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Via Electronic Mail: rule-comments@sec.gov

March 30, 2023

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Re: Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders, Release No. 34-96494; File No. S7-30-22

Dear Ms. Countryman:

Tradeweb Markets Inc. ("**Tradeweb**") appreciates this opportunity to provide the Securities and Exchange Commission (the "**Commission**") with comments in response to the above-captioned release (the "**Proposal**"). The Proposal would, among other things, reduce the minimum pricing increment (or "**tick size**") for many equity securities.

Tradeweb is a leading global operator of electronic marketplaces for rates, credit, equities and money markets. Founded in 1996, Tradeweb provides access to markets, data and analytics, electronic trading, straight-through-processing and reporting for more than 40 products to clients in the institutional, wholesale and retail markets. Advanced technologies developed by Tradeweb enhance price discovery, order execution and trade workflows while allowing for greater scale and helping to reduce risks in client trading operations. Tradeweb has also been a pioneer and innovator in equity trading market structure.[1] As a leading exchange-traded fund ("**ETF**") trading platform, and given our expertise in market structure and regulation, Tradeweb is uniquely positioned to provide valuable perspective on the Proposal.

While we appreciate the Commission's attention to this important topic, we are concerned that the Proposal goes too far in reducing the minimum pricing increment, fails to adequately consider the tradeoffs inherent in making such a change and has not sufficiently analyzed whether different tick size regimes could be appropriate for different types of equity securities. We therefore urge the Commission, before taking any final action, to take a thoughtful approach and carefully examine (i) the effects that revising tick sizes could have on the equity securities market, generally—including with respect to spreads, market liquidity,

[1] *See* Tradeweb Equities, *available at* https://www.tradeweb.com/our-markets/institutional/equities/.

depth and volatility, price discovery, price improvement, execution quality and trading costs—and (ii) whether the Proposal could have disparate effects on different types of equity securities, thus requiring a more nuanced approach to tick size reform.

The Proposal

Current Rule 612 of Regulation NMS sets a minimum pricing increment of one penny for quotes in NMS stocks priced at or greater than $1.00.[2] The Proposal would introduce a variable minimum pricing increment, which could allow any particular NMS stock to be subject to one of four tick sizes, and which could change depending on the quoted spread for such stock over a certain period of time.[3] For many NMS stocks, the tick size could be reduced from one penny to as small as a tenth of a penny.[4]

We are concerned that the Commission has not adequately considered the potential costs and benefits of reducing the minimum pricing increment as proposed. The Commission does note its preliminary view that the proposed variable minimum pricing increments "would address the issues related to tick-constrained stocks and help to prevent other stocks that trade with relatively small spreads from becoming tick-constrained,"[5] but also acknowledges certain problems that could arise from minimum tick sizes that are inappropriately calibrated. For example, the Commission recognizes in the Proposal that minimum pricing increments that are too small could be harmful to liquidity due to the fragmentation of liquidity across a larger number of price increments and the possibility of market participants "stepping ahead" of others' limit orders by an economically insignificant amount.[6]

The Commission has also acknowledged that too-fine tick sizes could result in "flickering" quotes, which results when the price of a trading center's best displayed quotations changes multiple times in a single second, which could reduce also liquidity and harm execution quality.[7] But we do not believe that the Commission has sufficiently contemplated the impact that flickering quotes and other aspects of the Proposal that would increase message traffic would have on market infrastructure. While the Commission concedes that the Proposal would considerably increase message traffic, it claims that existing systems can accommodate this increased traffic with "extreme low latency."[8] Respectfully, we think the Commission is downplaying a potentially significant issue. Even trading platforms with the most advanced

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[2] 17 C.F.R. § 242.612.

[3] Proposal at 59.

[4] *Id.*

[5] *Id.* at 60.

[6] *Id.*

[7] *Id.* at 23. The Commission also recognizes other potential consequences of smaller tick sizes, such as the potential for increased message traffic, which could be burdensome on market participants and could lead to latency or other data delays. *Id.* at 13.

[8] *Id.* at 54-55.

technological infrastructure will need to expend considerable amounts of time and resources to prepare to accommodate increased message traffic, since *any* increase in latency (even at the millisecond level) would disrupt trading strategies, impair market functionality and liquidity, and, ultimately, harm market participants.

We are also concerned that the Commission has not sufficiently considered whether the costs and benefits of the Proposal may vary for different types of NMS stocks, and whether certain categories of NMS stocks should be subject to different minimum pricing increment regimes based on their particular characteristics. For example, trading in ETFs is not the same as trading in single name equity securities (and other NMS stocks) in ways that should impact the Commission's analysis. ETFs tend to have larger trade sizes as compared to single name equity securities, for instance. Furthermore, the ETF creation and redemption process—which is unique to ETFs—results in trading and market characteristics (including arbitrage opportunities that ensure that an ETF's price stays in line with the value of the underlying portfolio) that differ from those of other equity security categories.[9]

The Commission has acknowledged these differences—when Rule 612 of Regulation NMS was first promulgated, the Commission asked for comment on whether sub-penny quoting of ETFs "raised the same concerns as with other NMS stocks."[10] Market participants responded and the Commission determined to "continue to study this matter during the implementation period for Regulation NMS."[11] The Proposal again asks for comment on whether certain types of NMS stocks—highlighting ETFs in particular—should have a different minimum pricing increment, but it is not clear what (if any) analysis the Commission has conducted that supports the application of the same proposed reduced tick sizes to ETFs as to other NMS stocks.[12]

Based on our experience operating a leading ETF trading platform, we have unique insight into the characteristics of the ETF market. These markets have functioned well in all kinds of market conditions (perhaps in contrast to certain other markets during periods of stress), and we have not seen the same types of concerns arise in the ETF space that the Commission has cited as its justification for the Proposal. Ultimately, we worry that application of the Proposal to the ETF market would be "solving" for a problem that does not exist, which would disrupt a well-functioning market without a clear justification or benefit. We therefore urge the Commission not to change the minimum pricing increment for ETFs.

