



November 26, 2019

Nasdaq Unlisted Trading Privileges Plan Participants
Consolidated Quotation Plan Participants

Re: ***CTA and UTP/CQ Plans Odd Lots Proposal***

Dear SIP Operating Committees:

The Securities Industry and Financial Markets Association (“SIFMA”)¹ submits this letter in response to your proposal for the securities information processors (“SIPs”) to disseminate certain odd lot quotation data as ancillary information on the SIP data feeds (the “Proposal”). Under the Proposal, the SIPs would provide the price and number of shares of the best odd lot bid and offer overall and on an exchange-by-exchange basis. The overall best odd lot bid and offer fields would only update in response to changes in the national best bid and national best offer (“NBBO”). The SIPs would provide the best odd lot quotations at each exchange only if it was better than the NBBO, and would continue to exclude other odd lot quotations priced better than the NBBO.

Summary of SIFMA’s views and recommendations

- Odd lot information becomes more important with the increase in odd lot trades and volume, particularly for select high-priced (*e.g., Amazon, Apple, Google*) stocks. Re-defining the protected round lot size for select high-priced stocks may reduce some of the need for including odd lot quotations on the SIPs.
- We generally support adding odd lot quotations to the SIPs to provide transparency and to reduce the informational disadvantage of firms unable or unwilling to purchase the exchanges’ proprietary feeds which already include odd lot quotations.
- Because odd lot quotes to the SIPs should solely be for informational purposes at this initial stage, broker-dealers and SIP data purchasers should be able to opt out

¹ SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

- of receiving and displaying odd lot quotations where they believe such receipt and display could lead to investor confusion.
- The SEC should do further analysis on whether some or all odd lot quotations should be “protected” and whether odd lot trades should be included in the definition of Last-Sale eligible executions. These are fundamentally more impactful changes that warrant careful consideration.

Odd lot information availability has become critical to market transparency

We appreciate that the Participants operating the CTA and UTP SIPs have recognized that the availability of data related to odd lots has become a material concern for many market participants and SIFMA commends this proposal as an attempt to address this concern. According to the SEC’s Market Structure website, over the last 5 years, the percentage of odd lot volume has increased from ~9% to ~20% and the percentage of odd lot trades has increase from ~25% to ~55%.² This increase is especially more pronounced in this last year based on the SEC’s MIDAS data. In high-priced stocks like Google and Amazon, odd lot quotations are inside the NBBO almost 70% of the time.³ Considering that odd lot trades have become more frequent in the market,⁴ the Proposal is constructive as an initial, incremental step for improving the SIPs to provide more public transparency.

At the outset, we note that SIFMA provided comments on this issue in a September 18, 2019 letter to the Securities and Exchange Commission (“Commission”).⁵ In that letter we provided several content and infrastructure recommendations that would make the SIP more useful to a broader set of market participants. Relevant to the Proposal, we stated that:

...the Commission should consider adjusting the definition of core data to include odd lot information, following a rulemaking proposal that is published for notice and comment, in which the Commission could gather data and determine whether odd lots are valuable for price discovery for all securities. If the Commission determines that odd lots should be published by the SIPs, the Commission should take into account that odd lots are not protected quotations under the order protection rule and provide guidance on applicable regulatory requirements, including best execution and calculation of the NBBO.

² See SEC MIDAS stats (Nov. 11, 2019) available at <https://www.sec.gov/marketstructure/datavis.html>.

³ See Phil Mackintosh, *Two Charts Show How Smart Traders Use Odd Lots to Compress Spreads in High-Priced Stocks*, Nasdaq (Jun. 6, 2019).

⁴ See SEC MIDAS Stats. See also Alexander Osipovich, *Tiny ‘Odd Lot’ Trades Reach Record Share of U.S. Stock Market*, Wall St. J. (Oct. 23, 2019) (stating that odd lot trades have represented above 40% of all trades since October 7, 2019).

⁵ See Letter from T.R. Lazo, SIFMA to Vanessa Countryman, SEC dated September 18, 2019.

The views on the Proposal in some cases differ between firms that primarily serve institutional customers and firms that primarily serve retail customers. As such, we have separated some of our views on the Proposal to distinguish the views of the types of firms. Broadly speaking, institutional firms support the intent of the Proposal to add odd lot quotations to the SIP as an initial step towards making the SIP more useful for trading purposes. Retail firms support aspects of the Proposal, but generally believe that broker-dealers should be able to choose not to receive and/or to display odd lot information, out of concern that such information could create investor confusion.

In addition, some registered market maker firms (“MMs”) are concerned that the Proposal would create order handling and execution confusion that could ultimately decrease liquidity. MMs that support retail investors provide oversized liquidity at the NBBO and execute orders at prices better than the NBBO. Despite odd lot quotations remaining unprotected under the Order Protection Rule, the Proposal could nonetheless cause the dissemination of odd lot quotations to ultimately be included with round lots for consumer consumption and order handling purposes. There is concern that the dissemination of odd lots in the NBBO could significantly skew fair value calculations. As a result, to the extent the NBBO of a security does not reflect a bona fide fair value bid-ask spread due to an odd-lot distortion, MM liquidity might decrease in response to the increased quoting risk. Given the numbers of high priced and illiquid securities, this quote skewing could be impactful. Accordingly, SIFMA believes the SIP plan participants should carefully consider the anticipated impact on market liquidity as it proceeds with the Proposal.

