



*Filed Electronically*

August 18, 2021

Ms. Vanessa Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Re: **Proposed Rule Change** - File No. SR-NASDAQ-2021-040

Dear Ms. Countryman:

T. Rowe Price<sup>1</sup> appreciates the opportunity to comment on the above-referenced proposal (the “**Nasdaq Proposal**”) by Nasdaq Stock Market LLC (the “**Exchange**”) to establish the “Extended Trading Close.” As contemplated, the Extended Trading Close (“**ETC**”) would commence immediately upon the conclusion of the Nasdaq Closing Cross and continue for five minutes, during which ETC eligible orders in Nasdaq-listed securities may match and execute on a continuous basis at the Nasdaq Official Closing Price.

While we continue to support innovation and enhancements to benefit the marketplace, we do not support the ETC. In our view, it would diminish the quality of the Closing Cross process, encourage harmful arbitrage behavior, and negatively impact aspects of the continuous market.

We do not believe the Exchange has effectively identified the purpose of, use case, or client demand for the proposed rule change. Merely stating “[t]he proposal would create an additional opportunity for Participants to execute orders in Nasdaq-listed securities at the Closing Cross price for a limited time period after the Closing Cross concludes”<sup>2</sup> is not sufficient justification to outweigh our concerns, which we describe below. We also provide alternative recommendations to enhance the Closing Cross.

***ETC Would Diminish the Quality of the Exchange’s Closing Cross.*** Despite claims made by the Exchange,<sup>3</sup> we would expect the ETC to harm participation and price discovery in the Exchange’s primary closing mechanism (i.e., its Closing Cross) and also add complexity to markets. The Exchange states: “Nasdaq is committed to investing in and enhancing the Closing Cross process for Nasdaq-listed issuers, their shareholders, investors, and all Participants involved in the robust price discovery and liquidity process that the Closing Cross serves.” It is not evident to us how the ETC functionality would enhance the Closing Cross process or improve price discovery and/or liquidity in the closing auction.

Based on our experience as a large institutional trading firm, the proposed ETC would not benefit our orders or our workflow, or enrich price discovery in the closing process. In contrast, the ETC could detract from the Closing Cross as some market participants would be encouraged to withhold their true

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<sup>1</sup> T. Rowe Price is a global investment management organization with \$1.64 trillion in assets under management as of July 31, 2021 based on preliminary data.

<sup>2</sup> Nasdaq Proposal at page 10.

<sup>3</sup> Nasdaq does not expect the ETC to have an impact on the participation in the Nasdaq Closing Cross or the LULD Closing Cross (Nasdaq Proposal at page 13).

supply/demand interest from the closing auction, instead choosing to refrain from submitting orders until they know the official closing price. These market participants would essentially have a “last look” mechanism and receive a “free-rider” benefit. Specifically, they would be able to forego participating in the closing auction’s price discovery process, yet still retain the optionality to execute large orders through the ETC once the closing price has been established based on the trading activity of other market participants. While the Exchange acknowledges the existence of this optionality,<sup>4</sup> the Nasdaq Proposal does not consider the positive affect that robust supply and demand has on price discovery at the Closing Cross. To the contrary, the Nasdaq Proposal states: “By increasing opportunities for Participant[s] to execute their orders at the Nasdaq Official Closing Price (as determined by the Closing Cross), the Exchange will allow them to execute sizable orders without market impact...”<sup>5</sup> While the ability to execute in this way may be beneficial to an individual market participant for a specific transaction, this dynamic detracts from the robustness and quality of the closing price to the detriment of the broader market and investors generally.

The Nasdaq Proposal also notes that a number of off-exchange trading venues already offer their participants the ability to receive the Nasdaq Official Closing Price for their orders after the Closing Cross occurs, and that such functionality has grown popular with certain participants. However, we believe the ETC should not be viewed as analogous to these other mechanisms. By way of background, the other mechanisms the Exchange is referring to are pre-arranged matched trades or guaranteed close trades that are, unlike the ETC, received prior to the closing cross and the determination of its auction price. When a trade is sent to an “off-exchange offering” post the closing cross, it is generally a trade that is executed by a broker in a principal capacity. Usually, these transactions tend to be “clean-up” trades for orders that did not complete in the auction or trades to facilitate other specific needs of a client.

The Exchange’s interest in providing a clean-up or facilitation function in the form of the ETC would create more harm than benefit for the market given the range of concerns raised in our letter. The existing clean-up and facilitation mechanisms we described generally work well from our standpoint, and we do not believe there is a void the Exchange needs to fill in this regard.

We are also concerned with the potential long-term effects and undesirable precedent if the SEC were to approve the ETC. Doing so might encourage other providers to offer a similar function that extends for even longer periods than the ETC’s proposed 5 minutes after the closing cross or matches on a non-listing exchange or non-displayed venue. This would be an unfortunate outcome as it would likely further detract from both participation and the robustness of price discovery in the auction. 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 primary listing markets should encourage all market participants to send orders to the listing exchange in order to increase the overall price discovery function at the closing auction itself rather than giving market participants optionality to achieve the same closing price without participating in the closing cross.

