



FIA Principal Traders Group  
2001 Pennsylvania Avenue NW  
Suite 600 | Washington, DC 20006

T 202 466 5460  
F 202 296 3184

ptg.fia.org

March 1, 2019

Brent J. Fields  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-0609

Re: File No. SR-IEX-2018-23; Investors Exchange LLC; Notice of Filing of Proposed Rule Change to Modify the Resting Price of Discretionary Peg Orders

Dear Mr. Fields:

The FIA Principal Traders Group (“FIA PTG”)<sup>1</sup> appreciates that the Investors Exchange LLC (“IEX” or “Exchange”) has taken the time to respond to our comment letter<sup>2</sup> regarding IEX’s proposed modification to its Discretionary Peg (“DPEG”) order type. As a follow-up we would like to direct Staff’s attention to the following points in the IEX letter.

IEX claims we have misunderstood the functionality of the DPEG order by characterizing it as “falling back” from the midpoint to the national best bid and offer (“NBBO”) (at present) or to one-tick outside the NBBO (as proposed). Rather, IEX highlights that the order rests at the touch and is *eligible to trade more aggressively when IEX determines the market is stable*. Though IEX is of course correct in how it describes the technical functionality of the order, our characterization of the order as “falling back” is based on the effective way in which the order operates in practice. Specifically:

- In SR-IEX-2017-27 (Aug 25, 2017), IEX states that *Across all approximately 8,000 symbols available for trading on IEX, the CQI is on only 1.24 seconds per symbol per day on average (0.005% of the time during regular market hours)*. This implies that the CQI is off, and hence a DPEG order is eligible to price more aggressively, 99.995% of the time.

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<sup>1</sup> FIA PTG is an association of firms, many of whom are broker-dealers, who trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and data-driven policy and has previously made recommendations about a variety of equity market structure issues, including Regulation NMS (See <https://ptg.fia.org/keywords/equity-market-structure>).

<sup>2</sup> See [FIA PTG response to IEX Proposed Rule Change to Modify the Resting Price of Discretionary Peg Orders](#).

Though IEX characterizes the order as *eligible to trade more aggressively when IEX determines the market is stable*, it seems more accurate to instead state the order is eligible to trade more aggressively throughout the entire day with the exception of the 1.24 seconds when IEX has determined the market is unstable.

IEX also correctly notes that the DPEG order only exercises discretion when an active [contra] order is priced less aggressive than the NBBO. Again, we reference IEX's own data:

- According to its website, from February 1 through February 20, 2019, average matched volume on IEX was approximately 194.6 MM shares per day. However, only 49.5 MM shares were lit. This implies over 74% of all trade matches were hidden. Though IEX does not break down how many hidden trades were matched at the midpoint versus being matched at the NBBO, without any additional data it seems reasonable to presume that many were matched at the midpoint and thus DPEG orders would be much more likely to be exercising discretion than not.

Hence our characterization that the order appears to “fall back” to its resting price in the rare instances when the crumbling quote indicator (“CQI”) is active, or when an active contra order is priced at the NBBO (which, as discussed is presumably a minority of the time).

Regardless of how one characterizes the order, its behavior under different market conditions is what is important.

In the detailed examples provided by IEX, the behavior of the DPEG order is described. The examples are accurate and correct. But they are incomplete. IEX limits the cases to only those where the DPEG order will behave the same with or without the proposed change. Given that IEX is proposing to make a change to the DPEG order, we believe it is more instructive to explore the circumstances that are relevant to the proposed change. More so, the circumstances described by IEX represent atypical order flow, and absent any other data we believe more typical order flow should be presumed.

Since most exchanges allow for hidden orders, both inside the displayed BBO as well as at the displayed BBO, market participants often send orders priced to fill at either the bid or the offer, but with a size that is greater than the displayed size. If this were not the case then it would be difficult for hidden orders matching the displayed bid or ask to ever be filled, and they would serve little purpose.

