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October 21, 2019

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

Re: File No. SR-CboeEDGA-2019-012; Cboe EDGA Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Introduce a Liquidity Provider Protection on EDGA

Dear Ms. Countryman:

The FIA Principal Traders Group ("FIA PTG")[1] appreciates the opportunity to comment again on the Cboe EDGA Exchange, Inc. ("EDGA") proposal to introduce an asymmetric speed bump ("Proposal"). FIA PTG has consistently raised concerns with various artificial latency mechanisms that have been proposed in the U.S. financial markets. Below, we respond to certain claims made by EDGA and urge the Commission to disapprove the Proposal.

As detailed in our first comment letter,[2] our members are important liquidity providers in the U.S. cash equities, options, and ETF markets. As such, our members stand to directly benefit from the Proposal, which is specifically designed to protect liquidity providers. However, our members are concerned about the market-wide implications of approving such a discriminatory mechanism.

EDGA claims that the Proposal is narrowly tailored to prevent "latency arbitrage." However, EDGA has still failed to define what it means by "latency arbitrage," and we are concerned that many beneficial activities could be caught, such as hedging activity by ETF and options liquidity

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[1] 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).

[2] FIA PTG Comment Letter on Cboe EDGA Liquidity Provider Protection Proposal, July 17, 2019.

providers in the underlying markets. In addition, EDGA has failed to demonstrate that there is a problem with "latency arbitrage" on the exchange today.

We note that in an attempt to justify the Proposal in response to the initial concerns expressed by numerous commenters, EDGA included various graphs in its response letter showing the difference in mark-outs between orders that were executed against liquidity providers with and without involving a too-late-to-cancel order by such liquidity provider.[3]

The data is self-evident and does not form a sound basis for analyzing the Proposal. The data simply shows that liquidity providers try, but fail, to cancel their quotes before they are filled more often when the price is moving than when it is stable. EDGA erroneously uses this data to claim evidence that these prices are therefore "stale." Instead, these prices very likely matched the executed prices on other exchanges as investors executed orders against existing market-maker quotes and other resting orders. What is the basis for calling executions on EDGA "stale" when they are nearly simultaneous (according to the EDGA data) with executions at the same price on other exchanges?

EDGA also erroneously claims these data show those executions involve a "handful of faster firms that are routinely able to predict and profit from prices that are about to change." The data does not in any way support this assertion. However, the data is consistent with the standard practice of broker-dealers sweeping the top-of-book across all exchanges on behalf of both institutional and retail investors seeking to fill orders that are equal to, or larger than, the size at the NBB or NBO.

More generally, this reflects the philosophy behind the Proposal – that liquidity providers should be protected from adverse selection. In our view, the Proposal will enable liquidity providers on EDGA to fade away from displayed quotes in order to avoid adverse selection, not only from other high-speed firms but also from institutional and retail investors. As a result, quote fading will increase and liquidity provision will become more profitable on EDGA for the select group of firms able to utilize the speed bump to their advantage. In contrast, execution outcomes will be worse for other market participants due to quote fading. In addition, we believe the asymmetric speed bump is unlikely to incentivize EDGA liquidity providers to set new price levels such that they are alone at the NBBO.

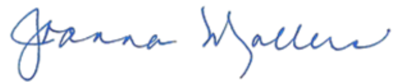
Liquidity providers are essential in our financial markets, and it is important to appropriately balance the benefits and obligations associated with liquidity provision. It is similarly important to assess the impact that those benefits and obligations have on other market participants. In our view, this Proposal goes too far in granting a material benefit to liquidity providers in a manner that will negatively impact other market participants. Although many of our members would be eligible to utilize that benefit, we do not think it is the right approach for overall market structure and end investors.

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

[3] Letter from Adrian Griffiths, Assistant General Counsel, Cboe Global Markets (Aug. 22, 2019) at page 3-4.

Respectfully,

FIA Principal Traders Group



Joanna Mallers
Secretary

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