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

Re: Release 34-86168; File Number SR-CboeEDGA-2019-012; Cboe EDGA Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Introduce a Liquidity Provider Protection on EDGA ("Filing")

July 16, 2019

Dear Ms. Countryman:

Thank you for the opportunity to comment on Cboe's proposed implementation of Liquidity Provider Protection, or in more common language, an asymmetric speedbump for their EDGA market.

The Cboe has proposed an asynchronous speed bump for the EDGA exchange. This speedbump which they call Liquidity Provider Protection will slow down liquidity taking orders by four milliseconds. This LPP is somewhat similar to the speedbump implemented by IEX and NYSE American but in certain ways but very different in others.

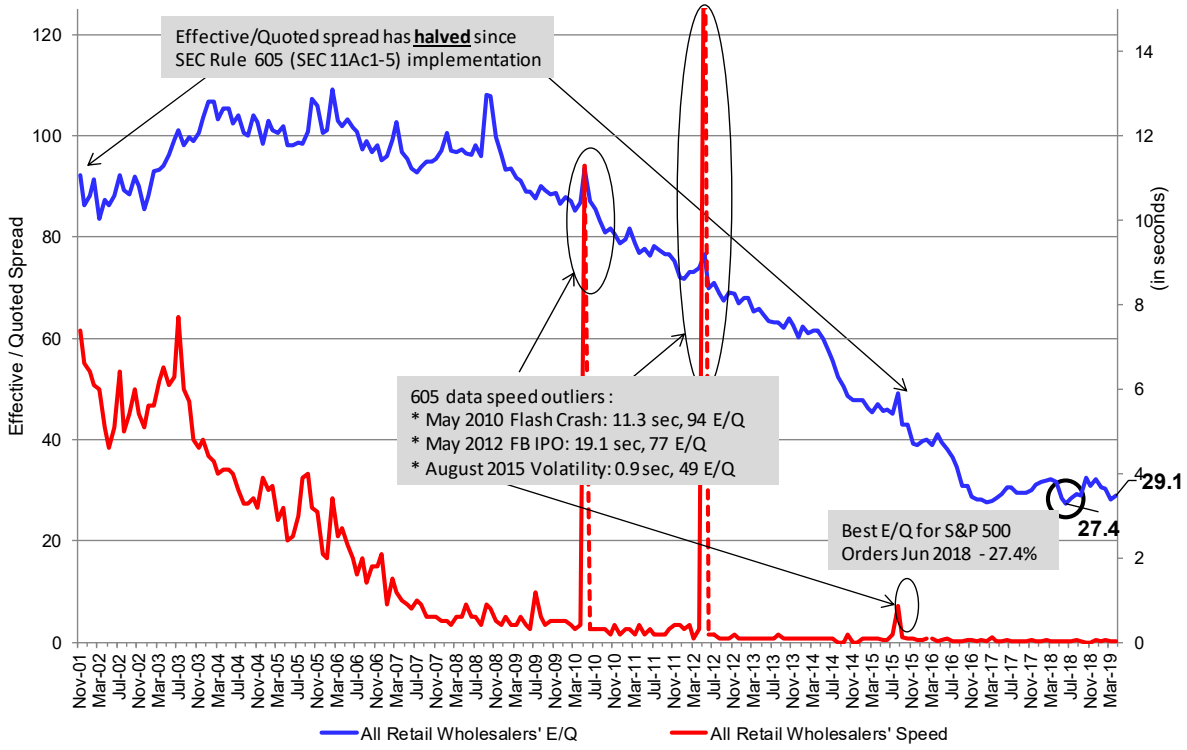
The differences between the Cboe speedbump and those implemented by NYSE and IEX are:

1. The IEX and NYSE American speedbumps are double sided, impacting both liquidity providing and liquidity taking orders, whereas the Cboe LPP is for liquidity taking only
2. The Cboe speedbump is approximately ten times longer than 350 microsecond IEX and NYSE American's speedbumps
3. Market data is not impacted by the Cboe speedbump while IEX and NYSE American speedbumps do impact market data
    a. Since liquidity providing / quote generating orders at the Cboe are not impacted by the speedbump, quote dissemination is not impacted
    b. In addition, while liquidity taking orders are being delayed, execution information on those orders, once they pass over the speedbump will not be delayed.
4. Cboe has asked for order protection to be waved for Cboe
    a. Order protection for IEX and NYSE American is not waved

Personally, I am not a fan of speedbumps. While I do believe that Cboe does make some compelling arguments about the risk of liquidity providers being picked off, and the increasing investment in technology needed to manage quotes across hundreds and or thousands of symbols across 13 and soon to be 16 US equity exchanges, I believe that the investment in technology and speed, improves the price discovery process and has enabled the markets to

become increasingly efficient. In other words, the quality of retail execution for round lot orders in S&P 500 names has dramatically improved since the implementation of Reg NMS and race to

Exhibit 1
Historical Retailer Wholesaler Execution Quality (E/Q): S&P 500 Names for Market Orders from 100 to 1999 Shares



Notes: (1) "All retail wholesalers" includes firms no longer in business (i.e. Madoff, Herzog, GS, CS); (2) Data reflects public 605 data for 100-1999 share market orders in S&P500 stocks. (3) UBS 605 data is not available for May-16 execution speed and therefore excluded.

