



July 27, 2020

Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street NE., Washington, DC 20549

Re: *Release No. 34-88216; File No. S7-03-20*
Market Data Infrastructure Proposal

Dear Ms. Countryman:

Susquehanna International Group, LLP (“SIG”)¹ appreciates the opportunity to comment on the above-referenced filing by the Securities and Exchange Commission (“Commission”). In the filing, the Commission proposes to amend Rules 600 and 603 of Section 17 CFR 242 and to adopt new Rule 614 of Regulation NMS (the “*proposal*”). Generally, the *proposal* seeks to increase liquidity in NMS securities while improving market transparency. Notably, it seeks to improve the displayed national best bid and offer (NBBO) and surrounding quotes in NMS issues – particularly higher priced securities – and make core market data from exchanges better and more readily available to market participants through a host of competing consolidators (CCs). It would also make exchange market data directly available to self-aggregators for proprietary use.

If numerous CCs undertake to compete aggressively through innovation and cost to deliver improved data with liquidity enhancing features, it would be a much welcomed development. As such, we commend the Commission for this initiative and support the effort. At the same time, however, we believe the level of benefits to longer-term investors could be particularly diminished by issues from exponentially higher small-lot quote and order traffic from various sources, including professional traders. We also believe allowing self-aggregators to share core market data with affiliates is appropriate and would be helpful in dealing with the subject issues. In these regards, certain correcting modifications could be in order, as described below.

¹ SIG affiliated companies have operated as registered market makers and brokers in the U.S. securities markets for over 30 years and collectively participate in a significant percentage of daily consolidated volume in listed securities.

I. Quote congestion, customer confusion and gaming

In the filing, the Commission noted its intention for the *proposal* to promote both fair and efficient markets, be useful to a broad cross-section of market participants, reduce information asymmetries, and facilitate best execution. It was also noted that while the *proposal* is designed to facilitate best execution it is not specifying minimum data elements needed to achieve best execution.²

No doubt, narrowing quotes in high-priced stocks and distributing upgraded core market data more efficiently would ultimately be of general benefit to market participants. Yet, for many high-priced securities, the proposed structure will also very likely bring exponential growth in quote changes, order routes, missed executions, and reroutes from missed executions – and perhaps innumerable spoofing instances. As this will impact execution quality for customer orders in a broad spectrum of circumstances, assessing the features of the *proposal* that would seemingly exacerbate the harmful aspects of these conditions should be useful in determining whether modifications to the *proposal* are advisable. In this regard, certain benefits will be impacted by the extent to which:

- Growth of small-lot quote changes in high-priced issues brings more flickering and stale NBBO displayed prices and increases short-term volatility in those issues (“quoting congestion”);
- Four new round-lot tier categories with differing NBBO/PBBO prices confuse customers attempting to size and price orders in quote-congested markets (“customer confusion”); and
- Quote congested markets lead to undesirable split executions of orders and chasing-the-quote scenarios made worse by gaming strategies such as latency-arbitrage, momentum trading and spoofing (“gaming strategies”).

Much of the quote activity growth in high-priced issues can be expected to emanate from investors seeking better prices for their orders and from industry liquidity providers competing in those issues. Much of it may also come, however, from gaming strategies that rely on speed in responding to quote and trade “signals”. In such cases, displayed NBBO prices can be expected to flicker more often, as the difference in “taking” a bid or offer and “retreating” in response to a market signal is often measured in microseconds. Currently, gaming strategies are not as large a factor for most high-priced stocks due in part to the greater risk of having to bid/offer in larger dollar amounts to receive NBBO status. Under the new round-lot tiers of the

² page 35 and footnote 90 of the filing

proposal, however, the amount of game-strategy activity could grow considerably – once smaller sized displayed quotes are equipped with NBBO status.

Quote congestion and gaming strategies tend to increase short-term volatility and make liquidity more ephemeral and difficult to access. Under such conditions, orders that would have previously received immediate and full executions at one price will often instead miss-the-market or otherwise need to be “worked” in piecemeal fashion. Decisions to work orders over time will be subject to new best execution considerations relating to how much quote congestion and gaming should have been reasonably presumed in any given set of circumstances. Execution quality reports will need to be modified to account for the difficulty with accessing liquidity where these factors are prevalent. Mid-sized and larger orders will be particularly impacted in this regard. Even in the case where a larger order would have nonetheless been worked over an extended period of time (e.g., vwap/twap/percentage orders), the increase in order messaging and missed-markets could be significant – as order sizes for child order strategies are adjusted downward to account for the smaller NBBO displayed sizes in the subject security.

While a central tenet of the *proposal* is that receiving data directly from exchanges should help CCs to reduce the current latency handicap between consolidated data feeds and direct feeds, the heightened level of core market data from the addition of four smaller round-lot tiers may frustrate that goal. The more aggressive and numerous the scale of new round-lot tiers, the greater the possibility that the noted issues will add to the degree of disparity in the timeliness of displayed prices among CCs. Whether increases in small-lot quote and related order messaging traffic from the proposed five-tier round-lot scale would be five-fold, ten-fold or more for a number of higher priced securities, there should be an opportunity to develop a deeper understanding and expectation regarding the extent to which CCs and broker-dealers will be able to efficiently operate at varying levels under such conditions before implementing that full scale of new round-lot tiers. It would be helpful to better assess beforehand whether any new round-lot tier will create a disproportionate amount of market distorting issues and short-term volatility in the respective securities – and perhaps more volatility in related derivative products.

