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

July 12, 2026

Re: Proposed Rescission of Trade-Through Rule of Reg NMS (File Number S7-2026-20)

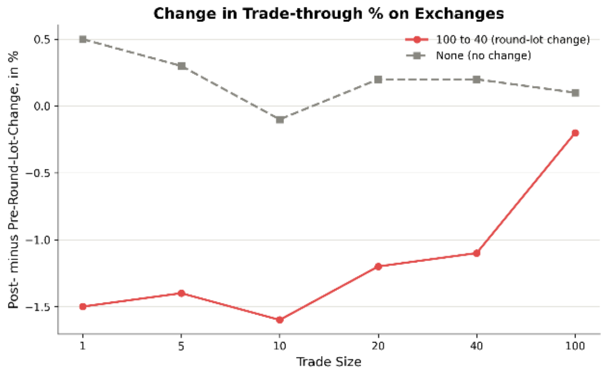
Dear Ms. Countryman,

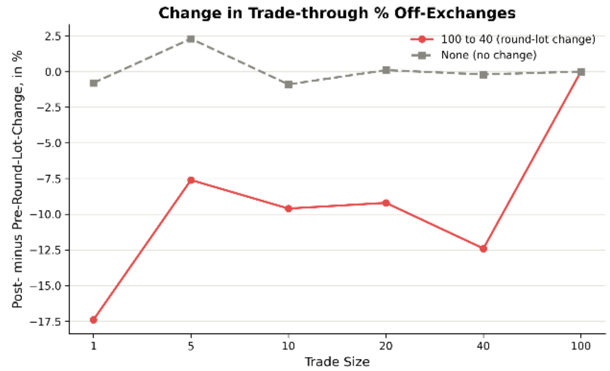
I appreciate the opportunity to comment on the Commission's proposed rescission of Trade-Through Rule of Reg NMS (i.e., Rule 611, Order Protection Rule). I'm a finance professor at MIT and a former director of the Division of Trading and Markets at the SEC. In my view, the proposal has two primary deficiencies.

First, the proposal builds on the premise that market competition and the best execution obligation of broker-dealers would ensure that investors would generally obtain the best displayed prices even without the Trade-Through Rule. The Commission's own economic analysis shows otherwise. The economic analysis correctly points out that, to assess whether investors would obtain the best price in the but-for world without order protection, it is the most natural to look at displayed quotes that are currently unprotected, such as quotes with sizes below the round lot size. In addition, the changes in round lot size for certain stocks on November 3, 2025, shed further light on this question. For a stock that switched from the 100-share round lot to the 40-share round lot, quotes of sizes between 40 and 99 shares were not protected before November 3, 2025, but those quotes became protected after that date. Thus, if the Trade-Through Rule were binding, we would expect to see a reduction in Trade-Through probability for these stocks whose round-lot size switched from 100 to 40 shares (treatment group), compared to stocks that did not experience a change in round lot size (control group). Conversely, if the Trade-Through rule were redundant, we would expect to see the same trade-through probability for the treatment group.

Table 9 of the proposal provides the evidence, which I reproduce in graphs below. The left-hand chart shows the evidence for trade-through on exchanges. Stocks that retained the 100-share round lot size saw little change in trade-through probability (shown in gray), but stocks that switched to a 40-share round lot experienced a reduction in trade-through probability of about 1 to 1.5 percentage points for order sizes below 100 shares.

The right-hand chart shows the analogous results for off-exchange trades, where the evidence is much starker. Stocks that switched to a 40-share round lot saw a reduction in trade-through probability of over 17 percentage points for 1-share orders. Orders of 5, 10, 20, and 40 shares saw a reduction in trade-through probability of between 7.5 and 12.5 percentage points. The economic magnitude is large. Equally striking, for stocks that switched to the 40-share round lot size, orders with 1 share and 5 shares still had a 24% and 10% probability of trading through the <u>unprotected</u> best quote (not shown here, but in Table 9 of the proposal).





In sum, the Commission's own data analysis reveals insufficient market discipline: investors have not obtained the best prices in the absence of trade-through protection. The off-exchange evidence is particularly concerning, given that virtually all marketable retail orders are executed off-exchange.

I recognize the need to address exchange fragmentation and increased costs for data and connectivity. From an investor protection perspective, it is safer to narrow the application of Rule 611 to agency orders that involve best execution obligations, rather than rescinding the rule altogether.[1] My next preferred option is to only protect quotations from displayed venues that meet a minimum market share in terms of dollar volume executed, such as 1% or 2%.

The second deficiency of the proposal is that it is curiously silent on the impact of the proposed rescission of Rule 611 on the markets for tokenized stocks. As the Commission correctly pointed out in its crypto interpretation, tokenized NMS stocks are NMS stocks.[2] As such, Regulation NMS also applies to markets and intermediaries for tokenized NMS stocks. If the Trade-Through Rule were rescinded, market centers and broker-dealers for tokenized securities would have an advantage over "traditional" exchanges, ATSs, and broker-dealers. If Rule 611 were rescinded, the latter group would incur substantial costs to reconfigure their technology and business model, whereas the former group would not. The resulting unlevel playing field and negative impact on competition should be acknowledged and discussed in the Commission's economic analysis. Market participants generally understand that marketplaces and intermediaries for tokenized NMS stocks are primary beneficiaries of the proposed rescission of Rule 611.

Sincerely,
Haoxiang Zhu

[1] See also my previous comment letter on the Commission's Reg NMS Roundtable: https://www.sec.gov/comments/4-862/4862-684767-2120075.pdf.

[2] See "Application of the Federal Securities Laws to Certain Types of Crypto Assets and Certain Transactions Involving Crypto Assets," https://www.sec.gov/files/rules/interp/2026/33-11412.pdf, page 24, "A security is a security regardless of whether it is issued, or otherwise represented, offchain or onchain."