Source: IHS Markit / TABB Group

trade increasingly faster (see Exhibit 1 below).

While the increasing fragmentation of the equity markets has made it more difficult for institutional investors to find large-sized liquidity, from the data that I have seen, fragmentation, speed and investments in trading technology has not negatively impacted execution quality, for even the largest of investors.

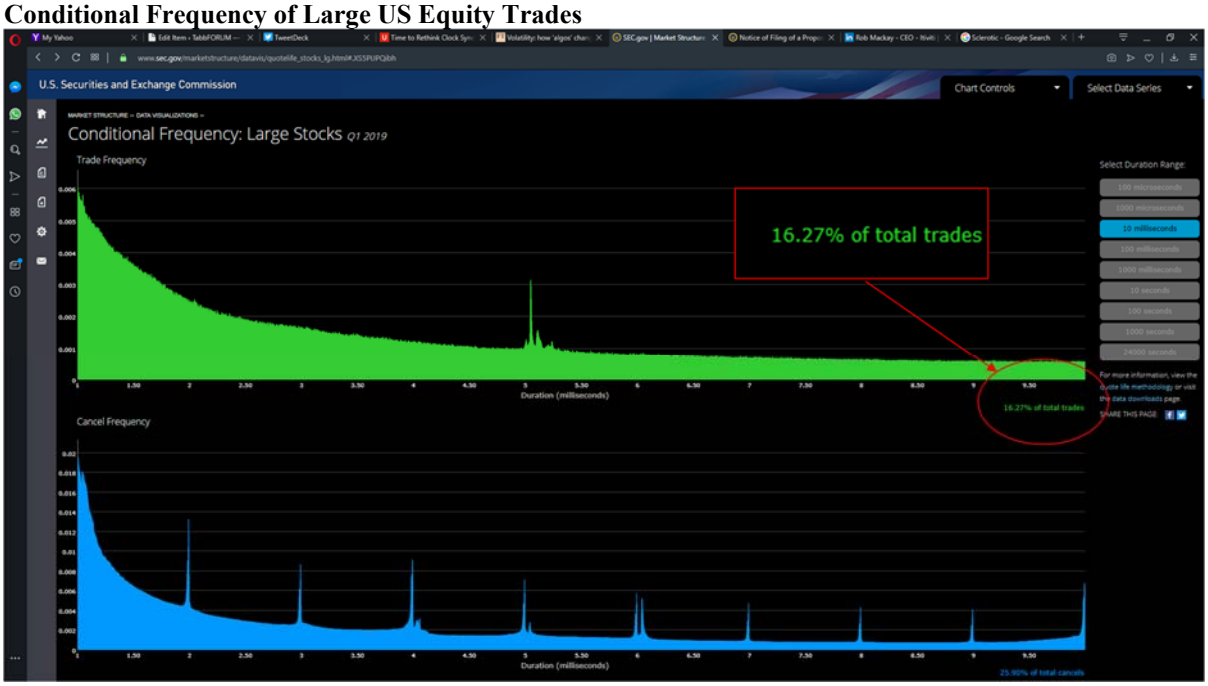
My major concern about the Cboe proposal is that it overtly makes our market un-even. While we all know that firms that extensively invest in technology, have an advantage over those that don't, this advantage can be used by liquidity providers or takers, institutional investors, brokers, retail wholesalers, and proprietary traders. In generally the current market structure has generally benefited all.

The implementation of this new LPP gives liquidity providers (and more specifically professional liquidity providers) up to 4 milliseconds to determine if they want to trade. This guarantees that each and every liquidity providing order placed by a sophisticated firm in this market will be profitable, as market makers will track prices at non-delayed markets, and pull their quotes in EDGA as other markets move. This will also guarantee that market orders trapped in this queue an execution at a price that they were not expecting, or a non-fill returned, more than 4 milliseconds after it was sent. This is an eternity in todays electronic markets.

This will mean that almost every algorithmic trade (market making or execution only) will see a stream of quotes from Cboe that may or may not be executable. If the quote is stable, it is more than likely that the Cboe EDGA quote will be executable, however, if the price of that symbol is in transition, a substantial portion of orders could be "faked out" by this delay as an order is sent to EDGA, and the liquidity provider pulls their quote.

