



**IntelligentCross**

June 1, 2020

Ms. Vanessa Countryman  
Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

Re: Market Data Infrastructure (File No. S7-03-20)

Dear Ms. Countryman:

IntelligentCross<sup>1</sup> is pleased to provide its comments on the proposed rule to update the national market system for the collection, consolidation, and dissemination of information with respect to quotations for and transactions in national market system ("NMS") stocks (the "Proposal").

The issues addressed by the Proposal are critical for the effective operation of the markets, most significantly, to ensure that: (1) the ability to access meaningful notional liquidity is readily available; (2) robust price discovery and quote competition can efficiently occur; (3) market data distribution and dissemination are cost effective and promote greater price transparency; and (4) most importantly, retail and institutional client orders can be executed at the best prices available, thus ensuring best execution. IntelligentCross therefore supports the overarching goals of the Proposal - introducing competition into the provision and dissemination of market data, as well as enhancing what constitutes consolidated market data - and commends the Commission for continuing to examine the fundamental issues under which the markets operate.

While we support the goals of the Proposal, our comments and recommendations are designed to reduce the chances that implementation of the Proposal will result in creating additional complexity or unintended consequences for the markets. Our specific comments and recommendations follow.

## **I. Background**

As the Proposal recognizes, the U.S. equities markets have evolved into a technology driven and nearly fully electronic marketplace where trading is dispersed among a wide range of competing market centers. By our count, there are over fifty "trading centers" including thirteen exchanges (with three more launching soon), thirty-four registered alternative trading systems and at least ten broker-dealers/market makers that provide bilateral liquidity directly with counterparties. Such competition exists because our markets cater to a variety of market participants, all with a diverse set of needs. We agree with SEC Commissioner Peirce that "a one-size-fits-all model -

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<sup>1</sup> IntelligentCross ATS is the first "smart venue" that uses AI to minimize market impact and adverse selection - the largest institutional costs of trading. For more information, please visit [www.intelligentcross.com](http://www.intelligentcross.com).

particularly one mandated by a regulator - is not appropriate for our financial markets, which serve many different types of market participants.”<sup>2</sup>

With that said, there remain certain principles that govern the efficient and orderly operation of the markets and that are fundamental for all market participants. Specifically, it is critical that the markets are as liquid as possible, incentivize vigorous price competition, promote fair and orderly trading and ensure long term investors receive best execution on their orders. Technology driven trading venues, such as IntelligentCross, must rely on high-quality market information to accurately price trades and, in turn, provide the most efficient execution of client orders. We believe that even small adjustments to the manner in which orders are handled and routed (which can be facilitated by more robust market data) can provide for more effective execution, allowing market participants to make the most of the technology currently available. According to our calculations, every basis point of trade execution efficiency can save investors \$10 billion per year.

The widespread availability of timely market information also begets the ability of broker-dealers to provide best execution to their customers. Given the complexities of the issues addressed by the Proposal, we recommend that the Commission clarify and provide specific guidance surrounding broker-dealers’ best execution responsibilities. As Commissioner Roisman stated in conjunction with the release of the Proposal, “the Commission should consider providing a non-prescriptive interpretation of, or guidance on, the regulatory requirement to achieve best execution.”<sup>3</sup>

Such guidance could help resolve many of the issues addressed by the Proposal that are interconnected with broker-dealers’ best execution responsibilities and provide the flexibility needed to allow broker-dealers to continue to efficiently execute client transactions. In fact, IntelligentCross would recommend that the Commission provide more explicit and prescriptive guidance on what constitutes best execution, particularly as it relates to protected quote status and the implicit costs of trading. For many institutions, implicit costs of trading are by far their largest execution costs so requiring more disclosure around how large orders are handled and compare to their benchmarks (*e.g.*, full day VWAP) would be useful best execution tools.

## **II. Proposed Enhancements to NMS Information**

As is well understood, market data is currently provided exclusively by the three Securities Information Processors (“SIPs”). The Proposal would expand the content of NMS information that is required to be collected, consolidated, and disseminated as part of the national market system under Regulation NMS. Significantly, “core data” would include all of the elements that currently are referred to as core data as well as data elements that are not currently provided including certain depth-of-book information, odd lots, and auction information. IntelligentCross supports the expansion of core data to include this additional information because it will provide market participants with a better and more informed picture of market conditions which, in turn, will improve execution quality for investors.

