



17 State Street, 38th floor New York, NY 10004

January 21, 2020

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: IEX D-Limit Order Type (File No. SR-IEX-2019-15)

Dear Ms. Countryman:

Clearpool Group (“Clearpool”)¹ is writing to provide its views on the proposed rule change filed by the Investors Exchange LLC (“IEX”) to add a new Discretionary Limit order type (“D-Limit” order).

As discussed further below and as we stated in previous letters to the Commission,² Clearpool supports initiatives by exchanges to innovate through new order types that can incentivize the increase of displayed liquidity. This is consistent with Clearpool’s goals of encouraging additional liquidity in the markets and other methods that may have a positive impact on order routing behavior, execution quality, and market quality more generally.

To the extent that the D-Limit order type accomplishes these goals, we support the proposal. At the same time, the D-Limit order type (as well as other delay mechanisms) raises important issues that the Commission should carefully examine and address while considering the approval of the proposed rule change. These include, most significantly, issues surrounding the impact of the D-Limit order type on the methods that Clearpool and other brokers utilize to execute orders across multiple markets. Our specific comments follow.

Importance of Displayed Liquidity

Clearpool believes there is a fundamental problem with displayed liquidity in the securities markets. The significant amount of trading occurring in dark pools and other off-exchange

¹ Launched in 2014 and based in New York, Clearpool Group, Inc. offers holistic electronic trading solutions and provides independent agency broker-dealer execution services. With over 120 Algorithmic Management System (AMS) clients and executing between 2-3% of the US equity market volume, Clearpool empowers market participants to achieve better quality executions in an evolving equity market microstructure and competitive landscape. For further information on Clearpool Group, visit www.clearpoolgroup.com.

² See, e.g., Letters from Ray Ross, Chief Technology Officer, Clearpool, to Vanessa Countryman, Secretary, SEC (File No. SR-CboeEDGA-2019-012), dated July 17, 2019 and October 21, 2019.

venues, as well as “hidden” liquidity on exchanges, has been well documented and this trend does not seem to be reversing any time soon. For example, little more than half of the volume in US equities is trading on lit venues when taking into account “hidden” exchange volume in addition to off-exchange volume.³

The reasons behind the move of liquidity off-exchange are important to Clearpool and other broker-dealers trading for institutional investors and other market participants. Significantly, investors and other market participants are continuously seeking liquidity in which to trade, and must route to wherever sufficient liquidity can be found. At the same time, investors (and their broker-dealer counterparties) are proactively looking to avoid getting “picked off” on exchanges by predatory traders and trading practices. Clearpool has seen this firsthand; according to our own venue analysis data, adverse selection on “rest” or “passive” trading is significantly worse in lit order types versus dark order types.

While Clearpool clearly and understandably utilizes dark pools and other off-exchange venues to execute trades, we believe dark venues were intended for the execution of large blocks to avoid information leakage. Now, trades in smaller sizes are being done in the “dark” and the average trade size on exchanges has declined as well.⁴ We believe this has consequences, including increasing the cost of trading and harming price discovery. This trend needs to be reversed, and we must find ways to provide better protections for liquidity providers in the public markets.

The D-Limit order type has the potential to discourage predatory trading and, in turn, promote displayed liquidity and reduce adverse selection. We therefore support the proposed rule change for these reasons.

D-Limit Order Type

While Clearpool supports innovative order types and other ways to incentivize the increase of displayed liquidity and protect market participants from predatory trading practices, we have expressed concerns surrounding some recently proposed delay mechanisms and the potential impact of those mechanisms on the markets. With that said, we take comfort from the fact that many facets of the proposed D-Limit order type are different from these other delay mechanisms.

For example, the D-Limit order type involves a delay of significantly less proportion than the delay involved with, for example, the Cboe EDGA delay mechanism. The D-Limit order type also is a rules-based order re-pricing mechanism while other delay mechanisms require affirmative decisions by traders to re-price their orders. We believe this is an important distinction as many market participants do not have the speed and other resources

³ As of September 2019, 55.1% of the volume in US equities is trading on lit venues. Source, TABB Group.

⁴ As of October 2019, the average trade size off-exchange was 313 shares while the average trade size on-exchange was 145 shares. Source, TABB Group.

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that other traders may have to act quickly enough to “get out of the way” of a predatory trading strategy.

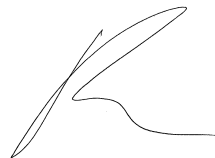
In addition, the proposal states that IEX believes that displayed D-Limit orders would qualify as “automated quotations” and therefore “protected quotations” under Regulation NMS. If that is the case, it would alleviate several concerns expressed by Clearpool regarding other exchange delay mechanisms, particularly the impact that the dissemination of an unprotected, manual quote would have on the national market system and whether such a quote should be disseminated by the SIP. It also alleviates many related concerns Clearpool has about the impact on a broker-dealer’s regulatory obligations, particularly with respect to a broker-dealer’s obligation to obtain best execution.

We recognize that some questions remain regarding the D-Limit order type’s impact on trading and the markets in general. For example, it is unclear how the order type will impact intermarket sweep orders (ISOs) and other similar order types that Clearpool and other broker-dealers utilize to attempt to take liquidity from across several market centers. Specifically, would the IEX Signal view such an intermarket sweep as an indication of an unstable quote scenario and therefore have the IEX quote “fade” and become inaccessible to the Clearpool order? We would be concerned if the D-Limit order type impedes Clearpool and other broker-dealers from effectively working an order and attempting to sweep available liquidity across markets. We therefore request that IEX clarify how such a situation would operate under the proposal. Similarly, we remain uncertain about the impact that the D-Limit proposal and other exchange delay mechanisms will have on the markets if and when other exchanges implement similar delay mechanisms and such mechanisms become a larger part of the trading landscape.

Conclusion

Clearpool believes the D-Limit order type provides promise to achieving the goals of increasing displayed liquidity and protecting market participants from predatory trading practices. We offer our assistance to the Commission as it examines the proposed rule change. If you have any questions on our comment letter, please feel free to contact me directly at [REDACTED] or at [REDACTED].

Sincerely,



Ray Ross
Chief Technology Officer

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cc: The Honorable Jay Clayton, Chair
The Honorable Robert J. Jackson, Jr., Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
The Honorable Allison Herren Lee, Commissioner

Brett Redfearn, Director, Division of Trading and Markets