Looking at the SEC's market structure website, 16.27% of large orders execute within 10 milliseconds (as of Q1 2019) (see Exhibit 2). While is for 10milliseconds and not 4, and we don't know what proportion of these orders are from investors versus high speed professional traders, this number of trades is still substantial.

Exhibit 2
Conditional Frequency of Large US Equity Trades



Source: SEC Market Structure Webiste

In addition, given that most brokers tell us that their taking to providing ratio is approximately 60% liquidity taking to 40% providing, institutional investors will most likely be harmed by this quote fade of predominately professional trading firms/market makers.

On the other hand, if the market is stable and liquidity providers are guaranteed not to be picked off, as the proposal states, liquidity providers should be more likely to provide an overly

aggressive quote when the market is stable, enabling the liquidity taker to obtain a better price, if the threat of being picked off is eliminated.

Unfortunately, given that we don't have a market with these characteristics, it is hard to estimate the difference between those orders that would have been impacted by quote fade versus those improved by liquidity provides posting more aggressive quotes which could be moved, given a price change. That said, this type of market is employed in Canada, and we should look to the Canadians, for a better perspective.

Transaction fee pilot

This type of a speedbump is certainly an incentive. It gives the market maker the ability to move their price as other markets move. It reduces adverse selection for market makers and virtually guarantees the market will fade against liquidity takers prices transition.

This type of speedbump given the proposal to reduce the maker/taker fees and the prospect of eliminating rebates altogether, could be a mechanism used by exchanges to court liquidity providers as a reduced maker/taker / no rebate pricing scheme will have the effect of widening the quote.

In authorizing this asymmetric speedbump, the SEC needs to ascertain what types of liquidity incentives are valuable to the market and to the economy.

The traditional maker/taker market provides an incentive to liquidity providers when they trade but it also (if not analyzed, measured, and brokers held to account) could provide a conflict of interest to agency brokers as they route orders to markets that pay higher rebates/charge lower fees instead of routing to the appropriate market given market conditions and a trader's instruction.

While the asymmetric speedbump incentive eliminates the credit/fee associated with agency routing, the asymmetric speedbump creates the perverse incentive ***not*** to trade.

A rebate is only granted when liquidity is taken, however the asymmetric speedbump incentive creates the benefit when the quote is pulled and the liquidity provider fades. While the asymmetric speedbump is not a last look and does not enjoy the ability to fade against a specific order, unlike the trading incentive of maker taker, the asymmetric speedbump provides an incentive to fade when other markets move.

In summary

The market in generally has benefited from our current competitive price time marketplace, even though it is expensive to compete, and makes it harder for larger organizations to aggregate liquidity. Analyzing 605 data, especially from retail wholesaling firms, E/Q and execution quality has steadily improved over time. This is true even through the credit crisis, the flash crash and other macro-economic shocks.

Because of this steady improvement in execution quality, I am loathed to do anything to dramatically impact this progression, especially, given this this proposal impacts only liquidity taking orders, which are most notably used marginally more by investors.

That said, liquidity providers generally need an incentive to provide liquidity. This has been a tenant of our markets for decades if not millennia. This was historically provided by giving the Specialist and or market maker an information advantage. We determined that this mechanism was flawed almost two decades ago, so the SEC changed the incentive structure to allow maker taker pricing.

If the SEC moves forward with the Transaction Fee Pilot, and significantly alters the rebate/fee scheme, which it has been proposed, we may need another way to incentivize liquidity providers and the asymmetric LPP speedbump may be the appropriate response.

While I do not like speedbumps, symmetric or asymmetric, this proposal does have some merits.

- First, if we move forward with the Transaction Fee Pilot, providing an asymmetric speedbump maybe a good compromise between rebates and no incentive, even if it will facilitate fading during times of price transition.
- Second, this proposal forgoes order protection, an allows traders to bypass this market if they find it problematic.
- Third, it should not significantly impact market data, as limit orders will not be delayed
- Lastly, before the SEC approves or turns down the Cboe proposal, the SEC should look at quote and execution traffic to estimate the proportion of fading that will occur if market makers could move their quote within 4 milliseconds of a price movement.

Not that I know the appropriate level of beneficial fading, but analysis is need to ascertain the approximate proportion of price improvement that will be gained from more aggressive but quotes, versus the value of trades that will not be executed or executed at worse prices given a market maker's propensity to fade as the pricing of other markets change.

This and some analysis should be requested as how the proposed Transaction Fee Pilot's reduced and no rebate pricing tiers will impact liquidity and if / how this will be countered with the addition of an asymmetric speedbump.

And lastly, we should remember that this will most likely be a liquidity subsidy from investors to professional traders/liquidity providers and is this a practice that we want to condone?

Again, I would like to thank the Commission for enabling me to voice my thoughts and concerns on this important change to US equity market structure.

Sincerely

Larry Tabb

Founder and Research Chairman

TABB Group