Ameritrade

November 15, 2019

Via Electronic Mail (oddlotcomments@forefrontcomms.com)

Consolidated Quotation Plan Participants
NASDAQ Unlisted Trading Privileges Plan Participants

RE: Odd Lots Proposal[1]

Dear SIP Operating Committees:

TD Ameritrade, Inc.[2] ("TD Ameritrade" or "the Firm") appreciates the opportunity to provide comments concerning the Securities Information Processor ("SIP") Operating Committees' proposal for the SIPs to disseminate certain consolidated odd lot quotation data as ancillary information on the SIP data feeds. TD Ameritrade does not support the SIP Operating Committees' proposal to disseminate odd lot data in the manner it suggests as it would not benefit retail investors, would likely introduce added costs and/or latency, and would create regulatory uncertainty.

As a broker providing 11 million client accounts access to the U.S markets and one of the largest redistributors of SIP data, the Firm believes that it is uniquely qualified to comment on this proposal. Our client base consists of two primary groups: self-directed retail investors, and those investors employing the services of registered investment advisors ("RIAs"). These two groups of investors have a wide variety of trading and investment needs. TD Ameritrade's goal is to deliver a consistent, quality end-user experience by providing these clients trading tools and platforms. We achieve this goal by utilizing a mix of consolidated top-of-book and depth-of-book data.

TD Ameritrade has long supported a market data structure that would permit retail investors equal access to real-time, low-cost market data.[3] The U.S. Securities and Exchange Commission ("SEC" or the "Commission") has been a tremendous advocate of these efforts through ongoing dialogue and focus, as well as by ensuring that protections for retail investors across the markets are established and

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1 Securities Information Processor Operating Committees, Odd Lots Proposal, *available at* <https://www.ctaplan.com/publicdocs/CTA_Odd_Lots_Proposal.pdf> (last viewed on Nov. 12, 2019).

2 TD Ameritrade is a wholly owned broker subsidiary of TD Ameritrade Holding Corporate ("AMTD"). AMTD has a 44-year history of providing financial services to self-directed investors. TD Ameritrade provides investing and trading services to over 11 million client accounts that total more than $1.3 trillion in assets, and custodial services for more than 7000 independent registered investment advisors. During fiscal year 2019, TD Ameritrade's clients had on average 862,000 daily average revenue trades.

3 "Public Access to Market Data: Improving Transparency and Competition," U.S. House of Representatives, Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, Committee on Financial Services, Testimony of Randy MacDonald, Chief Financial Officer, Ameritrade Holding Corporation (Mar. 14, 2001) available at <http://commdocs.house.gov/committees/bank/hba71311.000/hba71311_0f.htm>; and Letter to Elizabeth Murphy, Secretary, Commission, "TD Ameritrade Petition for Rulemaking Regarding Market Data," (Jan. 28, 2011) <https://www.sec.gov/rules/petitions/2011/petn4-623.pdf>.

maintained. While supportive of these goals, TD Ameritrade also wants to ensure that the provision of additional market data is beneficial for retail investors in meeting their needs, and urges caution with regard to any efforts that may have unintended negative consequences.

As the SEC has published through their Market Information Data Analytics System ("MIDAS"),[4] industry-wide odd lot trades have increased from about 34% in January 2018, to about 54% in September 2019. TD Ameritrade has reviewed its client trading data and observed no similar statistical increase in odd lot trades made by retail investors over the same period. Furthermore, a review of the average notional quoted size for all S&P 500 components has declined somewhat, but not in direct correlation to the increase in odd lot trades observed by the SEC. This information leads TD Ameritrade to conclude that retail investors were not a predominant driver of the recent significant increases to odd lot trading. In fact, a Deutsche Bank study found similar results, noting that "the vast majority of retail volume initially executes off-exchange . . . At the same time, retail volume is viewed as more likely to execute odd lot orders, and while that may be true, odd lot data for 1Q 2019 showed that ~80% of total odd lot volume and trades occurred <u>on-exchange</u>, venues where orders originating from individual investors/retail brokers *rarely* execute." [5]

Since the increase in odd lot trades is outpacing the decline in quoted size, the primary cause of the trajectory in odd lot trading over the past year appears to be due to liquidity takers. Similar to the study performed by Deutsche Bank,[6] TD Ameritrade believes the increase in odd lot trades may

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4 Market Information Data Analytics System, *available at* <https://www.sec.gov/marketstructure/midas.html#.Xc7vSNVKhhE>

5 *See* "There's more to odd lots than high-priced stocks...," Deutsche Bank Global Equities (June 25, 2019)(emphasis in original).

