Vanguard®

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Via Electronic Submission

April 23, 2020

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Self-Regulatory Organizations; Investors Exchange LLC; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change to Add a New Discretionary Limit Order Type Called D-Limit (File No. SR-IEX-2019-15)

Dear Ms. Countryman:

The Vanguard Group, Inc. (Vanguard)[1] supports the proposal by the Investors Exchange LLC (IEX) to adopt a new Discretionary Limit (D-Limit) order type.[2] We believe the proposed D-Limit order type would benefit investors by encouraging a more diverse group of market participants to post liquidity on IEX's order book through non-discriminatory and pro-competitive means. We respectfully urge the Securities and Exchange Commission (SEC or Commission) to approve this innovative proposal.

I. D-Limit Orders Will Benefit Investors By Encouraging More Types of Market Participants to Post Liquidity

Vanguard's core purpose is to take a stand for all investors, to treat them fairly, and to give them the best chance for investment success. Consistent with this mission, we have long advocated for an equity market structure that promotes liquidity and transparency by encouraging market participants to display their trading interest.[3] We believe the proposed D-Limit order type would advance this objective. Like other types of limit

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[1] Vanguard is one of the world's leading investment management companies, offering a diverse selection of low-cost investment products—including mutual funds and exchange-traded funds—advice and related services. As of March 31, 2020, we managed approximately $5.3 trillion in assets globally on behalf of more than 30 million investors. Our core purpose is to take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.

[2] *Self-Regulatory Organizations; Investors Exchange LLC; Order Instituting Proceedings To Determine Whether To Approve or Disapprove a Proposed Rule Change To Add a New Discretionary Limit Order Type Called D-Limit*, 85 Fed. Reg. 18612 (April 2, 2020), *available at* https://www.govinfo.gov/content/pkg/FR-2020-04-02/pdf/2020-06856.pdf (D-Limit Proposal).

[3] *See* Letter from Tim Buckley, Managing Director and Chief Investment Officer, Vanguard, to Brent J. Fields, Secretary, SEC, dated December 19, 2014 at 2, *available at* https://www.sec.gov/comments/4-657/4657-57.pdf (explaining the most important issues associated with enhancing equity markets from Vanguard's perspective).

orders, a D-Limit order typically would rest on IEX's order book, providing liquidity to the market. However, during periods of quote instability, which account for an insignificant portion of the trading day, the price of a D-Limit order would adjust to a less aggressive level.[4]

The repricing feature of D-Limit orders will benefit investors by addressing an important shortcoming in today's equity markets—lack of diversity in liquidity provision. As the Commission has recognized, the U.S. equity markets are "high-speed, latency-sensitive electronic markets where trading is dispersed among a wide range of competing market centers and even small degrees of latency affect trading strategies."[5] This high-speed environment discourages all but the fastest market participants from posting their trading interest. The proposed D-Limit order could encourage a broader range of market participants, including long-term investors like Vanguard's funds, to post more liquidity to the IEX order book because the order's price adjustment mechanism should prevent users of D-Limit orders from getting "picked off" by faster traders when quotes are unstable.

A more diverse order book could improve market quality and benefit investors in various ways. For example, in normal market conditions, the additional market depth that results from institutional investors and other non-traditional liquidity providers posting orders to IEX's book could improve market stability and execution quality for all investors, particularly if high-speed market makers respond to the increase in posted liquidity by offering tighter spreads to improve their position in the IEX queue.[6] In volatile markets, we expect that an order book composed of liquidity from a diverse range of market participants likely will be more stable than current, market maker-dominated order books. Market makers generally widen their quotes and reduce their posted liquidity when volatility increases. The D-Limit order type could mitigate these effects by encouraging other types of market participants to post trading interest on IEX.

We do not believe that the benefits of D-Limit orders would be eroded by broader adoption of this order type. If the D-Limit order type proves successful, other exchanges might seek to adopt variations of D-Limit orders to promote increased liquidity on their markets. Although we would encourage the Commission to carefully review these order types to ensure they comply with the Exchange Act, we would generally expect that a deeper and more diverse supply of liquidity across multiple exchanges would benefit investors.

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[4] According to the D-Limit Proposal, "[o]n a volume weighted basis, the [mechanism] is on for 5.9 seconds per day per symbol, 0.025% of the time during regular market hours." D-Limit Proposal at 72001.

[5] *Market Data Infrastructure*¸85 Fed. Reg. 16726, 16728 (March 24, 2020), *available at* https://www.govinfo.gov/content/pkg/FR-2020-03-24/pdf/2020-03760.pdf.

[6] Like many other exchanges, IEX's order book operates on a price/time priority basis.

II. D-Limit Orders Are Non-Discriminatory and Pro-Competitive

In its order instituting proceedings to determine whether to approve or disapprove the D-Limit Proposal, the Commission requests input on whether the D-Limit order type would unfairly discriminate between customers, issuers, brokers or dealers or whether it would impose unnecessary burdens on competition. In each case, the answer is no.

IEX proposes to make the D-Limit order type available on a fair and non-discriminatory basis to all members of the exchange, and the use of these orders would be optional, not mandatory. In addition, the IEX order book will rank D-Limit orders in price/time priority, according to their limit price, just like other orders. When a D-Limit order reprices due to quote instability, it will receive a new price/time priority, meaning that market participants using D-Limit orders will not gain any unfair or discriminatory advantage over participants using other order types. Further, based on our trading experience, we would not expect the D-Limit order type to have a discriminatory effect among customers, issuers, brokers or dealers, because it closely resembles a variety of other orders with repricing functionality offered by IEX and other exchanges. The Commission has determined that these other order types are consistent with the Exchange Act.[7]

Neither do we believe that D-Limit orders would create any unfair burden on competition—to the contrary, we believe the proposal could improve competition by offering an innovative way to provide liquidity and lessening reliance on costly proprietary data products. As described above, the current equity market structure affords market participants that pay for high-speed data feeds a sharper view of the market than other market participants. Organizations that do not pay for data products that provide unparalleled speed advantages are discouraged from posting liquidity on exchanges because they may receive unfavorable executions. The proposed D-Limit order offers these market participants a potential way to mitigate the risk of posting liquidity without participating in a costly high-speed race to minimize latency. Put simply, the D-Limit order type is pro-competitive.

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[7] For example, in its order approving IEX's application to register as a national securities exchange, the Commission found that IEX's Discretionary Peg (D-Peg) order is consistent with the Exchange Act. The discretionary aspect of the proposed D-Limit order would activate by referencing the same proprietary indicator as the D-Peg order. *In the Matter of the Application of: Investors' Exchange, LLC for Registration as a National Securities Exchange; Findings, Opinion, and Order of the Commission, 81 Fed. Reg. 41142, 41153* (June 23, 2016), *available at* https://www.govinfo.gov/content/pkg/FR-2016-06-23/pdf/2016-14875.pdf.

Vanguard appreciates the opportunity to comment on the proposed D-Limit order type and encourages the Commission to approve this innovative proposal that will benefit investors and markets. If you have any questions or would like to discuss our views further, please contact Michael Buek, Principal, Head of U.S. Index Portfolio Management, at 610-669-6311 or michael_h_buek@vanguard.com, or George Gilbert, Senior Counsel, U.S. Regulatory Affairs, at 202-824-1293 or george_gilbert@vanguard.com.

Sincerely,

/s/ Gregory Davis

Gregory Davis
Managing Director and Chief Investment Officer
The Vanguard Group, Inc.