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Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

**Date**
15 March 2023

**Subject**
RE: Proposed Amendments to Regulation NMS: No. 34-96494; File No. S7-30-22

Dear Ms. Countryman,

Optiver US LLC[1] ("Optiver") appreciates the opportunity to comment on the Securities and Exchange Commission's (the "SEC" or "Commission") proposal (File No. S7-30-22) to amend certain sections of Regulation National Market System ("Reg. NMS"). Specifically, we refer to the Commission's proposal to adopt variable minimum pricing increments for the quoting and trading of NMS stocks and to commensurately reduce the access fee caps.

Like the Commission, Optiver believes that healthy markets require structures that support and encourage fairness in access and competition. Optiver further agrees with the Commission that as markets evolve, so too should the frameworks that govern them. On this point we commend the Commission for formulating proposals that seek to achieve uniformity for all market participants by aligning and harmonizing tick sizes between trading and quoting increments across all venues. However, we would caution that the proposed amendments to Reg. NMS, if not properly implemented, could have unintended consequences for market liquidity and price discovery in US equity markets.

Optiver encourages the Commission to consider the methodologies implemented by regulators in other global equity markets and in the Commission's own Penny Interval Program for standard options. Specifically, we recommend that the Commission undertake further analysis of the optimal level of tick granularity, leveraging price and volume to define appropriate tick sizes.

[1] Established in 1986, Optiver is a global market maker with offices in Amsterdam, London, Chicago, Austin, Sydney, Shanghai, Hong Kong, Singapore and Taipei. With close to 2,000 employees, Optiver provides liquidity to financial markets using our own capital, at our own risk, trading a wide range of products: listed derivatives, cash equities, ETFs, bonds and foreign currencies.

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## Tick Size Granularity

In Europe, the implementation of MiFID I in 2007 gave exchanges the ability to determine their own tick sizes. Exchanges seeking to compete for market share against each other and against alternative venues offered ever decreasing tick sizes, often down to 0.001. This "race to the bottom" lead to fragmentation of liquidity, decreased market depth and increased noise in order books. We urge the Commission to further evaluate the methodology by which it defines tick increments and consider the benefits to market liquidity that would arise from using price and daily transactions as parameters in its increment calculation. This would allow for a dynamic tick increment that could both increase and decrease as price and liquidity change.

## Dynamic Tick Increments

In 2018, MiFID II sought to reverse the adverse impacts of MiFID I on EU equity markets by harmonizing tick sizes across EU venues. Under this regime, two easily identifiable parameters, a stock's price and liquidity (as defined by the number of transactions in a symbol per day), determine the minimum tick sizes for a particular instrument. Under MiFID II, changes to a stock's price and liquidity allow for both increases and decreases to the symbol's tick size. This dynamic tick regime is designed to optimize the price formation process while supporting depth of book. While changes in tick size are positively correlated to changes in spread, they also create less noise (reduced messaging) at the Best Bid & Offer and increased market depth at each price level for the affected symbols. While we applaud the Commission's desire to harmonize ticks for quoting and trading, we caution that mandating all ticks to be one cent or less may reinforce fragmentation of liquidity across venues. Accordingly, we recommend the introduction of larger tick sizes (> $0.01) where appropriate.

## Tick Increment Evaluation Period

Additionally, Optiver cautions that the proposed evaluation period may introduce more variance and complexity than necessary. Under the current proposal only the last month of the quarter is evaluated when calculating the time weighted average quoted spread. This approach has the potential to disproportionately weight systemic and idiosyncratic events (including corporate actions) resulting in an unrepresentative tick size. Conversely, an evaluation period that takes into account a longer time horizon allows for the averaging out of varying levels of volatility that may negatively impact or skew results in a manner that is not representative of a stock's true liquidity profile.

## Tick Optimization Methodology

Similar to the iterative approach taken in Europe under MiFID, Optiver notes that incremental adjustments were made during the lengthy adoption of the Penny Interval Program for the trading of standardized options. "In each instance, these approvals relied upon the consideration of data periodically provided by the Exchanges that analyzed how quoting options in penny increments

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affected spreads, liquidity, quote traffic, and volume"[2]. The Penny Program established an annual review process to add or remove options that is designed "to provide objective criteria"[3]. Further, the Commission highlighted that benefits of the program were not appropriate for all options and the value of a reduced tick declined in less active issues[4]. Leveraging volume thresholds and options premium to qualify and define the tick increment assigned to an option has been materially beneficial in liquidity provision for US equity options. Optiver encourages the Commission to leverage the insights gained in the Penny Program to implement a phased approach where securities are qualified by volume and price is taken into consideration in assigning the appropriate tick size.

## Recommendation

Optiver agrees with the Commission that there is significant value in defining an approach to establish the optimal tick size for a security and ensuring it applies to both quoting and trading. Further, we recognize the Commission's efforts to ensure access fees remain relatively proportional to tick sizes, ensuring there is no adverse impact to price discovery as a result of disproportionate incentives. However, we would encourage the Commission to consider the approaches taken by European regulators and the Penny Interval Program, which have improved liquidity by adopting a dynamic yet straightforward methodology that uses volume and price as the key inputs in its tick determination.

Optiver values the opportunity to support and provide further comment on the aforementioned proposal. Please contact Liam Smith, Head of Corporate Strategy, Optiver US LLC, at [redacted] should you have any questions about this letter.

Respectfully,

John Zhu
Head of Trading
312 821-9500
[redacted]

[2] Release No. 34-88532; File No. 4-443 – Page 3.
[3] Release No. 34-88532; File No. 4-443 – Page 7
[4] https://www.sec.gov/files/DERA_Memo_on_a_Cornerstone_Penny_Pilot_Analysis.pdf - Page 4