March 24, 2023

**VIA EMAIL**

Ms. Vanessa A. Countryman, Secretary
U. S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

**Re: Equity Market Structure Proposals (File Numbers S7-29-22, S7-30-22, S7-31-22, and S7-32-22)**

Dear Ms. Countryman:

On December 14, 2022, the U. S. Securities and Exchange Commission ("SEC" or the "Commission") released a suite of inter-related rule proposals (the "Proposals")[1] that represents the most significant change to our markets since Regulation NMS in 2005.

As asset managers, exchanges, ETF issuers, broker-dealers, and liquidity providers, our firms represent significant, distinct aspects of the overall U.S. equities market, and collectively serve tens of millions of investors each and every day. While we support the SEC's stated goals of enhancing our markets through greater transparency, disclosure and competition, we believe that market structure reforms should be an iterative, targeted and empirically-driven process to reduce the risk of jeopardizing the substantial benefits already provided to investors and issuers by the current market structure and to avoid introducing unanticipated operational risks and complications associated with sweeping changes to the marketplace.

Our joint statement aims to provide constructive suggestions concerning the Proposals and highlights several important concerns that investors and market participants have raised in connection with the Proposals. While we may individually comment more expansively on the Proposals, we offer the following observations and suggestions to help the Commission accomplish its goals.

**<u>Order Execution Information (Rule 605) Proposal</u>**

We echo the Commission's comments about the importance of having accurate and complete measuring tools and agree that updating Rule 605 will significantly enhance the Commission's and investors' abilities to assess prevailing execution quality in our markets and drive further competition. Given the common objective across each of the Proposals – to enhance

[1] *See* Proposed Rule: *Disclosure of Order Execution Information*, Release No. 34-96493; File No. S7-29-22 (Dec. 14, 2022); Proposed Rule: *Order Competition Rule*, Release No. 34-96495; File No. S7-31-22 (Dec. 14, 2022); Proposed Rule: *Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders*, Release No. 34-96494, File No. S7-30-22 (Dec. 14, 2022); and Proposed Rule, *Regulation Best Execution*, Release No. 34-96496; File No. S7-32-22 (Dec. 14, 2022).

execution quality for investors – we firmly believe this goal can best be achieved by first addressing and completing Rule 605 enhancements as it is arguably the most impactful and least disruptive of the Proposals.

We recommend that the Commission amend Rule 605 to provide more comprehensive execution quality statistics on retail activity based on input from investors and market participants, and then pause to study and assess market quality based on the newly collected data before determining whether to move forward with the other Proposals.

**Reg NMS Reform Proposal (Tick Sizes, Fees, Round Lots and Odd Lots)**

**Defining Tick Constrained:** We believe that the focus of any tick regime reform should begin by identifying symbols that are truly tick constrained before proceeding with any wholesale changes to tick increments. We encourage the Commission to follow an objective, multi-factor approach to defining tick constrained symbols that considers quoted spreads and displayed liquidity, similar to that recently suggested by Cboe, rather than applying tick reform to an expansive universe of securities. [2]

**Quoting Increments:** Following the adoption of enhancements to Rule 605, we suggest the Commission conducts a study to reassess the need for potential reductions in quoting increments, as supported by data, to a half penny for symbols that meet a multi-factor definition of tick constrained.

We further believe that any tick reductions should first be applied to a sample of tick constrained securities, allowing the marketplace to more safely understand the implications of tick reform without immediately embarking on sweeping changes that could harm liquidity or introduce operational complexity and risk. This framework should then be reevaluated quarterly or bi-annually, using empirical analysis to determine whether additional adjustments to tick sizes is warranted.

We also urge the Commission to consider reviewing quoting increments for thinly-traded symbols. For symbols that trade at spreads significantly wider than a penny, the Commission should conduct a study to determine whether increasing tick sizes, including up to $0.05, would be beneficial to the market.

**Round Lots and Odd Lots:** We support the Commission accelerating implementation of the new round lot definitions and its proposal to publish the best odd lot orders to buy and sell on the SIP while considering both the potential compounding effects of changes in quoting increments as well as feedback from market participants.

**Trading Increments:** We do not see a compelling reason to apply the same minimum quoting increment to trading at this time. If the Commission pursues any minimum trading

[2] See Cboe comment letter re: *SEC Proposal on Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders (No. 27_30-22)*, available at: https://www.sec.gov/comments/s7-30-22/s73022-20158236-326301.pdf.

increment, then the Commission should take a methodical, quantitative approach and assess how enhancements to Rule 605 impact execution quality, order routing, and liquidity before embarking on more difficult to assess sweeping changes.

**Access Fees:** We acknowledge that a reduction in quoting increments for tick constrained symbols could make it advisable for market centers to reduce access fees for the affected symbols to ensure a consistent equity market structure framework. We encourage the Commission to conduct an empirical analysis to study the potential impacts to competition and liquidity in connection with any access fee changes.

## Best Execution Rule Proposal

We appreciate the Commission’s efforts to review the standards for transparency, disclosure, and the handling and execution of investors’ orders across all asset classes, including fixed income securities and emerging assets (such as digital asset securities). We believe that FINRA’s best execution rules, and related notices and guidance, combined with its and the SEC’s enforcement efforts, has proved effective in protecting investors in our equity markets. If the SEC believes there are material gaps in the existing equity rules or notices, or that any clarification is needed, we encourage the Commission to work with FINRA to make the necessary enhancements to FINRA’s existing framework.

We note that a best execution rule that is overly prescriptive or overly vague will have significant unintended consequences for both retail and institutional equity investors and would potentially serve to limit competition and innovation. Further, a best execution rule should include clear objective guidance for assessing execution quality for all orders, transaction types, and venues.

## Retail Auction Rule Proposal

We appreciate the Commissions' stated goal to enhance the existing competitive landscape for equity retail order flow and believe this can best be achieved through enhanced transparency in conjunction with competitive forces and complementary, innovative market-driven solutions. We believe that the Commission should withdraw its proposal to mandate equity auctions for marketable retail orders and consider iterative approaches to enhancing retail investor execution quality through means that do not pose risks to competition, liquidity, and efficient capital formation in our equity markets.

* * *

We applaud the Commission’s efforts to enhance the experience that retail investors enjoy today through increased transparency, disclosure, and competition. We firmly believe that the Commission should first implement enhancements to Rule 605 to update execution quality metrics and then reassess, based on those metrics and other empirical data, the need for additional market structure changes. If after reassessing, the empirical data suggests opportunities for further enhancements, our joint statement highlights areas of broad consensus where incremental changes may be worth pursuing.

Respectfully,

/s/ David Howson
*Executive Vice President, Global President*
**Cboe Global Markets**

/s/ Nathaniel N. Evarts
*Managing Director, Head of Trading, Americas*
**State Street Global Advisors**

/s/ Kimberly Russell
*Market Structure Specialist, Global SPDR Business*
**State Street Global Advisors**

/s/ Mehmet Kinak
*Global Head of Equity Trading*
**T. Rowe Price**

/s/ Douglas A. Cifu
*Chief Executive Officer*
**Virtu Financial, Inc.**

cc: The Honorable Gary Gensler, Chair
The Honorable Hester M. Peirce, Commissioner
The Honorable Caroline A. Crenshaw, Commissioner
The Honorable Mark T. Uyeda, Commissioner
The Honorable Jaime E. Lizarraga, Commissioner
Dr. Haoxiang Zhu, Director, Division of Trading and Markets