CITADEL

April 20, 2016

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

Re: Release No. 34-77441; SR-NYSEArca-2016-44

Dear Mr. Fields:

Citadel LLC ("Citadel")[1] appreciates the opportunity to comment on the proposal by NYSE Arca, Inc. ("NYSE Arca") to create a new Discretionary Pegged Order ("DPO").[2] If the Securities and Exchange Commission ("SEC" or "Commission") approves exchange use of predictive order type such as the DPO, it would set the market on a dangerous path of rapidly increasing exchange order type complexity, which would reduce market resilience and make the markets more opaque for all investors.[3]

The NYSE DPO is virtually identical to the DPO proposed by IEX in the IEX Application.[4] IEX specifically designed its DPO to take advantage of the proposed IEX delay mechanism. Using high speed market data feeds that circumvent the IEX delay mechanism, and a complex predictive formula, IEX DPOs can reprice faster than any regular order type.[5] Although NYSE Group opposes permitting intentional delays of access to protected quotations, NYSE Arca nonetheless felt compelled to prepare to offer its own DPO to compete with the IEX DPO. NYSE Group has

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[1] Established in 1990, Citadel is a leading global alternative asset manager and market maker. With over 1,500 employees, 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, Dallas and Boston. On an average day, Citadel accounts for over 14 percent of U.S. listed equity volume, over 20 percent of U.S. listed equity option volume, and comparable market share in many of the world's leading financial markets.

[2] Securities Exchange Act Release No. 77441, 81 FR 17749 (March 30, 2016) (SR-NYSEArca-2016-44), *available at* https://www.sec.gov/rules/sro/nysearca/2016/34-77441.pdf.

[3] We explained these concerns in more detail in our comment letter regarding the Investors' Exchange, LLC's ("IEX") Form 1 Application ("the IEX Application"). *See* Letter to Brent Letters to Brent J. Fields, Secretary, Commission, from John C. Nagel, Esq., Managing Director, Citadel LLC at 5-7 (April 14, 2016), *available at* https://www.sec.gov/comments/10-222/10222-470.pdf.

[4] *See* proposed IEX Rule 11.190(b)(10) on Exhibit B of the IEX Application, *available at* https://www.sec.gov/rules/other/2015/investors-exchange-form-1-exhibits-a-e.pdf#page=45. For all practical purposes, IEX and the Exchange's Discretionary Pegged/Peg Order are the same and both are referred to herein as the "Discretionary Pegged Order" or "DPO."

[5] IEX itself pointed out in its comment letter on the NYSE Arca DPO filing that the NYSE Arca DPO would not have the same impact as the IEX DPO because NYSE Arca does not yet have an access delay mechanism. Letter to Brent Letters to Brent J. Fields, Secretary, Commission, from Sophia Lee, General Counsel, IEX Group, Inc., at 2 (April 15, 2015), *available at* https://www.sec.gov/comments/sr-nysearca-2016-44/nysearca201644-1.pdf.

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explained that it would also implement its own access delay mechanisms if the Commission permits intentional delay of access to protected quotations, as IEX proposes.[6]

We are concerned about the proliferation and adoption of exchange order types that rely on complex predictive algorithms to determine whether a particular order will execute and at what price. A wide range of permutations of formula-based, predictive exchange order types would be certain to follow approval of an exchange DPO. As these other forms of predictive order types emerge and evolve, it is unclear how the Commission could or would effectively review and police such order types and whether the Commission would propose guidance or limitations on how predictive order types may operate.[7]

We submit that the utility of these order types is marginal and does not outweigh the additional complexity that such order types would impose on the market. Chair White has expressed concern over the "large number of complex order types offered by the exchanges," and the DPO would accelerate this trend by breaking new ground in the area of exchange predictive order types.[8] Moreover, such order types encroach on the traditional role of broker-dealers by using inherent competitive advantages that exchanges have over broker-dealers.

For the foregoing reasons, and those set forth in our related comment letter on the IEX Application, we urge the Commission to disapprove this order type.

Please do not hesitate to contact me with any questions.

Sincerely,
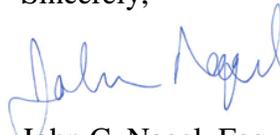
John C. Nagel, Esq.
Managing Director and
Sr. Deputy General Counsel
Citadel LLC

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[6] Letter to Brent Letter to Brent J. Fields, Secretary, Commission, from Elizabeth King, General Counsel and Corporate Secretary, New York Stock Exchange at 3 (April 18, 2016) *available at* https://www.sec.gov/comments/10-222/10222-472.pdf.

[7] This explosion of order type and exchange matching engine complexity would be compounded by approval of intentional access delays. As the CEO of Nasdaq recently stated, if the Commission permits intentional delays, the number of exchange order types "could jump from 360 to 5,000." Nicole Bullock, *Nasdaq warns on rise in equity order types if IEX given approval*, Financial Times (April 12, 2016) (quoting Robert Greifeld, chief executive of Nasdaq).

[8] *See* Mary Jo White, Chair, Commission, *Enhancing our Equity Market Structure*, Speech at the Sandler, O'Neill & Partners, L.P. Global Exchange and Brokerage Conference (June 5, 2014).

cc: Mary Jo White, Chair
      Kara M. Stein, Commissioner
      Michael S. Piwowar, Commissioner
      Stephen Luparello, Director, Division of Trading and Markets