

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

New York, 1 October 2018

Subject: Exchange Traded Funds, File No. S7-15-18

Dear Mr. Fields,

Flow Traders US LLC is pleased to express its support for the newly proposed ETF rule which modernizes markets and enhancing the current market structure, ultimately improving transparency for the investor and more efficient ETF markets. In this letter, we provide some thoughts about the impact of the new rule on quoted spreads in the ETF market.

About Flow Traders

Flow Traders is a publicly listed, global ETF market maker. We provide liquidity both on- and off-exchange (OTC). In the OTC ETF market, we provide two-sided markets to our institutional counterparties. Because ETF market making is our core business, we are sharing our opinion regarding the proposed rule and the effect this rule might have on quoted spreads on- and off-exchange.

ICI letter

Flow Traders agrees with the Investment Company Institute comment letter. We would like to share some additional thoughts on the rule and its potential impact.

Effects of the Rule Proposal on quoted spreads

Positive Impact

- Custom baskets will allow market makers, together with authorized participants and ETF portfolio managers, to be more efficient in the creation/redemption process. As a result, market makers will be able to provide tighter quotes on exchange as well as for block trades in the OTC markets which enhances market efficiency and liquidity.
- More flexibility in creation / redemption sizes will allow market makers to manage their inventory and positions more efficiently and allow for tighter spreads on exchange. This is particularly beneficial for less liquid products since the inventory costs are generally higher as there is less turnover. We encourage the SEC

Division of Trading and Markets and the SEC Division of Investment Management to work together to harmonize their approaches to creation/redemption unit sizes.

Negative Impact

- Restriction on placing creation/redemption orders for the next day (i.e. before the basket and the holdings of the fund are published) will have a negative impact on the quoted spread (bid ask spreads will increase). This is currently not market practice. There can be sound operational reasons to prepare for a creation/redemption prior to the next day basket and holdings of the fund being known. More specifically, it is currently common market practice for US listed ETFs with international equity baskets to generate creation/redemption orders for the next day.
- To illustrate this point, consider the following example: A US listed ETF with a Japanese stock basket is traded during US hours. At 4 PM EST, the market maker assesses its inventory and wants to create the ETF because it ended the day with short inventory. Since the issuer has not published the new basket yet, the market maker will have to wait until the basket is published before it can give up the creation order. Therefore, the basket needs to be published earlier or the Market Maker and/or Authorized Participant have to wait until later in the evening to be able to place a creation order. It is important to note that, day over day, these baskets don't change significantly, and the market maker is bearing the risk associated with these changes. As a consequence, this process becomes less efficient and the bid ask spreads for the ETF will increase.
- A possible solution would be for the market maker and/or the Authorized Participant to include a "to be published" acknowledgement in the creation order. This would mean it will be creating the ETF shares based on the "to be published" basket. This better reflects current practice and will make sure the bid ask spreads for these US ETFs with international baskets will not be negatively impacted by the proposed rule.

We appreciate the opportunity to comment on the Rule Proposal, and we always stand ready to have a dialogue about the Commission's concerns regarding the ETF ecosystem.

Regards,

Flow Traders US LLC
Bas Tammens