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# Enhancing Competition and Innovation in U.S. Financial Markets

## POLICY RECOMMENDATIONS FOR THE U.S. SECURITIES AND EXCHANGE COMMISSION

The United States has the deepest, most liquid capital markets in the world, fostering groundbreaking companies, technology, and innovation that are vital ingredients to our economic strength. It is incumbent on policymakers to safeguard this national treasure, and thoughtful regulation from the Securities and Exchange Commission is critical to preserving well-functioning capital markets. In this regard, Citadel Securities is proud to consistently advocate for measures designed to enhance market efficiency, resiliency, competition, and transparency.

As the Securities and Exchange Commission reviews financial market regulation, we provide in this White Paper concrete policy recommendations covering the following important markets:

- Equities
- Equity Derivatives
- U.S. Treasuries
- Credit, and
- Digital Assets

**Across these diverse asset classes, our recommendations are aimed at:**

1. Increasing market competition and transparency, and reducing trading costs for investors;
2. Reducing regulatory inefficiencies and unleashing a new wave of innovation; and
3. Ensuring that critical market infrastructure is secure, resilient, and efficient.

*A summary of our specific policy recommendations is contained in the Appendix.*

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# I. Equities

U.S. equity markets have been under a microscope in recent years, with the Commission closely scrutinizing myriad aspects of market structure, including venue competition dynamics, order routing and best execution, and execution quality disclosures. Ultimately, this review clearly demonstrated that the U.S. equity markets are efficient and resilient – performing well during all types of market conditions – and remain the fairest, most transparent, and competitive markets in the world. Recent initiatives have further increased operational resilience and market transparency, such as shortening the settlement cycle and updating execution quality disclosures,[1] and retail investors continue to benefit from billions in annual savings by obtaining better prices than those publicly quoted and transacting at such prices for more size than is publicly displayed.[2] Thus, significant structural changes are not warranted.

Nevertheless, there are several areas that may benefit from enhancements as market structure and technology continue to evolve. These include decreasing the regulatory costs associated with transacting in our markets, modernizing key regulatory frameworks, such as those that apply to self-regulatory organizations ("SROs") and alternative trading systems ("ATSs"), and continuing to improve the level of transparency provided to investors.

## 1. APPROPRIATELY CALIBRATE MINIMUM QUOTING INCREMENTS AND ACCESS FEES

The Commission recently finalized a rule that (i) reduces the minimum quoting increment to a half-penny on-exchange for certain "tick-constrained" symbols and (ii) reduces the access fee cap for all symbols by two-thirds from 30 cents (per 100 shares) to 10 cents (per 100 shares).[3] In doing so, the Commission defined the universe of "tick-constrained" symbols too broadly by solely referencing a given symbol's quoted spread, despite a diverse group of commenters urging the Commission to adopt a more targeted approach that also takes into account liquidity characteristics.[4] In addition, the Commission significantly reduced the access fee cap for all symbols, despite many commenters warning that doing so constitutes a risky,

[1] Shortening the Securities Transaction Settlement Cycle, 88 FR 13872 (Mar. 6, 2023) and Disclosure of Order Execution Information, 89 FR 26428 (Apr. 15, 2024).

[2] *See, e.g.,* Citadel Securities comment letter on equity market structure (Mar. 31, 2023), available at: https://www.sec.gov/comments/s7-30-22/s73022-20163091-333078.pdf.

[3] Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders, 89 FR 81620 (Oct. 8, 2024), available at: https://www.govinfo.gov/content/pkg/FR-2024-10-08/pdf/2024-21867.pdf.

[4] *See, e.g.,* Citadel Securities, available at: https://www.sec.gov/comments/s7-30-22/s73022-20164212-334052.pdf; BlackRock at 5, available at: https://www.sec.gov/comments/s7-32-22/s73222-20163995-333998.pdf ("BlackRock recommends that in addition to the time weighted quoted spread, the Commission should incorporate other factors for designating tick sizes, such as the average quoted size, ratio of average quoted size to average traded size, daily traded volume, or stock price."); State Street at FN 5, available at: https://www.sec.gov/comments/s7-31-22/s73122-20162728-332114.pdf ("In our Joint Industry Letter, we recommended defining tick constrained symbols through an objective, multi-factor approach that considers quoted spreads and displayed liquidity, similar to that recently suggested by Cboe, rather than applying tick reform to an expansive universe of securities."); Vanguard at FN 9, available at: https://www.sec.gov/comments/s7-31-22/s73122-20162793-332197.pdf ("We agree with the ICI that the Commission should consider applying sub-penny tick sizes only to stocks with a time weighted average quoted spread of $0.011 or less that also have large quoted display size and relatively high levels of liquidity during an evaluation period to ensure that adequate liquidity exists to support narrower tick increments."); Invesco at 3, available at: https://www.sec.gov/comments/s7-31-22/s73122-20162774-332174.pdf ("Invesco suggests that the Commission define 'tick-constrained stocks' as those that trade with an average spread of $0.011 or less for the majority of the trading session and for which there is a balance or near equilibrium of multiple bids and offers at the top of the central order book during that time."); ICI at 6, available at: https://www.sec.gov/comments/s7-30-22/s73022-20162791-332193.pdf ("In determining which stocks qualify as 'tick-constrained,' we recommend that the Commission adopt a more precise definition via additional qualifying metrics"); CBOE at 3, available at: https://www.sec.gov/comments/s7-31-22/s73122-20162799-332207.pdf ("we started with the complete universe of NMS securities, and applied three constraints – quoted spread, quote-size-to-trade-size ratio, and notional turnover ratio – to arrive at a group of securities that are quantifiably tick-constrained."); Schwab at 6, available at: https://www.sec.gov/comments/s7-32-22/s73222-20162957-332913.pdf ("We define 'tick-constrained' to mean symbols that have an average quoted spread of 1.1 cents or less and a reasonable amount of available liquidity at the NBBO.").

ill-conceived, and poorly designed experiment that could negatively impact exchange competition and liquidity provision.[5] The rule is now being challenged in court and the Commission has stayed its effective date.[6]

In light of the Commission's stay and the ongoing concerns from market participants regarding unintended consequences (including observations from Japan, where quoted sizes at the best prices decreased significantly following a reduction in the minimum quoting increment for certain stocks), we recommend that the Commission amend the rule to more closely reflect the general consensus in the comment file, including by defining "tick-constrained" more narrowly and reducing the access fee cap proportionately (i.e. by 50%) for only those "tick-constrained" symbols.[7] Consistent with these principles, we recommend that the Commission conduct a two-year pilot program to assess the impact of reducing the minimum quoting increment to a half-penny for certain symbols. Specifically, we recommend the Commission:

- Identify the 200 most liquid symbols (based on average quoted size at the NBBO) that have a time weighted quoted spread of less than or equal to 1.25 cents (calculated over a 3 month period).
- Randomly divide these 200 symbols into two groups: (a) a test group where the minimum quoting increment is reduced to a half-penny and (b) a control group.
- Assess the impact that the reduced minimum quoting increment has on average quoted size at the NBBO.

**Equities Recommendation #1:** The Commission should amend the recent Tick Sizes and Access Fees Rule by:

- Defining "tick-constrained" more narrowly and conducting a two-year pilot program to assess the impact of reducing the minimum quoting increment to a half-penny for certain symbols. Specifically, we recommend the Commission (i) identify the 200 most liquid symbols (based on average quoted size at the NBBO) that have a time weighted quoted spread of less than or equal to 1.25 cents (calculated over a 3 month period), (ii) randomly divide these 200 symbols into two groups: (a) a test group where the minimum quoting increment is reduced to a half-penny and (b) a control group, and (iii) assess the impact that the reduced minimum quoting increment has on average quoted size at the NBBO.
- Reducing the access fee cap proportionately (i.e. by 50%) only for those "tick-constrained" symbols that are subject to a reduced minimum quoting increment.

## 2. ADDRESS THE GROWTH OF "PRIVATE ROOMS" ON ATSs

In the more than twenty years since Regulation ATS was adopted, alternative trading systems ("ATSs") have increased in significance and have become an integral part of U.S. equity markets, accounting for more than 10% of total market volume.[8] It is, therefore, appropriate for the Commission to re-examine Regulation ATS to ensure that the regulatory framework remains fit for purpose.

[5] *See, e.g.,* Citadel Securities letter, available at: https://www.sec.gov/comments/s7-30-22/s73022-20164212-334052.pdf.

[6] Exch. Act Rel. No. 101899 (Dec. 12, 2024), available at: https://www.sec.gov/files/rules/other/2024/34-101899.pdf.

[7] *See, e.g.,* Letter from Citadel Securities, Charles Schwab, and NYSE (March 6, 2023), available at: https://www.sec.gov/comments/s7-30-22/s73022-20158675-326601.pdf.

[8] *See* https://www.finra.org/filing-reporting/otc-transparency/ats-quarterly-statistics.

One recent trend that deserves particular attention is the emergence of so-called "private rooms," where a single firm can elect to interact with order flow from one or more chosen counterparties to the exclusion of everyone else on the ATS, essentially transforming the ATS into a single-dealer platform. These private rooms raise a number of concerns that warrant regulatory scrutiny, including:

- **Consistency with the ATS definition.** In promulgating Regulation ATS, the Commission established an alternative registration framework for certain multilateral trading systems that otherwise meet the definition of an "exchange." In order to qualify as an "exchange," the venue must bring together the orders of "multiple buyers and sellers" and use "established, non-discretionary methods [. . .] under which such orders interact with each other."[9]

  One-to-one or one-to-many private rooms do not appear to satisfy those requirements and instead closely resemble the single-dealer systems that the Commission specifically excluded from the definition of an "exchange."[10] Thus, the notion of establishing a fully siloed single-dealer system under the umbrella of an ATS does not appear to be contemplated by Regulation ATS.

