



February 14, 2019

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Investors Exchange LLC; Notice of Filing of Proposed Rule Change to Modify the Resting Price of Discretionary Peg Orders; Securities Exchange Act Release No. 84820; File No. SR-IEX-2018-23

Dear Mr. Fields:

Investors Exchange LLC (“IEX”) is pleased to have the opportunity to respond to one comment letter¹ that was submitted on its proposed rule change to modify the resting price of Discretionary Peg™ (“DPeg”) Orders.²

Introduction

The Proposed Rule Change modifies the resting price of DPeg orders to be equal to the less aggressive of one (1) minimum price variation (MPV) less than the primary quote or the order’s limit price. Based on current functionality, the resting price of DPeg orders is equal to the primary quote or the order’s limit price.³ IEX is not proposing to change any other DPeg order functionality. The FIA letter appears to misunderstand both the existing behavior of DPeg orders, as well as the proposed functionality. This letter clarifies both points.

Proposed Functionality

First, the FIA letter inaccurately describes DPeg orders as having the ability to “fall back to match the price of the NBB (or NBO)” when the IEX Crumbling Quote Indicator (“CQI”) is active. In fact, as clearly defined in the IEX Rulebook, DPeg orders rest at the national best bid (NBB), in the case of buy orders, or national best offer (NBO), in the case of sell orders, and are eligible to exercise discretion up to the midpoint of the NBBO, but no greater than the order’s limit price, if any.⁴ Therefore, rather than “falling back” or repricing passively during periods of

¹ See letter from FIA Principal Traders Group to Brent J. Fields Secretary, SEC, dated January 22, 2018 (“FIA” or the “FIA letter”).

² See Securities Exchange Act Release No. 84820 (December 13, 2018), 65186 (December 19, 2018) (“Proposed Rule Change”).

³ See Rule 11.210.

⁴ See Rule 11.190(g).

quote instability, as defined in IEX Rule 11.190(g), DPeg orders rest passively at the “near touch”, and are eligible to trade more aggressively when IEX determines the market is stable. The resting price of a DPeg order meaningfully affects its execution priority and interaction with other orders on the IEX order book, as further clarified below.

The Proposed Rule Change makes no change to DPeg functionality other than to change the resting price to one (1) MPV below the NBB (for buy orders) or above the NBO (for sell orders). FIA expressed concern that the “IEX matching engine would reprice the order back below the price of all displayed NBB orders to avoid execution . . .” However, as described above, rather than repricing when the CQI is active, IEX is simply proposing that DPeg orders *rest* more passively (i.e., one (1) MPV below the NBB or above the NBO) than is currently the case.

Similarly, the FIA letter states that under the proposed rules, DPeg orders would be able to “jump over” resting displayed orders. IEX believes this is a mischaracterization of DPeg order behavior. Consistent with existing behavior, DPeg orders would exercise the least amount of price discretion necessary from the DPeg order’s resting price to its discretionary price (*i.e.*, the less aggressive of the midpoint of the NBBO or the DPeg order’s limit price, if any), except during periods of quote instability as defined in IEX Rule 11.190(g). Further, when exercising price discretion, a DPeg order is prioritized behind any displayed or non-displayed interest resting at the discretionary price. Thus, DPeg orders would have the ability to trade at prices more aggressive than resting displayed orders only when the active order is priced *less* aggressive than the NBBO (*i.e.*, active sell orders priced higher than the NBB or active buy orders priced lower than the NBO).

For example, assume that the NBBO for stock ABC is \$10.00 x \$10.02. A DPeg buy order for 100 shares with a limit price of \$10.02 is entered while IEX has a displayed bid at \$10.00 for 100 shares. The DPeg order will be booked at a price of \$9.99, one MPV below the NBB. If an order to sell 100 shares at \$10.00 is then received, that order will execute against the displayed bid rather than the DPeg order, *whether or not* the CQI is active when the sell order arrives. If the price of the sell order is instead \$10.01 while the NBBO remains at \$10.00 x \$10.02 and the CQI is not active, the order will execute against the DPeg order because the DPeg order will exercise price discretion and would have price priority at its discretionary price of \$10.01. Both these scenarios would play out in exactly the same way under existing DPeg functionality and under the Proposed Rule Change. The only difference in functionality is that the Proposed Rule Change will provide an additional measure of protection to DPeg orders in circumstances when the CQI is active.

FIA further suggests that DPeg orders would never be eligible for execution along with displayed orders when the CQI is active. In fact, as proposed, DPeg orders remain eligible to trade along with any other orders at their resting price. Thus, DPeg orders will be eligible for execution along with displayed orders resting at the NBBO when the active order is priced *more* aggressive than the NBBO (*i.e.*, active sell orders priced lower than the NBB or active buy orders priced higher than the NBO). For example, continuing with the above hypothetical, if the sell order was

for 200 shares with a limit price of \$9.99, it would execute against both the displayed and DPeg orders, whether or not the CQI was active at the time the sell order arrived (assuming compliance with the order protection rule).

Finally, IEX disagrees with FIA's suggestion that the proposed change presents a novel application of discretionary pricing. Contrary to FIA's assertion, the Commission thoroughly considered the DPeg order type in connection with its grant of IEX's application for registration as a national securities exchange, and specifically found DPeg to be consistent with the Securities Exchange Act of 1934 and, in particular, the Section 6(b)(5) requirement that the exchange's rules be designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system, and protect investors and the public interest.⁵

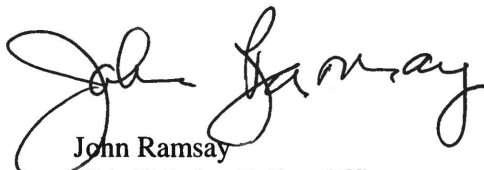
Other Topics

The FIA letter also suggests that approval of the Proposed Rule Change would open the door to several other hypothetical order types, changes to DPeg orders, and/or the use of CQI for other types of discretionary orders on IEX. IEX is not proposing any functionality of the types suggested by the FIA. If IEX or any other exchange were to make any such proposal, it would be obligated to file a proposed rule change with the Commission pursuant to Section 19(b) of the Act, which would afford FIA and other members of the public the opportunity to raise any questions or concerns.

Conclusion

In summary, IEX believes that the Proposed Rule Change does not present any new or valid concerns with DPeg functionality and that the Commission should act swiftly to approve it.

Sincerely,



John Ramsay
Chief Market Policy Officer

cc: Brett Redfearn, Director, Division of Trading and Markets
David Shillman, Associate Director, Division of Trading and Markets
Richard Holley III, Assistant Director, Division of Trading and Markets
Marc McKayle, Special Counsel, Division of Trading and Markets

⁵ See Securities Exchange Act Release No. 34-78101 at 47 (June 17, 2016), 81 FR 41142 (June 23, 2016) (File No. 10-222). See also FIA letter at 3.