BlackRock

May 26, 2020

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Submitted via electronic filing: http://www.sec.gov/rules/proposed.shtml

Re: Market Data Infrastructure, 17 CFR Parts 240, 242, and 249; File No. S7-03-20

BlackRock, Inc. (together with its affiliates, "**BlackRock**")[1] respectfully submits its comments to the Securities and Exchange Commission ("SEC" or "Commission") in response to the SEC's request for comment on proposed amendments to 17 CFR 242, Rules 600 and 603, and proposed new Rule 614 of Regulation National Market System ("Regulation NMS") under the Securities Exchange Act of 1934 ("Proposal") to update the national market system ("NMS") for the collection, consolidation, and dissemination of information with respect to quotations and transactions in NMS stocks.

BlackRock believes that consolidated market data plays an integral role in unifying otherwise dispersed buyers and sellers across a fragmented equity ecosystem into a true national securities market. Furthermore, market data integrity promotes fair and efficient markets and facilitates the ability of broker-dealers to achieve best execution for their clients. However, the current model for and content of NMS market data has not kept pace with the evolution in equity markets and correspondingly the quality of the Securities Information Processors ("SIPs") has declined, lowering public confidence in the market.

BlackRock welcomes the SEC's comprehensive efforts to modernize our market data infrastructure to better meet the needs of investors and market participants. We are supportive of the Proposal to expand the content of NMS information and establish a decentralized consolidation model. However, we make some relevant recommendations for further clarification and consideration.

[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.

Expansion of NMS Market Data Content

For many broker-dealers and investors, the core data which is available from the SIP is no longer adequate to facilitate effective participation in the market.[2] In response, the Proposal would redefine core data in Rule 600(b) to include all current components of core data, in addition to new data elements that are not currently provided by the exclusive SIPs:

1) quotation data for smaller-sized orders in higher-priced stocks (pursuant to a new definition of "round lot"),
2) data on certain quotations below the best bid or above the best offer (pursuant to a new definition of "depth of book data"), and
3) information about orders participating in auctions (pursuant to a new definition of "auction information").[3]

BlackRock is supportive of expanding and revamping the content of NMS information. We agree that this would help to reduce information asymmetries between market participants who rely upon SIP data and those who purchase proprietary data feeds from the national securities exchanges.[4] More specifically, we support the addition of depth of book and auction information to core data. This will make the SIP more useful to investors and competitive with proprietary data offerings.

Given the growing significance of exchange auctions, it's vital that auction data is as broadly disseminated as possible. Auction information telegraphs the direction and magnitude of price moves at the end of the day.[5] Moreover, published imbalances encourage investor participation in response to unanticipated liquidity events. Markets are less effective, as price discovery and liquidity are impeded, when the distribution of auction information is limited. BlackRock encourages the Commission to ensure that auction data is made widely available in order to maximize transparency and auction participation.

In addition, we believe that the existence of proprietary data feeds alongside a public tape creates incentives which are incompatible with promoting fair and orderly markets. As such, we recommend that the Commission should further enhance core data to include complete, order-by-order depth of book data. The Proposal narrows the existing divide between the SIP and proprietary data feeds, but a genuinely level playing field is unattainable if the content of core data remains deficient. The number of price levels in depth of book data should be a commercial decision made by consolidators according to industry or consumer demand. Consolidators should be provided with equivalent raw data so that they

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2 Transcript of SEC Roundtable on Market Data and Market Access, available at https://www.sec.gov/spotlight/equity-market-structure-roundtables/roundtable-market-data-market-access-102518-transcript.pdf

3 Proposing Release, FR at 16736

4 Proposing Release, FR at 16734

5 Ana Avramovic, Bank of America Securities, "Two Minute Warning: Trading the Clos e", (Jan. 22, 2020)

have the flexibility to be fully competitive with proprietary data offerings. That being said, we recognize that the market is comprised of a broad spectrum of investors with diverse needs. Therefore, it is important for consolidators to continue to offer a range of products, including a basic feed which provides essential information only (e.g. trades and top of book quotes) for those market participants who do not need comprehensive market data.

Redefining Round Lots

In the Proposal, the SEC acknowledges the meaningful contribution of odd-lot activity to the overall market, noting that as "share prices for many widely-held stocks have risen, individual odd-lot orders now often represent economically significant trading opportunities at prices that are better than the prices of displayed and disseminated round lots."[6] Therefore, the Commission proposes to improve transparency by adopting a tiered definition of "round lot" which assigns different lot sizes to individual NMS securities according to their price. The new definition of "round lot" would include orders that are currently defined as "odd-lots."

