

October 13, 2020

Ms. Vanessa Countryman  
Secretary  
Securities and Exchange Commission  
100 F St., NE  
Washington, DC 20549-1090



**Re:** Proposed Rule on Market Data Infrastructure (Release No. 34-88215; File No. S7-03-20)

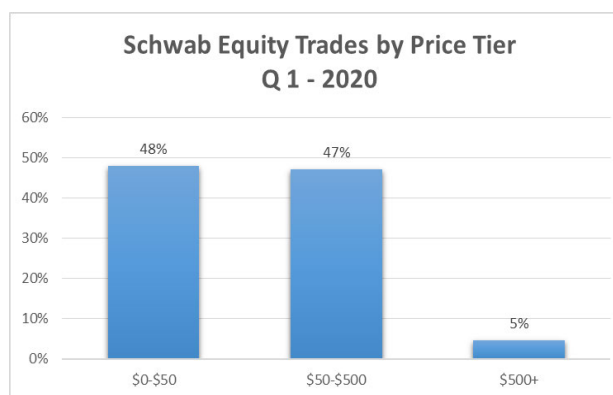
Dear Ms. Countryman:

Charles Schwab & Co.<sup>1</sup> appreciates the SEC's interest in reforming the equity market data infrastructure. With this letter we offer comments on the proposed definition of "round lot" beyond those suggestion we put forward in our May 26 letter.<sup>2</sup>

### **Recent Trading Data Support Setting Highest Round Lot Tier at Greater than \$500**

The SEC proposed a tier structure that would establish at what order size and price threshold an odd lot would be redefined as a round lot and so included in the consolidated tape as core data. Schwab believes the proposed five-level structure – which set the highest tier between \$500 and \$1,000 – would lead to unnecessary operational complexity. Previously, we proposed the tier structure should instead look as follows: 100 shares for securities priced up to \$50 and 20 shares for securities priced between \$50.01 and \$500. Round lots for shares priced above \$500 would be set at 2 shares.

An analysis of orders filled for Schwab clients in the first quarter of 2020 shows that just 5 percent of all odd lot orders are placed for stocks priced greater than \$500. Of these orders, roughly the same number of orders are placed for stocks priced from \$500 to \$1000 and stocks priced greater than \$1000. With such a low proportion of orders at prices greater than \$500, Schwab believes the additional data provided by the SEC's proposed highest tier would not justify the operational complexity it would create or its potential to confuse investors. It is important to consider the retail investor and any educational effort that may be required by



<sup>1</sup> Charles Schwab & Co., Inc., (member SIPC) is the broker-dealer affiliate of The Charles Schwab Corporation (NYSE: SCHW), a leading provider of financial services, with more than 325 offices and 28 million brokerage accounts, 2 million corporate retirement plan participants, 1.5 million banking accounts, and \$6 trillion in client assets. (Total client assets based on combined data for Schwab and TD Ameritrade as of August 31, 2020, using company reports; all other combined data as of June 30, 2020, calculated using Schwab's methodology. Through its operating subsidiaries, the company provides a full range of securities brokerage, banking, money management and financial advisory services to individual investors and independent investment advisors. Charles Schwab & Co., Inc. and affiliates offer a complete range of investment services and products.

<sup>2</sup> See May 26, 2020 letter from Jeffery T. Brown, Charles Schwab & Co., available at <https://www.sec.gov/comments/s7-03-20/s70320-7235180-217089.pdf>

firms to ensure investors can easily understand and manage the impacts of round lot tiers to their investing habits.

### **Market Makers May Not Protect Round Lot Orders**

In our first letter, Schwab noted that while the round lot definition would capture additional data for the new consolidated feed, under the SEC proposal only transactions of 100 shares or more would be subject to the order protection rule (OPR). We see two main problems with this approach. It would create a national best bid and offer (NBBO) that is distinct from the protected best bid and offer (PBBO) and would leave broker-dealers with uncertainty over order routing and data display decisions. Schwab believes this would confuse investors. Data from the newly defined round lots should be subject to the OPR.

It would also discourage limit orders – a valuable driver of price discovery – as investors would be less likely to receive execution without price protection. The SEC has previously found that price protection encourages limit orders as it increases the likelihood an investor will receive execution—which will foster confidence in the market.<sup>3</sup>

About a quarter of Schwab customer orders for \$100-plus stocks are limit orders for fewer than 100 shares. This figure would no doubt decline under the SEC proposal. Further, there is no requirement for market makers to unilaterally protect sub-100 share limit orders. Market makers do not all operate within the same model for order fulfillment and accessing liquidity. Some firms use only the SIP feeds while some construct their own version of the NBBO from direct exchange feeds and other sources of liquidity. Market Makers should not be viewed as an alternative to protecting round lots with the OPR.

Thank you for this opportunity to comment further on the SEC's equity market data infrastructure proposal. Please feel free to contact Jeffrey T. Brown on [REDACTED] if you have any questions regarding this letter.

Sincerely,



Jeffrey T. Brown  
Senior Vice President  
Legislative and Regulatory Affairs  
Charles Schwab & Co., Inc.

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<sup>3</sup> Regulation NMS. Release No. 34-5108; File No. S7-10-04 at 36.