- **Fair access.** ATSs are permitted to ignore Commission fair access rules that apply to exchanges and instead can openly discriminate among market participants with respect to access, functionality, order interaction and fees – completely arbitrarily – as long as the ATS does not cross a 5% average daily trading volume threshold (evaluated on a security-by-security basis). Private rooms represent the latest (and most extreme) iteration of these discriminatory practices.

  In light of these market developments, it is clear that the 20-year old volume-based threshold is no longer fit for purpose and should be eliminated. While ATSs undermine its application by ensuring they remain below the threshold (including by delisting specific high-volume securities for short periods of time), in contrast all exchanges must comply with fair access rules, even those with trading volumes below the ATS threshold and below individual ATSs. This creates a significant competitive imbalance that undermines the price transparency provided by exchanges. ATSs should only be allowed to determine execution priority based on the characteristics of an order, and not the identity of the sender.

- **ATS transparency.** The Commission has implemented rules designed to ensure that ATSs are fully disclosing available trading protocols and arrangements with liquidity providers.[11] However, ATSs appear to be only providing minimal disclosure regarding private rooms on their platforms, omitting key details such as (i) the process for establishing a private room on the venue (including assurances that the ATS will not arbitrarily preference certain market participants over others), (ii) the rationale for any new order types that are only made available in private rooms (and how those order types operate in practice),[12] and (iii) the rules that govern each private room currently available on the platform (which appear to be set by individual subscribers, rather than the trading venue, and which may advantage or disadvantage the participating parties in non-transparent ways). The Commission and FINRA should ensure ATSs provide more transparency regarding the operation of private rooms.

[9] *See* §240.3b-16.

[10] 63 FR 70844 (Dec. 22, 1998) at 70853, available at: https://www.govinfo.gov/content/pkg/FR-1998-12-22/pdf/98-33299.pdf.

[11] *See* Form ATS-N, available at: https://www.sec.gov/files/formats-n.pdf.

[12] *See, e.g.,* IntelligentCross ATS-N Part III, Item 7 ("Conditional Orders are not accepted outside of the ATS' Hosted Pools"), available at: https://www.sec.gov/Archives/edgar/data/1708826/000170882625000002/xslATS-N_X01/primary_doc.xml.

- **Rule 605 execution quality reports.** Retail investors in particular benefit from detailed execution quality disclosures under Commission rules, which have recently been amended to further improve transparency.[13] However, it appears that ATSs are circumventing execution quality disclosure requirements by automatically deeming all orders to be "not held" (even retail orders executed in ATS private rooms), thus excluding them from Rule 605.[14] A retail order should benefit from equivalent levels of execution quality transparency, regardless of where it is executed, and the Commission and FINRA should ensure all ATSs publish Rule 605 reports.
- **Rule 606 order routing reports.** The Commission and FINRA should ensure that Rule 606 order routing reports are produced in a consistent and granular manner such that customers can determine how their orders are being handled by their broker-dealer, including whether orders are being routed to a specific segmented pool within an ATS, such as a private room.
- **Best execution.** Retail investors also benefit from rigorous best execution rules that are issued by FINRA, approved by the Commission, and overseen jointly by FINRA and the Commission. However, it is important to note that, when a retail order is executed in an ATS private room, neither the ATS nor the executing counterparty in the private room owe any duty of best execution. Other rules designed to protect retail investors, such as the Manning Rule which prohibits trading ahead of retail customer orders, will similarly not apply to the executing counterparty, even if there is information leakage that occurs on the ATS.
- **Monitoring and surveillance.** In delegating authority to a specific ATS user to define the rules that govern the operation of a given private room, it is unclear how the ATS carries out its required oversight responsibilities, including with respect to market surveillance. Under Commission rules, the ATS is responsible for each order and execution on the venue.

**Equities Recommendation #2:** The Commission and FINRA should address the problematic growth of "private rooms" on ATSs (where a single firm can elect to interact with order flow from one or more chosen counterparties to the exclusion of everyone else on the ATS) by:

- Clarifying that establishing a siloed single-dealer private room is not permitted under Regulation ATS.
- Applying fair access rules to all ATSs by eliminating the current volume-based threshold.
- Requiring ATSs to provide more transparency regarding each liquidity pool available on the platform.
- Ensuring all ATSs publish Rule 605 reports instead of incorrectly deeming all orders to be "not held," thus excluding them from Rule 605.
- Ensuring best execution requirements are rigorously enforced.
- Requiring ATSs to provide more transparency regarding how key regulatory requirements, such as market surveillance, are carried out with respect to trading activity conducted in private rooms.

[13] Exch. Act Rel. No. 99679 (Apr. 15, 2024), available at: https://www.sec.gov/files/rules/final/2024/34-99679.pdf.

[14] *See, e.g.,* IntelligentCross ATS-N Part III, Item 7 ("All orders entered into the ATS by Subscribers are Not Held"), available at: https://www.sec.gov/Archives/edgar/data/1708826/000170882625000002/xslATS-N_X01/primary_doc.xml.

## 3. FIX THE CONSOLIDATED AUDIT TRAIL

The Consolidated Audit Trail ("CAT") has quickly become the largest market surveillance database in the world while bypassing Congressional authorization and adequate oversight. This has predictably resulted in wasteful spending, ineffective governance, and a plethora of data privacy and cybersecurity concerns. As Commissioners Peirce and Uyeda recently put it: "The CAT system is expensive and essentially funded by the public but operates outside the direct oversight or authorization of Congress."[15] Robust market surveillance is critical – but it must be implemented in a manner that is efficient and subject to appropriate oversight.

The CAT's costs are staggering – over a billion dollars to develop the system and an annual budget of ~$250 million that is significantly increasing each year.[16] While the three largest exchange groups largely control the CAT decision-making process, the Commission, by a 3-2 party-line vote in 2023, approved a funding mechanism that requires market participants to bear at least ~80%, and up to 100%, of these operational costs in perpetuity, even though those costs were never included in the Commission's budget appropriated by Congress.[17] Meanwhile, the Commission has neglected to address the widespread concerns about the system's vulnerability to cybersecurity attack. This clearly is not sustainable and the Commission must take immediate action. We recommend a two-step approach.

### (i) Immediately Reduce Industry Burdens

Immediate action can be taken by the Commission to mitigate the CAT's harmful effects on market participants, including by:

- **Halting the payment of CAT fees pending a comprehensive review**. Payments under the funding mechanism narrowly approved under former Chair Gensler began only in November 2024, with market participants suddenly compelled to pay tens of millions of dollars *per month* in likely unrecoverable fees for a system that has not been authorized by Congress. The Commission should halt any further payment of fees until it has conducted a comprehensive review of the CAT system, including its funding and governance structure. This review must consider whether the aggregate costs of the current approach outweigh any benefits.[18]
- **Placing a moratorium on further changes that increase the cost of the CAT.** The Commission should ensure the CAT budget does not further increase while it determines next steps by immediately halting any further expansion of the system, its functionality, and associated data reporting requirements.

### (ii) Chart a Path Forward

While robust market surveillance is critical, the CAT is a radical departure from prior SRO-led audit trails and does not appear to be a lawful exercise of the Commission's authority. Therefore, the Commission should re-consider the entire project. Key principles should include:

- **Focus on Cost Efficiency**. The authorized budget should be clearly defined (with a hard limit) and transparent. All design decisions regarding scope and technology must maximize cost efficiency.

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[15] Hester M. Pierce & Mark T. Uyeda, Dissenting Statement on Electronic Submission of Certain Materials Under the Securities Exchange Act of 1934 and Amendments Regarding the FOCUS Report (Dec. 16, 2024), available at: https://www.sec.gov/newsroom/speeches-statements/peirce-uyeda-statement-focus-report-121624.

[16] *See, e.g.,* Citadel Securities comment letter (July 14, 2023), available at: https://www.sec.gov/comments/4-698/4698-224499-470142.pdf and https://catnmsplan.com/cat-financial-and-operating-budget. The year-over-year increase in 2025 was approximately 15%. *See* https://catnmsplan.com/cat-financial-and-operating-budget.

[17] 88 Fed. Reg. 62628 (Sept. 12, 2023) at 62684. The 80% figure takes into account FINRA's pass-through of its portion.

[18] *See, e.g.,* Statement on the Order Granting Temporary Conditional Exemptive Relief from Certain Requirements of the National Market System Plan Governing the Consolidated Audit Trail, Commissioner Hester M. Peirce (July 8, 2022) ("The dollars, distraction, dissension, and drain of endless meetings over the past several years of CAT implementation are reasons enough to reconsider the entire project; the risks to liberty and security posed by the project should compel us to do so."), available at: https://www.sec.gov/newsroom/speeches-statements/peirce-statement-consolidated-audit-trail-070822.

The Commission should seek to learn from past mistakes by requiring an independent audit of the entire CAT system in order to identify key recommendations that would dramatically streamline the budget of any future market-wide audit trail, such as extending certain reporting timeframes that require costly processing and computation.

