

July 8, 2025

Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

VIA ELECTRONIC MAIL: rule-comments@sec.gov

Re: File No. SR-IEX-2025-02: Self-Regulatory Organizations; Investors Exchange LLC; Notice of Filing of Amendment No. 3 to a Proposed Rule Change To Adopt Rules To Govern the Trading of Options on the Exchange for a New Facility Called IEX Options

Dear Sir or Madam:

The Committee on Capital Markets Regulation (the “**Committee**”) appreciates the opportunity to comment on a proposed rule change filing (the “**Proposal**”) by the Investors Exchange LLC (“**IEX**”) with the Securities and Exchange Commission (the “**SEC**”).¹ The Proposal would govern the operation of a new options exchange and would introduce an asymmetric speed bump to options markets. The Committee recommends that the SEC should not approve IEX’s Proposal.

Founded in 2006, the Committee is dedicated to enhancing the competitiveness of U.S. capital markets and ensuring the stability of the U.S. financial system. Our membership includes forty-two leaders drawn from the finance, investment, business, law, accounting, and academic communities. The Committee is chaired jointly by R. Glenn Hubbard (Emeritus Dean, Columbia Business School) and John L. Thornton (Former Chairman, The Brookings Institution) and is led by Hal S. Scott (Emeritus Nomura Professor of International Financial Systems at Harvard Law School and President of the Program on International Financial Systems). The Committee is an independent and nonpartisan 501(c)(3) research organization, financed by contributions from individuals, foundations, and corporations.

Our letter proceeds in two parts. Part I briefly summarizes the Proposal. Part II presents our analysis and discussion of negative repercussions of the Proposal’s novel asymmetric speed bump on options markets, including that it would promote false liquidity and result in severe harm to options markets due to unique aspects of options market structure. We conclude by recommending that the SEC disapprove the Proposal.

¹ Self-Regulatory Organizations; Investors Exchange LLC; Notice of Filing of Amendment No. 3 to a Proposed Rule Change To Adopt Rules To Govern the Trading of Options on the Exchange for a New Facility Called IEX Options, 90 Fed. Reg. 26,865 (June 24, 2025) [hereinafter “Proposal”]; *see also* Self-Regulatory Organizations; Investors Exchange LLC; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change, as Modified by Amendment No. 1, to Adopt Rules to Govern the Trading of Options on the Exchange for a New Facility Called IEX Options, 90 Fed. Reg. 17,474.

I. The IEX Options Proposal

IEX proposes to establish a new fully automated options exchange with an asymmetric speed bump. In particular, all incoming orders would be subject to a 350-microsecond “**speed bump**” – an intentional time-delay between the receipt of an order by an exchange and its execution. However, IEX’s Proposal would be asymmetric as it would not apply to all market participants. This is because IEX’s Proposal couples the speed bump with an Options Risk Parameter (“**ORP**”) – available only to market makers – that would effectively exempt the cancellation of certain quotes from the speed bump. Under the ORP, IEX would use the speed bump “to obtain the most accurate view of the market prior to processing orders and quotes,”² and automatically cancel or reprice market maker quotes that would be affected by “an imminent adverse price change.”³ IEX claims that the ORP is “designed to protect market makers from excessive risk due to execution of quotes at stale prices.”⁴

II. Analysis of the Proposal

In Part II we highlight critical problems with IEX’s Proposal that warrant disapproval by the SEC.

a. *The Proposal Would Promote False Liquidity*

The IEX asymmetric speed bump would enable select market makers to cancel their displayed quotes *immediately* while incoming orders from other market participants are *artificially delayed* and prevented from executing, thereby giving the illusion of liquidity that disappears before quotes can be accessed.⁵ This is best explained with an example. Suppose an investor were to submit an order on the IEX options exchange to purchase options contracts for Apple stock at the current ask price (e.g., \$100 per contract). IEX’s options exchange would hold the investor’s order for 350 microseconds before attempting to match it with resting quotes on the IEX marketplace. During the 350-microsecond delay period, the investor cannot cancel or modify the order; however, due to the asymmetric speed bump, an IEX market maker would be able to cancel or modify its resting quotes to adjust for price movements during the 350-microsecond window. If market prices increase above \$100 per contract, then the market maker’s \$100 quote would be automatically cancelled or repriced to increase the ask price. This may result in market participants routing orders to the IEX options exchange only to find that their orders cannot be filled or can only be filled at an inferior price.

This problem is particularly pronounced because market participants would be required to route orders to IEX where IEX displays the best quotations, even if a market participant believes they would achieve better execution on another exchange. This is because all options exchanges participate in the Options Order Protection and Locked/Cross Market Plan, under which each exchange must establish, maintain, and enforce written policies and procedures that are reasonably

² Proposal, *supra* note 1, at 26,866.

³ *Id.* at 26,879.

⁴ *Id.* at 26,885.

