

Filed Electronically

July 7, 2017

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

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Re: Proposed Rule Change - File No. SR-BatsBZX-2017-34

Dear Mr. Fields:

T. Rowe Price Associates, Inc.¹ appreciates the opportunity to comment on the above-referenced proposal (the “**BZX Proposal**”) by Bats BZX Exchange, Inc. (“**BZX**”) to add a new order type known as “Bats Market Close” (“**BMC**”). As contemplated, the framework for the BMC is that BZX would accept buy and sell Market-On-Close Orders (“**MOC**”) in securities which are not listed on BZX and execute any paired-off quantity of such orders at the official closing price determined by the primary exchange that lists the security. The fees that BZX anticipates charging in connection with BMC orders are less than those currently imposed by the other U.S. exchanges on closing auction orders.

While we support innovation and enhancements to benefit the marketplace, and we commend BZX for taking steps to address the ever growing issues raised by the escalating fees charged by exchanges for various products and services, on balance we cannot support the BZX Proposal as we feel it would introduce undesirable fragmentation to the market.

We also urge the Commission to consider our suggestions below for broader market structure improvements as there are significant parallels between the new order type proposed by BZX and the prevalent issues existing in today’s marketplace.

Fragmentation. According to BZX, the proposed rule change will promote competition among national securities exchanges in the execution of MOC orders. It would certainly create a fee competitive alternative to the primary listing markets’ closing auction, but we do not see this improving the process, price discovery, or liquidity at the closing auction.

We anticipate that other exchanges would seek to offer similar order types to BMC and this would increase fragmentation. It is also important to note that while only a very small

¹T. Rowe Price Associates, Inc. and its advisory affiliates provide investment management services to numerous individuals, institutions, and investment funds, including the T. Rowe Price family of mutual funds. As of March 31, 2017, T. Rowe Price Associates, Inc. and its affiliates managed approximately \$861 billion in assets.

number of brokers currently provide market-on-close products that match orders internally to avoid paying the exchange fee, we are aware of numerous brokers and alternative trading systems (ATSS) that, in light of the BZX Proposal, are now considering offering such products as well. If the BZX Proposal were approved, we are concerned that there will be operational and other practical challenges for investors and traders that result from having to rapidly monitor multiple data points for closing auction liquidity and information.

As a general matter, we believe regulators and the industry should work to reduce fragmentation and complexity in the equity markets. Our view on the BZX Proposal is not dissimilar to the stance we've taken on the order protection rule (*i.e.*, Rule 611). The order protection rule has reinforced a routing framework that creates fragmentation as market participants are required to route orders to certain exchanges that they might otherwise choose to avoid. As is the case with Rule 611, we feel BMC creates undue complexity for very little benefit to long-term investors.

Access fees are another contributor to market fragmentation, and a major contributor to the conflicts brokers face when making order routing/execution decisions on behalf of customers. We have long been an advocate for addressing the conflicts created by the "maker-taker" model and do not believe this behavior being extended to the closing auction is in the best interest of long-term investors.

Price Discovery. On the surface, it appears that the BMC might not impact price discovery since the execution price for matched orders is the primary listing exchange's closing price and the BMC would not divert limit orders from such exchange. While it's conceivable that BMC does not detract from the price discovery function performed by the primary listing market's closing auction, the BMC also does not contribute anything to the closing price discovery process. Additionally, because US markets run a closing auction and continuous market simultaneously, the availability of information going into the auction becomes the principal driver of price discovery in the continuous market. If participants begin trading on information gathered from disparate matching processes across multiple platforms, continuous trading behavior leading into the close would change.

The data generated by the BMC (publishing the number of matched market order shares by security) would create asymmetries in the possession of certain information. Only users of BMC orders would have heightened visibility into context (such as the size, composition, and imbalance of the closing interest since the BMC user has direct knowledge of the orders they submitted to the BMC) regarding the paired share volume information published by BZX to the general public.

For example, consider a market participant that enters a buy "Market-On-Close" order for 250,000 shares into the BMC and the full quantity of the buy order is paired in the BZX BMC. At 3:35 p.m. that market participant will not only get the execution information for their buy order, but they will have very specific knowledge of the composition of the paired volume at 3:35 p.m. This information would influence the behavior of the participant over the next 10-15

minutes when NYSE and Nasdaq begin disseminating indicative information about their closing crosses at 3:45 p.m. and 3:50 p.m., respectively.

Recommended Alternatives. Because of the added fragmentation and negative impact on price discovery, we think a comparable outcome (*i.e.*, more competitive pricing of closing auction transaction fees) could be achieved more simply and effectively (a) through the NYSE and Nasdaq voluntarily reviewing and reducing their auction fee structures, or (b) by the SEC imposing a cap on the fees that can be charged by an exchange for closing auction transactions.

Fees have been steadily increasing in the absence of competitive alternatives. On the closing auction in particular, both NYSE and Nasdaq have increased their fees considerably over the last few years – NYSE’s base rate has gone up 16% and Nasdaq increased its fee by 60%.² Additionally, the close is now subsidizing the revenues received by exchanges from other trading fees and has become an even more important function as it accounted for over 5% of the primary listing markets total executed volume in 2016.

The fees charged by the exchanges also need to be more consistent in application. According to the NYSE, “the current auction processes of the primary listing exchanges represent the best aspect of U.S. equity market structure”³ - if that is the case, the auction function should be offered *equitably* to all market participants and we do not think that pricing tiers are appropriate in the context of closing auctions. RBC Capital Markets conducted a study on exchange pricing more generally, revealing 856 different pricing tiers across the exchanges. The current fees charged by Nasdaq and NYSE at the close auction range from \$0.0008 - \$0.0016 and \$0.0007 - \$0.0011 per share, respectively.⁴ Market participants should be treated equally on the closing cross, especially given that the closing auction is a concentrated function with limited providers and alternatives available.

Closing auctions are and should be a centralized process that provides one of the simpler, better functioning, and more transparent aspects of U.S. equity market structure. Regulators and the primary listing market should encourage all market participants to send orders to the primary listing exchange in order to increase the overall price discovery function at the closing auction.

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² See footnote 9 of the BZX Proposal.

³ See June 13, 2017 comment letter from NYSE in response to the BZX Proposal.

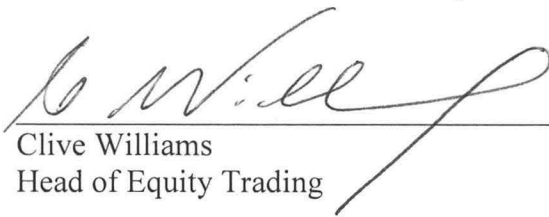
⁴ See Tier F under Execution Fees for the Nasdaq Closing Cross in the Nasdaq fee schedule available at <http://www.nasdaqtrader.com/Trader.aspx?id=PriceListTrading2>; and Liquidity Indicator 7 in the NYSE fee schedule available at <https://www.nyse.com/markets/nyse/trading-info/fees>

Thank you again for the opportunity to comment on the BZX Proposal. Should you have any questions or wish to discuss our letter, please feel free to contact us.

Sincerely,



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Head of Global Equity Market Structure & Electronic Trading



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Head of Equity Trading



Jonathan D. Siegel
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