



Submission No. 19-119

March 14, 2019

Mr. Christopher J. Kirkpatrick
Secretary of the Commission
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Amendments to Rule 4.26 Order Execution (New Passive Order Protection Functionality) Submission Pursuant to Section 5c(c)(1) of the Act and Regulation 40.6(a)

Dear Mr. Kirkpatrick,

XTX Markets Ltd is a London-based proprietary trading firm registered with the FCA. XTX Markets is a quantitative-driven, and regulated electronic market maker with global trading operations. We provide liquidity in Equities, Commodities, FX and fixed income products. XTX Markets executes daily volume of approximately \$150 billion across multiple asset classes and geographies. XTX Markets is committed to making markets more efficient and competitive, in part by advocating for policies and market designs that reduce barriers to entry for liquidity providers. Furthermore, we advocate for these principles globally regardless of whether we are a dominant market participant or have only just entered the market. XTX Markets' depth of experience across multiple asset classes and geographies provides it with a well-informed view of market structure in general, as well as the challenges presented by each market's microstructure.

XTX Markets is writing in support of the above referenced filing by ICE to implement passive order protection ("POP") functionality, or a speed bump, on its Gold Daily and Silver Daily futures contracts. As described by ICE, the POP functionality will operate to impose a delay, initially set at 3 milliseconds, on incoming orders seeking to remove liquidity from the book. The trader who submitted the passive order will have no knowledge of whether there is an aggressive order subject to the POP, but the trader who submitted the passive order will, by virtue of the POP, have extra time to react to external market conditions, such as a price



XTX Markets Limited

R7, 14-18 Handyside Street, London, N1C 4DN

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change in a related market. During this delay window, traders can modify their passive orders. The described functionality helps remove speed advantages from the trading equation, and levels the playing field giving all market participants an equal opportunity to react to market events over the course of a very narrow time window (*i.e.* 3 milliseconds).

XTX Markets believes that the race for speed in trading has reached an inflection point where the marginal cost of gaining an edge over other market participants, now measured in microseconds and nanoseconds, is harming liquidity consumers. Market makers providing liquidity need to price to the average of the toxicity of the order flow they interact with, and to the extent that they are being adversely selected by latency arbitrage strategies, they must widen their spreads, which in turn increases the costs of trading for all liquidity consumers accessing that market. Moreover, the need to compete on speed at these levels creates a meaningful barrier to new entrants into market making who may have unique pricing, as well as time horizon and risk absorption capabilities. Examples of what the latency race means in 2019 are widely available:

<https://www.bloomberg.com/news/features/2019-03-08/the-gazillion-dollar-standoff-over-two-high-frequency-trading-towers>

For these reasons, XTX Markets supports market microstructure features, such as ICE's proposed POP, that are designed to neutralize the speed race by imposing a few milliseconds delay on orders to remove resting liquidity. Asymmetric speed bumps enable market makers to post better prices at larger size because traders engaged in latency arbitrage are unable to deploy that strategy on such a market. Natural liquidity consumers continue to experience high fill rates because their consumption of liquidity is not driven by millisecond level external events. Importantly, market makers benefiting from these passive order protections never have knowledge of an incoming order that is in the delay mechanism. This fact is a material differentiator from what is commonly referred to as "last look" in the FX markets, where a market maker is presented with an order and has some period to decide whether to accept it (or potentially engage in abusive activity such as trading ahead of that order).

Further, the passive order protection that has been proposed by ICE is not only not novel, it is part of a growing trend of identical or similar mechanisms markets are deploying to protect market makers from latency arbitrage strategies. Examples include:

1. TSX Alpha (cash equities in Canada). Deploys a randomized 1-3 millisecond delay on all orders other than passive post only orders.
2. Eurex (FX Futures). Deploys an 8-millisecond speedbump for all orders other than passive post only orders.

