CITADEL | Securities

November 28, 2018

Mr. Eduardo A. Aleman
Assistant Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549–1090

Re: Order Instituting Proceedings on a Proposed Rule Change to Amend NYSE Rule 104 (File No. SR-NYSE-2018-34)

Dear Mr. Aleman:

Citadel Securities[1] appreciates the opportunity to provide comments to the Securities and Exchange Commission (the "Commission") on the order instituting proceedings to determine whether to approve or disapprove the proposal by the New York Stock Exchange LLC ("NYSE") to amend Rule 104 (the "Proposal").[2]

The Proposal is primarily designed to simplify Rule 104 by no longer taking into account whether a DMM has a long or short position in a particular security for purposes of the relevant obligations and prohibitions. At the same time, the Proposal modernizes Rule 104 to reflect changes in market structure that have occurred since it was first introduced. In our view, the Proposal maintains an appropriate balance between the benefits and obligations of being a Designated Market Maker ("DMM") and should be approved by the Commission.

I. The Proposal Increases DMM Re-Entry Obligations

The Proposal increases DMM re-entry obligations during the entire trading day by no longer taking into account a DMM's position in the relevant security.

Under current NYSE Rule 104, a DMM is only required to re-enter the opposite side of the market when establishing or increasing a position. Pursuant to the proposed rule change, a DMM may now be required to re-enter more frequently throughout the trading day, including following risk reducing transactions that decrease or liquidate a DMM's position in the relevant security. As such, this element of the Proposal materially increases the obligations associated with being a DMM.

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[1] Citadel Securities is a leading global market maker across a broad array of fixed income and equity securities. In partnering with us, our clients, including asset managers, banks, broker-dealers, hedge funds, government agencies and public pension programs, are better positioned to meet their investment goals. On an average day, Citadel accounts for approximately 21 percent of U.S. listed equity volume, 23 percent of U.S. listed equity option volume, and more than 39 percent of all retail U.S. listed equity volume.

[2] 83 FR 40808 (Aug. 16, 2018), available at: https://www.gpo.gov/fdsys/pkg/FR-2018-08-16/pdf/2018-17630.pdf.

II. The Proposal Revises the Prohibition on Certain DMM Transactions Prior to the Close

NYSE Rule 104 prohibits DMMs from establishing, during the last ten minutes of trading before the close, a new high (low) price for the day on NYSE in a security in which the DMM has a long (short) position. This prohibition was originally designed to prevent specialists from exercising undue influence over the price of a security immediately before the close.

The Proposal strengthens the existing prohibition in two ways. First, a DMM's position in the relevant security is no longer taken into account. Second, the prohibition now references the consolidated high or low price of a security, rather than just the high or low price on NYSE. While these changes simplify the rule and reflect the increased trading of NYSE-listed securities away from NYSE, they also can be expected to result in the prohibition applying more frequently.

At the same time, the Proposal reduces the length of the existing prohibition from ten minutes to ten seconds prior to the close. This revision modernizes the rule to reflect market structure changes, such as the speed and volume of transactions in today's equities markets, while retaining a bright-line negative obligation for DMMs. In addition, it is important to note that the increased DMM re-entry obligations contained in the Proposal will apply throughout the trading day irrespective of a DMM's position, including during the last ten minutes prior to the close, further reducing the potential for DMMs to exert undue influence over the price of NYSE-listed securities during this time period. Pursuant to the Proposal, DMMs will be required to re-enter the opposite side of the market when engaging in an "Aggressing Transaction," even in the case of risk reducing transactions that would otherwise decrease or liquidate a DMM's position in the relevant security, but that are now covered by the enhanced obligation.

Considered as a whole, the Proposal increases DMM re-entry obligations and strengthens elements of the prohibition on certain DMM transactions prior to the close, while reducing the length of that prohibition from ten minutes to ten seconds. In our view, these revisions maintain an appropriate balance between the benefits and obligations of being a DMM. It is also important to note that DMMs will continue to be obligated to maintain a fair and orderly market under Rule 104, which includes providing price continuity with reasonable depth and minimizing temporary supply/demand disparities. In addition, DMMs will still be required to adhere to pricing obligations for NMS securities, supply liquidity at "inside" the NBBO for a prescribed percentage of time on a portfolio basis and maintain a continuous two-sided quote throughout the core trading session.

Given the Proposal's focus on maintaining an appropriate balance between the benefits and obligations of being a DMM, we recommend that it be approved by the Commission.

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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, Government and Regulatory Policy