Allianz Global Investors

May 12, 2020

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549

Re: Notice of Filing of a Proposed Rule Change to Add a New Discretionary Limit Order Type (File No. SR-IEX-2019-15)

Dear Ms. Countryman:

Allianz Global Investors ("AllianzGI") appreciates the opportunity to respond to the Securities and Exchange Commission's (the "SEC") request for comment on the introduction of the new Discretionary Limit ("D-Limit") order type proposed by the Investors Exchange LLC ("IEX") (the "Proposal"). AllianzGI is a leading active asset manager with over 800 investment professionals in 25 offices worldwide and managing more than $632 billion in assets for individuals, families and institutions.[1] We have a strong interest in the functioning of capital markets to better serve our clients.

We support the Proposal as it can enhance our investment and trading strategies with modern technology designed to protect our orders from repeat, adverse selection by targeted, latency arbitrage-driven trading strategies. It is a clear and laudable example of an exchange innovating to protect the interests of long-term investors like AllianzGI. We support our asset management peers who have endorsed the Proposal, and agree with their detailed analysis of why the SEC should approve D-Limit.[2]

Regulation NMS provides the clearest justification for why the Proposal should be approved:

> "Short-term traders and market intermediaries unquestionably provide needed liquidity to the equity markets and are essential to the welfare of investors. Consequently, much, if not most, of the time the interests of long-term investors and short-term traders in market quality issues such as speed and operational efficiency will coincide. Indeed,

[1] Data as of December 31, 2019.
[2] *See* Letter from T. Rowe Price (https://www.sec.gov/comments/sr-iex-2019-15/sriex201915-6772531-208082.pdf), Letter from AGF (https://www.sec.gov/comments/sr-iex-2019-15/sriex201915-6795485-208389.pdf), Letter from AJO (https://www.sec.gov/comments/sr-iex-2019-15/sriex201915-6791509-208328.pdf), Letter from Vontobel Asset Management (https://www.sec.gov/comments/sr-iex-2019-15/sriex201915-6833495-208593.pdf), Letter from The London Company of Virginia (https://www.sec.gov/comments/sr-iex-2019-15/sriex201915-6850146-209832.pdf)

implementation of Regulation NMS likely will lead to a significant expansion of automated trading in exchange-listed stocks that both benefits all investors and opens up greater potential for electronic trading in such stocks than currently exists. *But when the interests of long-term investors and short-term traders conflict in this context, the Commission believes that its clear responsibility is to uphold the interests of long-term investors*."[3] (emphasis added)

In our opinion, the Proposal addresses the conflict that occurs in the market for displayed trading, which constitutes over 50% of daily volume in U.S. public equities. Recent press reports have demonstrated the U.S. displayed market to be both shrinking[4] and plagued by predatory high-frequency trading,[5] two interrelated phenomena. This is not a micro issue, but rather it is a macro issue with at least two major policy implications. First, a more "toxic" exchange environment will continue to lead to a migration of volume away from exchanges to less-regulated venues. Second, as displayed trading declines, so does the price discovery value that informs pricing elsewhere in the market.

Displayed liquidity provision has shrunk in large part due to the high costs created by adverse selection. As a recent study has demonstrated,[6] these moments are plagued by races between the fastest short-term traders and the rest of the market, which includes long-term investors such as AllianzGI. Due to the major exchanges' business decision to sell ever faster trading data and access to a shrinking number of high-speed short-term traders, the bulk of market participants that are long-term investors are worse off when trading against the fastest strategies.

This dynamic hurts the interests of our clients and the performance of their investments in two ways: (1) when trading on their behalf we directly incur those costs created by adverse selection when providing displayed liquidity and (2) when *taking liquidity*, we have to pay more (when buying) or sell for less as there is less displayed liquidity at the best bid and offer prices.

With its Proposal, IEX is innovating in a way that levels the playing field for institutional investors and their agents. While Regulation NMS clearly seeks to prioritize the needs of long-term investors over short-term traders when their interests are in conflict, this will be an empty promise unless exchanges have the ability to introduce innovations that do exactly that.

In fact, the Proposal's sensible approach pairing principles-driven regulation with modern exchange technology is the most durable way of honoring the priorities set forth in Regulation NMS while addressing the modern liquidity crisis in the displayed market. In our opinion, by adopting Regulation NMS, the SEC demonstrated that it intends for regulations to provide the conditions for orders to interact in a way that fosters fair and efficient markets that ultimately

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[3] Regulation National Market System (https://www.sec.gov/rules/final/34-51808.pdf)

[4] "Buying or Selling Stocks? It Isn't Always Easy", Wall Street Journal, January 2, 2020 (https://www.wsj.com/articles/buying-or-selling-stocks-it-isnt-always-easy-11577961000)

[5] "Ultrafast Trading Costs Stock Investors Nearly $5 Billion a Year, Study Says", Wall Street Journal, January 27, 2020 (https://www.wsj.com/articles/ultrafast-trading-costs-stock-investors-nearly-5-billion-a-year-study-says-11580126036)

[6] "Quantifying the High-Frequency Trading "Arms Race": A Simple New Methodology and Estimates", Financial Conduct Authority, January 2020 (https://www.fca.org.uk/publication/occasional-papers/occasional-paper-50.pdf)

serve the best interests of investors, especially long-term investors. But regulations promulgated by the SEC alone won't accomplish that result; regulators need to rely on exchanges and other participants to work for that result and should encourage them when they do.

It is for these reasons that we endorse the Proposal, to protect the interests and welfare of long-term investors such as AllianzGI in the displayed market, which other exchanges have contorted into a battleground of conflict between our interests and those of short-term traders.

Conclusion

The market should have a chance to decide the value of the Proposal. As the comment letter record demonstrates, the Proposal is narrowly tailored and freely available to all participants, and it provides a market-based alternative to the predominant exchange model where speed plays a leading role in determining trading outcomes. If successful it has the potential to diversify the type and count of firms that can efficiently provide liquidity in a public market, improving price discovery and liquidity at a time when both appear to be suffering.

Sincerely,

/s/ Brian Urey______________

Brian Urey
Senior Trader
Allianz Global Investors