September 27, 2026

Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Request for Comment on Novel ETFs, File No. S7-2026-24; Market-Structure Considerations Regarding the Proposed Defiance 2X Hourly Reset ETFs

Related registration statement: Tidal Trust V, Post-Effective Amendment No. 44, File Nos. 333-289817 and 811-24116

Dear Commissioners and Staff:

We write to identify a discrete market-structure question raised by the proposed Defiance 2X Hourly Reset ETFs: whether liquidity in the underlying cash markets would be sufficient to accommodate reset-related trading and associated counterparty hedging prompted by those resets. Our concern relates to the implementation of the proposed exposure, particularly as assets under management increase. The relevant assessment is trading demand relative to liquidity available within each reset window, rather than trading demand relative to average daily volume alone.

The proposed funds would reset their leveraged exposure six times each trading day. Their indexes calculate an execution time-weighted average price ("Execution TWAP") during each reset window and use that benchmark as the deemed transaction price. The Adviser would adjust exposure by sending orders to swap providers or trading options or the underlying security. The filing acknowledges both market impact as a component of actual trading costs and the possibility that the TWAP may differ from the prices at which reset trades are executed.[1]

Conventional daily-reset leveraged ETFs rebalance their exposure around the market close, when trading interest is concentrated and liquidity is generally deepest. The proposed funds would instead require repeated exposure adjustments during the continuous trading session, including periods when trading volume is substantially lower. Nasdaq reports that its Closing Cross alone accounted for 17% of total Nasdaq volume in 2025, while NYSE reported that its closing auction accounted for nearly 10% of daily volume in NYSE-listed S&P 500 securities.[2] NYSE research identifies this concentration of liquidity as facilitating large trades with less market impact than at other times.[3]

By contrast, an intraday volume profile for S&P 500 stocks reproduced in Hu and Murphy's market-microstructure presentation indicates that an entire half-hour around noon accounts for only approximately 3.5–4% of daily volume. Assuming trading is distributed approximately evenly within that half-hour, a ten-minute execution window would account for roughly 1.2–1.3% of daily volume.[4] Although these figures reflect different samples and periods, they illustrate the central concern: a rebalance accommodated by concentrated closing-auction liquidity may represent a substantially larger share of trading during an intraday execution window, with correspondingly greater potential for market impact.

A related distinction concerns benchmark formation. A closing auction aggregates trading interest and executes matched orders at a single clearing price. An intraday TWAP, by contrast, averages prices observed over an interval; it does not itself provide a mechanism through which the required quantity can be executed at that average price. The proposed index methodology calculates TWAP using last-traded prices sampled at one-second intervals.[1] If reset-related trading or associated hedging constitutes a substantial share of activity during the measurement window, that trading may affect the prices entering the benchmark. This creates a potential interaction between execution and benchmark formation that warrants examination.

For illustration, suppose that, following a substantial intraday price move, a fund's exposure adjustment generates net purchases or sales of the underlying security equivalent to 5% of average daily volume ("ADV"). Whether an adjustment reaches that size depends on the fund's assets, the magnitude of the price move, and counterparties' hedging practices. On a day with total volume equal to ADV, a ten-minute midday window accounting for approximately 1.2–1.3% of daily volume would ordinarily accommodate only about one-quarter of that adjustment. Executing the adjustment within that window would therefore require trading roughly four times its normal volume. Accommodating such demand would require substantial additional liquidity, potentially induced by significant price concessions. An adjustment that appears modest relative to full-day ADV could thus exert considerable price pressure when concentrated within a short intraday reset window.

This risk may not be apparent at launch. Reset demand depends jointly on fund size, underlying volatility, and liquidity during the reset window. The resulting market-impact risk is therefore state-dependent and potentially discontinuous: satisfactory trading during normal conditions would not establish that the structure remains stable at larger scale or during stress. The Commission has long emphasized "stable and orderly markets" capable of absorbing trading imbalances without undue price movements and has stressed the importance of future capacity.[5] Its current request for comment likewise emphasizes fair, orderly, and efficient markets.[6]

The trading episode of July 19, 2012 provides an illustration of a potential feedback mechanism. Coca-Cola, IBM, McDonald's, and Apple exhibited recurring, broadly synchronized price movements over approximately thirty-minute intervals. Contemporaneous reporting in The Wall Street Journal described market participants' view that TWAP execution was a likely explanation and reported observations suggesting that other traders had begun anticipating subsequent cycles.[7]