BlackRock agrees that "given the prevalence of odd-lot quoting and trading, particularly in higher-priced stocks, the absence of odd-lot quotation data significantly reduces the comprehensiveness and usefulness of SIP data."[7] In particular, we support the modification of round lots to capture order sizes less than 100 shares and move away from a "one-size-fits-all" approach to market structure. This is an elegant solution for increasing odd-lot transparency which innately extends the inclusion of odd-lots to complementary rules and mechanisms such as the determination of the national best bid and offer ("NBBO"), the behavior of order types, and the disclosure of execution statistics. Additionally, the proposed changes to round lot size strike an appropriate balance between including every odd-lot order and enhancing the quality of market data, by establishing a threshold notional amount as the standard unit of trading. However, round lot sizes should be judiciously calibrated into distinct groups, in order to minimize the unnecessary complexity of having too many tiers. As such, we would recommend reassessing the categories and potentially collapsing the 2 share and 1 share tiers as these groups seem exceedingly similar in nature and limited in scope, with only a handful of stocks in each bucket.[8]

Order Protection Rule

BlackRock strongly opposes the proposed changes to the Order Protection Rule ("OPR") that would not protect the new round lot definition. Under the Proposal, the SEC would amend the definition of "protected bid or protected offer" so that the scope of the order protection requirements of Rule 611 and the locked and crossed market prevention requirements of Rule 610(c) are not extended to the

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6 Proposing Release, FR at 16738

7 Proposing Release, FR at 16741

8 Proposing Release, FR at 16742

proposed smaller round lot sizes.[9] This would directly contravene the intent of employing the round lot definition as a mechanism for expanding odd-lot coverage, as the application of other provisions, such as order protection, to round lot orders was a key consideration of this approach.[10] Further, this policy perpetuates an archaic double standard for odd-lot quotations which seem incongruous to the acknowledged economic significance and prevalence of odd-lot activity in the market. The Proposal contemplates changes to Rules 602, 603, 604, 605, 606, and 610 to accommodate the new definition of a round lot. To the extent that odd-lots are meaningful enough to be incorporated into these rules, it would be inconsistent to exclude them from Rules 610(c) and 611.

The Proposal notes that best execution obligations apply to odd-lot orders, therefore the SEC believes that this would provide sufficient incentive for market participants to engage with meaningfully sized orders as they already have visibility into odd-lot quotations.[11] However, a recent academic study has identified that "trade-throughs of non-protected odd-lot orders are frequent" such that this "limitation in the National Market System ... results in a hidden cost to equity traders."[12] This evidence disproves the Commission's hypothesis, as best execution obligations alone are clearly inadequate for investor protection if trades are continuing to occur at suboptimal prices. Moreover, the decision to limit order protection to orders of 100 shares or more, shifts a greater burden to investors to ensure that broker-dealers achieved best execution by not trading through better priced odd-lot quotations. Applying OPR to the new round lot definition at the outset is essential for promoting fairness in trading outcomes and achieving best execution for investors.

Further, the introduction of an NBBO which deviates from the protected best bid and offer ("PBBO") would increase complexity and sow confusion. For instance, the proliferation of locked and crossed markets on orders less than 100 shares will erode public confidence in the effectiveness of equity markets. Investors may also become frustrated in understanding why they are trading through the NBBO. Market participants would be additionally confounded by the application of disparate odd-lot aggregation methodologies and conflicting reference prices (i.e. NBBO vs. PBBO) in ascertaining best execution.[13] Finally, in order to comply with these changes, market participants would be required to update their systems and routers. The substantial implementation effort associated with this revision to the

9 Proposing Release, FR at 16748

10 Letter from Hubert De Jesus and Joanne Medero, BlackRock, Inc. (Dec. 3, 2019), available at https://www.theice.com/publicdocs/BlackRock_Odd_Lot_Proposal_December_3_2019.pdf

11 Proposing Release, FR at 16748

12 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

13 The Proposal only permits the aggregation of odd-lots at a single price level for the determination of the PBBO, essentially introducing divergent odd-lot aggregation methodologies between the NBBO and the PBBO.