6 The Deutsche Bank study also had the following findings:

> 1-share trades are the most common odd lot execution size, making up nearly 12% of all odd lot transactions in 1Q 2019 . . .
>
> Most compelling though, was intraday data where we found an increased frequency of 1-share trades at certain times of the trading day. Specifically, upon looking at the number of 1-share trades in 10-minute intervals, we observed a sharp increase versus the prior interval at the top of the hour, but also, on the half hour in the beginning and at the end of the day. This could be caused by a number of things, like algo start and end times or scheduling updates of certain algorithm types – POV, VWAP etc. – but also, could be 1-share orders (inbound or posted) that are looking to glean information about the order book.
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> A 2016 study on 1-share orders and trades showed evidence that traders use 1-share trades to "ping" for hidden liquidity and may use small, unprofitable trades to detect information. The authors also found that 1-share trades were disproportionately aggressive and executed against hidden liquidity more than any other odd lot trade size. Another study on odd lots reported that **60%** of 1-share trades were initiated by high-frequency traders and were possibly being used to detect the presence of liquidity on the order book. (emphasis in original).

represent liquidity takers using odd lot orders in lower priced stocks for purposes such as detecting larger orders or hidden liquidity. Further, TD Ameritrade has observed an increase in partial fills on resting limiting orders that is highly correlated to the increase in the rate of odd-lot trades,[7] supporting its belief that there is an increase in liquidity takers driving the increase in the odd lot rates. Therefore, merely displaying all odd lot quotes would not provide added value for retail investors looking for additional liquidity not currently displayed.

I. Odd Lot Data Included on the SIP Would not Provide Added Benefit to Retail Investors

A. Retail investors are reliant on displayed prices and the display of unprotected quotes will cause confusion and mistrust in the market.

Because of the trade-through protections provided by SEC Regulation NMS, retail investors have come to rely on the SIP consolidated quotation as an accurate representation of available pricing, akin to the price of an item at the supermarket. Thus, when placing an order, the average retail investor expects it to be executed at the price displayed. The item may unknowingly be on sale and result in a better price than was listed (price improvement), but no buyer would accept being charged a higher price than was listed on the item at the store.

Should a retail broker choose to begin displaying odd lot quotations, confusion may arise when orders are not executed at the prices displayed for those odd lot quotes, as there is no corresponding requirement to execute at that quote. Such confusion will lead to a decrease in public confidence in the markets, and likely an increase in both calls and complaints to retail trading firms regarding the new odd lot display.

The "tick size pilot" is an example of how a change in quoting protocols can adversely impact the investor experience. During the tick size pilot, which required clients to submit orders in \$.05 increments in pilot securities, over 137,000 unique TD Ameritrade retail client accounts experienced over 418,000 rejected orders. The resulting investor confusion led to many retail client inquiries and concerns. Therefore, TD Ameritrade believes the presentation of market data in its current state, with easy to understand quote standards, is important for promoting public confidence in the markets.

B. Retail investors currently benefit from a great order execution experience.

Along with the quote standards promoted above, the combination of prevailing market structure and TD Ameritrade's robust execution quality has allowed our retail clients to have an odd lot trading experience that, on average, is comparable to, if not better than, what they experience for round lot orders. Our non-marketable fill rate on odd lot orders is significantly greater than the average for all stocks, indicating the lack of order reflection is not contributing to a reduced likelihood of order execution. Additionally, the majority of our clients' marketable odd lot trades receive meaningful price improvement. These statistics are based on the national best bid or offer ("NBBO") available through the SIP and, therefore, are consistent with the observations of our clients due to requirements of the Vendor Display Rule (Reg. NMS, Rule 603(c)). If, however, the client was viewing an odd lot quote in a

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7 MIDAS Market Activity Overview, Odd Lot Rate (%) from January 2018 – September 2019 as compared to TD Ameritrade's rate of partial executions on non-marketable orders over the same period.

feed alongside SIP quotes, the perception of their order execution may be strikingly different. If the same clients – with limited understanding of market structure, quoted size, the nature of protected vs. unprotected quotes, etc. – who are accustomed to trading based on viewing the protected NBBO, were to begin viewing odd lot quotes in a similar way, they may at times be disappointed with the result.

