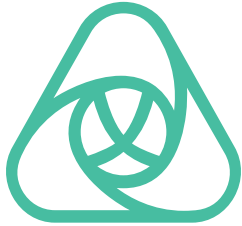


# IntelligentCross



December 9, 2019

Securities Industry Processors Operating Committees

Comments Via Email: [oddlotcomments@forefrontcomms.com](mailto:oddlotcomments@forefrontcomms.com).

Re: CQ and UTP Odd Lot Proposal

## I. Introduction

IntelligentCross, LLC (“INCR” or the “Firm”) appreciates the opportunity to comment on the Securities Information Processors’ (“SIPs”) plan to disseminate certain odd lot quotation data as ancillary information on the SIP data feeds (the “Proposal”). As will be described in more detail below, INCR supports the SIP’s Proposal and believes odd lot quote information should be included in the SIP in an identical fashion as round lot quotes.

## II. Background on IntelligentCross

INCR is an alternative trading system (“ATS”) that is owned by Imperative Execution, Inc, a financial technology company that has created an innovative AI matching process to minimize market impact after trades. Launched in mid-2018, INCR trades all Reg NMS securities and operates two order books—a midpoint match, and a bid/offer book with three fee schedules (fee/fee, maker/taker, and taker/maker). INCR’s matching process uses AI technology to schedule discrete match events in order to reduce market impact and adverse selection—the largest institutional costs of trading.

## III. Comments on the Proposal

As noted by the SIP Committee in announcing the Proposal, the number of odd lot transactions continues to increase and are a significant portion of overall trades. Going as far back as 2012, the Staff of the SEC published a study that found that between 18-24% of trades occur in odd lot size.<sup>1</sup> In 2018, the amount increased to 38% of trades and is near 50% as of October 2019.<sup>2</sup>

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<sup>1</sup> See <https://www.sec.gov/marketstructure/research/highlight-2013-03.html#.XdgGaUVKjRY>.

<sup>2</sup> See <https://www.wsj.com/articles/tiny-odd-lot-trades-reach-record-share-of-u-s-stock-market-11571745600>.

Given the amount of odd lot activity occurring in the market, and the fact that use of odd lots (including one lots) are standard in every other developed market, it is increasingly clear that the historical odd lot rules are anachronistic and should be updated.

While a number of factors have contributed to the increase in odd lot transactions, a primary driver has been the overall performance of the stock market combined with many issuers' unwillingness to "split" their stock. Over the last decade, the S&P 500 has more than tripled in value from its financial crisis lows in 2009—currently, over 40% of the S&P 500 stocks trade over \$100 per share.<sup>3</sup> Without stock splits occurring, round lots are no longer required in many securities for investors (particularly, retail investors) to have meaningful notional exposure in an individual security.

Accordingly, providing odd lot quote information would further enhance transparency and improve market quality for issuers and market participants alike. The odd lot information will help broker dealers with their best execution obligations by having additional information on whether or not odd lot liquidity was readily available. Historically, many market centers (i.e., exchanges, ATS's and OTC market makers) derive at least some of their matching prices off of SIP data, so excluding odd lot information creates situations where long term investors will potentially receive inferior prices than they otherwise could have if odd lot information was included in SIP feeds and was considered a protected quote.<sup>4</sup>

Including odd lot information in the SIP is likely to have an even more profound positive effect on thinly traded securities. The SEC recently announced it is seeking innovative ways to improve liquidity in thinly traded securities and integrating odd lots into the SIP is a straightforward approach to furthering that goal.<sup>5</sup>

While we commend the SIPs for the current Proposal, we believe it should be extended further. We encourage the SIPs to require all odd lot information to be included in the SIP feeds in an identical fashion to the way round lots are today. There is no compelling reason to distinguish between odd lots and round lots any longer. It is also important that odd lots be considered "protected quotes" under Reg NMS, otherwise there could be a mismatch between quotes that are exposed in the SIP but may be traded through because they are not "protected."

Some market participants have expressed concerns that adding odd lots may cause some confusion in the market-place and could create an unnecessary burden on the industry to comply with these requirements. While this is a valid concern that is worth monitoring, the SIP's should initially be over-inclusive by displaying all odd lot orders (i.e. at least one share) on the SIP and evaluate the overall impact on market quality. If allowing all lot sizes in the SIP for all securities

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<sup>3</sup> See <https://www.marketwatch.com/story/stock-splits-have-dried-up-why-thats-not-good-for-the-market-2019-10-11> The article noted that only five companies in the S&P 500 split their stock in 2018 compared to 102 in 1997.

<sup>4</sup> See e.g., Battalio, Corwin and Jennings, *Unrecognized Odd Lot Liquidity Supply: A Hidden Trading Cost for High Priced Stocks*, 2017, *Journal of Trading*.

<sup>5</sup> See <https://www.sec.gov/news/press-release/2019-217>.

creates confusion or otherwise demonstrably hurts market quality, then the SIP's can update the rules on what constitutes a protected quote in terms the value of the quote, e.g. \$1,000, rather than the quantity in shares.

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We appreciate the opportunity to be able to comment on the Proposal. If you have questions or would like to discuss the Proposal in more detail, please do not hesitate to contact me.

Alex Sadowski



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IntelligentCross, LLC