The amount by which the above-noted issues would detract from the apparent benefits of smaller round-lot tiers will likely be greater in certain of the proposed tiers. In relation, consideration should be given to adopt fewer and less aggressive tiers, perhaps until experience with the new structure allows for deeper analysis. Fewer tiers on a less aggressive scale would allow CCs to develop as competitors while longer-term investors and liquidity providers grow accustomed, in an orderly fashion, to accessing liquidity under the conditions noted above. Great care should be taken to ensure that tier changes do not unduly tax the capacities of order and trade processing

systems – and a more cautious approach would help in that regard. With this in mind, we recommend three round-lot categories for NBBO eligibility, as follows:

- 100 shares – stocks priced at \$500 or less
- 10 shares – stocks priced at \$500.01 to \$1,000
- 1 share – stocks priced at \$1,000.01 or more

We believe it best to not apply a 100 share minimum for trade-through “protection” to the smaller round-lot tiers and to instead use the respective tier amount in this regard for each issue. Adding the new respective round-lot tier amounts into the Order Protection Rule, as it applies today, will allow for improvements in a consistent and orderly fashion. Creating a PBBO separate from the NBBO would add too much confusion to the quoting process and too much complexity and doubt to the decision-making for order routing.

II. Self-Aggregators should include affiliates

It is important to make sure that self-aggregators be allowed to share the market data they receive directly from exchanges with their affiliates without the registration requirements applicable to CCs – especially for those organizations where one or more affiliates are engaged in the handling and execution of orders for the ultimate benefit of retail customers. Self-aggregators need to know that data used for best execution purposes can be accessed and arranged internally in the manner they deem most appropriate to perform their agency and liquidity functions. Indeed, a market maker unit should be able to know when facilitating interest for an agency affiliate that its view of the quoted market is not only efficiently derived but also consistent with that of the affiliate. Expanding the role of self-aggregators in this fashion would also lessen the encouragement of new CCs registering to perform in niche capacities, which could arise by denying firms the ability to share customized data tools for internal cross-entity use. This will better equip self-aggregating broker-dealers for the challenges ahead with assimilating new systems within the same organization.

It is noted in the *proposal* that the intent of the *proposal* is to increase, rather than limit, choices for market participants and that, in regard to self-aggregating, the indication is that firms at the least be allowed to self-aggregate consolidated market data internally for proprietary use as they may do today. Specifically, it is stated that:

“The proposed decentralized consolidation model is designed to increase, rather than limit, market participants’ choices with respect to data products and connectivity. Accordingly, the Commission preliminarily believes that

broker-dealers should be able to choose to self-aggregate consolidated market data for their own internal purposes in a similar manner as they may do today with proprietary data.”

The Commission further noted that it “...is concerned that eliminating the ability of broker-dealers to self-aggregate proposed consolidated market data for their own use would be unnecessarily disruptive to the current market data infrastructure landscape.”³ Yet, the proposal sets forth that if a self-aggregator wishes to make consolidated market data, or any subset of consolidated market data, available to any other person – including affiliated entities – the self-aggregator would need to register as a competing consolidator.

The Commission’s preferences and intentions noted above are noteworthy in relation to Question 131 of the Infrastructure Proposal, wherein the Commission asked:

Should self-aggregators be permitted to disseminate proposed consolidated market data to their affiliates and subsidiaries without being required to register as a competing consolidator? Why or why not? Does the restriction on not providing consolidated market data or a subset thereof to customers or affiliates reflect a significant departure from current practices? Please explain.

Precluding the ability of self-aggregating broker-dealers to share market data with affiliates would be a “significant departure from current practices” and be “unnecessarily disruptive to the current market data infrastructure landscape”. Requiring such broker-dealers to register as CCs, by virtue of sharing such data for proprietary use, would be a new and undue limit on the choices available today.

By way of background, broker-dealers with affiliates often share in the task of building and maintaining a market data support system for common use. In these cases, appropriate fees are paid to the exchanges for multiple users of their data. The mutual employment of this data among affiliated entities is a common sense approach that would avoid the needless drain of resources otherwise required if each affiliated entity was required to aggregate and build its own market data systems. Indeed, as affiliated firms are generally under general common beneficial ownership, the cost of the current shared approach is materially cheaper than the needless financial and human resource costs of redundant consolidation efforts. Moreover, we do not believe sharing consolidated market data within a single affiliated entity organization, under common beneficial ownership and senior hierarchical management, is

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performing the functions of a CC. The data in this scenario is not intended for public dissemination in connection with commercial competition of exchange data feeds. Redistributing the proposed consolidated core market data, or any subset of proposed consolidated market data, among affiliates would not be performing the functions of a CC and, therefore, should not require registration as a CC.

Thus, self-aggregator organizations should not be faced with the disruptive and needlessly costly and burdensome choice of (1) developing and maintaining redundant consolidated data sets for each respective user within the organization, (2) registering as a CC and assume the related obligations and liabilities even though it never wanted to be in that business, or (3) subscribing to the outside services of registered CCs (again on a redundant basis for each entity within the organization), whose quality and/or cost efficiency may be less, and over whom such organization would have less control to customize or improve services, or to remediate problems.

Accordingly, we believe the definition of self-aggregator should be expanded to allow affiliated organizations common usage of the respective market data, and that the sharing of such market data among such affiliates not require registration as a CC.

Thank you for this opportunity to respond. Should you have any questions with this letter, please contact the undersigned.

Sincerely,



Gerald D. O'Connell
SIG Compliance Coordinator