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<sup>2</sup> Commissioner Hester M. Peirce, *Statement on Proposed Updates to the National Market System for the Collection, Consolidation, and Dissemination of Information With Respect to Quotations for and Transactions in National Market System Stocks*, February 14, 2020.

<sup>3</sup> Commissioner Elad L. Roisman, *Statement on Proposed Updates to the National Market System for the Collection, Consolidation, and Dissemination of Information With Respect to Quotations for and Transactions in National Market System Stocks*, February 14, 2020.

## **A. Round Lots and Amendments to Protected Bid and Offer**

Two of the more significant changes addressed in the Proposal are redefining the term “round lot” and the proposed amendments to the definition of protected bid and offer.

### **1. Redefining Round Lot**

The Commission is proposing to introduce a new definition of “round lot,” assigning different lot sizes to individual NMS stocks depending upon their stock price. IntelligentCross supports the inclusion of more quote sizes in the core data. As the proposal notes, quotations currently designated as odd-lots can represent significant amounts of liquidity, especially for stocks with higher share prices.

While we support the addition of odd-lots to core data, certain changes should be made to how round lots would be defined. We recommend that rather than using the proposed “tiered” definition of round lot, all quotes over a certain notional value should be included in core data. Defining core data in this manner would alleviate concerns around defining the appropriate number of round lots, and the scope of each round lot tier.

The market already provides excellent guidance on what value market participants consider important, *e.g.*, the notional value of the median trade today is about \$2,000. We also do not believe that implementing such a system in practice should be a burden – all brokers already do risk checks in terms of notional value. Computing the value of displayed orders and comparing it to a published benchmark, such as \$2,000, is no more complex than numerous functions that order routing systems already complete today. Furthermore, after implementation and evaluation, rules can be adopted to update this value in an automated and routine manner, *e.g.*, on a quarterly basis.

If the Commission determines to define round lots by tiers, we recommend a formulaic conversion that equates share and notional values to the \$2,000 notional level, *e.g.*, one share for a \$2,000 or above security, or 100 shares for a \$20 security.

### **2. Proposed Amendments to the Definition of Protected Bid or Offer**

The Proposal would amend the definition of “protected bid or protected offer” by requiring automated quotations to be “of at least 100 shares” to qualify as a protected quote. The Proposal notes that the Order Protection Rule (“OPR”) currently applies only to round lots, therefore the proposed definition of round lot discussed above would result in an expansion of the OPR by requiring the protection of quotations in the proposed smaller quote sizes.

In general, IntelligentCross agrees with the Commission that not all smaller quotation sizes should receive protected quote status. We believe that consistent with adopting the metric discussed above for calculating the displayed orders to be considered as core data, that all orders of the notional value of the median trade (currently ~ \$2,000) or above should be considered a protected quote. Defining the thresholds for what is considered core data in this manner so that these orders would now be part of the SIP NBBO and therefore receive protected quote status would achieve the Proposal’s goal of enhancing market data without introducing additional complexity to the national market system.

## **B. Other Information to be Included in Core Data**

As discussed above, the definition of core data would be expanded to include certain depth of book and auction information. Depth of book data would include aggregated quotes at each price between the best bid (and best offer) and the protected bid (and protected offer) (if different), as well as the five price levels above the protected offer and below the protected bid. IntelligentCross supports expanding core data to include depth of book data in this manner. As the Proposal notes, many market participants need more than the best bids, best offers, and the NBBO disseminated by the exclusive SIPs to trade competitively and to optimize the placement of customer orders. In addition, providing depth of book information is important information for strategies designed to optimize the ability to access market liquidity at prices and sizes that are outside the top of book.

With the above in mind, we believe providing depth of book at all price levels would not be overly burdensome. Over ninety percent of quote changes occur at the top five price levels. Therefore, while providing complete depth of book data is likely not necessary at this time for all participants, it would not tax market systems to provide all price levels much more than providing five levels. At the same time, it avoids institutionalizing potential information arbitrage opportunities between those who have only the core data vs the full book data. In practice, commercial market data solutions already can limit the delivery of market data to a certain number of levels, so those participants who want less can consume less.

