October 22, 2019

Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Release No. 34-86168 SR-CboeEDGA-2019-012; Liquidity Provider Protection

Dear Ms. Countryman,

The Security Traders Association ("STA")[1] appreciates the opportunity to provide comments on a Cboe EDGA Exchange, Inc., Self-Regulatory Organization ("SRO") filing of a proposed rule change to introduce a Liquidity Provider Protection on EDGA (SR-CboeEDGA-2019-012; Liquidity Provider Protection ("Proposal" or "LP2")). The Proposal would subject a delay mechanism of four milliseconds on all executable liquidity removing orders arriving on EDGA. The intended purpose of this delay is to protect liquidity providers with resting orders on EDGA from harm resulting from "cross-asset" latency arbitrage, thus providing a protection which seeks to incentivize liquidity providers to make better markets and improve quote quality. Key attributes of LP[2] include that its resting orders on the book forgo order protection status currently provided under the Order Protection Rule and assumes that market participants may choose to ignore them.

STA is comprised of individuals who are involved in the trading of financial securities in the U.S and Canada ("CSTA").[2] Our members represent companies with many of the business models in the financial services sector including, but not limited to, retail brokerage firms, agency only broker dealers, asset owners and managers and liquidity providers. Our comments on the Proposal reflect the diversity of our members 'geographical and business models.

[1] STA is a trade organization founded in 1934 for individual professionals in the securities industry. STA is comprised of 24 affiliate organizations in North America with individual members who are engaged in the buying, selling and trading of securities. STA is committed to promoting goodwill and fostering high standards of integrity in accord with the Association's founding principle, Dictum Meum Pactum – "My Word is My Bond." For more information, visit https://securitytraders.org/.

[2] The Canadian Security Traders Association, Inc. is a professional trade organization that works to improve the ethics, business standards and working environment for members who are engaged in the buying, selling and trading of securities (mainly equities). The CSTA represents over 850 members nationwide, and is led by Governors from each of three distinct regions (Toronto, Montreal and Vancouver).

It has long been STA's view that liquidity providers contribute to the overall quality of markets to the benefit of investors. While we have advocated for regulators to find modern ways to incentivize their existence, we do not believe the introduction of asymmetric delays is one such way. Therefore, while we appreciate the intended goals of the Proposal and applaud the creativity in its design, we respectfully recommend that the Commission disapprove it.

STA Summary Remarks and Opinions

- The Proposal in its design intentionally impedes the ability for capital from other asset classes to efficiently flow into the equity markets.

- Introducing asymmetric delays to U.S. equity markets is a meaningful precedent that would result in material market-wide implications.

- The intended design of the Proposal causes the ability to access publicly displayed orders to be less certain, thus degrading quote quality.

- The Proposal would result in additional costs for all liquidity providers while only providing benefits to a subset that do not have best execution responsibilities associated with the handling and servicing of investor orders.

- Empirical data obtained from the asymmetric delays introduced by the TSX Alpha exchange in Canadian equity markets is not sufficient or conclusive for a determination to introduce asymmetric delays in U.S. equity markets.

Movement of Capital Across Asset Classes

Today, the ability for capital to flow across U.S. equity, options and futures markets is virtually frictionless. By its design, the Proposal seeks to place friction on capital flows originating from other asset class markets into the equity markets. While STA does not disagree with Proposal's statements on the existence of arbitrageurs who possess the ability to exploit infinitesimally small speed advantages which harm equity liquidity providers, we do not know the frequency of such occurrences or the breadth of equity liquidity providers impacted. We also do not know if equity liquidity providers are always the exploited, or if there are occasions where they may be the exploiter.

Additionally, STA believes the Proposal could present friction with the trading of Exchange Traded Products ("ETPs") and Funds ("ETFs"). The derivative nature of ETPs provides an efficient arbitrage mechanism which ensures ETP prices align with the market values of the underlying securities. The arbitrage mechanism at times includes orders being sent to and from non-equity markets. The Proposal with its inherent delay would impede this arbitrage mechanism. STA believes the arbitrage mechanism provides benefits to investors, and thus we would oppose rulemaking which impedes it unnecessarily.

Finally, STA believes it is reasonable to assume that an asymmetric delay in equities would result in asymmetric delays on liquidity taking orders sent to non-equity markets. Such a result would exacerbate friction on the movement of capital across asset classes.

Precedents

In addition to the novelty of asymmetric delays, the Proposal raises a number of other meaningful precedents which are separate and distinct from asymmetric delays. For example, the Proposal raises the question of whether liquidity providers should be able to forgo order protection currently provided under Rule 611 of Regulation NMS ("Order Protection Rule"), and if so, whether such orders should be (or should not be) included the National Best Bid and Offer (NBBO) disseminated by the applicable Securities Information Processor ("SIP"). A decision to approve the Proposal with one or both of these two separate and distinct attributes would set meaningful precedents with material market-wide implications.

For example, information provided by the NBBO plays an essential role in several compliance functions such as: Rule 605 of Regulation NMS ("Disclosure of Order Execution Information"); Order Protection Rule; NMS Limit Up/Limit Down Plan; and Regulation SHO. Additionally, the NBBO provides essential input for trade cost analysis and the pricing of mid-point/pegged orders. Therefore, decisions on the conditions of orders represented in the NBBO need to be done with great consideration on the role the NBBO currently plays in our marketplace.