Overall, SIFMA appreciates that the Proposal provides a simple structure to implement and appropriately separates protected round lot quotes from the informative odd lot quotes. It would be helpful for firms that need odd-lot information for their trading to have access to that information through the SIPs as an alternative to the exchanges’ proprietary market data products. For the SIP to be useful for those firms, all odd lots should be included on the SIP to remove the informational advantage of the exchanges’ proprietary feeds. However, because the additional odd lot information will not be useful to all firms for trading purposes, broker-dealers that purchase the SIP data products should be able to opt out of receiving and displaying odd-lot information if they so choose.

We also believe that some aspects of the Proposal that require clarification.

- If exchanges will continue to aggregate odd lots to create a protected round-lot, the SIP committees should explicitly state that the round lot information published to the SIPs is the total aggregation of two or more odd lot orders.
- The odd lot bid and offer fields should update dynamically based on exchange publications rather than based on updates to the NBBO.

We offer the following responses to some of the specific questions in the Proposal.

- *Do commenters support the publication of odd lot data by the SIPs? Why or why not?*

SIFMA generally supports the publication of odd lot data to the SIPs as noted in our September Comment Letter to the SEC. As odd lots continue to become more prevalent, it is important to increase the transparency of these orders.

- *Do commenters believe that this additional information will be useful to investors? If so, what types of investors (e.g., institutional, retail, etc.) would benefit from the data and in what ways?*

The usefulness of this additional odd lot information will depend on the type of investor. Odd lot information generally will be more useful to investors who will use this information in their routing decisions. Adding odd lot information to the SIPs also could be useful for all investors because it will allow for further analysis of odd lot information, especially for firms that do not have the ability to access some or all of the exchange proprietary products.

- *Do commenters believe that publication of this additional data could potentially be confusing or otherwise problematic for investors?*

For retail platforms that display the top of the “market” to customers on their screen, the additional display of odd lot quotes could confuse retail investors about what prices they are actually transacting against. As such, the decision of whether or not to display the additional informational data to customers should be left to the broker-dealer. As mentioned above, the Proposal as contemplated would include certain better priced odd lot quotations but not all of them and, as such, could also lead to confusion.

- *How would commenters anticipate using the odd lot data? For example, would market participants display this new data to their retail customers?*

As noted above, this additional odd lot data will add to transparency. Order sending firms will have additional transparency to assess whether their execution destinations are accessing this odd lot liquidity.

- *Do commenters obtain and use this data from other sources today, for example from exchange proprietary data feeds? If so, would publication of the data in the SIP feeds provide an additional benefit? Would commenters use the SIP odd lot data for the same uses as data obtained from other sources today or would commenters anticipate using both the SIP and other sources for different purposes?*

Providing odd lot information should allow firms that do not access exchange proprietary products to have access to that information at a reasonable price. Adding odd lot quotations to the SIPs, along with further optimizing the SIP with additional content and infrastructure changes could make it an alternative to exchange proprietary products for certain firms that currently do access those products.

- *How would commenters prefer to see the new odd lot data presented? Would the proposal described above to provide Odd Lot NBBO-equivalent fields be useful? Why or why not?*

With the understanding that there is great difficulty getting to consensus on if and how to utilize odd lot data on the SIPs, the Proposal by CTA/UTP seems to be a reasonable first attempt and step. The Proposal will allow for data gathering and analysis that will be the foundation for further data-driven client-centric change.

- *Should the Participants consider any alternatives to the manner of dissemination for odd lot data described above? For example, should multiple price points of odd lots above the round lot NBBO be displayed?*

In an effort to get more out of this first step for possible changes in the area of odd lots, we would recommend that the multiple price points of odd lots inside the round lot be provided at the outset. This would allow for greater insight into how much liquidity is available without having to consume proprietary feeds. This will provide further data for industry study and analysis.

- *Should odd lots be aggregated across exchanges and displayed in total?*

Aggregating odd lots across exchanges could create issues for compliance with the Vendor Display Rule, which dictates that a quote must be attributed to an exchange. Aggregating odd lots across exchanges and foregoing single exchange attribution could help those looking for more of an “eyeball” view, but this type of aggregation would not be helpful to those broker-dealers handling orders on behalf of institutional investors and looking to use a more robust SIP as an alternative.

- *Should the Participants consider any other changes to facilitate additional transparency of odd lot orders and associated market data? For example, should exchanges consider reducing the round lot size for higher-priced securities? If so, why?*

As SIFMA stated in its September 18th Comment Letter, we recommend reducing the round lot size for higher-priced securities because this change could reduce the need for including odd lots on the SIP. Notably, Berkshire Hathaway has already re-defined round lots—to 1 share for BRK A—showing that the necessary technological changes should be minimal. If the round lot size for certain high-priced stocks is redefined; however, the contract size of related options products would warrant further examination.

- *Do commenters have other proposals that may present a better solution than the proposal above? Please describe.*

We recommend that the SIP Committees incorporate our comments above into the Proposal. We further recommend that the SIP Operating Committees, together with the SEC and FINRA, address concerns with potential investor confusion by explicitly stating that broker-

dealers have no obligations to receive, use, display or adhere to the odd lot information on the SIP for its Order Protection Rule and/or its best execution obligations, at least at this initial stage of providing transparency. Further, the SIP Operating Committees should clarify that the Proposal is an initial, incremental step to improving the SIP and acknowledge that more SIP improvements—in particular, our previous recommendations to improve the SIP content and infrastructure—are necessary.

* * *

SIFMA greatly appreciates the SIP Operating Committees' consideration of the issues raised above and would be pleased to discuss these comments in greater detail. If you have any questions or need any additional information, please contact me at 202-962-7383 or tlazo@sifma.org.

Sincerely,

A handwritten signature in blue ink, appearing to read "Theodore R. Lazo", with a long horizontal flourish extending to the right.

Theodore R. Lazo
Managing Director and
Associate General Counsel