

July 9, 2020

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

**Re: CBOE Proposal to Amend the Automated Price Improvement Auction Rules (File No. SR-CBOE-2020-51)**

Dear Ms. Countryman:

Citadel Securities appreciates the opportunity to provide comments to the Securities and Exchange Commission (the “Commission”) on the proposal by Cboe Exchange, Inc. (“Cboe”) to allow certain orders in SPX to continue participating in the electronic “Automated Price Improvement Mechanism” (“AIM”) following the re-opening of the trading floor (the “Proposal”).<sup>1</sup> According to the Proposal, Cboe will establish a maximum size threshold of up to 100 contracts, and orders in SPX must be less than or equal to the relevant threshold in order to be eligible to participate in the electronic AIM auction.

We commend Cboe for putting forth a proposal that will enable certain SPX orders to continue to have access to price improvement auctions following the re-opening of the trading floor. Experience while the trading floor was closed clearly demonstrated the improvement in execution quality that resulted from access to these electronic auctions. Below, we provide two comments on the Proposal.

First, we recommend that, rather than establish a maximum threshold of 100 contracts, Cboe should allow customers to decide if their order (regardless of size) is eligible for a price improvement auction. This will enable the customer to decide whether a particular order is more appropriately suited for floor-based or electronic execution. When the trading floor was closed during the past few months, all orders in SPX were eligible to participate in the electronic AIM auction, and the resulting data clearly shows that all orders, regardless of size, benefited from significant price improvement compared to execution on the floor. For example, orders of between 251 and 500 contracts received an average price improvement of \$0.15 in the electronic AIM auction, which was greater than the average price improvement for orders of between 51 and 100 contracts.<sup>2</sup> In addition, in the two months following the closure of the trading floor, our retail clients received approximately \$2 million in price improvement on SPX orders.

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<sup>1</sup> 85 Fed. Reg. 36918 (June 18, 2020), available at: <https://www.govinfo.gov/content/pkg/FR-2020-06-18/pdf/2020-13118.pdf>.

<sup>2</sup> Proposal at 36919.

In our view, market participants should be able to elect whether to use the available floor-based or electronic trading protocols and restricting access to certain trading protocols despite evidence of improved execution quality risks resulting in unfair discrimination that is inconsistent with the Securities Exchange Act of 1934 (“Exchange Act”). While we appreciate Cboe’s desire to preserve available trading floor liquidity for larger orders, we submit that liquidity dynamics can be expected to improve with more competition among liquidity providers and trading protocols,

Second, to the extent Cboe does establish a maximum size threshold, the level of the threshold should be clearly stated in a rule filing submitted to the Commission. The Proposal’s current approach of allowing a threshold of “up to 100 contracts” provides far too much latitude and risks resulting in unfair discrimination to the extent the level is ultimately set too low, especially given that material price improvement was observed for all order sizes. For example, if the stated intent is to provide retail investors with additional price improvement, then Cboe should clearly establish how any threshold accurately captures retail investor activity in SPX and does not inadvertently exclude a significant amount of retail activity that should be eligible for price improvement opportunities. We note that, in the Proposal, Cboe states that orders with size up to 100 contracts “are generally considered to be ‘retail’ sized orders”<sup>3</sup> and therefore we believe that the rule filing should affirmatively commit to allowing orders for up to 100 contracts to participate in AIM.

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We appreciate the opportunity to provide comments on the 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

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<sup>3</sup> Proposal at 36919, FN 6.