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February 5, 2020

Ms. Vanessa Countryman  
Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-0609

Re: Notice of Filing of Proposed Rule Change to Add a New Discretionary Limit Order Type.  
**File Number: SR-IEX-2019-15.**

Dear Ms. Countryman:

Jefferies appreciates the opportunity to comment on the proposed rule change by the Investors Exchange LLC (“IEX”) regarding a new order type (D-Limit).

### **About Jefferies Equity Trading**

Jefferies is one of the top US equity trading firms primarily focused on providing the highest quality execution to our institutional clients. In our quest to achieve the best possible execution for our clients we are continually focused on market structure evolution and the challenges and opportunities as they present themselves. We are extremely confident in our ability to use data in order to compare and contrast the various facets of an execution like quality of fills in various venues, order types offered by the exchanges, latency differences etc. The output of these analytics forms the backbone of our execution algorithms and drives our behavior in the markets.

### **Our approach towards new order types and other innovations**

Historically, we have been proponents of all innovations the various exchanges have introduced to the market. Our approach has been to understand the new features, experiment with them, collect data and then measure their effectiveness in helping us achieve our trading objectives. Since the nature of our business is client focused, we tend to find more value in innovations that help agency algorithms (as compared to prop trading algorithms) navigate the markets more efficiently. Traditionally, the innovations proposed by IEX have been extremely useful in improving the quality of our executions and thereby helping our clients lower their trading costs.

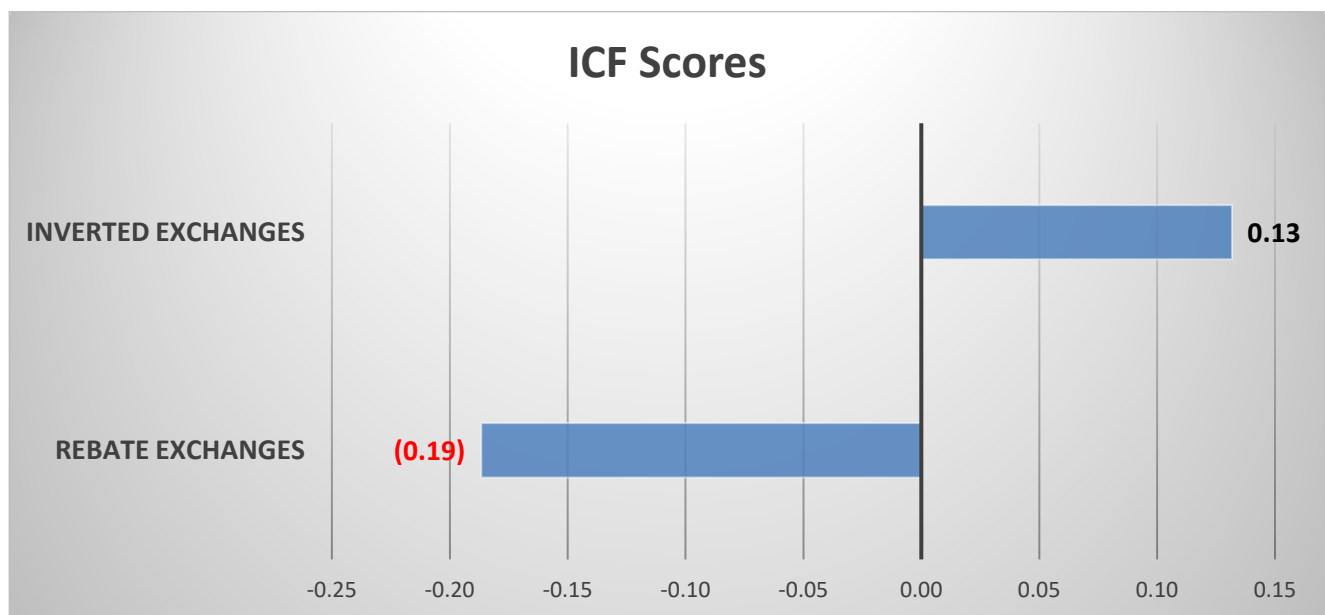
### **Execution quality of liquidity providing quotes in protected markets**

Since the D-Limit is a liquidity providing order type, we would like to go over our methodology when measuring the effectiveness of these order types in the context of US equity markets. One of the key benchmarks we use in order to measure execution quality for liquidity providing orders is known as ICF (“Information Content Factor”). This measure compares an execution price with the price of the security two seconds after the execution. Also known as ‘mark outs’, such measurements are good

indicators of the quality of ‘spread capture’ and ‘adverse selection’ associated with a venue or an order type. Negative ICF values indicate a worse execution quality compared to positive ICF values.

The below chart compares the average ICF numbers for executions received by Jefferies algorithms across all major exchanges in the US. For the purpose of differentiation, we organized the group of exchanges providing a rebate for liquidity providing orders as ‘rebate exchanges’ while those which charge a fee for providing liquidity were classified as ‘inverted exchanges’.

The data is not adjusted for rebates/ fees, because most of our institutional clients do not get the economic benefit of any rebates earned by their brokers. Therefore, their execution quality measure should exclude the rebate/ fee adjustment to the mark outs.



(Data from Jefferies Algorithmic Executions July 1<sup>st</sup> to Dec 31<sup>st</sup>, 2019)

Executions from the following exchanges were used to calculate the above averages.

Rebate Exchanges: NYSE, NYSE ARCA, NASDAQ, BZX and EDGX

Inverted Exchanges: BYX, NYSE National, NASDAQ BX

Based on the above averages, inverted exchanges deliver an execution quality which is superior to those of rebate exchanges by approximately 32% of the bid-ask spread. Therefore, in order to achieve a higher quality of executions, our algorithms are better off providing liquidity on inverted exchanges and thereby incurring an additional fee (instead of earning a rebate) for this benefit. We believe that this inbuilt ‘toll’ that one has to incur in order to achieve a higher quality of execution is a function of the market structure where more proprietary trading and market making strategies compete amongst themselves for queue positioning (and earning rebates) on the rebate exchanges. These participants are willing to provide liquidity in a stable market – and utilize their speed and access to low latency market data to efficiently manage their quotes [in an unstable market?]. This is exactly what the D-Limit order

type will provide to agency algorithms – without the overhead costs of a super low latency infrastructure.

**How the D-Limit might be helpful in mitigating a key issue facing agency algorithms**

The D-limit order type has the potential to address one of the key problems faced by agency algorithms in a fragmented market – the ability to participate in price discovery by displaying your interest without having to bear the cost of adverse selection (getting ‘picked off’ by arbitrage-based strategies relying primarily on speed).

The success of this order type depends on the quality of the signal which IEX will be deploying. We are cognizant that a good signal will enhance the quality of our liquidity providing orders and that a false negative would lead to loss in queue position and hence lower the probability of execution. However, given the past success of the signals utilized in D-Peg and P-Peg order types along with the investment that IEX has made in their quantitative researchers we feel confident that this order type will deliver a superior execution quality versus comparable liquidity providing orders on other exchanges.

Sincerely,

Jefferies LLC