



March 17, 2014

Via Electronic Submission: <http://www.sec.gov/rules/sro.shtml>

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: NASDAQ “Kill Switch” (File Number SR-NASDAQ-2014-017)

Dear Ms. Murphy,

Citadel LLC¹ (“Citadel”) appreciates the opportunity to provide comments to the Securities and Exchange Commission (the “Commission”) on NASDAQ’s *Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Add a Risk Management Tool Commonly Known as a “Kill Switch”*.²

Citadel has consistently advocated for the introduction of kill switches at the exchange level.³ We therefore welcome NASDAQ’s recent implementation of a kill switch, as well as the similar steps taken by NYSE Group, BATS, and Direct Edge over the past year and a half.⁴ Nevertheless, the current exchange-by-exchange *voluntary* approach to kill switches does not adequately protect our markets by itself. Over a year and a half has now passed since the Knight Capital trading incident, however, the tools needed to stop a similar event from disrupting markets again have not been implemented. While NYSE detected erroneous trading activity by

¹ Established in 1990, Citadel is a leading global financial institution that provides asset management and capital markets services. With over 1,100 employees globally, Citadel serves a diversified client base through its offices in the world’s major financial centers including Chicago, New York, London, Hong Kong, San Francisco and Boston. Citadel Securities operates an industry leading market making franchise and an institutional markets platform. On an average day, Citadel accounts for over 13 percent of U.S. listed equity volume and over 20 percent of U.S. listed equity option volume.

² See <http://www.sec.gov/rules/sro/nasdaq/2014/34-71555.pdf>.

³ See (i) Citadel’s comment letter on the Commission’s *Roundtable on Technology and Trading: Promoting Stability in Today’s Markets* at <https://www.sec.gov/comments/4-652/4652-28.pdf>; (ii) the comments by Mr. Nazarali at the roundtable at pgs. 27 and 37 of the transcript at <https://www.sec.gov/news/otherwebcasts/2012/tr100212-transcript.pdf>; and (iii) Citadel’s comment letter on the Commodity Futures Trading Commission’s *Concept Release on Risk Controls and System Safeguards for Automated Trading Environments* at <http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=59455>.

⁴ NYSE Group implemented kill switches on its exchanges in December 2013 while BATS and Direct Edge did so in November 2012. See NYSE Group rule filing at <http://www.sec.gov/rules/sro/nyse/2013/34-71164.pdf>; BATS rule filing at <http://www.sec.gov/rules/sro/bats/2012/34-68330.pdf>, and Direct Edge announcement at <http://www.directedge.com/About/PressReleases/tabid/363/articleType/ArticleView/articleId/85/categoryId/3/Direct-Edge-Introduces-EdgeRisk-Controls.aspx>.

Knight Capital on August 1, 2012 within a few minutes, the erroneous activity continued for over 30 more minutes since NYSE did not have a kill switch in place to halt Knight Capital's trading. The *optional* kill switches implemented to date by the exchanges still do not remedy this deficiency. We therefore urge the Commission to also require *mandatory* exchange level kill switches, and to ensure that exchanges have the clear authority, and bear the responsibility, to immediately block and stop activity that appears erroneous and likely to materially impact members or the market.⁵

The kill switches that have been implemented by the exchanges to date all provide market participants with the *optional* ability to set thresholds that may then trigger notifications, disable order entry, or cancel open orders. We recognize that this is an important addition to the broader risk management toolset, and urge further development to enhance market participants' ability to configure such kill switches to meet their needs (e.g. for example, by member, mnemonic, symbol, and/or session). However, given their optional and potentially inconsistent use, such kill switches by themselves do not go far enough to protect the stability and integrity of our markets. Therefore, exchanges still need to implement and administer their own kill switches, to serve as a backstop to limit the damage from problems that are not caught by market participants' self-configured controls.

The activity of a large number of market participants intersects on exchanges. Exchanges thus represent the logical place to stop erroneous trading activity and are best positioned to efficiently and consistently monitor activity across a very large number of market participants. Exchanges must play an important gatekeeper role by having effective controls to minimize the impact that the malfunction of a member's trading system may have on the member itself, other members of the exchange, and the market as a whole. We therefore urge the Commission to move forward with an affirmative market-wide requirement that exchanges implement their own robust exchange level kill switches, in addition to their current optional kill switch offerings.

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Please feel free to call the undersigned at (312) 395-3100 with any questions regarding these comments.

Respectfully,

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

⁵ We note that the Commission raised the issue of whether kill switches should be required as part of its proposed rule *Regulation Systems Compliance and Integrity* ("Reg SCI"), see 78 Fed. Reg. 18112 at <http://www.gpo.gov/fdsys/pkg/FR-2013-03-25/pdf/2013-05888.pdf>. Final Reg SCI could provide an appropriate vehicle for a kill switch requirement.