Market participants, academics and other U.S. and non-U.S. regulators have written extensively on the topic of equity market structure—including with respect to how ETFs

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9 SEC Office of Investor Education and Advocacy, *Investor Bulletin: Exchange-Traded Funds (ETFs)* (Aug. 2012), *available at* https://www.sec.gov/investor/alerts/etfs.pdf.

10 Regulation NMS, 70 Fed. Reg. 37496, 37554 (June 29, 2005), *available at* https://www.govinfo.gov/content/pkg/FR-2005-06-29/pdf/05-11802.pdf.

11 *Id.*

12 Proposal at 83.

differ from other equity securities[13]—which we believe the Commission must consider before finalizing any rule.[14] For example, some have discussed the damage that could result from inappropriately sized minimum pricing increments, including higher trading costs, larger spreads and less liquidity.[15] Others have highlighted the potential benefits of right-sized ticks, including with respect to liquidity and equity security valuation.[16] And still others have offered their own minimum tick size proposals, which, in many cases, differ (sometimes significantly) from the approach set out in the Proposal—in this regard, we note that we are not aware of any commentary or analysis that suggests that a tenth of a penny tick size is appropriate.[17]

While we are not proposing a specific alternative to the Proposal for non-ETF securities, we do respectfully request that the Commission (i) not change the minimum pricing increment for ETFs; (ii) carefully weighs the full spectrum costs and benefits of a change in tick sizes to U.S. equity markets and market participants and (iii) thoughtfully considers the views

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13 *See, e.g.*, Phil Mackintosh, *The Economics of Tick Regimes* (March 16, 2023), *available at* https://www.nasdaq.com/articles/the-economics-of-tick-regimes (noting that ETFs "trade very differently due to their easier-to-value underlying portfolios" as compared to other equity securities); Anna Calamia, Laurent Deville, and Fabrice Riva, *Liquidity provision in ETF markets: The basket and beyond* (Jan. 2019), *available at* https://www.cairn.info/revue-finance-2019-1-page-53.htm.

14 *See, e.g.*, Sida Li and Mao Ye, *The Tradeoff between Discrete Pricing and Discrete Quantities: Evidence from U.S.-listed Firms*, *available at* https://microstructure.exchange/papers/mao.pdf.; Autorite des Marches Financiers, *MIFID II: Impact of the New Tick Size Regime* (March 2018), *available at* https://www.amf-france.org/sites/institutionnel/files/contenu_simple/lettre_ou_cahier/risques_tendances/MiFID%20II%20Impact%20of%20the%20New%20Tick%20Size%20Regime.pdf; XTX Markets, *Tick Sizes and Their Effect on the Buy-Side*, *available at* https://www.datocms-assets.com/10954/1555503679-tick-sizes.pdf; Cboe, *Cboe's Vision: Equity Market Structure Reform* (Jan. 2020), *available at* https://cdn.cboe.com/resources/government_relations/cboes-vision-equity-market-structure-reform-2020.pdf; BlackRock, *Towards More Transparent and Resilient Securities Markets: A Framework to Support Retail Investor Participation* (2022), *available at* https://www.blackrock.com/corporate/literature/whitepaper/spotlight-a-framework-to-support-retail-investor-participation-october-2022.pdf.

15 Nasdaq, *A Data-driven Summary of the SEC's New Proposals* (Feb. 13, 2023), *available at* https://www.nasdaq.com/articles/a-data-driven-summary-of-the-secs-new-proposals.

16 *See, e.g.*, Members Exchange, *Letter to the Commission* (March 30, 2022), *available at* https://memx.com/wp-content/uploads/Market-Structure-Proposal.pdf; Nasdaq, *Getting Tricks Right Improves Valuations* (July 14, 2022), *available at* https://www.nasdaq.com/articles/getting-ticks-right-improves-valuations.

17 *See, e.g.*, Proposal at 43-52; Citadel Securities, *Enhancing Competition, Transparency, and Resiliency in U.S. Financial Markets* (May 2021), *available at* https://s3.amazonaws.com/citadel-wordpress-prd102/wp-content/uploads/sites/2/2021/05/03130457/EnhancingCompetitionTransparencyandResiliencyinUSFinancialMarkets.pdf; Managed Funds Association, *Promoting Fair, Efficient, and Transparent Markets: 2022 Market Structure Recommendations* (Apr. 2022), *available at* https://www.managedfunds.org/wp-content/uploads/2022/04/MFA-Market-Structure-Recommendations.pdf; NYSE, Charles Schwab and Citadel Securities, *Comment Letter on Equity Market Structure Proposals* (March 6, 2023), *available at* https://www.sec.gov/comments/s7-30-22/s73022-20158675-326601.pdf; Cboe, *Comment Letter on SEC Proposal on Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders (No. S7-30-22)* (Feb. 28, 2023), *available at* https://www.sec.gov/comments/s7-30-22/s73022-20158236-326301.pdf.

that market participants and others have expressed (and will, through the Proposal comment process, continue to express) with respect to appropriate minimum pricing increments before it promulgates any final rule.

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Once again, we appreciate the opportunity to share our views on this important issue and would be pleased to discuss in further detail as and when appropriate. If you have any questions, please do not hesitate to contact me.

Respectfully submitted,

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