

August 12, 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 amended 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 “Amended Proposal”).¹ The Amended Proposal establishes a maximum size threshold of 10 contracts, and SPX orders must be less than or equal to this threshold in order to be eligible to participate in the electronic AIM auction.

As we stated in our first comment letter, 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 providing access to these electronic auctions. However, the proposed threshold of 10 contracts is without a rational basis and will result in unfair discrimination, denying significant price improvement to many retail investors.

Cboe asserts that the Amended Proposal is designed to benefit retail investors, providing “retail-sized orders with additional execution and price improvement opportunities.”² However, retail investors commonly submit orders of more than 10 contracts. To demonstrate this, we performed an analysis of the retail simple marketable SPX orders routed to Cboe by Citadel Securities from mid-March (when the trading floor closed) to mid-May 2020 that were eligible for the electronic AIM auction. We present the results below.

¹ <https://www.sec.gov/comments/sr-cboe-2020-051/srcboe2020051-7470738-221292.pdf> (the “Amended Proposal”).

² See Letter from Rebecca Tenuta, Counsel, CBOE Global Markets (July 31, 2020) at page 1, available at: <https://www.sec.gov/comments/sr-cboe-2020-051/srcboe2020051-7502046-221901.pdf>. See also Amended Proposal at page 13 (“Specifically, the Exchange believes that a maximum order size for these auctions would provide retail customers in SPX with access to these auctions.”).

Order Size	Total Contracts Executed	% of Total Volume	Effective/Quoted
1-10	124,462	43%	57.02
11-25	40,774	14%	66.42
26-50	44,451	15%	80.86
51-100	39,881	14%	87.87
101-250	23,311	8%	109.41
251-500	12,020	4%	99.71
501+	6,607	2%	108.02

The data above clearly shows that retail investors commonly submit orders of more than 10 SPX contracts, with more than 50% of the total executed volume resulting from orders that were above the proposed threshold. As a result, the proposed threshold of 10 contracts is inconsistent with the stated intent to benefit retail investors and will instead unfairly discriminate among retail investors, arbitrarily permitting only certain retail orders to benefit from price improvement in the electronic AIM auction.

The data above also clearly shows that order sizes of up to 100 contracts in particular received significant price improvement as a result of participating in the electronic AIM auction. The “effective/quoted” data, which is calculated by dividing the actual price received by the quoted price, demonstrates that orders up to 100 contracts were consistently executed at far better prices in the electronic AIM auction than those quoted on the exchange, amounting to over \$2 million in aggregate price improvement for just those retail orders routed by Citadel Securities during the two month timeframe.³

Cboe has failed to demonstrate how denying material price improvement opportunities to a substantial portion of SPX contracts executed by retail investors is consistent with the Securities Exchange Act of 1934. We urge Cboe to, at a minimum, raise the proposed threshold to 100 contracts in order to capture most retail trading activity and to allow this retail trading activity to benefit from clearly evidenced and significant price improvement.⁴ Alternatively, Cboe could remove the proposed threshold altogether, allowing all market participants to decide whether a particular order is more appropriately suited for floor-based or electronic execution. In contrast to assertions in the Amended Proposal, overall liquidity dynamics can be expected to improve by enabling more competition among liquidity providers and trading protocols.

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³ We note that the “effective/quoted spread” was generally around 100 for simple marketable SPX orders of less than or equal to 100 contracts before they were eligible for the electronic AIM auction.

⁴ We note that Cboe previously acknowledged that orders of up to 100 contracts “are generally considered to be ‘retail’ sized orders”. See 85 Fed. Reg. 36918 (June 18, 2020) at 36919, FN 6, available at: <https://www.govinfo.gov/content/pkg/FR-2020-06-18/pdf/2020-13118.pdf>. See also Letter from John S. Markle, Interim General Counsel, TD Ameritrade (July 9, 2020), available at: <https://www.sec.gov/comments/sr-cboe-2020-051/srcboe2020051-7409659-219154.pdf>.

We appreciate the opportunity to provide comments on the Amended 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