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**Via Email** ([www.ctaplan.com/oddlots](https://www.ctaplan.com/oddlots))

Robert Books  
Chair  
UTP/CQ Plan Operating Committees

Re: Odd Lot Proposal

Dear Mr. Books:

The Nasdaq Stock Market LLC (“Nasdaq” or the “Exchange”) appreciates the opportunity to comment on the proposal by the Operating Committees of the UTP and CQ Plans (collectively, “UTP/CQ Plans”) to introduce odd lot quotations to plan data feeds.<sup>1</sup> Nasdaq applauds the efforts of the UTP/CQ Plans to bring more transparency to smaller lot sizes—an important issue given the trend of increasing activity in smaller lot sizes, particularly in high-priced stocks.

The Participants of the UTP/CQ Plans have proposed to introduce odd lot quotation data as ancillary information on the SIP data feeds. Nasdaq supports the concept of providing more transparency regarding the best prices available to the market, particularly in relation to higher priced stocks, where odd lot quotes can be meaningful from a notional value perspective.

Nasdaq supports the proposal. It is, however, an interim solution, and Nasdaq suggests that collectively, as an industry, we can do better. Nasdaq believes the UTP/CQ Plans, the exchanges, and the industry as a whole need to work together to develop a long term and thoughtful solution: a method to bring price discovery information from those odd lot quotations that are meaningful into the consolidated feeds.

Nasdaq proposes to open this discussion with two proposals: (i) intelligent tick sizes, and (ii) quote protection based on quote value, rather than lot size. As discussed below, both ideas are intended to incorporate additional pertinent price discovery information into the consolidated feeds, while at the same time reducing the implementation complexity. Neither proposal will

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<sup>1</sup> See Securities Information Processor Operating Committees, Odd Lots Proposal, *available at* <https://www.ctaplan.com/oddlots> (last visited Nov. 11, 2019).

require additional processing by the SIPs, which aligns with Nasdaq's belief that the simpler the SIP, the better.

### **Intelligent Ticks**

Intelligent ticks—i.e., a tick regime in which the tick size varies based on quoting and execution metrics— would result in fewer situations where the inside quote for higher priced stocks is less than 100 shares. Further, this would all but eliminate situations in which the best prices are represented by economically meaningless odd lots quotations.

Today's one-size-fits-all tick regime imposes one tick size on all stocks above \$1 regardless of how different these stocks may be from a price or liquidity perspective. The rigidity of the current tick regime ensures that some stocks quote sub-optimally. More and more stocks are being impacted by this rigid rule, whether it be tick-constrained stocks which leads to longer queues, or higher priced stocks where the tick is too narrow, which leads to quote flickering, adverse selection, and more odd lots. Both scenarios cost investors money.

An intelligent tick regime would reduce the relevance of lot size and improve protected quotes by aggregating liquidity at specific price levels. Properly calibrated tick sizes would reduce the number of price levels and incidences of flickering quotes caused by negligible price differences, both of which would result in greater aggregation of quotes at particular price levels, thereby reducing the number of odd lot orders. This would lower the number of odd lots through market forces without direct action by the SIP or the exchanges.

If implemented properly, an intelligent tick regime would have the additional benefits of increasing liquidity, promoting quote competition, and reducing trading costs, all of which would improve market quality.

### **Value-Based Quote Protection**

Alternatively, Nasdaq believes that, in the current environment, where there are hundreds of stocks with prices over \$100, the concept of "odd lot" does not fit the current market realities, and should be revisited.

We suggest that odd lots with significant price discovery information—odd lot quotes that have a meaningful notional value—be protected. Specifically, the industry should consider establishing a dollar threshold for the value of quotes to be protected, defined as price multiplied by the number of shares. The designated threshold would provide a solution that is consistent across stock prices. High-priced stocks would meet the threshold with fewer shares, while low-priced stocks would require more shares to meet that threshold.

Thus, high value quotations with significant price discovery information would be protected, even if they were less than 100 shares. The current round lot thresholds would remain, providing continuing protection for quotes in low-priced stocks. The determination of whether an exchange's quote should be protected would be handled by the exchange—just as is the case today with odd lots. No additional work would be required of the SIPs.

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This is a preliminary proposal that we offer as a starting point for discussion. We believe that it represents the type of thinking that will allow odd lot quotes that contain valuable price discovery information into the consolidated feeds.

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Thank you for this opportunity to comment. Nasdaq urges the Participants of the SIP and industry representatives to begin discussions on a comprehensive strategy that addresses industry needs closer to the heart of the issues. We would like to begin the discussion with intelligent tick sizes and value-based quote protection, but look forward to further proposals and a robust discussion with SIP Participants and the financial industry.

Very truly yours,

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Jeffrey Kimsey