Crédit Agricole Cheuvreux subsequently identified repetitive derivative delta hedging as the most plausible explanation. Its hypothesized mechanism involved recalculating hedge requirements every thirty minutes and executing each adjustment through a thirty-minute TWAP. In its Coca-Cola reconstruction, Cheuvreux estimated that a purchase equal to approximately 30% of the preceding half-hour's trading volume would increase the price by approximately 0.9%, which in turn generated an adjustment in the opposite direction.[8] That analysis was a reconstruction, rather than a regulatory finding, and the proposed ETFs need not produce the same trading dynamics. Its relevance is the potential for periodic hedging to affect the prices used to determine subsequent hedge requirements.

The proposed use of swaps also warrants examination. The filing states that reset orders may be sent directly to swap counterparties.[1] Depending on contractual terms and hedging practices, a counterparty may trade the underlying security during the interval used to determine the reset benchmark. If that trading materially affects the benchmark, the interaction among hedge execution, benchmark formation, and the counterparty's economic incentives merits scrutiny. Separately, predictable reset-related flows may enable other market participants to anticipate those flows and position accordingly, potentially increasing execution costs. The contemporaneous observations reported during the 2012 episode illustrate this latter concern.[7]

We respectfully encourage the Commission and staff, in considering the proposed funds and the broader questions presented by novel ETFs, to assess reset-related trading and counterparty hedging across a range of fund sizes and market conditions, including stressed conditions. That assessment should compare expected trading demand with liquidity available during each execution window, rather than rely principally on full-day ADV, and should account for the potential concentration of flows across products referencing the same underlying security. We further encourage examination of whether the proposed benchmark methodology, swap arrangements, and execution procedures adequately address market impact, potential feedback effects, counterparty incentives, and the execution costs associated with predictable reset-related flows.

Respectfully submitted,

Christopher Murray

References

[1] Tidal Trust V, Post-Effective Amendment No. 44 to Form N-1A (Aug. 21, 2026), File Nos. 333-289817 and 811-24116, EDGAR Accession No. 0001999371-26-018439. EDGAR filing index Relevant provisions concern the reset schedule, TWAP calculations, implementation through swaps and other instruments, and execution-cost disclosures.

[2] Nasdaq, Nasdaq Closing Cross: The Largest Liquidity Event of the Day, reporting January–December 2025 data. Kevin Tyrrell and Glenda Castaneda-Dawkins, NYSE Research, Update on NYSE Closing Auction Depth of Book (June 22, 2022). Percentages refer to the respective trading universes specified by each exchange.

[3] Choey Li, NYSE Research, Closing Auction: Immediate Market Impact, Price Drift and Transaction Cost of Trading—Part 1 (Aug. 22, 2023).

[4] Edwin Hu and Dermot Murphy, Vestigial Tails? Floor Brokers at the Close in Modern Electronic Markets, presentation (Oct. 2020), slide 4, reproducing an S&P 500 half-hour volume profile attributed to Credit Suisse. Half-hour percentages are approximate chart readings; the ten-minute estimate assumes uniform volume within the half-hour. The 5%-of-ADV example additionally assumes that total daily volume equals ADV.

[5] Securities and Exchange Commission, *Policy Statement: Automated Systems of Self-Regulatory Organizations*, Exchange Act Release No. 27445 (Nov. 16, 1989) (invoking the congressional objective of "stable and orderly markets with maximum capacity for absorbing trading imbalances without undue price movements," and emphasizing current and future capacity requirements, including capacity during short-term volume surges).

Link

[6] Securities and Exchange Commission, *Request for Comment on Novel ETFs*, Release Nos. 33-11426, 34-105808, IC-36228 (June 30, 2026). Link

[7] Paul Vigna and Tom Lauricella, Sawtooth Trading Hits Coke, IBM, McDonald's, and Apple Shares, The Wall Street Journal, MarketBeat (July 19, 2012), pp. 1–2. Archived reproduction.

[8] Crédit Agricole Cheuvreux Quantitative Research, What Does the Saw-Tooth Pattern on US Markets on 19 July 2012 Tell Us About the Price Formation Process, Quant Note (Aug. 28, 2012), pp. 18–21, particularly the periodic hedging process on p. 19 and Coca-Cola illustration on p. 20. Full report reproduced on Yumpu.