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Securities and Exchange Commission
100 F St. NW
Washington, DC 20549-9303
Rule-comments@sec.gov

Re: 24X Exchange
File No. 10-242

Dear SEC:

¹ All opinions are strictly my own and do not necessarily represent those of Georgetown University or anyone else. I am very grateful to Georgetown University for financial support. Over the years I have served as a Visiting Academic Fellow at the NASD (predecessor to FINRA), served on the boards of the EDGX and EDGA stock exchanges, served as Chair of the Nasdaq Economic Advisory Board, and performed consulting work for brokerage firms, stock exchanges, other self-regulatory organizations, government agencies, market makers, industry associations, and law firms. I am the academic director for the FINRA Certified Regulatory and Compliance Professional (CRCP[®]) program at Georgetown University. I've also visited over 85 stock and derivative exchanges around the world. As a finance professor, I practice what I preach in terms of diversification and own modest and well-diversified holdings in most public companies, including brokers, asset managers, market makers, and exchanges.

Summary:

- 24-hour trading is already here on ATSSs.
- It is far better to have such trading on a regulated exchange.
- 24-hour trading of equities will facilitate the already 24-hour trading of futures.
- 24-hour trading of equities will reduce risk for market participants.
- 24-hour trading will improve price discovery during regular trading hours.
- It is not in the public interest to delay this any longer.
- 24X should be approved without further delay.

It has been nearly a year since 24X “voluntarily” pulled its last application and has now resubmitted it.² Since that time, 24-hour trading has now become more widely available through many brokers. Clearly, there are many in the industry who perceive enough demand from investors for this service for them to invest in making it available.

24X proposes to operate a national securities exchange that will operate around the clock, with only a few brief pauses for operational reasons. They plan to use tested technology from another exchange, along with the trusted regulation from FINRA.

I understand that there have been concerns about trade reporting and other market plumbing issues. Given that 24-hour trading is here, it is better that it be on a national securities exchange with the higher regulatory protections afforded by an exchange.

As I stated in my previous comment letter, I do not believe that there will be massive volume in the middle of the night in most NMS stocks. The meager volumes in the pre-open and evening trading on the exchanges that currently offer such trading demonstrate this. Most investors in the US like to sleep at night. There is likely to be some interest in 24-hour trading in securities with a global following. For example, there is likely to be interest in 24-hour trading in commodity-linked ETPs and broad index-based products, along with corporations with a global footprint.

² File 10-239 See my previous comment letter at <https://www.sec.gov/comments/10-239/10239-20155106-323422.pdf>

The likely small volume relative to trading during traditional market hours limits the risk to investors and the market should anything go wrong. This will give the exchange operators and the SEC time to learn from experience.

The LULD-like price bands should prevent extremely erroneous trades.

During regular trading hours, our market uses a Limit-Up Limit-Down (LULD) mechanism to prevent trades from occurring at clearly erroneous prices. The LULD method creates a price band based on the last five minutes of trading, and prevents trades from occurring outside the band. If the quote gets stuck at the edge of the band for 15 seconds, there is a trading halt followed by an auction. This mechanism is not in place outside regular trading hours. 24X proposes a system similar in philosophy to LULD with a price band based on recent trade prices.

My understanding of the 24X application is that trades will not be allowed outside the bands, but there will be no pauses for an auction. This should be sufficient to prevent extremely erroneous trades. Instead of a trading halt, a stock would just get stuck at the band. It might naturally get unstuck if other orders arrive, or it could stay stuck until the next session begins. This would be a great natural experiment to see how price bands without a trading halt would function.

Overnight trading will facilitate futures trading.

There are many situations where an investor who trades futures may also wish to trade cash equities. These include arbitrage as well as portfolio reallocations. As some futures contracts trade all night, it would be very useful for investors to be able to trade related cash equities throughout the night as well. For example, an investor anticipating a margin shortfall in futures may sell some cash equities to prevent an unwanted liquidation of the futures position.

Overnight trading may reduce risks in regular daytime trading.

One of the problems that liquidity providers and demanders face is overnight risk. Market makers often seek to “go home flat” and provide less liquidity near the close of the day so that they have little inventory to carry overnight. Increasing liquidity in the afterhours will reduce the risk of carrying inventory overnight,

because it will be easier to exit a position if necessary. This may help to improve the willingness of liquidity providers to provide liquidity in the regular trading session.

Likewise, additional liquidity outside traditional trading hours will provide more flexibility for investors who are working large orders.

The coming switch to T+1 will also lead to more of a scramble to cover short positions or to buy in fails-to-deliver in a shorter settlement cycle. A well-regulated exchange-based market will provide additional flexibility to allow market participants to comply with their responsibilities.

24-hour trading will improve price discovery during regular trading hours.

Trading is how market participants contribute their information to price discovery. The prices revealed by investors' actual trading inform the rest of the market about the true consensus price of an asset. More trading activity in the overnight and weekend sessions will help to promote price discovery during the regular session, and particularly at the 9:30am open. Having more battle-tested prices means that the rest of the world will benefit from a more informed and stable opening price.

Also, as mentioned above, having more liquidity outside regular trading hours will reduce the urgency to finish working an order by the traditional 4:00pm close. End-of-day effects can occur when investors have to hurry to finish trading by 4:00pm, leading to misfires in the closing auctions that set the official closing price for the day.

Getting the 4:00pm price right is extremely important because of the heavy volume in the closing auctions. Index funds used by retail investors like me often use market-on-close orders to match the index exactly, so a disruption in the closing auction causes real damage to us index-fund investors. Likewise, mutual funds set their NAVs based on the closing auction price. Thus, an inaccurate closing price as a result of end-of-day effects can cause real damage to mutual fund investors. Improving after-hours liquidity from 24-hour trading will reduce the need to absolutely positively finish a trade by 4:00:00.0000pm. This will reduce the likelihood of price dislocations in the closing auctions caused by traders desperate to get trades done that day.

The 24X application should be approved.

24X has submitted a pretty much plain-vanilla application to become an exchange, with the major exception being its plans to operate 24/7. 24/7 trading is in the public interest as it will provide additional convenience to investors and facilitate futures trading.

It is also in the public interest to promote innovation and competition in trading, which 24X is likely to do.

The information produced by trading 24/7 can be very helpful to policy makers in times of major shocks to the economy, by showing which sectors are most affected.

Whether or not 24X succeeds is up to the market. The SEC should let the market decide whether 24/7 trading is economically viable or not. The application should be approved without further delay.

Respectfully submitted,

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