RBC Capital Markets®

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August 15, 2019

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

Re: Proposed Rule Change to Introduce a Liquidity Provider Protection; File No. SR-CboeEDGA-2019-012

Dear Ms. Countryman:

On behalf of RBC Capital Markets, we appreciate this opportunity to comment on the June 20, 2019 "Proposed Rule Change to Introduce a Liquidity Provider Protection on EDGA" (hereinafter "the Proposal") put forth by Cboe EDGA Exchange, Inc.

RBC Capital Markets, LLC (RBCCM) is the investment banking platform of Royal Bank of Canada.[1] RBCCM is a U.S. registered broker-dealer engaged in, among other things, providing equities trading and execution services to retail and institutional investors. These investors include large investment managers with trillions of dollars in assets under management. Those assets reside in employee pension funds, mutual funds, and other vehicles that hold the savings of individual investors.

The proposal includes a speed bump with a 4 millisecond asymmetrical delay that liquidity takers would need to traverse before becoming eligible to trade against resting orders on EDGA. We view this delay as discriminatory because it provides an unfair advantage to high-speed market makers to the detriment of other market participants who attempt to execute marketable orders against EDGA's displayed quotes. It is unclear how investors in general will benefit from this delay, while there are clear signs that it will harm them.

The Proposal has several inherent shortcomings that, in our view, will be detrimental to investors, to execution quality, and to overall market quality. Delays, particularly lengthy,

[1] Royal Bank of Canada (RBC), headquartered in Toronto, Ontario, is a global provider of financial services, including personal and commercial banking, wealth management services, corporate and investment banking, and life insurance and transaction process services. RBC's approximately 80,000 employees serve more than 16 million personal, business, public sector, and institutional clients worldwide through offices in Canada, the United States, and 36 other countries. In the United States, RBC's approximately 12,300 employees primarily provide corporate and investment banking, wealth management, asset management, and retail banking services to customers and clients in more than 40 states.

asymmetrical ones such as the 4 millisecond speed bump proposed by EDGA, increase the likelihood of missing liquidity, as markets can move in microseconds. We are concerned that the asymmetrical design of this speed bump could cause liquidity to "fade" or cancel before marketable orders routed to EDGA can access them.

Furthermore, exempting liquidity providers from the Proposal's delay seems to favor latency-sensitive market participants over others who are potentially accessing liquidity at competing trading venues simultaneously, including other exchanges. It is by no means clear why liquidity providers on EDGA deserve an additional speed advantage, other than that it is to their pecuniary benefit.

We are concerned that if this asymmetrical delay is approved, there could be an increase in locked and crossed markets. Additionally, slower market participants providing liquidity on EDGA could be disenfranchised by not quickly responding to market conditions at other displayed markets, thereby creating a riskless arbitrage opportunity for other, faster participants. Whereas some market participants may choose not to interact with passive orders displayed on EDGA when those orders are at the same price as orders displayed on other exchanges, they may opportunistically route to EDGA to pick off the stale quotes of less speed-sensitive participants providing liquidity, such as institutional or retail investors. Furthermore, EDGA has requested an exemption from Reg NMS Rule 610(e) which would "permit EDGA to continue to operate in the manner that it does today with respect to locked and crossed markets, notwithstanding the proposed dissemination of a manual, un-protected, quotation." In other words, the proposal would enable EDGA to lock and cross automated markets, even though EDGA would seek to be defined as a manual market. For that reason, if approved as proposed, the proposal raises the prospect of triggering an increase in locked and crossed markets.

The EDGA proposal provides an example of this behavior,[2] explaining that if EDGA were quoting a $10.02 bid and Nasdaq subsequently displayed an offer at $10.01, the incoming seller would secure "a favorable execution for the investor seeking liquidity." With other displayed quotes, an Intermarket Sweep Order (ISO) would need to be sent to clear the better priced liquidity (in this example, $10.02) prior to offering at a lower price (in this example, $10.01). Because the EDGA quote would not be protected under the Order Protection Rule, Rule 611 of Regulation NMS, the likelihood of crossed markets may be more frequent and last longer than those cited by Cboe in their proposal, with "99% of crossed markets being resolved in 25 milliseconds or less." Cboe proposes allowing orders on their EDGA book that are being locked or crossed by another exchange to remain posted for one second before being cancelled by the exchange. This could cause further confusion and harm to market participants.

While we support innovation and commercial solutions, we are concerned that, if approved, the Proposal could establish a precedent for exchanges favoring one subset of market participants over another, to the detriment of investors, execution quality, and market quality. Would other exchanges similarly propose asymmetrical speed bumps to favor one segment of market participants? How long would their delays be? What might that ecosystem look like, and who are the winners and losers? In a dynamic,

[2] See Proposal at p. 17.

competitive and efficient ecosystem such as the U.S. equity market, it is not unreasonable to anticipate copycat offerings by other exchanges -- with varying degrees of asymmetrical delays -- needlessly adding additional complexity and fragmentation and reducing access to liquidity.

While displayed quotes on EDGA would not be protected under Regulation NMS Rule 611, allowing for brokers to bypass the venue, a displayed quote brings with it best-execution obligations more broadly. At a minimum, this adds complexity to the decision making process of routing to the best-priced displayed orders in the marketplace. There are times when investors may feel the additional delay is warranted and could advise their brokers to route orders on their behalf to EDGA, while at other times brokers may be directed to bypass EDGA altogether.

Additionally, we have concerns about how a displayed exchange quote on the SIP, albeit as proposed to be disseminated as a “manual quotation under Regulation NMS”,[3] would impact the National Best Bid Best Offer (NBBO). While not a protected quote, other venues and brokers operating trading platforms could have different viewpoints on whether or not to include the EDGA quote in their calculation of the NBBO. This outcome could impact benchmarks as well as trade reference prices, which could cause adverse selections for some participants. For example, if the Protected Best Bid Best Offer were $10.00 x $10.03 and EDGA had a $10.01 displayed bid for 100 shares, some may choose to include EDGA and calculate the NBBO to be $10.01 x $10.03, with a corresponding $10.02 midpoint. Others could choose not to include EDGA quotes and calculate the NBBO as $10.00 x $10.03, with a $10.015 midpoint. The lack of a standard could cause confusion among investors and the trading platforms they access.

For the aforementioned reasons, we are unable to support the Proposal. We believe that the Proposal’s delay mechanism will unfairly benefit certain liquidity providers while potentially harming other market participants as well as execution quality and overall market quality.

Thank you for your consideration of our views. We would be pleased to provide the Commission with additional information or to otherwise be of assistance.

Sincerely,

R. Steiner

Rich Steiner
Head of Client Advocacy and Market Innovation

[3] See Proposal at p. 8.