



INTELLIGENTCROSS

Bringing Liquidity to the Public Markets: Why a Protected Quote?

On August 24, 2023, the staff of the SEC’s Division of Trading and Markets approved, pursuant to delegated authority, a proposed rule change to add IntelligentCross’ displayed liquidity to the public quote through FINRA’s Alternative Display Facility (“ADF”). The approval order was “stayed” the next day, resulting in IntelligentCross’ current delay in moving forward with offering additional displayed liquidity to the public markets.

In light of this delay, we wanted to take a step back and answer some questions about the reasoning for adding IntelligentCross’ displayed liquidity to the public quote

IntelligentCross is an ATS. Yet it offers displayed liquidity?

Yes, we are an ATS with displayed capability designed to improve price discovery. The IntelligentCross ATS operates two different matching models: (1) a Midpoint book that only accepts non-displayed midpoint orders and (2) ASPEN (Adverse Selection Protection Engine), a full limit order book with optional displayed capability.

ASPEN, the subject of the ADF proposed rule change, publishes displayed prices, from round lot or larger orders, in over 6,440 securities daily.

Why is IntelligentCross seeking a protected quote for its displayed liquidity?

It’s simple. The prices displayed on IntelligentCross are currently not visible to most investors because the orders displayed on IntelligentCross are not disseminated over the SIP and are therefore not part of the NBBO.

A couple important and relevant facts about this liquidity (calculated since the beginning of the stay of the approval order):

- ASPEN improves the NBBO over 4.4 million times per day, for orders of round-lot size or larger on arrival.
- Approximately 106 million shares, valued at \$6.4 billion per day, were printed to the SIP at prices worse than those displayed by ASPEN (as a round-lot size or larger) at that time.

Why not just have market participants access IntelligentCross’ quotes through your IQX market data feed?

If it was just that easy! IntelligentCross offers its full market data feed for free to anyone interested in receiving the data (which can be accessed directly or via providers such as Exegy, MayStreet, Redline, and ACTIV). It is unclear, however, why approximately only 30 broker-dealers and banks have signed an agreement to receive the market data and, of those, only a handful actually use it to make order routing and trading decisions.

To that end, just since the date of the stay of the approval order, IntelligentCross quotes (round-lot size or larger) were “traded-through” 478 thousand times per day on average (round-lot size or larger), meaning those trades missed the best displayed prices that were available.

Not disseminating the prices displayed on ASPEN over the SIP, and therefore not making them part of the NBBO, has allowed market participants to miss, or effectively “ignore,” the IntelligentCross quote, even when it is the best displayed quote in the market. The proposed rule change would change that.

Why would someone “ignore” IntelligentCross’ better priced quotes?

That’s a great question. While there are a number of reasons that go into best execution and order routing decisions in general, it is unclear why market participants would not want to access published displayed quotes that improve the NBBO, particularly on the level that is occurring on a regular basis with respect to the non-protected displayed quotes on IntelligentCross.

The delay in getting IntelligentCross’ displayed liquidity onto the SIP has perpetuated this preventable opportunity cost to a wide range of investors who do not currently have visibility to those quotations, and which many of their brokers have chosen not to account for in their routing decisions.

I’m an investor. What can I do to get access to IntelligentCross’ displayed quotes until they are on the ADF?

Talk to your broker! Ask them two questions. First, are they taking in the IntelligentCross market data feed. And second, if yes, are they actually using it to make order routing and trading decisions.

If the answer to either question is no, ask them why not. As long as the approval order stay remains in place, IntelligentCross will be unable to offer its displayed quotes more broadly to investors, and the opportunities for investors to access better priced liquidity will continue to be lost. This makes it that much more important for brokers to take the initiative and act upon the better priced IntelligentCross displayed quotes.

What happens next?

IntelligentCross is proud of the innovations that we have brought to the US equities markets and becoming an important part of the national market system. With that said, our markets must allow for continued evolution and innovation, and the introduction of further competition in the displayed markets.

IntelligentCross remains committed to increasing access to displayed liquidity and better priced quotes to the benefit of all market participants. We are hopeful that this can be done through the ADF, and in short order.