

April 27, 2022

Securities Information Processor (“SIP”) Operating Committees for the Unlisted Trading Privileges and Consolidated Quotation Plans

Re: Odd Lot Proposal

We appreciate the opportunity to comment on the proposal to disseminate certain odd lot quotation data on the SIPs (the “Proposal”).¹

The Proposal contemplates the SIPs disseminating: 1) top-of-book odd lot quotes for each exchange, when the top-of-book quote is at or better than the BBO of such exchange, and 2) an odd lot NBBO, when the best of the odd lot quotes is at or better than the protected NBBO. This data would be published alongside (but separate from) the NBBO fields for round lot protected quotes.

We have consistently supported modernizing the regulatory framework to increase transparency regarding odd lots, including revising the definition of a round lot² and incorporating odd lots into execution quality statistics.³ However, we are concerned the current Proposal will create significant confusion, including with respect to:

- **Completeness of the data.** By disseminating only top-of-book odd lot quotes for each exchange, many odd lot quotes will still not be published by the SIPs, even if they are at or better than the BBO of the relevant exchange. This represents a departure from the SEC’s Market Data Infrastructure Rule, where all better-priced odd lot liquidity is required to be included in the “core data” published to market participants, and means a complete picture of odd lot liquidity will not be provided.⁴
- **Purpose of the data.** While the odd lot quotation data may be intended for “information purposes only,” it is likely to create confusion regarding how key elements of the regulatory framework apply to odd lot quotes, such as best execution, the order protection rule, and the limit order display rule.

¹ https://www.ctaplan.com/publicdocs/ctaplan/CTA_Odd_Lots_Proposal_2022.pdf

² See Citadel Securities Letter on the Market Data Infrastructure Rule (May 26, 2020), available at: <https://www.sec.gov/comments/s7-03-20/s70320-7235178-217088.pdf>.

³ We have advocated modernizing Rule 605 to, among others, include odd lot orders and odd lot quotes (provided that size is taken into account) in order to increase the quality of disclosure provided to investors. See Citadel Securities, “Enhancing Competition, Transparency, and Resiliency in U.S. Financial Markets” (May 2021) at page 7, available at: <https://s3.amazonaws.com/citadel-wordpress-prd101/wp-content/uploads/sites/2/2021/05/03130457/EnhancingCompetitionTransparencyandResiliencyinUSFinancialMarkets.pdf>.

⁴ 86 FR 18596 (Apr. 9, 2021) at 18612, available at: <https://www.govinfo.gov/content/pkg/FR-2021-04-09/pdf/2020-28370.pdf>.

For example, calculating and publishing an “odd lot NBBO” risks creating the appearance that a new benchmark is being established even though odd lots are treated differently than round lots under many relevant rules and regulations.⁵

At a minimum, the following questions must be clarified:

- How are best execution obligations interpreted when the SIP contains both protected and unprotected quotes?
- What is the impact on the pricing of pegged orders, such as midpoint orders, due to setting a best-bid or best-offer with an unprotected quote?
- How is the routing of certain orders, such as ISOs, affected? Will market participants be required to make technological changes as a result?
- What will be the impacts of significantly increasing the number of locked/crossed markets between protected and unprotected quotes?

A better solution to address the growth in odd lot trading is to recalibrate the definition of a round lot as directed by the SEC in its final Market Data Infrastructure Rule, thereby extending the associated regulatory protections to a significant number of quotes that are currently classified as odd lots. As such, we recommend that the SIP Operating Committees either 1) wait for the Market Data Infrastructure Rule to be implemented, or 2) pursue a market-led approach that is consistent with the Market Data Infrastructure Rule (including revising the round lot definition). This approach has the additional benefit of not requiring market participants to undertake costly technological changes that may have to be modified or reversed once the Market Data Infrastructure Rule is implemented.

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We appreciate the opportunity to provide comments on the odd lot proposal. Please feel free to call the undersigned at (646) 403-8200 with any questions regarding these comments.

Respectfully,

/s/ Stephen John Berger
Managing Director
Global Head of Government & Regulatory Policy

⁵ In addition, the shares included in the “odd lot NBBO” may not represent incremental liquidity to the protected NBBO, as some or all of those shares may have been aggregated to form the protected round lot. See Example 3 in the Proposal, where some of the 60 shares on offer included in the “odd lot NBBO” have been included in the protected NBBO. This risks creating further investor confusion.