3. EBS Market (spot FX). Deploys a randomized 3-5 millisecond speedbump during which all orders are batched together, with the first order arriving triggering a start of a batch. During this period, incoming orders and cancellations are batched and at the end of the period the cancellations are processed first before any orders are matched.
4. Thomson Reuters Matching (spot FX). Deploys a 3-millisecond speedbump during which all orders are batched together, with the first order arriving triggering the batch. At the end of the batch the cancellations are processed first before any orders are matched
5. ParFX (spot FX). Deploys a 10–30 millisecond speedbump
6. Aquis (European cash equities). Prevents latency arbitrage on its market by banning proprietary trading firms from removing liquidity.
7. IEX (U.S cash equities). Deploys a symmetric speed bump that delays all incoming orders and order messages by 350 microseconds. But, IEX also deploys an asymmetric feature to non-displayed passive orders that are pegged to the NBBO or midpoint of the NBBO. IEX will reprice these orders without delay if its proprietary algorithm indicates that the NBBO is about to change thereby protecting these non-displayed orders from latency arbitrage strategies.
8. NASDAQ M-ELO (U.S cash equities). Non – displayed order type effectively subject to 500 millisecond speedbump.
9. LME (Precious Metals) – commodity futures. Has announced its intention to implement a fixed delay to all orders other than cancelations.
<https://www.fnlonon.com/articles/traders-clash-at-london-metal-exchange-over-golden-speed-bump-20181026>
10. Eurex (German and French single stock options). Has announced its intention to implement on June 3, 2019, a 1-millisecond delay for German equity options and a 3-millisecond delay for French equity options, on all orders that would otherwise execute against a resting passive order.
<https://www.eurexchange.com/resource/blob/1506528/0374d7b91e93e8cab7d230247f68ef15/data/er19027e.pdf>
11. CBOE EDGA (U.S cash equities). According to the Wall Street Journal, CBOE EDGA is considering implementing a 3-4 millisecond delay on all orders that would otherwise execute against a resting passive order.
<https://www.wsj.com/articles/new-speed-bump-planned-for-u-s-stock-market->

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12. Moscow Exchange (USDRUB spot FX currency pair). The Moscow Exchange has announced that it is adding a 2-5 millisecond delay to all new orders other than cancel transactions. <https://www.moex.com/s2784>

And, finally, a material benefit of these passive order protection mechanisms is that they enable a more diverse set of market participants to compete to provide liquidity, which mitigates against systemic risk. In the absence of such protections, liquidity provision is increasingly dominated by a handful of the fastest HFT firms with limited risk absorption capabilities.

Prior to Thomson Reuters and EBS implementing passive order protections on their FX markets, liquidity provision was similarly dominated by HFT firms. Since implementing these protections, concentration amongst liquidity providers has substantially decreased with multiple bank LPs re-entering the market. According to Alexis Atkinson, head of order driven markets at EBS: "Our latency floor mechanism has enabled a more diverse range of participants to make markets successfully," he says. "Enabling a wider range of participants to be successfully quoting builds a stronger market, improves price discovery and reduces maker concentration risk, which is particularly important in stressed market conditions."

<https://www.euromoney.com/article/b137sm6qfq75r0/fx-randomization-gains-favour-despite-flaws?copyrightInfo=true>

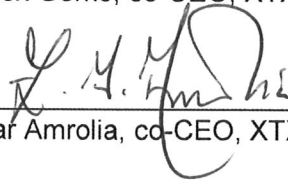
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XTX Markets appreciates the opportunity to share its comments in support of ICE's proposed passive order protection for its Gold Daily and Silver Daily futures contracts. As noted above, we believe these brief delays on aggressive orders prevent costly and disruptive latency arbitrage strategies, enabling a more diverse set of market makers to post better prices and larger size to the benefit of end consumers of liquidity. Please don't hesitate to contact us if you have any questions about this matter.

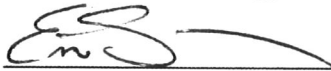
Sincerely,



Dr. Alex Gerko, co-CEO, XTX Markets Ltd



Dr. Zar Amroliya, co-CEO, XTX Markets Ltd



Eric Swanson, CEO, XTX Markets LLC