***ETC Would Encourage Harmful Arbitrage Behavior.*** As part of the proposed ETC framework, the Exchange would suspend execution of ETC orders if prices in the after hours market diverge from the closing price beyond certain thresholds. The Nasdaq Proposal states: “...if during the Extended Trading Close, the After Hours Trading last sale price or After Hours Trading best bid or offer of the Nasdaq-listed security subject to the ETC Order deviates the greater of 0.5% or \$0.01 from the Nasdaq Official Closing Price for that security, as determined by the Closing Cross, then the System will suspend execution of the ETC Order, unless and until the After Hours Trading last sale price or the After Hours Trading best bid

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<sup>4</sup> Likewise, Participants will have an opportunity to access liquidity at the Nasdaq Official Closing Price (as determined by the Closing Cross) even if they did not participate in the Closing Cross (Nasdaq Proposal at page 10).

<sup>5</sup> Nasdaq Proposal at page 10.

(offer) price of the Nasdaq-listed security returns to within these 0.5%/\$0.01 thresholds (or within such other thresholds as Nasdaq management may determine, upon prior notice to market Participants) during the Extended Trading Cross (at which point executions would resume).”<sup>6</sup> The Exchange believes this limitation would help mitigate the risk that orders in Nasdaq-listed securities that participate in the Extended Trading Close would execute at a price no longer reflective of the value of the security.<sup>7</sup>

In our view, this framework would be an open invitation for highly sophisticated participants to engage in arbitrage by quickly identifying price differences between the Closing Cross price and the prevailing after hours market price before other participants. Using ETC only orders types and having transparency into imbalance information,<sup>8</sup> these sophisticated participants would opportunistically submit orders to engage with other participants’ ETC activity at a previously determined fixed price using ETC and unwind risk in the after-market at prices that more accurately reflect the current value of the security.

***ETC Would Negatively Impact Aspects of the Continuous Market.*** The Nasdaq Proposal also illustrates another example of the broader challenges faced by some market participants by virtue of the closing auction occurring simultaneously while the continuous market is still operating. Price discovery in the auction, with imbalances and indicative prices being disseminated frequently affects the continuous market and vice versa. Some market participants in the continuous market are already inclined to not reflect their true interest in the closing auction in fear that prices may be affected or that their orders execute at prices that are not optimal (or simply do not get executed) because the auction closes at, or a penny away from, their limit price. The availability of information going into the auction becomes the principal driver of price discovery in the continuous market in the last 5-10 minutes of trading. If participants do not submit their true interest in hopes they could trade in greater size utilizing the ETC, the breadth and quality of market information could be affected and in turn lead to more uncertainty and volatility in continuous trading behavior leading into the close.

***Recommendations to Further Enhance the Closing Cross.*** To address the broader issue noted above about the closing auction influencing the continuous trading market, we think the equity markets would operate more effectively and efficiently if these two activities were detached from each other so that they were not occurring simultaneously. For example, the continuous market could operate until 4 pm and at that point any unexecuted orders would be cancelled. Thereafter, the Closing Cross and auction would be conducted and participants whose earlier orders in the continuous market were not executed would have the option to re-submit those orders (with any desired adjustments) to the auction.

We also think more transparency while the closing auction is taking place would benefit market participants. Greater visibility in terms of indicative prices and the price points at which additional liquidity would be available in the auction would be very useful.

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<sup>6</sup> Nasdaq Proposal at page 8.

<sup>7</sup> Nasdaq Proposal at page 4.

<sup>8</sup> Page 9 of the Nasdaq Proposal states: “To facilitate participation in the Extended Trading Close, Nasdaq proposes to disseminate electronically to Participants an “ETC Order Imbalance Indicator,” beginning at 4:00:05 p.m. (or 1:00:05 p.m. on a day when Nasdaq closes early) and continuing in 5 second intervals thereafter until the Extended Trading Close concludes at 4:05 p.m. (or 1:05 p.m. on a day when Nasdaq closes early). The ETC Order Imbalance Indicator will convey to Participants the symbol and total number of matched and executed shares in the Extended Trading Close (as of the time of dissemination of the ETC Order Imbalance Indicator), as well as total size of any ETC Imbalance (exclusive of Orders with Minimum Quantity instructions) and the buy/sell direction of any ETC Imbalance.”

Ms. Vanessa Countryman

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

Sincerely,

/S/ Mehmet Kinak

Mehmet Kinak

Global Head of Systematic Trading & Market Structure

/S/ Jonathan Siegel

Jonathan Siegel

Senior Legal Counsel – Legislative & Regulatory Affairs