IntelligentCross also supports including auction information in core data. As the Proposal notes, an increasing proportion of total trading volume is executed during opening and closing auctions, which are significant liquidity events every trading day. Nevertheless, only limited auction information is currently included in SIP data and market participants must rely on obtaining much of the auction-related information through exchanges' proprietary data products. As with the inclusion of odd-lot data and depth of book data, we believe including auction information in core data will promote increased liquidity in the markets and can help address the difference in information received by users of current SIP data and users of proprietary data products.

## **III. Proposed Enhancements to the Provision of Consolidated Market Data**

The Commission is proposing to replace the existing centralized, exclusive consolidation model for SIP data with a decentralized, competitive consolidation model. Under the Proposal, competing consolidators would collect, consolidate, and disseminate certain NMS information and each SRO will be required to make available all of its data that is necessary to generate NMS market data to the competing consolidators as well as "self-aggregators," who would be brokers or dealers that elect to collect and consolidate market data solely for their internal use. Data would be required to be provided to all competing consolidators and self-aggregators in the same manner and using the same methods, including all methods of access and data formats, as the SRO makes available any information to any other person.

### **A. Competing Consolidators**

IntelligentCross strongly supports introducing competition into the dissemination of market data by eliminating the existing exclusive SIP consolidation model. The proposed decentralized, competitive model has the potential to bring benefits to the markets including, as delineated in the Proposal, enhancing the speed and quality of the collection, consolidation, and dissemination of the proposed consolidated market data, modernizing the infrastructure of the national market system,

and reducing the influence of certain conflicts of interest. Let the invisible hand of competition and market efficiency do the work of bringing down the costs of market data and, with proper regulation, competition will do it far better and faster than any centrally planned system.

IntelligentCross also supports requiring competing consolidators to publicly disclose certain information about their organization, operations, and products, as well as regularly publish certain performance statistics on, for example, capacity, system availability, and latency. We believe such transparency will be important to better understand the competing consolidator's operational capability, evaluate the merits of each competing consolidator, and determine which competing consolidator to utilize for any market data needs.

In addition to transparency of information, the resiliency of competing consolidators needs to be considered. To that end, we support requiring the participants of the NMS plans to conduct an annual assessment of the overall performance of competing consolidators, including the speed of the competing consolidators in receiving, calculating, and disseminating proposed consolidated market data, the reliability of the transmission of proposed consolidated market data, and a detailed cost analysis of the provision of proposed consolidated market data, and provide the Commission with a report of such assessment on an annual basis.<sup>4</sup>

## **B. Self-Aggregators**

The Proposal would add a definition of a "self-aggregator." A self-aggregator would collect all information with respect to quotations for and transactions in NMS stocks directly from each SRO that it needs to trade for its own account or to execute transactions for its customers but would not be permitted to re-distribute or re-disseminate proposed consolidated market data to any person, including to any affiliates or subsidiaries. The Proposal notes that currently some broker-dealers effectively act as self-aggregators by purchasing proprietary data products from the exchanges and consolidating that information and calculating the NBBO for their own use.

IntelligentCross supports continuing to allow broker-dealers to self-aggregate consolidated market data to prevent disruptions in how broker-dealers may execute transactions for their customers.

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<sup>4</sup> The Proposal notes a number of concerns that have been expressed regarding the introduction of multiple NBBOs under the competing consolidator model. IntelligentCross does not believe the existence of multiple NBBOs would raise issues for the markets. Most significantly, as the Proposal states, many market participants currently consolidate proprietary data feeds, generate their own consolidated data, and calculate their own NBBO with little issues today.

Ms. Vanessa Countryman

June 1, 2020

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IntelligentCross welcomes the opportunity to be a resource to the Commission as it examines the Proposal. If you have any questions on our comment letter, please feel free to contact me at

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Sincerely,



Roman Ginis  
Founder

cc: The Honorable Jay Clayton, Chair  
The Honorable Hester M. Peirce, Commissioner  
The Honorable Elad L. Roisman, Commissioner  
The Honorable Allison Herren Lee, Commissioner  
Brett Redfearn, Director, Division of Trading and Markets