The Commission should provide the SROs with far greater flexibility to achieve necessary budget discipline and to appropriately limit the scope of data collected. We note that in 2016 both the Commission and the SROs estimated that the annual budget for the CAT would be under $50 million, a much more reasonable budget than current levels.[19]

- **Authorization by Congress**. The development of any market-wide audit trail, and its funding, should be authorized by Congress (and included in the Commission's budget) in order to ensure appropriate oversight. In the absence of such authorization, market surveillance should be conducted using the tools that preceded the CAT.
- **Data Privacy and Cybersecurity**. Any market-wide audit trail must be subject to robust data privacy and cybersecurity protections. The Commission should formally codify limits on the scope of customer information collected[20] and implement the data security enhancements initially proposed in 2020 (with appropriate revisions).[21]

**Equities Recommendation #3:** The Commission should address the multitude of issues associated with the CAT, including by:

- Immediately reducing industry burdens by (i) halting the payment of CAT fees and (ii) placing a moratorium on any further changes that increase the cost of the CAT.
- Charting a path forward that includes robust market surveillance while ensuring that any audit trail is (i) cost-efficient, (ii) authorized by Congress (and included in the Commission's budget), and (iii) designed with data privacy and cybersecurity concerns in mind.

## 4. IMPROVE RULE 605 AND RULE 606 DISCLOSURES

We have consistently supported efforts by the Commission to increase public disclosure of execution quality information, including the revisions to Rule 606 that were implemented in 2019 and the recent, yet to be implemented, revisions to Rule 605. It is critically important that there are accurate, transparent, and standardized execution quality metrics that allow order flow to be directed on the merits. However, both sets of disclosures can be improved. In particular, we recommend that the Commission (i) clarify open questions regarding the implementation of the new Rule 605 requirements, such as the treatment of "good-til-cancelled" orders and (ii) rescind the costly and ineffective 606(b)(3) reports that require broker-dealers to store significant amounts of data regarding how each "not held" order is routed and executed that must be made available upon request (but are infrequently requested in practice).[22]

[19] 81 Fed. Reg. 84696 (Nov. 23, 2016) at 84801, available at: https://www.govinfo.gov/content/pkg/FR-2016-11-23/pdf/2016-27919.pdf.

[20] Exemption From the Requirement to Report Certain Personally Identifiable Information to the Consolidated Audit Trail, Exch. Act Rel. No. 102386 (Feb. 10, 2025), available at: https://www.sec.gov/files/rules/sro/nms/2025/34-102386.pdf.

[21] Proposed Amendments to the National Market System Plan Governing the Consolidated Audit Trail To Enhance Data Security, 85 FR 65990 (Oct. 16, 2020), available at: https://www.govinfo.gov/content/pkg/FR-2020-10-16/pdf/2020-18801.pdf.

[22] *See* FIF Comment Letter on OMB request on Rule 606 (Mar. 3, 2022), available at: https://www.fif.com/index.php/working-groups?start=100.

**Equities Recommendation #4:** The Commission should further improve execution quality disclosures for investors by (i) answering open questions regarding the implementation of the new Rule 605 requirements, such as the treatment of "good-til-cancelled" orders and (ii) rescinding the costly and ineffective Rule 606(b)(3) reports that require broker-dealers to store significant amounts of data regarding how each "not held" order is routed and executed that must be made available upon request (but are infrequently requested in practice).

## 5. RECALIBRATE SRO LIMITATION OF LIABILITY RULES

The SROs – FINRA and the national securities exchanges – play an important role in implementing the self-regulatory system in our U.S. equity markets. However, over time, the national securities exchanges have dramatically transformed from public utilities to for-profit commercial enterprises that directly compete with market participants. Further, certain regulatory requirements, such as best execution, affirmatively require market participants to transact on these venues. Thus, it is important to modernize the regulatory framework applicable to SROs to take into account this transformation, ensure a level playing field, and protect market participants who are required to transact on-exchange.

All of the for-profit national securities exchanges have adopted rules that purport to limit their liability to members, including for technology outages and other instances of simple negligence. These limits are typically set at $500,000 per month in aggregate across all members (with additional per day and per member limits), thresholds that have not been updated since exchanges first adopted these rules in the early 2000s, despite subsequent dramatic changes in market structure, technology, and trading volume. Recent exchange outages have clearly demonstrated that these liability caps are grossly insufficient, exposing market participants to significant losses.[23] This dynamic gives exchanges a competitive advantage compared to other market participants and hurts investors who are required to transact on-exchange under Commission rules. As a result, the Commission should require the exchanges to revise their outdated limitation of liability rules in order to better protect investors and appropriately incentivize investments in resiliency and recoverability, including by (i) increasing the liability caps to well above the current $500,000 per month limit and (ii) requiring the exchanges to rollover unused amounts each month to further increase the cap.

**Equities Recommendation #5:** The Commission should require exchanges to revise their outdated limitation of liability rules in order to better protect investors and appropriately incentivize investments in resiliency and recoverability, including by (i) increasing the liability caps to well above the current $500,000 per month limit and (ii) requiring the exchanges to rollover unused amounts each month to further increase the cap.

## 6. APPROPRIATELY IDENTIFY "PROFESSIONAL CUSTOMERS"

The SROs should introduce a "professional customer" definition in the U.S. equity market, as is done in the listed equity options market, in light of the growth of retail-priority programs. As exchanges grant priority (or other benefits) to orders entered on behalf of retail customers, it is important to exclude "professional customers" in order to prevent misuse. Without this concept, professional traders can masquerade as retail customers and obtain execution priority, which adversely affects fill rates for institutional investors' limit orders and impairs the provision of liquidity by market makers. The current "retail order" definition employed by exchanges contains loopholes and lacks effective enforcement.

[23] *See, e.g.,* "Interactive Brokers Reveals $48 Million Loss From NYSE Glitch," CNBC (June 26, 2024), available at: https://www.cnbc.com/2024/06/26/interactive-brokers-reveals-48-million-loss-from-nyse-glitch.html; "Nasdaq Resolves System Error Affecting Stock Orders," Reuters (Dec. 13, 2023), available at: https://www.reuters.com/markets/us/nasdaq-hit-by-system-error-affecting-thousands-stock-orders-bloomberg-news-2023-12-14/; and "NYSE Glitch Leads to Busted Trades, Prompts Investigation," Reuters (Jan. 24, 2023), available at: https://www.reuters.com/markets/us/some-nyse-listed-stocks-briefly-halted-trading-after-market-open-2023-01-24/.

**Equities Recommendation #6:** The exchanges should introduce a "professional customer" definition in the U.S. equity market to identify professional traders masquerading as retail customers. This definition should be based on the listed equity options market (taking into account our proposed enhancements below).

## 7. CHECK EXCHANGE PROLIFERATION

The number of equities exchanges has significantly increased in recent years. While we strongly support market competition and innovation, there are also significant costs associated with this proliferation, including those related to connectivity, physical infrastructure, and operational complexity. Thus, the Commission should ensure that this growth is not resulting from artificial economic incentives, and that new exchanges have real value propositions.

One important revenue source for new exchanges – transaction fees – was recently examined by the Commission as part of its final rule on "Minimum Quoting Increments and Access Fees," with the Commission determining that the access fee cap should be significantly reduced, in part due to "a proliferation of new exchanges, often within the same exchange group, that implement varied pricing models."[24] Above, we provide recommendations designed to enable the Commission to implement this rule as quickly as possible.

We also recommend that the Commission examine other key revenue sources, including market data fees, with a view to eliminating artificial economic incentives. In particular, we recommend the Commission modify how SIP revenue is shared with exchanges by amending the allocation formula to increase the weight of trade executions (versus quotations) and by introducing a minimum volume threshold for participation (e.g. 2% market share). In addition, until a new equities exchange eclipses the minimum volume threshold, it should not be permitted to charge more than $2,500/month for quote feeds, $5,000/month for cross connect fees, and $250/month per session fee.

**Equities Recommendation #7:** The Commission should modify how SIP revenue is shared with exchanges by amending the allocation formula to increase the weight of trade executions (versus quotations) and by introducing a minimum volume threshold for participation (e.g. 2% market share). In addition, until a new equities exchange eclipses the minimum volume threshold, it should not be permitted to charge more than $2,500/month for quote feeds, $5,000/month for cross connect fees, and $250/month per session fee.

## 8. ELIMINATE INTENTIONAL DELAY MECHANISMS

Regulation NMS provides price priority for displayed and accessible quotations, as trading centers must prevent the execution of a trade at a price inferior to a "protected" quotation. In order for a quotation to be "protected," Rule 600 of Regulation NMS provides that it must be "immediately and automatically" accessible.[25] When adopting Regulation NMS, the Commission clarified that "[t]he term 'immediate' precludes any coding of automated systems or other type of intentional device that would delay the action taken with respect to a quotation."[26] However, in 2016, the Commission opted to unilaterally reinterpret the term "immediate" to allow for "de minimis" intentional delays.[27]

[24] Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders, 89 FR 81620 (Oct. 8, 2024) at 81644, available at: https://www.govinfo.gov/content/pkg/FR-2024-10-08/pdf/2024-21867.pdf.

[25] 17 CFR 242.600(b)(3).

[26] Exch. Act Rel. No. 51808 (June 9, 2005), available at: https://www.sec.gov/files/rules/final/34-51808.pdf.

[27] Interpretation Regarding Automated Quotations Under Regulation NMS, 81 FR 40785 (June 23, 2016), available at: https://www.govinfo.gov/content/pkg/FR-2016-06-23/pdf/2016-14876.pdf.

