Cboe

Cboe's Vision
Targeted Equity Market Structure Improvements

August 2021

Introduction

Cboe Global Markets (Cboe) operates four equities exchanges representing a sizeable portion of the U.S. equities market. Cboe is committed to providing trusted, robust and resilient markets that bring together buyers and sellers, in an ecosystem that serves and benefits all investors.

At Cboe, we recognize that U.S. securities markets are complicated, and numerous interconnected factors impact the investor experience, but these markets are not broken. Market infrastructure proved to be incredibly resilient through recent periods of extreme volatility, despite market operators largely running trading platforms remotely in response to the global pandemic. As markets continue to evolve and mature, their regulatory frameworks should also be revisited and calibrated when warranted. We believe meaningful and targeted structural modifications will improve market quality for investors and further enhance the investor experience without introducing operational risks and complications associated with more dramatic overhaul proposals. The "do no harm" approach must continue to underlie all market structure reforms.

The hallmarks of today's equities market are reduced costs, greater accessibility, increased speed, and heightened reliability. Our current markets are overwhelmingly beneficial for all types of investors, including long-term retail investors. We believe any changes to the U.S. market structure should meaningfully benefit end-users without harming the strong framework that already exists.

Cboe's Recommendations

- **Modest Tick Size Reform** – A more granular minimum increment should be established for a subset of national market system stocks in order to enhance and support price discovery and competition to the benefit of all investors.
- **Enhance Best Execution** – In connection with any tick size reform, the duty of best execution should be reviewed and potentially clarified in order to increase transparency and consistency for investors.
- **Limit Order Protections** – Limit order display requirements should be revisited in order to better protect investor orders, increase transparency, and bolster price formation.
- **Improve Execution Quality Reports** –The publication of accessible and targeted execution quality information by broker-dealers should be pursued to further transparency and choice for investors.
- **Shorten the Settlement Cycle** – The settlement cycle should be shortened from T+2 to T+1.

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Modest Tick Size Reform to Bolster Competition

Cboe recommends updating the tick size regime in place for U.S. equities and considering a regime that would establish a new, more granular minimum trading increment for a meaningful number of stocks.

Updating the tick regime in place for U.S. equities is an important step toward spurring competition and preserving the important price discovery role provided by exchanges. Cboe recommends regulators and industry participants consider a regime that would establish a new, more granular minimum trading increment for a meaningful number of stocks. The criteria for establishing the stocks eligible for the narrower quote increment could be based on a combination of a security's price, volume and liquidity or based on average quoted spread. Either way, there are numerous stocks that should qualify for tick reform. This modest change would allow transactions in liquid, lower-priced symbols to occur in the public markets at increments that are utilized off-exchange today, likely leading to increased trading in the public markets.

Cboe believes that permitting smaller tick sizes for certain securities with narrow spreads would promote competition between on- and off-exchange venues and foster the efficiency that public transparent markets are designed to achieve. Implementing more granular tick sizes for a subset of securities would have substantial positive implications for the equities market and could be reasonably straightforward to implement. If adopted, we believe this recommendation would improve price discovery and execution prices for investors, in addition to increasing competition without increasing market fragmentation.

Enhance Best Execution

Cboe recommends further articulating the duty of best execution.

We believe more clarity on the duty of best execution will help foster consistency, transparency, competition and improved price discovery – all to the benefit of investors. Any adjustments made to the minimum increment warrant an examination of how best execution is defined and achieved. It is apparent that complying with best execution requirements is central to informing the routing decisions of broker-dealers and therefore, it is important that these requirements are sufficiently defined by regulators to promote transparency and consistency, and to ensure retail investors are being best served.

Cboe believes brokers should make their general best execution policies public to better inform investors. Providing greater certainty and guidance around the relevant factors that should be considered for purposes of satisfying best execution obligations will help clarify the duty of best execution for market participants and investors and will promote transparency.

Encourage Limit Order Placement in the Public Markets

Limit orders are fundamental to the price discovery process. Cboe encourages regulators and market participants to prioritize increasing the number of limit orders that are reflected in the public market quotes.

One way to further this goal is to update Rule 604 of Reg NMS, also known as the Limit Order Display Rule, which requires the display of customer limit orders that improve the current quote unless an exception applies. Rule 604 has not been meaningfully updated since its original adoption, and Cboe believes certain exemptions could be modified to facilitate the policy goal of resting competitive limit orders in the public sphere. Specifically, Cboe suggests removing the existing exemption applicable to customer odd lot limit orders, as well as adjusting the block trade exemption to increase the notional value threshold. obligations will help clarify the duty of best execution for market participants and investors and will promote transparency.

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Expansion of Execution Quality Information to Increase Transparency for Investors

Cboe recommends that brokerage firms, in addition to market centers, provide added transparency around execution quality and publish 605-type execution quality information publicly in an accessible format.

Rule 605 of Reg NMS requires market centers that trade NMS stocks to make available certain order execution information, including effective spreads and market center quality of executions, via monthly electronic reports. Rule 606 requires broker-dealers that route customer orders in equity and option securities to publish quarterly reports regarding their routing practices. Increased transparency in this area helps arm investors with useful information, improve investor confidence in the equities market and potentially facilitates greater investor choice. Cboe recommends that brokerage firms, in addition to market centers, add transparency around execution quality and provide 605-type execution quality information publicly in an accessible format. This data should include execution quality statistics for orders they represent as agent and information regarding full price improvement savings using the Financial Information Forum (FIF) standards.

Shorten the Settlement Cycle to T+1

Cboe recommends shortening the settlement cycle from T+2 to T+1.

Currently, the settlement of U.S. equity trades has a standard two-day settlement cycle (T+2). In light of recent market events, Cboe recommends the settlement cycle be shortened to T+1. Like many other market operators, Cboe believes the most logical way to reduce the risks that drive margin requirements is to shorten the settlement cycle. The reduction in settlement time would significantly reduce risk and margin requirements, which would be especially important during times of high volatility and stressed markets – as demonstrated during the recent "meme stock" trading frenzy – and would ultimately benefit end investors.

Conclusion

The markets are functioning well. Major market structure surgery is not needed. A few meaningful improvements, as proposed, would go a long way toward increasing transparency, fairness and competition, while empowering investors and improving the overall investor experience.

Find market insights from Cboe's North American Equities team on Cboe's website.

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