Quote Quality & Liquidity Provision

STA has commented on the topic of quote quality and its importance to investor confidence and liquidity provision.[3] While the Proposal seeks to improve quote quality, as measured by spreads and displayed size, its intended design causes the ability to access what is publicly displayed to be less certain. STA believes certainty of execution contributes more to quote quality than displayed size, and we agree with statements made by one commenter that, "Approval of an asymmetric delay has the potential to open a Pandora's box of illusory quotes and phantom liquidity..."[4] Therefore, STA believes the Proposal will degrade quote quality.

Liquidity Providers with Best Execution Obligations

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[3] July 28, 2014 testimony House Financial Services Capital Markets Subcommittee Roundtable on *Market Making and Trading in the 21st Century. "**Quote quality**. Improvements to displayed liquidity need to focus on size and ensuring that what is publicly displayed is accessible in a fair and reasonable way."*

[4] BlackRock, August 2, 2019, letter to Ms. Vanessa Countryman, Secretary, U.S. Securities and Exchange Commission, page 3, https://www.blackrock.com/corporate/literature/publication/sec-proposed-rule-change-introduce-liquidity-provider-protection-edga-080219.pdf

STA believes the intended benefits of the asymmetric delay would only be available to a subset of liquidity providers who do not have best execution responsibilities associated with the handling and servicing of investor orders. Liquidity providers who handle and service investor orders and thus assume a best execution obligation would not be allowed to place resting limit orders from investors on public markets which are not protected. Additionally, these liquidity providers will not be able to ignore orders displayed on LP^2 regardless of whether these orders were included or excluded from the SIP. These combined realities – the inability to ignore prices on LP^2 and place limit orders reflective of investor interest – are in STA's view, demonstrative that the type of liquidity provider who could obtain the intended benefits of the asymmetric delay on LP^2 is limited to only those who do not handle or service investor orders.

It is important to note that liquidity providers unable to obtain the intended benefits of the Proposal will still assume costs associated with linkage and routing tables of Smart Order Routing mechanisms to LP^2. Should the Proposal be approved, it is highly likely that it will result in multiple filings by competitor exchanges with similar but perhaps not identical proposals. It is necessary, therefore, for the Commission to include in its analysis the likely multiplication of complexity, technological demands, costs and benefits, and impacts on a market-wide basis.

Data from TSX Alpha Exchange

Several commenters have discussed data from Canada's Alpha market to predict possible outcomes should the Cboe delay be approved. Of note, multiple letters supporting the Proposal have highlighted a study done by IIROC and the Bank of Canada. The latest Cboe letter stated that the "study conducted by IIROC and the Bank of Canada using a more robust dataset available to the regulators, showed that the TSX Alpha redesign "did not adversely affect the quality of Canadian equity markets."'"[5] However; the study says, "We **find no evidence** that this redesign impacted market-wide measures of trading costs or contributed appreciably to segmenting retail order flow away from other Canadian venues with a maker-taker fee structure" (emphasis ours).[6] Additionally, the study states, "For the buy-side users, we find a small increase in some transaction cost measures".[7] Table 5 and 6 of the study show the increase in IT costs for the buyside is significant, by the author's own metrics.

Both the IIROC / Bank of Canada study and the more critical Australian study (Foley, et al) of TSX Alpha showed that the speedbump did not result in greater liquidity being available at the NBBO, across all markets, or in tighter spreads. The Cboe has clearly stated that the rationale for the speedbump is to "encourage more competitive liquidity provision, and benefit investors in

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[5] https://www.sec.gov/comments/sr-cboeedga-2019-012/srcboeedga2019012-6009676-190812.pdf, Page 10
[6] https://www.iiroc.ca/Documents/2018/25d5b306-3420-43cc-b260-a1527b82bfc3_en.pdf, Page 2
[7] ibid

the form of better quote quality."[8] It makes intuitive sense that Alpha, an inverted fee venue, would not improve price or size. Typically, liquidity providers that are improving price do not also pay to post, as to do so is to pay twice. This is why inverted markets, in both Canada and the U.S., set new prices a very small amount of the time. They more commonly shadow the prices set on traditional maker taker venues. To the extent that EDGA is currently an inverted venue, and the proposal does not contemplate a change in fee type, we would expect EDGA to very rarely set new prices (i.e., improve the quote). While the size of their quote may be larger than in the past, we do not expect the size of the aggregate quote to grow. Additionally, any shift of passive volume from other venues to EDGA will now be subject to quote fading and thus less accessible. While the EDGA version of the speedbump is not randomized, and thus not as likely to incent quote fading, the upside is at best unclear and the downside would seem to be owned by the larger institutional liquidity-seeking managers. We believe the results in Canada, properly analyzed, strongly warn against approving the speedbump.

Conclusion

STA appreciates the opportunity to comment on the Proposal and the Commission's consideration of our views.

Sincerely,

Doug Clark	James Toes
Chairman	President & CEO

cc: The Honorable Jay Clayton, Chairman
The Honorable Robert J. Jackson Jr., Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
The Honorable Allison Herren Lee, Commissioner
Brett Redfearn, Director, Division of Trading and Markets

[8] https://www.sec.gov/comments/sr-cboeedga-2019-012/srcboeedga2019012-6009676-190812.pdf, page 1