Due to the execution quality currently experienced by retail investors, it is difficult to ascertain scenarios in which the trading experience for odd lots would improve simply because odd lot quotes are displayed.

II. Increasing the Amount of Quote Data on SIP Feeds Would Lead to Increased Costs and/or Latency

According to the SEC, odd lot trading in exchange listed U.S. stocks accounts for about 15% of volume and almost 50% of trades. The dissemination of this degree of additional quote information to the SIP may create a need for the plan participants, the plan processor(s), and the downstream recipients of the data to add capacity to their current infrastructure (both storage capacity and feeds/circuits reporting the information), thereby increasing the cost of aggregating and reporting quotes and trades to and from the SIP. These changes, which are required to accommodate the additional data points, would be reasonably expected to increase the inherent latency within the system. This leads us to the conclusion that either additional costs will be imposed to meet or exceed the speeds provided today, or firms would be impacted by the additional latency that will be present within the systems – or, at worse, both.

Ultimately, the costs of receiving the proposed ancillary odd lot information may be borne by end users, as it is anticipated that additional cost increases for data use will be imposed to offset the additional expenses incurred in the receipt, consolidation and dissemination of these data points.

Currently, it costs a "professional"[8] retail user $92 per month to receive real-time consolidated data for Tapes A, B, and C. For some investors, this is the price of a cell phone or a utility bill; for others, especially not-for-profits such as religious organizations and investment clubs, this could constitute a significant cost barrier to market entry. Increasing this cost to the retail investor, without directly adding any benefit to the utility of the data, is in direct conflict with the best interests of that investor.

Many exchanges currently offer cost-effective proprietary data feeds with this information included. Unless a strong use case for publication of the data in the SIP feeds is made – beyond spreading the cost across all participants regardless of whether the data is useful for such participants – there is no reason to include the data in the SIP feeds.

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8 Professional as defined by CTA and UTP Plans includes any users on an account in the name of a "non-natural person" entity as well as users who hold current registrations with FINRA or other association, or who do not otherwise qualify for "Non-Professional Status." *See* <https://www.ctaplan.com/publicdocs/ctaplan/notifications/trader-update/Policy%20-%20Non-Professional%20Subscribers%20-%20CTA.pdf>

III. Unforeseen Regulatory Impacts Are Anticipated

Presently, firms displaying market data must maintain business logic to appropriately consume, aggregate, normalize, and process the SIP feeds in order to disseminate the information downstream to platform/application end users or, in the case of a non-display context, to integrated business systems. The inclusion of ancillary data in the direct SIP feeds used today would increase the complexity required to normalize the SIP information and result in greater potential for error in processing and display of the data. In particular, odd lot inclusion would create greater complexity in determining which fields are required to be displayed accurately for compliance with the Vendor Display Rule.

Furthermore, if the data is readily available in the feeds, there may be future regulatory guidance to digest and disseminate the data. In turn, this may drive unnecessary or unintended change to market structure or investor behaviors.

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Providing quality market data to millions of retail investors is costly. Moreover, the current SIP Plan policies and requirements for making SIP data available to retail investors have evolved into a process with significant administrative burdens and hidden costs that are borne both by brokers and retail investors. Adding costs and unforeseen future burdens by adding ancillary data to the feeds will only further exacerbate the issues experienced today, with little to no benefit to the retail investor as described above.

TD Ameritrade greatly appreciates the SIP Operating Committees' consideration of the above comments and concerns. Please feel free to contact Joseph Kinahan, [redacted] with any questions regarding our comments.

Respectfully Submitted,

Joseph Kinahan
Managing Director, Client Advocacy and Market Structure