



The Capital Group Companies, Inc.

333 South Hope Street

Los Angeles, California 90071-1406

VIA EMAIL

March 16, 2020

Ms. Vanessa Countryman
Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Proposed Rule Change to Add a New Discretionary Limit Order Type (File No. SR-IEX-2019-15)

Dear Ms. Countryman:

We appreciate the opportunity to comment on the December 20, 2019 Proposed Rule Change to Add a New Discretionary Limit Order Type ("D-Limit") put forth by Investors Exchange LLC ("IEX"). The Capital Group Companies ("Capital Group") is a global asset management firm with offices in Europe, Asia, and the Americas. Through our investment management subsidiaries, we actively manage global assets in various collective investment vehicles and institutional client separate accounts. The majority of these assets consist of the American Funds family of mutual funds, which are U.S. regulated investment companies distributed through financial intermediaries and held by individuals and institutions across different types of accounts. The American Funds is one of the nation's oldest mutual fund families which invests approximately \$1.8 trillion in assets for more than 50 million shareholder accounts. We have supported IEX's mission to raise the bar for fairness and transparency in the U.S. equity exchange landscape and its trading platforms since its inception. Capital Group, through one of our subsidiaries¹, invested in IEX early in its formation and maintains a small ownership stake.

We believe that the D-Limit order type will be beneficial to investors and encourage the Securities and Exchange Commission (the "Commission") to approve the proposed rule change. Capital Group supports innovation that enhances market quality and ensures fair access for investors. We are fundamental investors and believe price discovery is a central function of public markets. Price discovery requires a diversity of participants to post displayed ("lit") bids or offers. Increasingly, the speed advantages that some market

¹ Capital Research and Management Company, the investment advisor for the American Funds.

participants enjoy mean that the lit markets have become an uneven playing field. Therefore, Capital Group and other investment firms like us, have increased the use of non-displayed liquidity to implement our long-term investment decisions. D-Limit is an innovation that is designed to ensure the equitable treatment of orders in the lit market, increase posting of displayed liquidity, and enhance price discovery.

The D-Limit order type's simple purpose is to allow IEX to reprice an order for a client when IEX reasonably expects an imminent change in relevant market prices. We consider D-Limit akin to existing 'peg' order types offered by many exchanges, which instruct that the Bid (Offer) of an order should match the best Bid (Offer) of other orders in the market. The Commission has already approved non-displayed order types (e.g., Discretionary Peg, Corporate Discretionary Peg, and Primary Peg) at IEX which function very similarly to D-Limit and which Capital Group uses extensively. The primary difference between those orders and D-Limit is that a D-Limit order is displayed. D-Limit is not a radical invention but is rather a logical extension of established market order types.

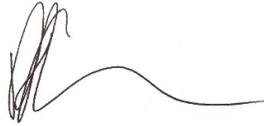
The D-Limit order type benefits from its transparency, availability and stability. The Crumbling Quote Indicator ("CQI") model, which D-Limit will use to forecast when the price of a stock is likely about to change, is publicly available, as is the mechanism it uses to adjust a quote. As with other order types, D-Limit order use would not be mandatory, but rather a choice of the order originator and will be available to all participants on IEX, regardless of their technology investment or sophistication. Further, D-Limit orders, just like Peg orders, are always firm quotes that will execute at their current price if matched with an incoming order. When either order type changes price due to market events the order is not 'quote fading'. In other words, D-Limit orders will not cancel an order to avoid execution against an already received opposing order that is eligible to match.

As IEX states in the Proposal, the CQI signal is "on" *"for only 0.02% of the trading day on a volume-weighted basis, but 24% of all IEX displayed trading occurs when the signal is "on"*. This is a key data point supporting the assertion that there is a class of trading participants, using very low latency trading strategies based on co-located direct exchange feeds, whose sole intent is to anticipate upcoming tick level price change and use that information to arbitrage quoted orders amongst the various exchanges. These actors are not market-makers in the traditional sense. They do not provide meaningful liquidity to investors nor do they facilitate price formation. These actors are engaged in structural arbitrage, extracting economic rents from other market participants and, ultimately, the millions of Americans investing their savings.

While we support IEX's proposal, we believe that the Commission should continue to evaluate each exchange proposal for a new order type, or variation on an existing order type, on its own merits and within the context of the exchange rules previously approved. Capital Group is philosophically predisposed to market structures that encourage pre-trade transparency and displayed liquidity. D-Limit will give Capital Group, other asset managers, and the broker-dealers executing orders, another tool to ensure that we are transacting at fair prices and will help to level the playing field between investors and low latency traders.

We thank the Commission for its consideration of the above comments. If you should have any questions or wish to discuss our views on the proposal, please feel free to contact me at 213-486-9543.

Sincerely,

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

Peter D. Stutsman

Global Head of Equity Trading