Since then, several exchanges and alternative trading systems have attempted to implement their own variation of an intentional delay – typically combined with embedded logic in the matching engine that enables displayed quotations to be adjusted or cancelled during the intentional delay – while still maintaining protected quote status.[28] As the Commission has evaluated these proposals that have the practical effect of making displayed quotes "conditional," it is clear that there is not a defined framework for determining what constitutes a "de minimis" intentional delay and the degree to which protected quotes can be made "conditional," leading to arbitrary decision making. Further, recent proposals have sought to extend protected quote status to asymmetric intentional delays that are only applied when a market participant seeks to access liquidity, which are particularly nefarious, as they provide certain market participants with a "last look" option to cancel resting orders before execution, impairing efficient access to displayed quotes and reducing fill rates and increasing transaction costs for investors.

We recommend that the Commission reverse its decision to impermissibly reinterpret the term "immediate" in Regulation NMS and cease granting protected quote status to displayed quotations that are not immediately accessible in practice.

**Equities Recommendation #8:** The Commission should reverse its 2016 interpretation regarding intentional delays and cease granting protected quote status to displayed quotations that are not immediately accessible in practice.

## 9. MAKE SECTION 31 FEES MORE FAIR AND PREDICTABLE

U.S. equity and equity options market participants are responsible for funding the Commission's budget, which is assessed through Section 31 fees. As these costs continue to increase, it is important for the Commission to improve the fairness of the Section 31 framework. For example, Section 31 fees should not dramatically fluctuate from year-to-year (as they have recently), and it does not appear appropriate for U.S. equity and equity options market participants to fund the entirety of the Commission's budget given the multitude of asset classes that the Commission oversees.

**Equities Recommendation #9:** The Commission should improve the fairness of the Section 31 regime, including by (i) making the fee more stable and predictable year-over-year and (ii) spreading it across a broader range of asset classes under the Commission's purview, instead of funding the Commission's budget through a fee on only equities and equity options.

## 10. ENHANCE TRANSPARENCY REGARDING THE RULEMAKING PROCESS

The Exchange Act requires the Commission to determine whether a rulemaking will "promote efficiency, competition, and capital formation"[29] and prohibits any rulemaking that "would impose a burden on competition not necessary or appropriate in

[28] *See, e.g.,* 84 Fed. Reg. 30282 (June 26, 2019), available at: https://www.govinfo.gov/content/pkg/FR-2019-06-26/pdf/2019-13537.pdf and 87 FR 79401 (Dec. 27, 2022), available at: https://www.finra.org/sites/default/files/2022-12/sr-finra-2022-032-federal-register-notice.pdf.

[29] 15 U.S.C. § 78c(f).

furtherance of the purposes" of the statute.[30] However, in recent years, the Commission has attempted to skirt these fundamental requirements to assess the economic consequences of proposed regulation by issuing multiple related proposals around the same time, each with a siloed economic analysis that completely ignores the potential effects of the other related proposals.[31] For example, the Commission issued *four* separate equity market structure proposals on the same day, without even attempting to consider the effects these proposals would have on each other.[32]

This new approach to rulemaking inappropriately outsources to market participants the task of analyzing the *cumulative* impact of several related rulemakings. Instead, the Commission should update its "Current Guidance on Economic Analysis in SEC Rulemakings"[33] to specifically clarify that, with respect to rulemaking proposals that are related, the Commission must assess the cumulative economic effects and ensure policy consistency across the rules.

**Equities Recommendation #10:** The Commission should update its "Current Guidance on Economic Analysis in SEC Rulemakings" to specifically clarify that, with respect to rulemaking proposals that are related, the Commission must assess the cumulative economic effects and ensure policy consistency across the rules.

## 11. ADDRESS EXCESSIVE DATA FEES

In the current market structure, market data fees constitute a material percentage of the overall revenue generated by the exchanges, significantly raise trading costs for all investors, large and small, and increase barriers to entry for smaller broker-dealers. In recent years, the Commission has taken a more active role in ensuring market data fees are fair, reasonable, equitable and non-discriminatory.[34] It is important that the Commission closely scrutinize these filings to ensure consistency with the Exchange Act.

In addition, the Dodd-Frank Act amended the Exchange Act to permit SRO filings that establish or change a member fee to become immediately effective upon filing (which the exchanges have leveraged for not only market data fees, but also other fees such as those for CAT). Further, these filings are not required to be affirmatively approved by the Commission, and purport to be immune from judicial review. Even if the Commission objects to a fee filing, an exchange can repeatedly withdraw and refile to collect the relevant fee, thus circumventing any Commission control over the process. We urge the Commission to advocate for commonsense reform in this area, including reversing the Dodd-Frank Act change that insulates exchange fee filings from appropriate review.

**Equities Recommendation #11:** The Commission should closely scrutinize fee filings to ensure market data fees are fair, reasonable, equitable and non-discriminatory. In addition, the Dodd-Frank Act statutory change that insulates exchange fee filings from appropriate review should be reversed.

[30] 15 U.S.C. § 78w(a)(2).

[31] *See, e.g.,* Citadel Securities comment letter on equity market structure (Mar. 31, 2023), available at: https://www.sec.gov/comments/s7-30-22/s73022-20163091-333078.pdf.

[32] *See* SEC Open Meeting Agenda (Dec. 14, 2022), available at: https://www.sec.gov/newsroom/meetings-events/open-meeting-12142022.

[33] Memorandum from the Division of Risk, Strategy, and Financial Innovation and the Office of the General Counsel (March 16, 2012), available at: https://www.sec.gov/divisions/riskfin/rsfi_guidance_econ_analy_secrulemaking.pdf.

[34] *See, e.g.,* Staff Guidance on SRO Rule Filings Relating to Fees (May 2019), available at: https://www.sec.gov/about/staff-guidance-sro-rule-filings-fees.

## 12. ENHANCE CONTINUED LISTING STANDARDS

Both Congress and the Commission have concluded that highly speculative, low-priced securities pose heightened risks to investors, and can be associated with fraud and manipulative trading schemes.[35] In recent years, however, the number of low-priced securities listed on exchanges has significantly increased.[36] Trading activity in such exchange-listed low-priced securities can now account for a material percentage of overall market volume (by shares), distorting key market-wide statistics.[37]

Given these observed trends, we recommend that the Commission enhance continued listing standards at the exchanges by increasing the minimum market value of publicly held securities to $5 million (consistent with the minimum initial listing standards established by the Commission for "penny stocks"). In addition, a 10 (or more) to 1 reverse stock split should be required if a given symbol trades under $1 on average over a 90-day period. Finally, the listing exchanges should ensure that applicants provide adequate evidence of satisfying the relevant listing standards and ensure their listing standards are consistently and transparently enforced.

**Equities Recommendation #12:** The Commission should enhance continued listing standards at the exchanges by increasing the minimum market value of publicly held securities to $5 million (consistent with the minimum initial listing standards established by the Commission for "penny stocks"). In addition, a 10 (or more) to 1 reverse stock split should be required if a given symbol trades under $1 on average over a 90-day period.

## 13. ENSURE CONSISTENT RULES GOVERNING 24-HOUR TRADING

Several exchanges have recently filed to support overnight trading, and various alternative trading systems either have entered, or are planning to enter, this space.[38] As such, we recommend that the Commission ensure that the regulatory framework applicable to overnight trading is clear, fit for purpose, and consistent across venues, including with respect to topics such as order handling requirements, execution quality disclosures, and volatility controls. In addition, key market infrastructure must be available to support this activity, such as NSCC, the Securities Information Processors, and the Transaction Reporting Facilities. There must also be consistency across market infrastructure regarding how trade dates and settlement dates are assigned during overnight sessions.

**Equities Recommendation #13:** With respect to overnight trading:

- The regulatory framework for order handling requirements, execution quality disclosures, and volatility controls must be clear, fit for purpose, and consistent across venues.
- Key market infrastructure, including NSCC, the Securities Information Processors, and the Transaction Reporting Facilities, must be available to support this activity.
- There must be consistency across market infrastructure regarding how trade dates and settlement dates are assigned during overnight sessions.

[35] *See, e.g.,* Penny Stock Reform Act (Public Law 101-429, 104 Stat. 951 (Oct. 15, 1990)) and Exchange Act Rules 15g-2 through 15g-6.

[36] Nasdaq Has Hundreds of Penny Stocks. Now It's Trying to Purge Them, WSJ (Aug. 8, 2024), available at: https://www.wsj.com/finance/stocks/nasdaq-penny-stock-proposed-rule-change-74677b00.

[37] *See, e.g.,* "Wall Street Enters Darker Age With Most Stock Trading Hidden," Bloomberg (Jan. 24, 2025), available at: https://www.bloomberg.com/news/articles/2025-01-24/wall-street-enters-darker-age-with-most-stock-trading-now-hidden?sref=BNAbdgOy.

[38] *See, e.g.,* Exch. Act Rel. No. 101777 (Nov. 27, 2024), available at: https://www.sec.gov/files/rules/other/2024/34-101777.pdf and Exch. Act Rel. No. 101985 (Dec. 19, 2024), available at: https://www.sec.gov/files/rules/sro/nysearca/2024/34-101985.pdf.

