



February 19, 2020

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: IEX D-Limit Order Type (File No. SR-IEX-2019-15)

Dear Ms. Countryman:

Robert W. Baird & Co. Incorporated (“Baird” or “we”)¹ is pleased to provide its views on the proposed rule change filed by the Investors Exchange LLC (“IEX”) to add a new Discretionary Limit (“D-Limit”) order type.

As discussed further below, we support the proposed rule change and agree with many of the comment letters previously submitted on the proposal that discuss the benefits that the D-Limit order type may bring to the markets. We are submitting this letter to highlight what we believe can be the benefits of the order type to Baird and the markets in general, and address some of the issues that have been raised about the proposal.

Background

Baird’s Institutional Equities and Research division provides research and execution services to institutional investors with a focus on small and mid-cap equities. Because of our focus in the small and mid cap space, we are frequently confronted with unique challenges arising in this domain, including limited displayed liquidity and information asymmetries.

Baird therefore supports initiatives by exchanges to innovate through order types and other means that can result in the increase of displayed liquidity. Having robust and liquid markets is significant to Baird and its clients, particularly the ability to route orders efficiently and to provide the best execution possible.

¹ Robert W. Baird & Co. Incorporated is a dually registered broker-dealer and investment advisory firm. Through its Institutional Equities and Research division, Baird provides research and execution services to institutional investors and has been recognized for our expertise in the domain of small and mid-cap equities. Our execution services platform incorporates a variety of algorithmic trading strategies that are employed by our cash and program trading desks and also offered directly to our clients. For further information about Baird, please see <https://www.rwbaird.com>.

In addition, given that we have no ownership interest in or inherent bias toward any particular execution venue, we welcome any venue innovations that help us maintain our algorithmic performance and ultimately provide best execution for our clients. Venue order types play a primary role in the configuration and evaluation process of the algorithms we offer, and protecting broker-dealers such as Baird from being “picked off” by predatory trading practices is critical in our execution of orders.

Part of Baird’s interest around the D-Limit order type, as well as our belief that the proposal can bring benefits to the markets, stems from our positive experience with utilizing other IEX order types that leverage the “IEX Signal” (*i.e.*, the “Crumbling Quote Indicator” or “CQI”). For example, using the Discretionary Peg (“D-Peg”) order type has allowed us to rest on the IEX order book while also seeking to access liquidity at a more aggressive price *except* when the IEX Signal is “on,” thereby protecting our orders from trading in potentially unstable and adverse conditions.

Baird believes the securities markets should not be structured in a manner that supports a “winner take all” approach when it comes to a trading technology arms race, and the regulations overseeing the markets should not drive market participants towards such a result; therefore, Baird supports the D-Limit proposed rule change.

Consideration of D-Limit Order Type

Baird recognizes that the D-Limit order type raises important issues that the Commission must carefully examine and address. Many of these issues have been identified and discussed in previous comment letters submitted on the proposed rule change.

While many other exchange delay mechanisms, both proposed and adopted, raise similar issues, we believe each of these mechanisms must stand on its own, and the Commission should consider the unique benefits (and costs) that each deliver to market participants and the efficiency of the markets overall. When it comes to the D-Limit proposal, the differences between this order type and other delay mechanisms are important and we believe should bear out the approval of the proposed rule change.

To be clear, and as noted above, Baird supports innovations by all exchanges that result in more efficient markets. To the extent these innovations meet the appropriate regulatory requirements, they too should be approved.

While we will not reiterate all of the comments made in previous letters, we believe several issues do warrant further discussion. Our specific comments follow.

Democratization of the Trading Process

As was noted in several comment letters and in IEX's response to comment letters already submitted on the D-Limit proposal,² one of the beneficial aspects of the D-Limit order type compared to other delay mechanisms is that re-pricing of D-Limit orders is based on objective and transparent procedures managed by IEX. As IEX notes, users of D-Limit have no advance, pre-trade knowledge of any contra-side orders on IEX, and have no discretion over whether re-pricing or a trade occurs, *i.e.*, trades happen solely in accordance with the rules governing IEX's systems.

In contrast, other delay mechanisms require affirmative decisions by traders to re-price their orders. We believe this is an important distinction as many market participants do not have the speed and other resources that other traders may have to act quickly enough to "get out of the way" of a predatory trading strategy.

Baird agrees with other commenters that this "democratizes" the process, as D-Limit would be available to market participants without the need for any special technology, tools or market data. As a result, any market participant can use D-Limit, regardless of their sophistication or technological capability, and any speed or information advantage they may or may not have.

Protected Quote Status

IEX believes that displayed D-Limit orders would qualify as "automated quotations" and therefore "protected quotations" under Regulation NMS. Baird supports such a determination.

Significantly, Baird's concerns with "quote fading" in the markets, which poses issues for Baird and other similarly situated broker-dealers, is much less when it comes to the D-Limit order type than with other order types, both existing and proposed. We agree with other commenters that D-Limit quotes would be as, or more, accessible compared to protected quotes on other markets, and would be no less accessible than a standard limit order on IEX the vast majority of the time. Even if and when D-Limit quotes may fade, we believe they would meet an appropriate level of accessibility.

This is another important distinction from other exchange delay mechanisms, and specifically to the quotes associated with those delay mechanisms that could be viewed as inaccessible and, as noted by other commenters, that could create difficulties for a broker-dealer's best-execution process. The protected quote nature of the D-Limit order type would address these concerns and the negative impact that an unprotected, manual quote may have on a broker-dealer's overall regulatory obligations.

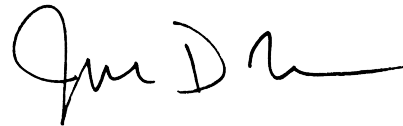
² See <https://www.sec.gov/comments/sr-iex-2019-15/sriex201915-6808882-208490.pdf>.

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Conclusion

We appreciate the opportunity to provide our comments on the proposed rule change and your consideration of our thoughts. We offer our assistance to the Commission as it examines the proposed rule change. If you have any questions on our comment letter, please feel free to contact me directly at [REDACTED] or at [REDACTED].

Sincerely,

A handwritten signature in black ink, appearing to read "Jack Miller". The signature is fluid and cursive, with a long horizontal stroke at the end.

Jack Miller
Head of Global Execution Services

cc: The Honorable Jay Clayton, Chair
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
The Honorable Allison Herren Lee, Commissioner

Brett Redfearn, Director, Division of Trading and Markets
Christian Sabella, Deputy Director, Division of Trading and Markets
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