June 4, 2025

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

Re: IEX Options

IMC, Charles Schwab & Co., Inc., and Citadel Securities are pleased to present a consensus position to the Securities and Exchange Commission (the "Commission") on one discrete aspect of the IEX proposal to launch a new options trading facility. Together, our firms represent a significant portion of the overall U.S. options market (and a significant percentage of retail orders). While we welcome market innovation and competition, we are extremely concerned about introducing a novel mechanism into the US options market that is explicitly designed to facilitate the fading of Market Maker displayed quotations, while nonetheless continuing to treat those displayed quotations as "protected." This means that every market participant, including retail investors, will be *compelled (by regulatory fiat)* to route orders (or have their orders routed) to Market Maker displayed quotations on IEX, despite individual assessments of whether the novel IEX quote fading functionality is harmful to their execution quality.

We are concerned that this will be particularly harmful for retail investors. Not only will retail investors experience quote fading when attempting to execute on IEX, the novel quote fading mechanism may disrupt the initiation of "price improvement auctions" on *all* exchanges, which are used to deliver significant amounts of price improvement to retail investors. The IEX proposal fails to acknowledge these concerns or otherwise consider the impact on retail investors. Indeed, the potential disruption to price improvement auctions and the impact on retail investors is an area that warrants further study.

Specifically, IEX is proposing to implement an intentional delay on incoming orders, coupled with functionality that enables Market Maker displayed quotations to be immediately repriced (without being subject to the delay) when advantageous for the Market Maker. This inherent asymmetry – where incoming orders are delayed (thus preventing an immediate execution) while Market Maker displayed quotations may be *immediately* repriced during this delay – is novel for the US options market and creates significant concern. In addition, notwithstanding this novel quote fading mechanism, IEX proposes to treat these Market Maker displayed quotations as protected quotations under the "Options Order Protection and Locked/Crossed Market Plan," thus compelling market participants, including retail investors, to route orders to IEX irrespective of the impact the novel quote fading mechanism may have on execution quality.

We thus urge the Commission to reject this filing and request additional analysis from IEX, including with respect to:

- **Unfairly Discriminates and Harms Retail Investors**. Given that this novel quote fading mechanism explicitly benefits Market Makers, there is no doubt that it alters the existing competitive balance between Market Makers and liquidity takers (such as retail investors). However, there is no discussion of the economic impact of altering this balance – *e.g.* what will be the negative commercial impacts for retail investors specifically?

  In considering this question, it is important to note that the novel quote fading mechanism may negatively impact retail investors more broadly than just when they route order flow to IEX (and experience quote fading that results in worse execution quality). This is because, to the extent that IEX is correct that the novel quote fading mechanism will allow "Market Makers to provide tighter and deeper quotes"[1] (because they know that those quotes will be automatically repriced when advantageous for the Market Maker), it could result in IEX setting the market-wide best price for many options series (as no other exchange provides Market Makers with this type of advantage). To the extent Market Makers seek to match the IEX price on other options exchanges, they will be at a competitive disadvantage as there is no similar mechanism to reprice their quotations.

  Retail investor orders typically receive price improvement above and beyond the market-wide best price through "price improvement auctions" that are initiated on US options exchanges. However, to initiate such an auction, a liquidity provider must be willing to trade at the existing market-wide best price or better. Furthermore, such auctions may be restricted for small-sized orders when the NBBO is only a penny wide. Hence the problem – to the extent the market-wide best price is set by a Market Maker on IEX (and is a better price because of the quote fading mechanism available to the Market Maker on IEX), liquidity providers on other exchanges will be less likely to be willing (or able) to provide retail investors with additional price improvement (as the market-wide best price is already artificially aggressive). And yet the IEX price may not actually be accessible in practice. IEX must assess the impact its novel quote fading mechanism could have on the execution of retail investor orders generally, including the estimated reduction in "price improvement auctions" and associated price improvement more broadly.

- **Magnitude of the Benefit Being Offered to Market Makers**. IEX explicitly acknowledges that the novel quote fading mechanism will benefit Market Makers,[2] but fails to provide

[1] *See, e.g.,* IEX Proposal at page 45 (https://www.sec.gov/files/rules/sro/iex/2025/34-102663.pdf).

[2] *Id.*

sufficient information regarding the magnitude of this benefit and the impact on everyone else. For example:

- How many Market Maker displayed quotations are expected to be repriced on a given day?

- What is the estimated impact on fill rates for marketable orders routed to IEX (from the perspective of incoming liquidity taking orders, such as those submitted by retail investors)?

We close by noting that the concerns above are particularly pronounced given unique characteristics of US options market structure.

- First, unlike the US equities market, all orders must be executed on exchange. This means that there is no alternative method for executing retail investor orders (and providing price improvement), subjecting each and every order to the harms detailed above.

- Second, the combination of far more options quotations (given the number of unique series) and far more repricing opportunities (given that IEX's quote fading mechanism is based on price movements in the underlying security) means that overall quote fading may be far more damaging compared to equities if this type of mechanism were implemented, with severe consequences for execution quality and overall market integrity and efficiency.

In the end, each market participant should have the ability to evaluate for itself whether this type of novel quote fading mechanism is helpful or harmful to its execution quality. However, by treating Market Maker displayed quotations on IEX as "protected" – even though they benefit from a mechanism designed to facilitate quote fading – the Commission would be removing the ability of the marketplace to decide and would instead be *requiring* market participants to use something that is untested and could be a deeply problematic. IEX has not provided the necessary level of detail to support such a drastic change and for that reason the Commission should not approve the proposal.

Respectfully,

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