# II. Equity Derivatives

While the U.S. cash equity market has attracted continuous scrutiny in recent years, equity derivatives markets have received less attention. Advances in technology have also transformed these important markets, unleashing an enormous degree of growth and competition and markedly improving conditions for all investors. However, this competition among market centers, and the resulting market fragmentation, has also introduced new challenges that deserve the attention of regulators. In particular, the Commission should identify the areas in which the regulatory framework and critical market infrastructure have not kept pace with market structure changes.

## 1. FACILITATE CROSS-MARGINING BETWEEN EQUITY OPTIONS AND EQUITIES

Cross-margining between options positions cleared at the Options Clearing Corporation ("OCC") and equities positions cleared at the National Securities Clearing Corporation ("NSCC') is currently not supported. This means that risk-reducing correlated positions are not taken into account at either clearinghouse when margin requirements are calculated, thus imposing unnecessary costs and discouraging wider participation in the listed options market. The Commission should facilitate the introduction of cross-margining between the OCC and NSCC.

**Equity Derivatives Recommendation #1:** The OCC and NSCC should introduce cross-margining between listed equity options and equities.

## 2. IMPROVE THE MARGIN FRAMEWORK FOR LISTED OPTIONS

As part of efforts to enhance liquidity and market competition in the listed options market, it is important to regularly review the OCC's margin framework – including elements that are mandated by Commission or FINRA rules – in order to ensure that it is appropriately calibrated and incorporates best practices utilized by clearinghouses in other asset classes.

In particular, elements of the margin framework appear to be insufficiently risk-based. For example, per contract minimum margin levels often appear to dictate overall margin requirements, even though they are completely divorced from the market risk associated with a particular cleared portfolio. In addition, while the OCC devotes significant resources to the implementation of its System for Theoretical Analysis and Numerical Simulations ("STANS") margin methodology, it also applies the Theoretical Inter-Market Margin System ("TIMS") to certain portfolios based on Commission and FINRA rules. These two margin methodologies can yield very different results for the same portfolio.

We recommend that the OCC work with the Commission and FINRA to (i) increase the importance of risk-based margin requirements compared to per contract minimums and (ii) unify the STANS and TIMS models into a single margin methodology that appropriately balances risk-sensitivity and complexity.

**Equity Derivatives Recommendation #2:** The OCC should work with the Commission and FINRA to (i) increase the importance of risk-based margin requirements compared to per contract minimums and (ii) unify the STANS and TIMS models into a single margin methodology that appropriately balances risk-sensitivity and complexity.

## 3. INCREASE CERTAINTY REGARDING THE TREATMENT OF CORPORATE ACTIONS

A variety of corporate actions can impact the valuation of a company's listed options, including the issuance of cash dividends. Each time a cash dividend is announced, the OCC determines on a case-by-case basis for the entire market whether to make a special economic adjustment to the listed options or to consider the dividend as "ordinary" issued pursuant to an established policy or practice of the company (meaning no economic adjustment will be made). The OCC has issued interpretative guidance to the industry

setting forth the process for determining whether a special adjustment will be made.[39]

However, recent experience has demonstrated that there are a number of concerns with the current process. For example, there are no specific timelines for making or publicizing the OCC decision regarding a special adjustment, leading to considerable uncertainty in situations where the decision is not made in a timely manner. In addition, the OCC, without adequate explanation, arguably deviates from the published interpretative guidance (and accompanying market precedent) from time to time, which undermines the certainty that the guidance is intended to foster and negatively impacts investor confidence and market liquidity.

**Equity Derivatives Recommendation #3:** The OCC should improve the process for declaring adjustments for special dividends (and other corporate actions) by:

- Communicating to the market that an adjustment for a dividend (or other corporate action) is under review no later than the next business day after the relevant announcement.
- Issuing a final determination regarding whether an adjustment for a dividend (or other corporate action) is warranted no later than two business days after the relevant announcement.
- Accompany any adjustment decision with supporting rationale that explains the decision, including how it is consistent with established market precedent.

## 4. ENHANCE EXECUTION QUALITY DISCLOSURE

As in other asset classes, it is critically important that investors in the options market have access to accurate, transparent, and standardized execution quality metrics that allow order flow to be directed on the merits. However, key disclosures provided in the cash equities market are not mandated in the options market. Thus, we recommend that the Commission start by expanding the Rule 605 execution quality disclosures to cover listed equity options.

**Equity Derivatives Recommendation #4:** The Commission should expand the Rule 605 execution quality disclosures to include listed equity options, increasing transparency for investors.

## 5. INTRODUCE POST-TRADE TRANSPARENCY FOR OTC OPTIONS

Across asset classes, academic research has found that post-trade transparency improves price discovery and competition, lowers transaction costs, and enhances market resiliency and investor confidence.[40] By enabling investors to compare the prices they receive from liquidity providers with concurrent trading activity across the market, post-trade transparency enhances investor confidence and incentivizes price competition as investors are able to demand more accountability from their liquidity providers. Reducing information asymmetries also contributes to market resiliency by ensuring that changes in supply and demand are more efficiently reflected in current price levels.

[39] Interpretative Guidance On the Adjustment Policy for Cash Dividends, OCC, available at: https://www.theocc.com/getmedia/21ed2c99-ab15-472a-aef1-a142f140e2b7/Interpretative-Guidance-on-the-Adjustment-Policy-for-Cash-Dividends-and-Distributions.pdf.

[40] *See, e.g.,* Goldstein, M. A., et al., "Transparency and Liquidity: A Controlled Experiment on Corporate Bonds," Review of Financial Studies (2007), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=686324; Edwards, A. K., et al., "Corporate bond market transaction costs and transparency," The Journal of Finance (2007), available at https://www.jstor.org/stable/4622305; Asquith, P., et al., "The Effects of Mandatory Transparency in Financial Market Design: Evidence from the Corporate Bond Market" (April 2019), available at https://www.nber.org/papers/w19417; Loon, Y. C. & Zhong, Z. K., "Does Dodd-Frank affect OTC transaction costs and liquidity? Evidence from real-time CDS trade reports," Journal of Financial Economics, (2015), available at https://ssrn.com/abstract=2443654; and Erik Sirri, "Report on Secondary Market Trading in the Municipal Securities Market" (July 2014), available at https://www.msrb.org/sites/default/files/2022-09/MSRB-Report-on-Secondary-Market-Trading-in-the-Municipal-Securities-Market.pdf.

Currently, the over-the-counter options market is opaque, and market participants (not only in OTC options but also in correlated markets) would meaningfully benefit from the introduction of timely public reporting of transaction-level data (including price, size, and execution time). While we support the immediate implementation of comprehensive, real-time post-trade transparency, we appreciate that the Commission may prefer to move forward in an incremental manner. We would, therefore, also support initially tailoring the public reporting framework to focus on the most liquid OTC options (such as those that closely resemble listed options) and to permit reporting delays (and caps for reported volume) for especially large transactions that are appropriately classified as "block trades." While the above recommendations are an important first-step, they should be the first of several designed to ultimately disseminate transaction-level information for as many transactions as possible in as close to real-time as possible, similar to other asset classes, such as equities, listed options, and corporate bonds.

**Equity Derivatives Recommendation #5:** The Commission should introduce post-trade transparency in the OTC options market (including price, size, and execution time) similar to the reporting frameworks implemented in other asset classes, including TRACE reporting for corporate bonds and SDR reporting for OTC derivatives.

## 6. ACHIEVE A LEVEL PLAYING FIELD FOR BROKER-DEALER CAPITAL REQUIREMENTS

For competition among liquidity providers to flourish in the equity derivatives market, it is critical that there be a level playing field with respect to broker-dealer capital requirements. In particular, the Commission has, pursuant to a 2004 Commission rule, approved "alternative net capital" ("ANC") treatment for broker-dealers affiliated with the largest U.S. banks, which permits the use of internal models and unlocks material capital and operational efficiencies.[41] However, since the 2008 financial crisis, the Commission has indicated that it will not grant ANC treatment to a broker-dealer that does not have a prudentially-regulated holding company.[42] This creates an unlevel playing field with respect to broker-dealer capital requirements, where a small number of firms have a competitive advantage compared to the rest of the market.

To address this concern, we recommend that the Commission update the net capital rule to allow certain highly-capitalized broker-dealers to use model-based capital charges for specific products – e.g. listed options and OTC options. To qualify, a broker-dealer would be required to have at least $1 billion in tentative net capital and at least $500 million in net capital, which are the capital requirements under the ANC rules.

**Equity Derivatives Recommendation #6:** The Commission should update the net capital rule to allow certain highly-capitalized broker-dealers to use model-based capital charges for specific products – e.g. listed options and OTC options. To qualify, a broker-dealer would be required to have at least $1 billion in tentative net capital and at least $500 million in net capital, which are the capital requirements under the ANC rules.

## 7. IMPROVE EQUITY SWAP DATA

The Commission introduced post-trade transparency for equity total return swaps in early 2022. Unfortunately, however, this effort has not meaningfully improved market transparency due to data quality issues. We recommend that the Commission revise the post-trade transparency framework for equity swaps to improve data quality, including by:

- Standardizing the definition of a reportable security-based swap transaction (at the moment, reporting parties may incorrectly disaggregate a single transaction into multiple reports and/or incorrectly aggregate multiple transactions into a single report).

[41] Alternative Net Capital Requirements for Broker-Dealers That Are Part of Consolidated Supervised Entities, 69 FR 34428 (June 21, 2004), available at: https://www.sec.gov/rules-regulations/2004/06/alternative-net-capital-requirements-broker-dealers-are-part-consolidated-supervised-entities.