⁵ COMMITTEE ON CAPITAL MARKETS REGULATION, *Nothing But the Facts: Asymmetric Speed Bumps in U.S. Equity Markets* (2019), <https://capmktreg.org/wp-content/uploads/2019/12/Nothing-But-The-Facts-Asymmetric-Speed-Bumps.pdf>.

designed to prevent trade-throughs of “protected quotations.”⁶ Protected quotations are the best displayed quotations on each exchange. The best protected quotations for an options series across all exchanges are often referred to as the “national best bid and offer” (“NBBO”). The plan thus restricts order execution at a price worse than the NBBO. IEX’s options exchange would participate in the Options Order Protection and Locked/Cross Market Plan and its best displayed quotations would be “protected.” Due to the novel subsidy to market makers offered by the ORP, IEX may often display quotes which set the NBBO but are routinely inaccessible, compelling all other market participants to chase fleeting liquidity.

b. Options Market Structure Amplifies the Proposal’s Problems

The Committee opposed IEX’s asymmetric speed bump in equities markets,⁷ which the SEC approved in 2020. As of today, IEX’s equities exchange constitutes approximately 2% of overall trading volume in equities markets⁸ and thus IEX’s limited market share has mitigated negative market-wide effects in equities markets. However, IEX’s Proposal for options markets would risk greater harm for three reasons.

First, all trading in listed options is conducted on exchange, compared to just over half of the daily trading volume in equities.⁹ Thus, while equities market participants have the opportunity to seek better execution off-exchange, one hundred percent of options transactions will be subject to the potential quote cancelations and inferior execution issues discussed above.

Second, there are over 1,000,000 listed options contracts compared to approximately 10,000 listed stocks.¹⁰ This is because each options series on an underlying stock is tied to a different strike price and expiration date. For example, Apple stock alone can be associated with hundreds of different options series on any given day.¹¹ Options markets therefore involve more daily quotations than equities markets and there are greater opportunities for quote cancelations associated with the Proposal degrading execution and market quality.

Third, unlike in equities markets, investors in options markets are often able to obtain price improvement through intra-day auctions. For the most commonly traded options, approximately 23% of volume is executed in auctions, resulting in price improvement of approximately 50%.¹²

⁶ Options Order Protection and Locked/Cross Market Plan (Aug. 14, 2009), available at https://www.theocc.com/getmedia/7fc629d9-4e54-4b99-9f11-c0e4db1a2266/options_order_protection_plan.pdf.

⁷ See Letter from the Committee on Capital Markets Regulation to Vanessa A. Countryman, SEC (Apr. 23, 2020), <https://capmktreg.org/wp-content/uploads/2023/03/CCMR-Comment-Letter-to-SEC-IEX-D-Limit-Order-Proposal-04.23.2020.pdf>.

⁸ *Last Trading Day*, IEX EXCHANGE, <https://iextrading.com/stats/> (last visited June 30, 2025).

⁹ Katherine Doherty, *Wall Street Enters Darker Age with Most Stock Trading Hidden*, BLOOMBERG (Jan. 24, 2025, 10:48 AM), <https://www.bloomberg.com/news/articles/2025-01-24/wall-street-enters-darker-age-with-most-stock-trading-now-hidden>.

¹⁰ SEC, Staff Report on Equity and Options Market Structure Conditions in Early 2021 4 (Oct. 14, 2021), <https://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf> (“there are more than 10,000 listed stocks in the National Market System (‘NMS stocks’) and more than 1,000,000 options series.”).

¹¹ See *Apple Inc. Common Stock (AAPL) Option Chain*, NASDAQ, <https://www.nasdaq.com/market-activity/stocks/aapl/option-chain> (last visited June 30, 2025).

¹² Terrence Hendershott et al., *Options Auctions* 1 (2022), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=41110516.

If IEX’s Proposal is approved, then it is likely to reduce the frequency of auctions in options markets thereby reducing the opportunities for price improvement.

This is because, as we have explained above, market makers on IEX may often display the NBBO, but those displayed prices will often be too good to be true, as they can be cancelled before they are accessible to other market participants. However, in order to trigger an auction, a market maker on another exchange, like Nasdaq or Cboe, must be willing to trade at a price that matches or improves upon the NBBO across all exchanges.¹³ Market makers will be less willing to do so if IEX is displaying an artificial NBBO. Therefore, market makers will trigger fewer auctions and there will be fewer opportunities for price improvement in options markets.

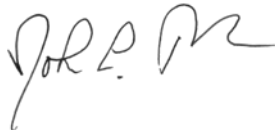
Conclusion

The Committee recommends that the SEC should not approve IEX’s Proposal as it would harm options market quality by promoting false liquidity and negatively impacting execution and market quality.

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Thank you very much for your consideration of the Committee’s position. Should you have any questions or concerns, please do not hesitate to contact the Committee’s President, Professor Hal S. Scott (hscott@capmksreg.org) or its Executive Director, John Gulliver (jgulliver@capmksreg.org) at your convenience.

Respectfully submitted,



John L. Thornton
CO-CHAIR



Hal S. Scott
PRESIDENT



R. Glenn Hubbard
CO-CHAIR

¹³ See, e.g., *Price Improvement XL (PIXL) Frequently Asked Questions*, NASDAQ, <https://www.nasdaqtrader.com/content/phlx/pixlfaqs.pdf> (last visited June 30, 2025); *Crossing Order Handling*, CBOE, https://www.cboe.com/us/options/trading/crossing_orders/ (last visited June 30, 2025).