Starting with the parameters of the IEX example, a more realistic scenario would be that an order to sell 200 shares, not just 100 shares, at \$10.00 would be sent to IEX even if IEX was displaying only 100 shares at the bid. In this case both the current and proposed DPEG order would be filled since the former has a resting price of \$10.00 and the latter would presumably use its discretion to also fill at \$10.00. However, this is only if the CQI is inactive. If instead the CQI was active, though a current DPEG order would still be filled at \$10.00, the proposed DPEG order would not since it rests at \$9.99.<sup>3</sup>

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<sup>3</sup> IEX also notes that the proposed DPEG order would in fact be executed if there were a sell order for 200 shares priced at \$9.99, but this would be a very atypical order as it is not common practice to route through the NBBO into

We note that in both versions of the DPEG quote, provided that the CQI is inactive (almost always the case), the DPEG order would be filled against an incoming sell order priced at \$10.01. The main difference is that as proposed a DPEG order that is willing to buy 100 shares at \$10.01 would not buy them at \$10.00 when the CQI is active. Displayed orders at \$10.00 would however be filled.

IEX states this feature *will provide an additional measure of protection to DPEG orders in circumstances when the CQI is active.*

This is a very subjective statement and depends on the perspective from which the order is viewed. From the point of view of the seller, the DPEG order appears to have faded its interest in response to preferential access to market data. Since both statements are equally subjective, how the order is described is not dispositive. Rather, the impact that this order might have on the provision of displayed liquidity on IEX is very important to assess. Unfortunately, IEX has not provided any data or analysis that inform on these effects.

Recently the Staff has been disapproving, or has delayed approval, of various self-regulatory organization (“SRO”) proposals due to a lack of such analysis that the Staff requires to make an approval determination. For example, proposals by various exchanges to make permanent Retail Liquidity Programs (“RLP”) that have been operating on a pilot basis for over five years were not immediately approved by Staff because the SROs failed to provide sufficient data and analysis regarding the impact of the RLP program on bid/ask spreads. Only once such an analysis had been completed was the Staff able to make an informed determination to approve or disapprove (as a result one such proposal making the RLP pilot permanent was just approved). In addition, the Staff has disapproved a number of recent SRO proposals related to fee changes or product reclassifications similarly based on a lack of objective data and analysis by the SROs.

FIA PTG commends the Staff for this thoughtful and thorough approach to considering SRO proposals. However, we believe this standard should be applied equally and disagree with IEX’s request *that the Commission should act swiftly to approve it* [the DPEG proposal]. IEX’s proposed change is substantive --- it seeks to prevent certain orders from being filled under certain market conditions, whereas orders displayed at the bid of offer would be executed.

In our previous letter we raised a number of substantive questions about the potential impact the proposed change might have on displayed quotes. We also raised a number of broader questions about the policy implications of such a change, and recommended the Staff develop objective conditions and parameters when considering such changes, as they have done in the past for related topics. The fact that IEX may not presently be considering other order types that might follow from the precedent set by its proposed change does not diminish the concern about its implications for future proposed changes by IEX or any other SRO.

In sum, FIA PTG believes the IEX proposed rule change should be subject to the same level of scrutiny and analysis as other SRO proposals are today.

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the depth of book. And even in cases where this did occur, IEX would first need to route to other protected quotes at other exchanges, which may not leave any shares left to trade at \$9.99.

Brent J. Fields, U.S. Securities and Exchange Commission

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If you have any questions about these comments, or if we can provide further information, please contact Joanna Mallers ([jmallers@fia.org](mailto:jmallers@fia.org)).

Respectfully,

FIA Principal Traders Group

A handwritten signature in blue ink that reads "Joanna Mallers". The signature is written in a cursive, flowing style.

Joanna Mallers  
Secretary

cc: Walter J. Clayton, Chairman  
Robert J. Jackson, Jr., Commissioner  
Hester M. Peirce, Commissioner  
Elad L. Roisman, Commissioner  
Brett W. Redfearn, Director of the Division of Trading and Markets