[42] *See, e.g.,* https://www.sec.gov/news/press/2008/2008-230.htm.

- Requiring the reported price to relate to the specific transaction that is being reported (rather than an average across multiple transactions).
- Requiring the reported notional to be precise (rather than rounded).

We also encourage the Commission to engage with the CFTC to apply these enhancements across all types of equity swaps.

**Equity Derivatives Recommendation #7:** The Commission should revise the post-trade transparency framework for equity swaps to improve data quality, including by:

- Standardizing the definition of a reportable security-based swap transaction (at the moment, reporting parties may incorrectly disaggregate a single transaction into multiple reports and/or incorrectly aggregate multiple transactions into a single report).
- Requiring the reported price to relate to the specific transaction that is being reported (rather than an average across multiple transactions).
- Requiring the reported notional to be precise (rather than rounded).

## 8. CHECK EXCHANGE PROLIFERATION

As in equities, the number of options exchanges has significantly increased in recent years. While we strongly support market competition and innovation, there are also significant costs associated with this proliferation, including those related to connectivity, physical infrastructure, and operational complexity. Thus, the Commission should ensure that this growth is not resulting from artificial economic incentives, and that new exchanges have real value propositions.

We recommend that the Commission examine the key revenue sources for new exchanges, with a view to eliminating artificial economic incentives. In particular, we recommend the Commission modify how OPRA revenue is shared with exchanges by introducing a minimum volume threshold for participation (e.g. 2% market share) and ensure that exchange assessments of regulatory-related fees are not serving as a profit-center. In addition, until a new options exchange eclipses the minimum volume threshold, it should not be permitted to charge more than $2,500/month for quote feeds, $5,000/month for cross connect fees, and $100/month per session fee.

**Equity Derivatives Recommendation #8:** The Commission should modify how OPRA revenue is shared with exchanges by introducing a minimum volume threshold for participation (e.g. 2% market share) and ensure that exchange assessments of regulatory-related fees are not serving as a profit-center. In addition, until a new options exchange eclipses the minimum volume threshold, it should not be permitted to charge more than $2,500/month for quote feeds, $5,000/month for cross connect fees, and $100/month per session fee.

## 9. INCREASE REGULATORY CONSISTENCY WITH CASH EQUITIES

Many important components of Regulation NMS, such as rules requiring fair and non-discriminatory access to quotations, solely apply to the U.S. equity market (and not the options market) as a technical matter. The Commission has previously proposed updating Regulation NMS to achieve a more consistent regulatory framework across cash equities and listed options, but has never finalized these proposals.[43]

We recommend that the Commission increase the regulatory consistency with cash equities. Particular focus should be given to ensuring fair and non-discriminatory access to quotations given market structure features such as (i) the continued use of physical trading floors (despite recent experience with pandemic-related trading floor closures demonstrating that electronic markets are more efficient and yield better execution quality for investors), (ii) increased market fragmentation with the entry of multiple new exchanges, and (iii) attempts to introduce asymmetric intentional delays for the first time.

[43] Exch. Act Rel. No. 61902 (Apr. 14, 2010), available at: https://www.sec.gov/files/rules/proposed/2010/34-61902.pdf.

Asymmetric intentional delays, often effected through embedded logic in the matching engine that enables displayed quotations to be more quickly adjusted or cancelled, are particularly nefarious, as they provide certain market participants with a "last look" option to cancel resting orders before execution, reducing fill rates for investors. These mechanisms – recently proposed to be introduced in the options market for the first time – not only impair efficient access to displayed quotes, but also raise fundamental fairness questions that the Commission should carefully consider under the Exchange Act.

**Equity Derivatives Recommendation #9:** The Commission should ensure fair and non-discriminatory access to listed option quotations and prohibit intentional delays on options exchanges.

## 10. APPROPRIATELY IDENTIFY "PROFESSIONAL CUSTOMERS"

Options exchanges typically grant priority to orders entered on behalf of retail customers, but exclude "professional customers" from this benefit in order to prevent misuse. Accurately identifying professional traders is important, as allowing them to have execution priority adversely affects fill rates for institutional investors' limit orders and impairs the provision of liquidity by market makers. At the moment, the threshold is quite high for designating a trader as a "professional customer" – more than 390 orders per day in listed options – and even this threshold can be circumvented by the use of multiple affiliated entities or multiple different brokers.

We recommend that the Commission and the exchanges take additional steps to appropriately capture professional traders as "professional customers." First, the threshold of 390 orders per day should be lowered given typical retail investor trading activity. Second, the SROs should increase surveillance and enforcement of the lower threshold, including ensuring that orders are aggregated across entities under common control and across all broker-dealers used for order entry.

**Equity Derivatives Recommendation #10:** The Commission and the SROs should take additional steps to appropriately capture professional traders as "professional customers," including by:

- Lowering the threshold of 390 orders per day.
- Enforcing the lower threshold by ensuring that orders are aggregated across entities under common control and across all broker-dealers used for order entry.

## 11. DECREASE OPERATIONAL RISK ON HALF-DAYS

A couple of days a year, either preceding or following a holiday, the listed options market has a half-day, typically closing at 1p.m. Eastern. On those days, the deadlines for delivering exercise notices are adjusted in conjunction with the shortened trading day. However, at the moment, the timing for providing final closing price files is not adjusted, meaning that those are not provided on half-days until well after the exercise cut-off time. This introduces unnecessary operational risk, as market participants must rely on unofficial closing prices. The OCC should work with the options exchanges to address this issue by publishing the final closing price files earlier on half-days such that the operational process for exercise notices more closely replicates full days.

**Equity Derivatives Recommendation #11:** The OCC should work with the exchanges to reduce operational risk by publishing the final closing price files earlier on half-days when there is an early market close so that the operational process for exercise notices more closely replicates full days.

## 12. REDUCE OPERATIONAL RISK IN KEY MARKET INFRASTRUCTURE

As the equity options market continues to increase in significance, it is important to ensure that market structure components that could serve as a single point of failure are well-regulated and resilient. In addition to the OCC serving as the sole clearinghouse for this market, the Options Price Reporting Authority, LLC ("OPRA") is the sole transaction reporting infrastructure. In recent years, OPRA has experienced multiple outages that resulted in incorrect data being disseminated to market participants,[44] suggesting that further steps should be taken to increase resiliency. In addition, certain key contracts, such as the SPX option on the S&P 500, continue to be listed on a single exchange. Consideration should be given as to whether market resiliency would be improved by at least dual-listing these important contracts on other venues operated by the same exchange group.

**Equity Derivatives Recommendation #12:** The Commission should act to improve the resiliency of key options market infrastructure, including the OCC and OPRA.

[44] *See, e.g., "*Opra Outages Cause Consternation in Options Markets," Risk.net (Nov. 3, 2023), available at: https://www.risk.net/derivatives/7958170/opra-outages-causes-consternation-in-options-markets.

# III. U.S. Treasuries

The U.S. Treasury market continues to be the deepest and most liquid government securities market in the world. The Commission, partnering with other members of the official sector, has recently taken steps to modernize the regulatory framework applicable to Treasuries, including with respect to central clearing and post-trade transparency. However, more remains to be done in order to fully implement these reforms in a manner that increases market efficiency and competition.

## 1. SUCCESSFULLY IMPLEMENT CENTRAL CLEARING

The Commission correctly concluded that transitioning more Treasury cash and repo transactions to central clearing will deliver significant benefits, including optimizing dealer balance sheet utilization, reducing credit and operational risk, enhancing competition, and fostering innovation in trading protocols.[45] However, despite establishing the timelines by which more trading activity must be centrally cleared, the Commission left many of implementation details to the registered clearing agencies. Much remains to be done – two new clearing agencies in this market (CME and ICE) have yet to obtain rulebook approval from the Commission and the incumbent clearing agency (FICC) has indicated that significant rulebook revisions are yet to be made, including with respect to default management (such as separating guaranty fund and initial margin contributions, and enabling porting), and margin (such as enhancing the cross-margining framework with CME). Taking into account these considerations, the Commission recently extended the implementation timelines;[46] however, it is important to ensure that clearing agencies and market participants continue to make tangible progress with respect to implementation. Two additional topics merit particular focus.

### (i) Prohibit the Forced Bundling of Execution and Clearing Services

In order to realize the benefits of market-wide central clearing, market participants must be able to access central clearing in a cost-efficient and operationally-efficient manner. Since becoming a direct member of a clearing agency is not a viable pathway for many market participants due to the associated eligibility requirements and default management responsibilities, the vast majority of market participants should be expected to access central clearing through an indirect client clearing model.

"Done-away" clearing (where a client may access clearing regardless of the identity of its original executing counterparty) is a necessary component of an efficient client clearing model. In the absence of a viable done-away clearing model, clients will need to establish a clearing relationship with each executing counterparty in order to execute transactions subject to the mandate. This simply would not work for cash transactions executed on interdealer broker platforms – which typically account for over $500 billion of daily trading activity and more than 50% of total daily volumes in the cash Treasury market – since the interdealer broker is the original executing counterparty and does not itself offer client clearing services. Similarly, requiring every client to bundle execution and clearing in the repo market would fragment cleared portfolios, increase cost, complexity, contractual risk and operational risk, and limit choice of, and competition among, trading counterparties. These outcomes threaten the efficiency and resiliency of the U.S. Treasury market, and are directly inconsistent with the regulatory objectives underpinning the Commission's clearing rule.

