March 7, 2023

By Email

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 205499–1090
rule-comments@sec.gov

Re: Equity Market Structure Proposals (File Numbers S7–31–22, S7-32-22, S7-29-22 and S7-30-22)

Ms. Countryman:

As a retail investor who has been increasing frustrated by the obvious, continual and heavily documented rampant fraud and manipulation of our markets by market makers, especially such as those who are heavily conflicted by the fact they are both a market maker and hedge fund, I am writing to express my strong support for the four Rules captioned above that have put out for comment, and which I briefly summarize here:

34-96495 – ORDER COMPETITION RULE (File Number S7-31-22)
Prohibits individual orders from being internalized prior to the order being exposed to order-by-order competition at a qualified auction/'lit' exchange

34-96496 – REGULATION BEST EXECUTION (File Number S7-32-22)
Codify a best execution policy by SEC for broker-dealers to abide and quantify with quarterly reviews/annual board of director review.

34-96493 – DISCLOSURE OF ORDER EXECUTION INFORMATION (File Number S7-29-22)
Increase required disclosures on order executions of stocks including more entities required to disclose (SDPs, large broker-dealers, qualified auctions), more granular disclosure (odd lot, fractional shares, non-exempt short sales now included) and provision of better statistical data.

34-96494 – REGULATION NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders (File Number S7-30-22)
Lowers the minimum price increment (tick size) of quotes/trades from $0.01 to a variable model with sub-penny increments ($0.001-0.01).
Lowers access fee caps at National securities exchanges & requires disclosure of all fee/rebates prior to/at time of order execution.

Increases odd-lot order information by early adoption of definitions & including a new 'best odd-lot pricing' category for disclosure

Hopefully, these new regulations will offer some incremental improvement in leveling the playing field, which at the moment appears to be a free-for-all for market makers and hedge funds to manipulate our markets at will, with the only risk being, if they are even detected, a minor SEC fine that they write off as the cost of doing business.

Notably, no major market maker or hedge fund has had their trading license revoked, despite repeatedly violating the rules and regulations with impunity.

As the SEC well knows, we all see buy orders go to dark pools, sell orders going to lit exchanges, trades executed at four decimal points to limit positive share price while enhancing negative price action, and most alarming, retail trades being "internalized" by market makers to control the price and deny price discovery. We also see illegal naked shorting, compounded by the indefensible market maker exemption to provide liquidity through the issuance of synthetic or phantom (read: fake) shares, high frequency trading (rapidly selling shares back and forth to each other at lower and lower prices in fractions of a second) and negative price pressure created through derivative manipulation such as puts, swaps, and a range of other highly questionable means.

This criminal, and a threat to the stability of our markets and the faith and trust we all put in our institutions.

I would also like to take issue with the commentary provided by Citadel Securities and Charles Schwab & Co on 7 March, as it presents factually incorrect, distorted and self-serving views that work against the retail investor.

Specifically, these market participants claim a commitment to the functioning of US markets by providing liquidity, efficiency and competitiveness, for the benefit of the economy, issuers and the financial security of the American people. However, their suggestions work to the contrary. To wit:

Minimum Pricing Increments, Access Fees, and Round Lots.

Citadel proposes to reduce the $0.01 minimum price increment to $0.005, for

- Stock with shares above $1.00
- tick-constrained
    - Citadel definition: symbols that have an average quoted spread of 1.1 cents or less and a reasonable amount of available liquidity at the NBBO [1]
    - SEC definition: Stock that have a time weighted quoted spread of $0.011 or less calculated during regular trading hours.

Citadel wants to narrow down the tickers with $0.005 minimum price increments to liquid stocks with thin spreads. Why? Because Citadel as a Market Maker (in other words, a Market Manipulator) can also make money off the spread of stocks. They can trade at $0.0001 and therefore beat the best bid or ask from participants limited to $0.01 increments.

For example, if the market maker buys the stock at $10.005 and sells it at $10.015, they earn a profit of $0.01 per share. If the current best bid for a stock is $10.00 and the best ask is $10.01, a market maker can bid to buy the stock at a slightly higher price, say $10.005, which is still less than the best ask price, then sell it again seconds later when the NBBO may have moved a few cents. This does not even touch upon their ability to just sell counterfeit shares, or how their trading within the spread can nudge the stock in directions they desire. Citadel wants to keep more decimals for themselves, especially in less liquid stock with large spreads, where they can make more money on "market making" (see: market manipulation).

Their proposal is fully self-serving and proposed solely to advance their own interests. They can only argue that they deliver better prices if they have access to prices that most others don't. In the end, this is fully self-serving and not in the interest of anyone else but themselves.

While it could be argued that this proposal does not go far enough, Citadel and their partners wants to retain all their special privileges that make them money, at the continuing expense of retail investors.

Retail Auctions & Best Execution

This is the anti-PFOF and internalization rule, and it is no mystery why Citadel is against it. The rule makes "wholesalers" like Citadel are obligated to post orders for an "execution auction," where participants can bid and win the orders. Brokers would also be able to send orders directly to auction.

While this is not the "place an order, it goes to the exchange, match with a seller / buyer, and it's a done deal" solution that the vast bulk of retail investors demand, it is much better than the PFOF and internalization scheme that Citadel runs (a model developed by Bernie Madoff). This would most likely make their operations far less profitable, and it reflects as much in their reasoning for going against it.

Citadel tries to make it sound scary and alarming that they should be forced to use a trading protocol as market makers, that protocol being a simply auctioning protocol. When they say "certain market participants," that they really they mean is people like themselves who have special privileges and advantages that retail investors do not have.

The SEC proposes to take away their ability to route orders and internalize them, giving retail orders a much better chance at hitting exchanges and at the very least eating into their control of the market, and they propose to delay that forever. Such cynical, self-serving commentary should be ignored.

Best Execution.

Citadel also recommends withdrawing this proposal, vaguely suggesting it "may unnecessarily disrupt decades of market progress for investors." A market is when many sellers and buyers meet up in one place to trade with each other. That is all it is. If trying to promote fair and open orders in a market actually causes the market to fail to the point it disrupts or reverses decades of "market progress for investors," then something in the market is deeply, if not irreparably, broken and needs to be reimagined and rebuilt from the ground up.

The entire thrust is Citadel's argument is driven by the fact these SEC proposals put their rapacious business model at risk from oversight by regulators, which they desperately wish to avoid. All of their commentary should be ignored in its entirety.

Direct Registration System (DRS)

Lastly, I would like to take this opportunity to ask how and why the SEC makes it problematic for companies to educate and inform their investors on the option of DRS, and the benefit of holding stock in their own name? Would this not help improve markets and trading by reducing the ability for participants to illegally naked short stocks, for brokerages to lend out shares without permission of their owners, reduce the number of phantom shares, counterfeit shares, and failures to deliver, while address the recurring issue of over-voting in proxy voting for a given company? The benefits are numerous, yet it is hidden from sight for the average retail investor.

Sincerely,

M. Westfall
Retail Investor