

November 15, 2019

Securities Information Processor (“SIP”) Operating Committees for the Unlisted Trading Privileges and Consolidated Quotation Plans

Re: Odd Lots Proposal

Citadel Securities¹ appreciates the opportunity to comment on the proposal to disseminate certain consolidated odd lot quotation data as ancillary information on the SIPs (the “Proposal”).²

Market data shows that odd lots (defined to mean an order for less than 100 shares³) constitute an increasing percentage of overall trading activity in the U.S. equities market. In our view, a significant contributor to this increase is the number of high-priced securities that are popular with investors. In light of these trends, we support re-assessing how the regulatory framework applies to odd lots, including the definition of an odd lot.

The current proposal is limited to providing top-of-book odd lot quotes on the SIPs, alongside (but separate from) the NBBO fields for round lot quotes. In our view, prior to making this change in isolation, it is important to carefully consider, and attempt to mitigate, any potential for investor confusion. Though odd lot quotes are not currently displayed on the SIPs, retail investors should be benefitting from odd lot liquidity in accordance with FINRA Regulatory Notice 15-46.⁴ Therefore, it is critical to ensure that any proposed change does not create confusion regarding how key elements of the regulatory framework apply to odd lot quotes, such as best execution, the order protection rule, and the limit order display rule. We are concerned that “ancillary” or “information-only” data on the SIPs could be used by market participants in an inconsistent manner and could put retail broker-dealers in a difficult position regarding whether to show this information to clients and risk confusion or to continue with current practices.

An alternative solution to specifically address the growth in odd lot trading is to re-calibrate the definition of an odd lot. Given the number of high-priced stocks, we recommend providing round lot protections based on the value of the order, instead of only the number of shares. For example, if an approximate order value threshold of \$3,000 was considered appropriate, then stocks could be divided into price bands, which would determine how many shares constitute a round lot for a specific stock (e.g. 50 shares for stocks priced between \$100 - \$300 and 10 shares for stocks priced \$300 and above).⁵ This would address immediate concerns deriving from the

¹ Citadel Securities is a leading global market maker across a broad array of fixed income and equity securities. In partnering with us, our clients, including asset managers, banks, broker-dealers, hedge funds, government agencies and public pension programs, are better positioned to meet their investment goals. On an average day, Citadel accounts for approximately 21 percent of U.S. listed equity volume, 23 percent of U.S. listed equity option volume, and more than 39 percent of all retail U.S. listed equity volume.

² https://www.ctaplan.com/publicdocs/CTA_Odd_Lots_Proposal.pdf.

³ With the exception of BRK.A, BH, and SEB.

⁴ See <https://www.finra.org/rules-guidance/notices/15-46> at FN 12.

⁵ We note this approach would also require agreeing the number of times per year that the price bands are re-constituted.

growth in odd lot trading without introducing additional complexity regarding changes to the regulatory framework.

We also note that, among other recommendations put forward by the Financial Information Forum to modernize Rule 605, including customer odd lot orders would represent a significant improvement to Rule 605 reporting.⁶ This would increase the quality of disclosure provided to investors in the U.S. equities market, facilitating more accurate comparisons of broker-dealer execution quality.

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We appreciate the opportunity to provide comments on the odd lot proposal. Please feel free to call the undersigned at [REDACTED] with any questions regarding these comments.

Respectfully,

/s/ Stephen John Berger

Managing Director

Global Head of Government & Regulatory Policy

⁶ See the Rule 605 modifications recommended by the Financial Information Forum, available at: <https://www.sec.gov/comments/s7-02-10/s70210-5002077-182848.pdf>.