Unfortunately, while current FICC rules permit the clearing of "done-away" transactions, they do not prohibit clearing members from compelling clients to

[45] Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities, 89 FR 2714 (Jan. 16, 2024), available at: https://www.govinfo.gov/content/pkg/FR-2024-01-16/pdf/2023-27860.pdf.

[46] SEC Extends Compliance Dates and Provides Temporary Exemption for Rule Related to Clearing of U.S. Treasury Securities (Feb. 25, 2025), available at: https://www.sec.gov/newsroom/press-releases/2025-43.

bundle execution and clearing services (meaning that, in practice, a clearing member will only clear transactions that are executed with that same clearing member). Even though such forced bundling is not permitted in other centrally cleared asset classes, neither the Commission nor FICC has taken action to prohibit this anti-competitive practice in the U.S. Treasury market.

We recommend that the Commission, consistent with regulatory requirements to facilitate indirect access, prohibit anti-competitive practices, and mitigate conflicts of interest, take further action to ensure that clearing members cannot compel clients to bundle execution and clearing services. Ensuring that "done-away" clearing is made available well in advance of the implementation date sets the foundation for successfully implementing broader central clearing in this critically important market.

**(ii) Appropriately Exempt Inter-Affiliate Transactions**

The Commission exempted certain inter-affiliate transactions from the new central clearing requirement. However, the rule limits this exemption to entities that are banks, broker-dealers, or futures commission merchants without adequate justification, thus making it inaccessible to other types of market participants. Given that many different types of entities utilize inter-affiliate transactions as an important tool to transfer liquidity and risk within an affiliated group, we recommend that the Commission remove the arbitrary limitations on the use of this exemption.

**U.S. Treasuries Recommendation #1:** The Commission should ensure the successful expansion of central clearing, including by:

- Prohibiting clearing members from compelling clients to bundle execution and clearing services.
- Expanding the scope of the inter-affiliate exemption beyond banks and broker-dealers.
- Expeditiously reviewing applications from new clearing agencies to ensure choice and competition in the market.

## 2. EXPAND REAL-TIME PUBLIC REPORTING

The U.S. Treasury market remains an outlier in failing to require meaningful public post-trade transparency. While other major U.S. capital markets – including equities, listed options, futures, corporate bonds, municipal bonds, and OTC derivatives – feature timely, transaction-level post-trade public reporting, the U.S. Treasury market has only recently implemented end-of-day reporting for the limited set of on-the-run securities.[47]

As noted above, there is an overwhelming amount of academic research finding that post-trade transparency improves price discovery and competition, lowers transaction costs, and enhances market resiliency and investor confidence.[48] We urge the Commission (in collaboration with other policymakers and FINRA) to improve U.S. Treasury market functioning by more closely replicating the post-trade transparency framework for corporate bonds. This includes (i) significantly reducing the current end-of-day reporting timeframe for transactions in on-the-run securities and (ii) expanding reporting requirements to off-the-run Treasury securities.

**U.S. Treasuries Recommendation #2:** The Commission should bring the post-trade transparency framework in line with what exists for corporate bonds by (i) significantly reducing the current end-of-day reporting timeframe for transactions in on-the-run securities and (ii) expanding dissemination requirements to off-the-run Treasury securities.

## 3. REGULATE MULTILATERAL TRADING VENUES

In light of the rapid growth of electronic trading in the U.S. Treasury market, multilateral trading venues should be subject to appropriate regulatory oversight. However, under current Commission rules, multilateral trading venues that solely trade government securities are eligible for an exemption from ATS and exchange registration.

[47] 88 FR 77388 (Nov. 9, 2023).

[48] *Supra* note 40. *See also* the Citadel Securities Response to the Request for Information on Additional Transparency for Secondary Market Transactions of Treasury Securities (Aug. 31, 2022), available at: https://www.regulations.gov/comment/TREAS-DO-2022-0012-0028.

The Commission has proposed to eliminate this exemption and require that multilateral trading venues operating in the U.S. Treasury market comply with basic requirements, such as (i) providing transparency to market participants regarding key aspects of the platform, including potential conflicts of interest, order types, subscriber segmentation, fees, rebates, and incentives, and (ii) fair access requirements that prohibit the arbitrary exclusion of specific market participants (if the platform exceeds specified volume thresholds).[49] In order to capture multilateral trading venues operating in either the dealer-to-dealer or dealer-to-customer segments of the market, the Commission's proposal covers the range of trading protocols available on multilateral trading venues, including request-for-quote and order books.[50]

Eliminating the registration exemption for multilateral trading venues in the U.S. Treasury market promotes market integrity and resiliency and creates consistent and predictable standards that market participants can rely upon when trading on these venues. As such, the Commission should finalize this pending proposal, while underscoring that Regulation ATS remains squarely focused on multilateral trading venues only.

**U.S. Treasuries Recommendation #3:** The Commission should finalize its proposal to eliminate the registration exemption for multilateral trading venues in the U.S. Treasury market.

[49] Supplemental Information and Reopening of Comment Period for Amendments Regarding the Definition of ''Exchange", 88 FR 29448 (May 5, 2023), available at: https://www.govinfo.gov/content/pkg/FR-2023-05-05/pdf/2023-08544.pdf.

[50] *Id.*

# IV. Credit

U.S. credit markets are composed of a number of segments, including corporate bonds, municipal bonds, bond ETFs, and OTC derivatives (e.g. single-name CDS). These markets have also undergone significant change over the course of the last decade, with an ongoing transition to electronic trading improving market functioning. While regulatory policy has helped make these markets more fair, open, competitive, and transparent, more remains to be done to improve outcomes for investors.

## 1. REMOVE CONFLICTS OF INTEREST IN U.S. CORPORATE BOND OFFERINGS

New issuance activity in the U.S. corporate bond market dwarfs most other asset classes, with approximately $2 trillion in 2024.[51] FINRA rules seek to mitigate conflicts of interest in the new issuance allocation process by prohibiting underwriters from inappropriately tying or bundling other services (such as secondary market trading) to investor allocation decisions. Specifically, FINRA rules prohibit underwriters from allocating shares of a new issuance "as consideration or inducement for the receipt of compensation that is excessive in relation to the services provided by the member."[52]

Nonetheless, academic research suggests that the amount of secondary market trading activity directed by an investor to a specific underwriter is an important factor in new issuance allocation decisions.[53] Tying or bundling secondary market trading activity to new issuance allocations negatively impacts the U.S. corporate bond market, as secondary trading activity is artificially concentrated among a small group of underwriters, thus decreasing market competition and liquidity, and increasing transaction costs for all investors. We thus urge the Commission and FINRA to ensure that secondary market trading decisions are made separately from the new issue allocation process, and that underwriters cannot condition new issuance allocations on where investors send their secondary market flow.

**Credit Recommendation #1:** The Commission and FINRA should ensure that secondary market trading decisions are made separately from the new issue allocation process, and that underwriters cannot condition new issuance allocations on receipt of a customer's secondary market order flow.

## 2. IMPROVE TRACE CORPORATE BOND DATA

The Commission (along with FINRA) first implemented comprehensive post-trade transparency in the corporate bond market in the early 2000s, and the TRACE system has become a gold standard globally across asset classes, with academic research overwhelmingly confirming the benefits for investors and the overall market.[54] However, additional steps can be taken to further enhance the quality of information publicly disclosed to investors.

Under current rules, TRACE does not immediately disclose the notional size of corporate bond transactions that qualify as a "block trade." Instead, the notional size is reported as the relevant block trade threshold, which is $5 million for investment grade bonds and $1 million for high yield bonds. Data shows that more than 50% of notional traded in investment

[51] https://www.sifma.org/wp-content/uploads/2025/01/2025-Capital-Markets-Outlook-SIFMA.pdf at 30.

[52] FINRA Rule 5131.

[53] S. Nikolova, et. al., "Institutional Allocations in the Primary Market for Corporate Bonds," Journal of Financial Economics (2020), available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3181983.

[54] *Supra* note 40.

grade bonds and as much as 85% of notional traded in high yield bonds now qualifies as a block trade.[55] The actual notional size of these transactions is then publicly disclosed on a quarterly basis no earlier than 6 months after the transaction date.[56] We make two recommendations.

First, the Commission should work with FINRA to reduce the timeline for publishing full notional sizes. At the moment, until the full notional sizes are released 6 months later, the institutional segment of the U.S. corporate bond market remains opaque, hampering best execution analyses by investors and creating an unlevel playing field with respect to access to information.

Second, we recommend that the Commission and FINRA raise the TRACE block trade thresholds to better reflect current market dynamics, as they have not been updated since TRACE was first implemented in the early 2000s. In other asset classes, regulators have sought to ensure that no more than 33% of total notional traded in a particular instrument is eligible for block trade treatment.[57] This approach is designed to provide market participants with a timely view of a large-enough portion of transaction and pricing data to conduct meaningful best execution analysis, while still permitting truly large transactions to qualify for block trade status.

**Credit Recommendation #2:** With respect to TRACE corporate bond data, the Commission and FINRA should reduce the current 6-month timeline for publishing full notional sizes and raise the TRACE block trade thresholds to better reflect current market dynamics.

