



December 3, 2019

Submitted via electronic filing: www.ctaplan.com/oddlots

Securities Information Processor (“SIP”) Operating Committees for the Unlisted Trading Privileges and Consolidated Quotation Plans

Re: Odd Lots Proposal

Dear SIP Operating Committees:

BlackRock, Inc. (together with its affiliates, “BlackRock”)¹ appreciates the opportunity to comment on the SIP Operating Committees’ proposal to disseminate certain consolidated odd lot quotation data as ancillary information on the SIP data feeds. As proposed, the SIPs would represent odd lot top-of-book quotes in newly created fields without impacting the calculation of the National Best Bid and Offer (NBBO) or changing the unprotected status of odd lot quotations.

BlackRock believes that the addition of odd lot quotes to the SIP is a step in the right direction and applauds the SIP Operating Committees’ efforts to increase transparency of this market segment. While odd lot quotes are available over proprietary exchange data feeds, these feeds are not as readily accessible by the public. As a result, the provision of odd lot data on the SIP will meaningfully improve transparency for investors and supply academics and market participants with essential information for developing a better of understanding of market dynamics.

However, the lack of comprehensive depth-of-book data on the SIP limits the effectiveness of publishing odd lot quotes, particularly when there may be multiple levels of odd lot liquidity veiled beneath the round lot NBBO. Furthermore, the SIP proposal fails to address the matter of order protection, which perpetuates an archaic double standard for odd lot quotations. As such, BlackRock believes that this proposal isn’t sufficiently all-encompassing in resolving the fundamental privileges which should be accorded to odd lot orders.

As we noted in a prior *ViewPoint*, odd lots have become a prevalent feature of current market structure.² In certain high-priced securities, odd lot transactions constitute a substantial proportion of overall trading activity. During Oct 2019, for example, 92% of the trades in Amazon.com (almost 50% of the dollar value traded) were comprised of

¹ BlackRock is one of the world’s leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers, and other financial institutions, as well as individuals around the world. BlackRock is the investment adviser to the iShares family of exchanges-traded funds (“ETFs”). BlackRock also advises non-US ETFs.

² BlackRock, *ViewPoint – US Equity Market Structure: An Investor Perspective*, (Apr. 2014), available at <https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-us-equity-market-structure-april-2014.pdf>.

odd lots; the average transaction size in AMZN was 31 shares.³ Odd lot activity has been steadily increasing since it was added to the tape in 2013⁴ and this has accelerated over the past year as market participants adjusted their trading behavior to incorporate odd lots.⁵ The extensive nature of odd lot liquidity in today's market breeds concern in regards to investor protection. Odd lots are not considered protected quotations under the Order Protection Rule in Regulation NMS.⁶ As such, marketable orders can trade-through odd lot quotes which are better priced than the NBBO, leaving investors with suboptimal execution and inefficient markets. A recent academic study estimated that investors missed over \$550k of price improvement against odd lot orders in just 10 high-priced stocks over one week in 2015.⁷ Given the scale of odd lot liquidity in equity markets, BlackRock believes that policy makers and plan participants should consider solutions which both improve transparency over odd lot quotations and concurrently address the inseparable consequences regarding order protection.

BlackRock believes that a more elegant solution for the inclusion of odd lots would be to move from a "one-size-fits-all" approach to a multi-tiered framework where round lot sizes are determined by the price of a security. The sizing of round lots provides an intuitive mechanism for expanding odd lot coverage because its designation as the normal unit of trading is embedded in exchange rulebooks and market regulations. As such, a reduction in the round lot size would naturally propagate to the relevant rules which govern protected quotations, determination of the NBBO, and the behavior of order types. Ideally, tier sizes should not be overly complicated, but should be determined using data-driven analysis to ensure adequate inclusion of existing odd lot activity. For example, if 100 shares is the optimal unit of trade for a \$25 security, then perhaps a round lot for stocks which are priced at \$250 or more should be 10 shares. With proper calibration, round lots sizes would essentially delineate a *minimum notional threshold*, as opposed to a minimum share quantity, for receiving order protection and inclusion in the NBBO. This would ensure that orders of de minimis economic value do not distort the NBBO or negatively affect routing decisions.

BlackRock thanks the SIP Operating Committees for the opportunity to present our views and recommendations regarding odd lots. We believe that rules and regulations should be updated to properly reflect the role of odd lots in modern market structure. BlackRock believes that a data-driven redefinition of round lots to scale lot size relative to security price would improve transparency and promote fairer and more efficient markets. We welcome any questions or further discussion regarding our perspective.

³ Source: BlackRock, NYSE TAQ.

⁴ Alexander Osipovich, The Wall Street Journal, "Tiny 'Odd Lot' Trades Reach Record Share of U.S. Stock Market", (Oct. 23, 2019), available at <https://www.wsj.com/articles/tiny-odd-lot-trades-reach-record-share-of-u-s-stock-market-11571745600>.

⁵ Ana Avramovic, Bank of America Securities, "Something Odd with Odd Lot Usage?", (Nov. 6, 2019).

⁶ See 17 CFR 242.611 and NMS FAQ available at <http://www.sec.gov/divisions/marketreg/nmsfaq610-11.htm#sec7>.

⁷ Robert Battalio, Shane A. Corwin, Robert Jennings, The Journal of Trading, "Unrecognized Odd Lot Liquidity Supply: A Hidden Trading Cost for High Priced Stocks", (Winter 2017), available at <https://doi.org/10.3905/jot.2017.12.1.035>.

Sincerely,

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