April 28, 2017

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

Re: Proposed Rule Change to Provide for a Delay Mechanism (Release No. 34-79998; File No. SR-NYSEMKT-2017-05)

Dear Mr. Aleman:

Citadel Securities ("Citadel")[1] appreciates the opportunity to comment on the proposal by NYSE MKT LLC (the "NYSE MKT Proposal") to adopt an intentional delay that would add at least 350 microseconds of latency to inbound and outbound order messages (the "Delay Mechanism"). This Delay Mechanism is largely modeled after the delay mechanism implemented by the Investors Exchange LLC ("IEX") last year, which NYSE criticized as "[leading to] less transparent markets, wider spreads and higher costs for investors"[2] and "not in the interests of investors."[3]

For the reasons detailed below, the Securities and Exchange Commission (the "Commission") should disapprove the NYSE MKT Proposal because it is not consistent with the requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). In addition, we urge the Commission to conduct its required review of the impact of delay mechanisms on overall market quality before approving any new proposals.

[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 15 percent of U.S. listed equity volume, 19 percent of U.S. listed equity option volume, and more than 35 percent of all retail U.S. listed equity volume.

[2] Letter to Brent J. Fields, Secretary, Securities and Exchange Commission, from Elizabeth K. King, General Counsel and Corporate Secretary, dated April 18, 2016 at page 4, available at: https://www.sec.gov/comments/10-222/10222-472.pdf ("NYSE Letter 1").

[3] NYSE Letter 1 at page 2.

I. The Commission Should Perform A More Comprehensive Review of Intentional Delay Mechanisms

We previously expressed concern that approval of the IEX delay mechanism would lead other exchanges to propose various delay mechanisms.[4] Unfortunately, this has proven to be the case, with the Chicago Stock Exchange, Inc. twice proposing to implement an intentional access delay,[5] and now NYSE MKT proposing the Delay Mechanism. Instead of perpetuating this trend of exchanges implementing their own variations of intentional delay mechanisms, we urge the Commission to pause and perform a more comprehensive review of the impact of these delays. We note that such a review is contemplated to occur by June 2018 under the Commission's Interpretation Regarding Automated Quotations Under Regulation NMS,[6] and we believe it should occur prior to approving additional exchange proposals that seek to institute intentional delay mechanisms. While data on this topic may not have been available prior to the introduction of the IEX delay mechanism, there is now sufficient empirical data that can be used to inform consideration of other similar exchange proposals.

At a minimum, the Commission should analyze market experience with the IEX intentional delay mechanism thus far, including (a) the percentage of IEX trades that occur in the dark at midpoint liquidity, and (b) how often IEX displays liquidity at the NBBO.[7] This analysis will better inform the Commission's determination as to whether the NYSE MKT Proposal protects investors and the public interest as required by Section 6(b)(5) of the Exchange Act.

II. NYSE Has Failed to Adequately Justify the Proposed Delay Mechanism

Pursuant to Form 19b-4, exchanges are required to describe "the reasons for adopting the proposed rule change, any problems the proposed rule change is intended to address, the manner in which the proposed rule change will operate to resolve those problems, [and] the manner in which the proposed rule change will affect various persons."[8]

While detailing how the proposed Delay Mechanism will "function similarly to the intentional delay mechanism of IEX,"[9] NYSE fails to adequately explain the reasons why it is proposing to implement such a delay. Such an explanation should, at a minimum, include (a) a discussion of

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[4] *See* Letter to Brent J. Fields, Secretary, Securities and Exchange Commission, from John Nagel, Managing Director, Citadel, dated April 14, 2016 (Interpretive Guidance Letter).

[5] *See* Securities Exchange Act Release No. 34-78860 (Sept. 16, 2016), available at: https://www.sec.gov/rules/sro/chx/2016/34-78860.pdf; and Securities Exchange Act Release No. 34-80041 (Feb. 14, 2017), available at: https://www.sec.gov/rules/sro/chx/2017/34-80041.pdf.

[6] Securities Exchange Act Release No. 78102, 81 FR 40785 (June 23, 2016) at 40793.

[7] We also note recent research finding that an intentional access delay imposed on the TSX Alpha exchange in Canada has negatively impacted market liquidity and end investors. *See* Chen, Haoming and Foley, Sean and Goldstein, Michael A. and Ruf, Thomas, The Value of a Millisecond: Harnessing Information in Fast, Fragmented Markets (January 18, 2017) ("Chen Paper"). Available at SSRN: https://ssrn.com/abstract=2860359.

[8] *See* Form 19b-4 at 10.

