisfied clients with poor executions and potential best execution concerns because of the latency issues at LTSE. The latency results in delayed fills but failing to route to LTSE could result in an Order Protection Rule ("OPR") violation for failing to access a protected quote.

Firms also stated that LTSE has failed to demonstrate that the industry could trust LTSE's communications stating that its issues have been resolved. Firms believe LTSE should demonstrate efficacy to a level that would protect client orders and allow Firms to comply with

their best execution obligations as well as the SEC's OPR. For example, LTSE was urged to mark their quotes as "manual" prior to a large Friday rebalance day given Firms' concerns about their latency impacting orders sent to them near the close, which LTSE did on that day. The following Monday, LTSE issued a memo stating that it had fixed the latency issues and that their quotes would again be "protected" as of the open. Many Firms expressed concerns about this LTSE statement, noting that they lacked confidence that the LTSE had fixed the issues.

The SEC staff acknowledged the concerns raised by Firms. Staff pointed Firms to language in the Regulation NMS adopting release that allows for flexibility around the use of "self-help" when exchanges have "repeated" issues, and allows for Firms to not access protected quotes on such an exchange until the exchange has fixed the issue. Firms then asked if they have an obligation to attempt to access such an exchange's protected quote if the exchange represents that they have fixed the issue, to which SEC staff replied by pointing to the word "reasonable" – stating that if Firms have reason to believe based on repeated occurrences that the exchange has not really fixed the issue, they could continue to declare "self-help" on the exchange until the Firms are satisfied that the problems have been resolved.

Following the call, the SEC staff reached out and asked SIFMA to submit a formal letter outlining the concerns and potential solutions that the Firms had raised on the call. That letter is published on SIFMA's website for full transparency.

SIFMA subsequently coordinated a call with senior staff at FINRA where Firms similarly highlighted the concerns with LTSE operations and communications, previous discussions with SEC Staff and the SIFMA letter. Of particular note, Firms highlighted the problems with LTSE noted above and the likely treatment of quotes displayed on LTSE for Firms obtaining best execution and meeting the requirements of OPR when routing client orders. FINRA acknowledged the concerns with LTSE and agreed to engage in dialogue with the SEC Staff.