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Dear Ms. Countryman,

I appreciate the opportunity to comment on the SEC Roundtable on Rule 611 of Regulation NMS (File No. 4-862). I am an Associate Professor in Finance at MIT Sloan School of Management. Between 2021 and 2024, I had the privilege of serving as the Director of the Division of Trading and Markets at the Commission.

The Order Protection Rule (Rule 611) is the lynchpin of Regulation National Market System. It essentially says that trading centers should prevent transactions outside the National Best Bid and Offer (NBBO), with limited exceptions. In doing so, Rule 611 has delivered at least two key benefits to U.S. equity markets in the last 20 years:

1. Promoting competition in order execution. Whichever trading center offers the best price will likely get the order.
2. Serving as a backstop for best execution. Investors trading in U.S. stock market have confidence that their (marketable) orders are generally filled at the best displayed quotes or better, without the need of further analysis. Likewise, investors posting limit orders at the NBBO are confident that their orders generally receive higher priority than those at worse prices.

Granted, the Order Protection Rule has also faced criticism, including from Chairman Atkins. In their dissent of Regulation NMS in 2005, then-Commissioners Atkins and Glassman expressed a preference of free-market competition to codified Commission rules. After its implementation, the Order Protection Rule was also blamed to have exacerbated the fragmentation of exchange liquidity and led to higher costs of connectivity and data. Indeed, these two criticisms can be viewed as "the other side of the coin" of the two benefits I highlighted above.

Assuming that the Commission plans to propose revisions to the Order Protection Rule, I believe **a reasonable place to start is to narrow the application of the Order Protection Rule to customer orders for which the broker-dealer routing or executing the order owes best execution obligations to the customer**. Conversely, exempted from the Order Protection Rule would be orders for which best execution is not applicable. This middle ground would strike a balance between maintaining the best execution backstop and mitigating, if not reversing, the trend toward liquidity fragmentation.

To illustrate, here are a few concrete examples of this option:

- Example 1. A retail investor submits a marketable order to purchase a small-cap stock with a wide bid-ask spread. In this case, the retail broker-dealer and the wholesaler need to respect the NBBO when filling the customer order.
- Example 2. An institutional investor submits a large order with the broker-dealer, and the broker-dealer fills some of the shares at various trading centers and some out of its own inventory. These customer transactions are likely subject to best execution obligations and should respect the NBBO. When the broker-dealer subsequently winds down the risk as a principal on the exchange, however, the broker-dealer's transactions need not be constrained by the NBBO because those trades involve no customers and no best execution obligation.
- Example 3. A proprietary trading firm rents a broker-dealer's connectivity to exchanges but makes all routing decisions itself. To the extent that the broker-dealer does not owe best execution obligations to the trading firm—depending on the facts and circumstances—the proprietary trading firm may bypass an exchange that displays the NBBO. In this situation, the proprietary trading firm may be willing to give up a better execution price to reduce the cost of connectivity and market data.

To reiterate, the sheer volume and speed of quotes and the cost of acquiring quote data in U.S. equity markets make it extremely difficult, if not downright impossible, for retail investors to select the best price available on their own. The same could be said about small institutional investors with limited resources. For investors that have limited trading volume (including almost all retail investors), the cost of purchasing data or bringing complaints about best execution can easily outweigh the transaction slippage. With these frictions, I do not expect free market competition to lead to fully efficient and competitive order execution. Therefore, the Order Protection backstop of best execution remains the least disruptive option to maintain investors' confidence in order execution quality and the U.S. equity market overall.

Once the new Rule 605 data on broker-dealers' execution quality are reported and available for analysis, there will be stronger market discipline, and the Commission will be in a better position to consider broader revisions to the Order Protection Rule, paired with updated best execution rule or guidance from FINRA.

Thank you again for the opportunity to comment.

Sincerely,
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