[9] Securities Exchange Act Release No. 79998, 82 FR 10828, 10829 (Feb. 15, 2017) (the "NYSE MKT Proposal")

current market structure and the objectives of the proposed rule change, (b) how the proposed rule change will achieve those objectives, and (c) how the proposed rule change will protect investors and the public interest as required by Section 6(b)(5) of the Exchange Act. We urge the Commission to require NYSE MKT to amend its filing to provide this critical information to market participants.

III. The Proposed Delay Mechanism Is Not Designed to Protect Investors or the Public Interest

As noted earlier, in the aftermath of the approval of the IEX delay mechanism, numerous exchanges are now proposing their own intentional delay mechanisms. This proliferation of delay mechanisms does not protect investors or the public interest for several reasons.

First, the NYSE MKT Proposal will only increase the negative impacts to overall market quality that result from providing protected quote status to quotations subject to an intentional access delay. Market participants will be required to route orders to NYSE MKT when it is displaying the national best bid or offer ("NBBO"), even though its quotations may be stale and may change by the time orders makes their way through the intentional delay. This can create uncertainty regarding what is the true NBBO in the market at any given time, and may require market participants to re-route orders after failing to execute against stale quotations. In addition, locked and crossed markets may occur more frequently, and orders pegged to the midpoint of the NBBO may be pegged to a stale NBBO, as prices on NYSE MKT may not always reflect current market conditions. We note that, with respect to the IEX access delay, NYSE previously acknowledged that intentional access delays result in "investors receiving stale and misleading quote information".[10]

Second, the NYSE MKT Proposal can be expected to encourage the use of non-displayed pegged order types. This is because, under the Proposal, such pegged orders would not be subject to the Delay Mechanism and could immediately reprice in response to changes to the NBBO.[11] As a result, non-displayed pegged orders are provided greater protection than displayed orders. In response, market participants are likely to alter routing strategies to first sweep any potential non-displayed pegged order liquidity on NYSE MKT before seeking to execute against displayed liquidity on immediately accessible exchanges. Otherwise, executions that occur on these other exchanges may result in NYSE MKT pegged orders repricing before the market participant can reach them given the Delay Mechanism.[12]

[10] Letter to Brent J. Fields, Secretary, Securities and Exchange Commission, from Elizabeth K. King, General Counsel and Corporate Secretary, dated November 12, 2015 at page 5, available at: https://www.sec.gov/comments/10-222/10222-19.pdf ("NYSE Letter 2").

[11] NYSE MKT proposes that all of its pegged orders would no longer be displayed. NYSE MKT Proposal at 10829.

[12] For example, an investor seeks to buy 3,000 shares of stock while the national best offer is $10.00 with 2,000 shares displayed on two immediately accessible exchanges and a 1,000 share pegged order on NYSE MKT. The investor routes orders to the displayed quotations and one to NYSE MKT. Following the executions on the immediately accessible exchanges, and while the order routed to NYSE MKT is traversing the access delay, the offer moves to $10.01, and the pegged order on NYSE MKT reprices before the investor's order reaches it. In the

These factors increase the attractiveness of non-displayed pegged orders on NYSE MKT. We note that, with respect to the IEX access delay, NYSE stated that providing a "systematic and measurable advantage to its dark, pegged orders is not the hallmark of a 'transparent' market"[13] and "would lead to less transparent markets, wider spreads and higher costs for investors."[14] We agree. Encouraging non-displayed liquidity in this manner undermines market transparency and the price discovery function of our publicly accessible lit markets, and makes it even more likely that additional exchanges will seek to adopt similar intentional delays to favor their own non-displayed pegged orders.

Third, each intentional access delay approved by the Commission significantly increases market complexity and imposes additional costs on market participants, as they must modify order routing logic in response. NYSE MKT fails to adequately justify these costs and to demonstrate the benefits that will accrue to investors as a result of the Delay Mechanism. We note that, in the IEX context, NYSE specifically stated that "we believe that allowing exchanges to intentionally delay access to their protected quotations is not in the interests of investors."[15] We agree and urge the Commission to find the NYSE MKT Proposal to be inconsistent with Section 6(b)(5) of the Exchange Act.

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For the foregoing reasons, Citadel believes that the Commission should disapprove the NYSE MKT Proposal. Please feel free to call the undersigned at [redacted] with any questions regarding these comments.

Respectfully,

/s/ Stephen John Berger

Managing Director, Government & Regulatory Policy

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absence of the Delay Mechanism, and with all else equal, the investor should have executed against the pegged order on NYSE MKT at $10.00 rather than $10.01.

[13] NYSE Letter 2 at page 9.

[14] NYSE Letter 1 at page 4.

[15] NYSE Letter 1 at page 2.