

# FIA PTG

## PRINCIPAL TRADERS GROUP

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August 25, 2020

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

Re: Cboe BYX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Introduce Periodic Auctions for the Trading of U.S. Equity Securities (Release No. 34-89424; File No. SR-CboeBYX-2020-021)

Dear Ms. Countryman:

The FIA Principal Traders Group (“FIA PTG”)<sup>1</sup> appreciates the opportunity to provide comments to the Securities and Exchange Commission (the “Commission”) on the Cboe BYX Exchange Inc. (“Cboe BYX” or the “Exchange”) proposal to introduce Periodic Auctions (the “Proposal”).<sup>2</sup> While we appreciate the importance of actual innovation, we are concerned the Proposal will (i) harm market quality, including execution quality, price discovery, and liquidity, (ii) increase market fragility during volatile market conditions and (iii) contribute to market disruptions – all while adding unnecessary complexity to the market.

FIA PTG favors proposals that encourage trading on public, lit venues. Unfortunately, and quite to the contrary, the introduction of Periodic Auctions will further encourage non-displayed trading. The Proposal, while claiming to “improve liquidity and price formation in thinly-traded securities while also allowing the Exchange to better compete with off-exchange venues,”<sup>3</sup> actually creates a new mechanism for non-displayed, dark transactions. We find it troubling that the Exchange,

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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.

<sup>2</sup> 85 FR 47262 (Aug. 4, 2020), available at: <https://www.federalregister.gov/documents/2020/08/04/2020-16876/self-regulatory-organizations-cboe-byx-exchange-inc-notice-of-filing-of-a-proposed-rule-change-to>

<sup>3</sup> The Proposal at 47268.

while looking to address the growth of off-exchange trading, is proposing to introduce a complex mechanism to facilitate the execution of transactions away from the Exchange’s central limit order book—the Exchange’s critical price discovery mechanism.

Market structure considerations, including the mechanics of matching trades, are complex. A seemingly small change in market structure can result in significant negative and often unintended consequences and costs. While the Exchange hopes the proposed Periodic Auction market design may improve liquidity for large orders in thinly-traded securities, it may harm the market ecosystem and decrease the quality of overall liquidity (i.e. wider bid-ask spreads and decreased posted size). In particular, we note that the Proposal would not be limited in any way to thinly-traded securities, but instead would apply to all securities transacted on the exchange. Prior to implementing changes such as those in the Proposal that could materially disrupt the critical price discovery and liquidity functions performed by our markets, it is necessary to conduct a comprehensive and quantitative analysis to best understand the consequences.

For many years, FIA PTG has raised concerns about the spiraling complexity of the U.S. equity market structure.<sup>4</sup> Yet, while we have continued to advocate for simplifying equity market structure, exchange operators continue to move in the opposite direction, creating new matching protocols and order types on exchanges with little trading volume. This is clearly a “why not?” low risk approach for an exchange with nascent trading. However, it comes with significant costs, as market participants are forced to do their own subjective analysis to understand how these methods will affect the overall market. This is indeed a painstaking assessment of every order type across each exchange that only the most sophisticated participants can master, potentially to the detriment of most others, but yet it is precisely this sort of assessment that is required to make sense of ever changing order types that arise due to whim or fad as opposed to data driven studies.<sup>5</sup>

FIA PTG supports experimentation and innovation and recognizes the value in considering new approaches; however, the benefits of this approach would not outweigh the cost of added complexity and negative effects on price discovery. Accordingly, we urge the Commission to reject this Proposal.

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)).

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<sup>4</sup> See [FIA PTG Equity Market Structure Position Paper](#) (Sept. 30, 2014); [FIA PTG Position Paper on Simplifying U.S. Equity Market Structure](#) (Jan. 28, 2015); [FIA PTG Position Paper on Reg NMS: A Retrospective Review & Practical Reforms for Improvement](#) (Sep. 20, 2018).

<sup>5</sup> Indeed, FIA PTG firms have been apprised that the Exchange plans to issues FAQs or some similar informal guidance to assist with participants’ understanding of the Proposal. While we appreciate and applaud the Exchange’s efforts to offer clarity, we respectfully suggest that this sort of guidance and clarity be offered and considered well before the Proposal is approved by the Commission.

Vanessa Countryman, U.S. Securities and Exchange Commission

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Respectfully,

FIA Principal Traders Group



Joanna Mallers

Secretary

cc: Walter J. Clayton, Chairman  
Hester M. Peirce, Commissioner  
Elad L. Roisman, Commissioner  
Allison H. Lee, Commissioner  
Caroline A. Crenshaw, Commissioner

Brett W. Redfearn, Director of the Division of Trading and Markets