OPR are an added and unnecessary cost, as no adjustments would be required if the newly proposed round lots were protected.

Given the significance of odd-lots, they should be protected if they are added to the NBBO. BlackRock recommends that the SEC leave Rules 610(c) and 611 unmodified in order to capture smaller-sized quotations in the proposed definition of round lot. We recognize that some market participants may have concerns about the effectiveness and potential consequences of the OPR.[14] But, if the SEC would like to make amendments to Rule 611, that objective should be enacted through a separate rulemaking process and not accomplished through the regulatory overreach of needlessly entwining such changes with a market data infrastructure proposal.

Decentralized Consolidation Model

The SEC is proposing to replace the current centralized consolidation model which grants exclusivity to the SIPs with a decentralized infrastructure consisting of competing consolidators and self-aggregators. We are supportive of the Proposal and agree with the Commission that a decentralized model would reduce the geographic, aggregation, and transmission latency differentials which exist between the SIP and proprietary data feeds.[15] We believe that this would increase competition and incentivize the development of consolidated feeds at each data center, which should help to keep costs in check and substantially reduce the largest source of delay – geographic latency. Competitive consolidators would also strengthen resiliency by introducing redundant market data feeds and eliminating the SIP as a single point of failure. Finally, a decentralized model would also streamline the consumption of market data as all NMS securities could be distributed over a single feed instead of three separate tapes.

To further improve efficiency, we recommend greater standardization of the product offerings with respect to content and distribution mechanisms. This could be accomplished through standards setting bodies, such as the Financial Information Forum or the FIX Protocol Ltd., rather than a rulemaking process. Such organizations could help to simplify the product mix so that the offerings from different consolidators are more comparable. Additionally, greater standardization would also establish a reasonable extent of substitutability among products so that consumers can more easily switch between competing consolidators.

Market Data Fees

The proposed revisions to market data infrastructure are likely to inflate costs. For instance, the enrichment of core data to include auction and depth of book information will incur additional operating expenses which are likely to turn into added fees for consumers. Eventually, these changes will improve price

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14 Memorandum to EMSAC from the Subcommittee (Apr. 3, 2017), available at https://www.sec.gov/spotlight/emsac/emaac-regulation-nms-subcommittee-discussion-framework-040317.pdf

15 Proposing Release, FR at 16768

efficiency and economically benefit market participants who rely exclusively on SIP data to obtain market information. However, these benefits must be balanced against the costs and challenges associated from insidiously increasing market data fees. As such, BlackRock recommends that the SEC further address fees in future market data proposals to ensure that they are fair and reasonable.

Specifically, we believe that the licensing practice of charging fees according to categories of usage, such as for non-displayed or derived data purposes, needs to be reviewed. Policies which determine fees by category of usage are inconsistent with the objective of fair and reasonable market data costs. This approach relates fees to user value, ability to pay, and inelasticity of demand instead of competitive market prices or production costs. Further, these licensing terms are not in accordance with market standards for other sources of financial data and impose additional burdens and operational risks. Usage categories are complex and lack standardization in terminology across exchanges, leading to excessive audits and subjective interpretations about compliance with contractual agreements. Cumbersome policies are also operationally difficult to administrate, creating wasteful overhead for consumers of market data.[16] Moreover, Luddite licensing terms which restrict the use of data generally inhibit technological progress and economic growth. Market participants subject to these policies may scale back their consumption of data for commercial reasons leading to lower transparency and less informed markets.[17] This may also introduce additional systemic risks as firms elect to save costs instead of implementing prudent risk controls such as a price check upon order submission, which would be categorized as a non-displayed use of market data.

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BlackRock thanks the Commission for the opportunity to comment on the proposed changes to market data infrastructure. Overall, we believe that the Proposal would improve the content and dissemination of SIP data and, together with the SEC's order to create a New National Market System Plan will create a sustainable foundation for driving further progress in our market data ecosystem. We welcome any additional questions or further discussion.

Sincerely,

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16 Copenhagen Economics, "Pricing of market data", (Nov. 28, 2018) available at https://www.copenhageneconomics.com/publications/publication/pricing-of-market-data

17 Joint Statement from EFAMA and EFSA, "Reasonable Market Data Costs Benefits the Real Economy", (Feb. 10, 2020), available at https://www.efama.org/Publications/Public/MiFID-MiFIR/Joint_Statement_Market_Data_Costs.pdf