

October 13, 2016

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Disclosure of Order Handling Information (File Number S7-14-16)

Dear Mr. Fields:

Citadel Securities (“Citadel”)¹ appreciates the opportunity to comment on the proposed rule amendments by the Securities and Exchange Commission (the “Commission”) designed to enhance the transparency and disclosure of order handling practices by broker-dealers (the “Proposal”).²

Citadel firmly supports Commission efforts to increase the quality of disclosure provided to both retail and institutional investors. Enhancements such as requiring that Rule 605 and Rule 606 reports remain publicly available for at least three years and improving the quality of disclosure regarding payment for order flow will assist investors in comparing various broker-dealers.³ Greater visibility into the order handling practices of broker-dealers enables investors to better assess the impact of order routing decisions and to evaluate execution performance by both broker-dealers and execution venues.

The Proposal expands the scope of the current disclosure requirements under Rule 606 to include institutional orders and establishes separate reporting requirements for retail orders and institutional orders. As a result, under the Proposal, customer orders must be classified as retail or institutional and the Commission proposes to establish a market value threshold of \$200,000 to do so. In our view, applying this proposed threshold will result in the misclassification of a significant number of orders, reducing the utility of the additional disclosures for investors and increasing the compliance costs associated with the Proposal. We believe that it would be more accurate to distinguish between retail and institutional orders based on whether an order is classified as “held” or “not held” for the reasons described below.

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 15 percent of U.S. listed equity volume, 19 percent of U.S. listed equity option volume, and more than 35 percent of all retail U.S. listed equity volume.

² Securities Exchange Act Release No. [78309](#), 81 FR 49432 (July 27, 2016).

³ See [Letter](#) to Brent J. Fields, Secretary, Commission, from John C. Nagel, Managing Director and Sr. Deputy General Counsel, Citadel LLC, at 6-7 (July 21, 2014).

The Commission Should Distinguish Between Retail and Institutional Orders For Purposes of this Proposal on the Basis of Whether They Are “Held” or “Not Held”

As mentioned, the Commission proposes to classify an order as retail or institutional for purposes of the separate disclosures required under Rule 606 by applying a market value threshold of \$200,000. In our view, the proposed \$200,000 threshold will result in the misclassification of a significant number of orders and increase the compliance costs associated with the Proposal.

First, the Commission notes that, in its analysis of order data from a representative set of institutional investors, 83.2% of the orders would fall below the \$200,000 threshold, and orders in the least active stocks would be the most likely to fall below this threshold.⁴ However, institutional investors may be particularly interested in the relative performance of their broker-dealers when executing orders for these less liquid stocks.

Second, while the Commission acknowledges that broker-dealers will often break an institutional order into multiple child orders,⁵ the Proposal does not appear to address the situation where an institutional investor breaks-up its order internally and then routes the resulting child orders to multiple broker-dealers.⁶ In such case, each broker-dealer of the institutional investor may receive an order that has a market value of less than \$200,000, thereby resulting in the exclusion of such orders from the institutional order handling reports.

Third, some broker-dealers may generally only handle retail orders, but may still infrequently handle an order with a market value that is greater than \$200,000 in the normal course of their business. For example, while the vast majority of a smaller investment firm’s orders may be retail, the firm may place an order to buy or sell a security across all of its discretionary client accounts with a market value greater than \$200,000 (e.g., in the case of an IPO or the announcement of significant news). Requiring such broker-dealers to produce both retail and institutional reports would be unlikely to provide additional value to their clients, and would require significant resources to ensure proper compliance.⁷ We believe that this outcome would be overly burdensome to these broker-dealers without providing commensurate benefits to their customers, who would subsequently be required to examine two different reports to assess their broker’s performance.

A more accurate method for distinguishing between retail and institutional orders for purposes of this Proposal would be to deem all “not held” orders as institutional and all “held” orders as

⁴ Proposal at 49483. In the Commission’s analysis, less than 3% of orders from institutions in the group of least active stocks would exceed the threshold.

⁵ Proposal at 49460.

⁶ The use of multiple broker-dealers in this manner is not uncommon in order to prevent information leakage, among other reasons.

⁷ Contrary to the Commission’s estimate that only 200 broker-dealers would need to invest in the necessary infrastructure to generate institutional order reports, any broker-dealer that might at some point accept an order with a total market value of over \$200,000 would need to make such compliance investments. *See* Proposal at 49470.

retail.⁸ In our experience, it is unusual for an institutional investor to submit its order as “held”. Institutional investors tend to submit “not held” orders in order to minimize price impact, while retail investors generally use limit or market “held” orders given the typically smaller size in which they are transacting.

Distinguishing retail and institutional orders based on whether they are “held” or “not held” would accomplish the objective of providing increased transparency regarding the handling of institutional orders while also ensuring that both the retail and institutional order handling reports are more accurate than if the \$200,000 threshold were used.⁹ Moreover, utilizing this classification methodology would decrease the compliance costs associated with the Proposal, as it would be substantially easier for broker-dealers to program their systems in this manner for purposes of generating the Rule 606 reports. As noted by the Commission, administration of the new regime “would be more straightforward for broker-dealers using a defined standard that is commonly recognized in the industry.”¹⁰ Broker-dealers and other market participants are very familiar with the “held” and “not held” classifications, and they are also commonly recognized in the FIX Protocol.

To avoid any adverse consequences to smaller broker-dealers that may occasionally handle “not held” orders, Citadel suggests that a *de minimis* exception be provided whereby a broker-dealer would not be subject to the institutional order reporting obligations. This *de minimis* exception could be based on the number of “not held” orders being below a specific percentage of total orders or based on ensuring that “held” orders represent substantially all of the broker-dealer’s business. Smaller broker-dealers infrequently handling “not held” orders should not have to incur the costs associated with creating and providing institutional order handling reports.

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We appreciate the opportunity to provide comments on the Commission’s Proposal on the disclosure of order handling information. Please feel free to call the undersigned at [REDACTED] with any questions regarding these comments.

Respectfully,
/s/ Adam C. Cooper
Senior Managing Director and Chief Legal Officer

⁸ See, e.g., NYSE Rule 13, Supplementary Material .20 (“Generally, an instruction that an order is ‘not held’ refers to an unpriced, discretionary order voluntarily categorized as such by the customer and with respect to which the customer has granted the member or member organization price and time discretion.”).

⁹ We note other industry support for this proposal. See, e.g., [Letter](#) to Brent J. Fields, Secretary, Commission, from Richie Prager, Senior Managing Director, *et al.* BlackRock, Inc. (Sept. 26, 2016); and [Letter](#) to Brent J. Fields, Secretary, Commission, from David Blass, General Counsel, Investment Company Institute, at n.20 (Sept. 26, 2016).

¹⁰ Proposal at 49445.