



December 17, 2020

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

Re: Notice of Filing of Amendment No. 2 and Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change, as modified by Amendment No. 2, to Introduce Periodic auctions for the Trading of U.S. Equity Securities (File No. SR-CboeBYX-2020-021)

Dear Ms. Countryman:

The Securities Industry and Financial Markets Association (“SIFMA”)¹ appreciates the opportunity to submit this comment letter on the above-referenced proposed rule change (“Proposal”) filed by Cboe BYX Exchange, Inc. (“CboeBYX” or “Exchange”) with the Securities and Exchange Commission (“Commission”) under Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act”).² In the Proposal, CboeBYX is seeking to introduce periodic auctions for the trading of U.S. equity securities (“Periodic Auctions” or “PAs”). This letter supplements our previous comments³ on the filing of the initial proposed rule change by CboeBYX to introduce Periodic Auctions.⁴ SIFMA applauds the Exchange for this innovative proposal to improve the market for thinly traded securities and greatly appreciates the Exchange for its continued engagement with SIFMA. While the Exchange's proposal has the potential to benefit the national market system for equity securities, we recommend a few changes to the Proposal to minimize our concerns about its potential impact to the Exchange's continuous market and other potential unintended consequences.

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>.

² See Exchange Act Release No. 90288 (Oct. 30, 2020), 85 Fed. Reg. 70678 (Nov. 5, 2020) ("Proposal").

³ See Letter from Ellen Greene, SIFMA to Vanessa Countryman, SEC dated August 28, 2020.

⁴ See Exchange Act Release No. 89424 (July 29, 2020), 85 FR 47262 (August 4, 2020).

I. CboeBYX Proposal

CboeBYX proposes to implement Periodic Auctions as a market structure innovation that is designed to improve market quality in thinly traded securities, consistent with the Commission's request in its Statement on Market Structure Innovation for Thinly Traded Securities.⁵ As initially proposed, Periodic Auctions of one hundred milliseconds would be conducted throughout the course of the trading day when matching buy and sell Periodic Auction Orders, as defined in the Proposal, are available to trade in such an auction. While Periodic Auctions would be available in all securities traded on the Exchange, the Exchange believes that this trading mechanism would be particularly valuable for securities that trade in lower volume and consequently suffer from wider spreads and less liquidity displayed in the public markets.

II. SIFMA Concerns Related to the Continuous Book and Unintended Consequences

SIFMA's member firms are concerned that the CboeBYX filing to implement Periodic Auctions may result in unintended consequences to the operation of the Continuous Book ("CB") at CboeBYX and to the marketplace overall. SIFMA staff has been discussing the Proposal with its member firms since the Proposal was issued at the end of July 2020 to better understand its impact on the market. SIFMA has also spoken multiple times with CboeBYX to better understand the mechanics of the Periodic Auctions. While these discussions with the Exchange, and the issued set of frequently asked questions and examples on the mechanics of the Periodic Auctions, have been very helpful, SIFMA and its member firms are unable at this point to reach a reasonable understanding of the impact the proposed Periodic Auctions would have on the continuous trading market for NMS Stocks in a Regulation NMS environment. Permitting all securities that trade on CboeBYX to participate in Periodic Auctions immediately upon adoption of the Proposal has at this point unknown impacts on the CB that could potentially result in harm to investors.

SIFMA also has concerns with operating the Periodic Auction in a manner that allows the CB to interact with PAs and PEs, as defined in the proposal. Although PAs and PEs are optional, as currently proposed, CB orders do not have the option to opt out of interacting with PAs and PEs orders. Due to the market structure for NMS Stocks and proposed operation of the Periodic Auction, there is potential for market participants to game the auction by routing orders to other trading venues before and during the auction (based on information disseminated by the Exchange) that impact the price of the auction, which could affect investors who submitted orders on CboeBYX's CB because they do not have ability to opt out of the auction. Without actual experience of how the Periodic Auctions will operate in a U.S. equities market structure, SIFMA finds it difficult to anticipate whether the proposed rule change would increase liquidity consistent with the goals of the national market system.

⁵ See Securities Exchange Act Release No. 87327 (October 17, 2019), 84 FR 56956 (October 24, 2019) (File No. S7-18-19).

III. SIFMA Recommendations to the Proposal

To address the concerns stated above, SIFMA recommends a measured approach to the manner in which CboeBYX would offer Periodic Auctions to allow the Exchange and broker-dealers to better understand the functionality of Periodic Auctions in the national market system. We would support offering Periodic Auctions for a subset of stocks initially, starting with thinly traded securities, and if there are clear improvements to liquidity, offering Periodic Auctions for more liquid securities—i.e., a more gradual rollout to assess impact rather than offering the auctions in a "big bang" approach for all securities traded on CboeBYX.

Further, SIFMA recommends CboeBYX initially not include CB orders in the Periodic Auctions to limit potential gaming concerns or make the use of Periodic Auctions fully optional. This latter approach should provide market participants with the choice to use Periodic Auctions and make them more similar to their operation in the European equities market where CboeBYX's affiliate has been successful. To facilitate these approaches, the Exchange could exclude CB orders overall or allow CB orders to affirmatively opt into the Periodic Auction via a FIX tag. After an appropriate showing that Periodic Auctions increase the liquidity available to investors, such as a decrease in bid-ask spreads, the Exchange could then consider allowing CBs to interact with PAs and PEs in the manner described in the Proposal.

IV. Conclusion

SIFMA supports CboeBYX's novel approach to provide additional price improvement opportunities, particularly for thinly traded securities. Given the immediate concerns with the potential unknown impact of Periodic Auctions in the U.S. equities marketplace, CboeBYX should consider an incremental approach to its offering. This would provide market participants more time to understand the workings of Periodic Auctions and determine in a measured approach how and if to participate in the auctions. Further, offering Periodic Auctions for a subset of securities before expanding to all securities would provide market participants, CboeBYX and the Commission with more complete information as to the situations where the Periodic Auctions improve the market quality of thinly traded securities.

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SIFMA greatly appreciates the Commission's consideration of this letter. If you have any questions or need any additional information, please contact me (at [REDACTED] or [REDACTED]).

Sincerely,

Ellen Greene

Ellen Greene
Managing Director
Equities & Options Market Structure