



August 18, 2017

**Via Electronic Mail ([rule-comments@sec.gov](mailto:rule-comments@sec.gov))**

Mr. Brent J. Fields  
Secretary  
U.S. Securities & Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

Re: File No. SR-BatsBZX-2017-34; Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Introduce Bats Market Close, a Closing Match Process for Non-BZX Listed Securities Under New Exchange Rule 11.28

Dear Mr. Fields:

The Securities Industry and Financial Markets Association (“SIFMA”)<sup>1</sup> submits this letter to the Securities and Exchange Commission (“Commission”) to provide further comments on the above-referenced proposed rule changes filed by Bats BZX Exchange, Inc. (the “Exchange”) to introduce Bats Market Close, a closing match process for non-BZX Listed Securities. As discussed further below, SIFMA continues to support the proposal.<sup>2</sup> In particular, we do not believe the proposal will diminish price discovery. Instead, we believe the proposal will increase price competition and promote market innovation.

**Price Discovery Issues.** The proposal will not diminish the price discovery role served by the closing auctions at the primary listing exchanges. Rather, the proposal has been designed to match only market orders that are designated for the close (*i.e.*, “Market-On-Close” orders). Additionally, the proposal has been structured in a manner to provide market participants with transparency regarding the matched Market-On-Close order volume residing on its book. Further, the proposal provides sufficient time for an Market-On-Close orders that are not matched to be routed to the primary listing exchange. Taken together, the proposal will give market participants sufficient time and information to understand any impact of the BATS closing process on the prices determined in the closing auctions at the primary listing exchanges.

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<sup>1</sup> The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

<sup>2</sup> See Letter from Theodore R. Lazo, Managing Director and Associate General Counsel, SIFMA to Brent J. Fields, Secretary, Securities and Exchange Commission dated June 13, 2017.

Accordingly, the proposal should not have any diminishing impact on the overall price discovery process.

**Reference Prices.** The proposal will not “free-ride” on the price discovery efforts of primary listing exchanges.<sup>3</sup> It is a regular and accepted industry practice to use reference prices to value trade and financial products. For example, many mutual funds base their daily net asset values on the official closing prices from the primary listing exchanges. In addition, exchanges themselves execute orders at the midpoint of the National Best Bid and Offer (“NBBO”), which at any given time may be derived from protected quotes at other exchanges. Further, off-exchange trading centers today offer the capability to match orders both at the NBBO and a security’s closing price. In this regard, the proposal is simply an extension of existing market practices.

**Competition and Innovation.** The structure of the U.S. equity markets provides for numerous trading venues, including more than a dozen exchanges. While this structure results in fragmentation, it also creates a competitive market that has fostered innovation and lowered pricing. We question the opposition to the proposal based on concerns about fragmentation; the equities markets are already highly dispersed and this proposal would not increase that. Rather, the proposal would bring much needed competition to the market closing process. There is nothing in the proposal to require market participants to route orders to the BATS closing match. Rather, the BATS closing match would be a less-expensive option amid rising costs for the closing auctions at the primary listing exchanges.<sup>4</sup> Moreover, Nasdaq and Arca already offer closing auctions in NYSE-listed stocks, and they have done so for years. While those auctions now (since just last year) serve as backups to the NYSE closing auction,<sup>5</sup> the Nasdaq and Arca auctions were originally approved as alternatives, with no known harm to the equity markets. While the intent of those alternative auctions *today* may be for operational resiliency purposes, particularly due to their lack of success and “promotion”,<sup>6</sup> this self-proclaimed viewpoint should not act as a barrier to entry for any market participant seeking to offer an alternative closing auction mechanism.

SIFMA continues to support BATS proposal and believe it is consistent with the Securities and Exchange Act. Accordingly, we believe the Commission should approve BATS’ proposal.

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<sup>3</sup> See e.g., Letter from Edward S. Knight, Executive Vice President and General Counsel, Nasdaq to Brent J. Fields, Secretary, Securities and Exchange Commission dated June 12, 2017 (“**NASDAQ Letter**”); see also Letter from Elizabeth K. King, General Counsel, NYSE to Brent J. Fields, Secretary, Securities and Exchange Commission dated June 13, 2017 (“**NYSE Letter**”).

<sup>4</sup> See Securities Exchange Act Release No. 80683 (May 16, 2017), 82 FR 23320, 23321 (May 22, 2017) (“**BATS Market Close Proposal**”).

<sup>5</sup> See Securities Exchange Act Release No. 80683 (June 8, 2016), 81 FR 38747 (June 14, 2016).

<sup>6</sup> See **NYSE Letter** at 6, n. 10.

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SIFMA greatly appreciates the Commission's consideration of the issues raised above and would be pleased to discuss these comments in greater detail with the Commission and the Staff. If you have any questions, please contact either me (at [REDACTED] or [REDACTED]) or Timothy Cummings (at [REDACTED] or [REDACTED]).

Sincerely,



Theodore R. Lazo  
Managing Director and  
Associate General Counsel

cc: The Honorable Jay Clayton, Chairman  
The Honorable Michael S. Piwowar, Commissioner  
The Honorable Kara M. Stein, Commissioner

Heather Seidel, Acting Director, Division of Trading and Markets  
Gary Goldsholle, Deputy Director, Division of Trading and Markets  
David S. Shillman, Associate Director, Division of Trading and Markets