### 3. IMPROVE SINGLE-NAME CDS DATA

The Commission introduced post-trade transparency in the single-name CDS market in early 2022. When doing so, the Commission stated that it lacked the necessary data to establish block trade thresholds and, therefore, established an interim approach that permitted market participants to delay the reporting of all security-based swap transactions for up to 24 hours.[58] However, the Commission issued a "no-action statement" that allowed market participants to comply with Commission reporting requirements by simply following the already-implemented CFTC rules, which do not contain a 24-hour reporting delay.[59] This created some uncertainty as to whether market participants could utilize the Commission's no-action statement while still delaying security-based swap reporting by 24 hours, which Commission staff subsequently attempted to address through FAQs.[60]

The Commission should more clearly set forth the regulatory expectations regarding single-name CDS reporting, while taking the opportunity to conduct a comprehensive review of the current reporting regime. Particular focus should be on (i) increasing harmonization with existing CFTC requirements and (ii) establishing block trade thresholds, thus formally eliminating the "interim" approach of permitting all security-based swap transactions to be delayed for up to 24 hours.

[55] *See, e.g.,* Fixed Income Market Structure Advisory Committee, April 9, 2018, available at: https://www.sec.gov/spotlight/fixed-income-advisory-committee/fimsac-block-trade-recommendation.pdf.

[56] https://www.finra.org/filing-reporting/trace/historic-academic-data.

[57] *See* Procedures To Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades, 77 FR 15460 (May 31, 2013), available at: https://www.govinfo.gov/content/pkg/FR-2013-05-31/pdf/2013-12133.pdf.

[58] Regulation SBSR—Reporting and Dissemination of Security-Based Swap Information, 80 FR 14564 (Mar. 19, 2015), available at: https://www.govinfo.gov/content/pkg/FR-2015-03-19/pdf/2015-03124.pdf.

[59] 85 FR 6270 (Feb. 4, 2020), available at: https://www.govinfo.gov/content/pkg/FR-2020-02-04/pdf/2019-27760.pdf at 6347.

[60] Frequently Asked Questions on Regulation SBSR at Q1, available at: https://www.sec.gov/rules-regulations/staff-guidance/trading-markets-frequently-asked-questions/frequently-asked-0#_ftn1.

**Credit Recommendation #3:** The Commission should conduct a comprehensive review of the current reporting regime for single-name CDS and, in particular, (i) increase harmonization with existing CFTC requirements and (ii) establish block trade thresholds, thus formally eliminating the "interim" approach of permitting all security-based swap transactions to be delayed for up to 24 hours.

### 4. INCREASE CENTRAL CLEARING OF SINGLE NAME CDS

Across asset classes, central clearing has delivered significant benefits, including reducing credit and operational risk, enhancing competition, and fostering innovation in trading protocols. With respect to OTC derivatives markets in particular, a market-wide central clearing requirement has been successfully implemented for many credit and interest rate products, with academic research substantiating the associated benefits.[61]

We, therefore, recommend that the Commission take steps to further increase central clearing in other OTC derivatives, such as single-name CDS. There are a large number of commonly traded reference entities (including, most importantly, the constituent names of the primary CDS indices) that are suitable for mandatory clearing, demonstrated by the current client clearing offerings and the large amount of voluntary clearing that already occurs. The Commission should also take further steps to increase voluntary clearing, such as by implementing straight-through-processing requirements for all cleared OTC derivatives that establish robust standards to govern the operational workflow from trade execution to clearing submission and acceptance.

**Credit Recommendation #4:** The Commission should further increase central clearing rates of single-name CDS, including by implementing (i) straight-through-processing requirements for all cleared OTC derivatives and (ii) a clearing mandate for the most liquid instruments.

## V. Digital Assets

Digital asset markets currently lack the coherent regulatory framework that enables other U.S. financial markets to flourish. We welcome additional clarity regarding the regulatory obligations associated with trading digital assets, taking into account both the opportunities and risks associated with this asset class. Particular attention should be given to:

- Clearly delineating the scope of digital assets that are to be considered "securities."
- Ensuring U.S. broker-dealers and exchanges have the necessary regulatory clarity to trade, settle, and custody digital assets in a uniform manner irrespective of whether they qualify as "securities."
- Applying similar capital treatment to digital assets as other liquid instruments held by broker-dealers, as opposed to the current extremely punitive approach.

## VI. Conclusion

Dramatic changes continue to reshape U.S. financial markets, and now is the right time to comprehensively review the current regulatory framework and take decisive action to remove unnecessary costs and increase efficiency to unleash a new wave of innovation and investment. Our capital markets are the envy of the world, and we must continue to foster and embrace competition, innovation, and smart regulation.

[61] *See, e.g.,* Loon, Y. C., Zhong, Z. K. Does Dodd-Frank affect OTC transaction costs and liquidity? Evidence from real-time CDS trade reports. Journal of Financial Economics, 119 (3), 645–672 (2016) at page 4, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2443654.

# Appendix: Summary of Policy Recommendations

## I. EQUITIES

1. Amend the recent Tick Sizes and Access Fees Rule by:
   - Defining "tick-constrained" more narrowly and conducting a two-year pilot program to assess the impact of reducing the minimum quoting increment to a half-penny for certain symbols. Specifically, we recommend the Commission (i) identify the 200 most liquid symbols (based on average quoted size at the NBBO) that have a time weighted quoted spread of less than or equal to 1.25 cents (calculated over a 3 month period), (ii) randomly divide these 200 symbols into two groups: (a) a test group where the minimum quoting increment is reduced to a half-penny and (b) a control group, and (iii) assess the impact that the reduced minimum quoting increment has on average quoted size at the NBBO.
   - Reducing the access fee cap proportionately (i.e. by 50%) only for those "tick-constrained" symbols that are subject to a reduced minimum quoting increment.
2. The Commission and FINRA should address the problematic growth of "private rooms" on ATSs (where a single firm can elect to interact with order flow from one or more chosen counterparties to the exclusion of everyone else on the ATS) by:
   - Clarifying that establishing a siloed single-dealer private room is not permitted under Regulation ATS.
   - Applying fair access rules to all ATSs by eliminating the current volume-based threshold.
   - Requiring ATSs to provide more transparency regarding each liquidity pool available on the platform.
   - Ensuring all ATSs publish Rule 605 reports instead of incorrectly deeming all orders to be "not held," thus excluding them from Rule 605.
   - Ensuring best execution requirements are rigorously enforced.
   - Requiring ATSs to provide more transparency regarding how key regulatory requirements, such as market surveillance, are carried out with respect to trading activity conducted in private rooms.
3. Address the multitude of issues associated with the CAT, including by:
   - Immediately reducing industry burdens by (i) halting the payment of CAT fees and (ii) placing a moratorium on any further changes that increase the cost of the CAT.
   - Charting a path forward that includes robust market surveillance while ensuring that any audit trail is (i) cost-efficient, (ii) authorized by Congress (and included in the Commission's budget), and (iii) designed with data privacy and cybersecurity concerns in mind.
4. Further improve execution quality disclosures for investors by (i) answering open questions regarding the implementation of the new Rule 605 requirements, such as the treatment of "good-til-cancelled" orders and (ii) rescinding the costly and ineffective Rule 606(b)(3) reports that require broker-dealers to store significant amounts of data regarding how each "not held" order is routed and executed that must be made available upon request (but are infrequently requested in practice).
5. Require exchanges to revise their outdated limitation of liability rules in order to better protect investors and appropriately incentivize investments in resiliency and recoverability, including by (i) increasing the liability caps to well above the current $500,000 per month limit and (ii) requiring the exchanges to rollover unused amounts each month to further increase the cap.
6. The exchanges should introduce a "professional customer" definition in the U.S. equity market to identify professional traders masquerading as retail customers. This definition should be based on the listed equity options market (taking into account our proposed enhancements below).

7. Address the proliferation of equity exchanges by modifying how SIP revenue is shared with exchanges by amending the allocation formula to increase the weight of trade executions (versus quotations) and by introducing a minimum volume threshold for participation (e.g. 2% market share). In addition, until a new equities exchange eclipses the minimum volume threshold, it should not be permitted to charge more than $2,500/month for quote feeds, $5,000/month for cross connect fees, and $250/month per session fee.
8. Reverse the Commission's 2016 interpretation regarding intentional delays and cease granting protected quote status to displayed quotations that are not immediately accessible in practice.
9. Improve the fairness of the Section 31 regime, including by (i) making the fee more stable and predictable year-over-year and (ii) spreading it across a broader range of asset classes under the Commission's purview, instead of funding the Commission's budget through a fee on only equities and equity options.
10. Update its "Current Guidance on Economic Analysis in SEC Rulemakings" to specifically clarify that, with respect to rulemaking proposals that are related, the Commission must assess the cumulative economic effects and ensure policy consistency across the rules.
11. Closely scrutinize fee filings to ensure market data fees are fair, reasonable, equitable and non-discriminatory. In addition, the Dodd-Frank Act statutory change that insulates exchange fee filings from appropriate review should be reversed.
12. Enhance continued listing standards at the exchanges by increasing the minimum market value of publicly held securities to $5 million (consistent with the minimum initial listing standards established by the Commission for "penny stocks"). In addition, a 10 (or more) to 1 reverse stock split should be required if a given symbol trades under $1 on average over a 90-day period.
13. With respect to overnight trading:
    - The regulatory framework for order handling requirements, execution quality disclosures, and volatility controls must be clear, fit for purpose, and consistent across venues.
    - Key market infrastructure, including NSCC, the Securities Information Processors, and the Transaction Reporting Facilities, must be available to support this activity.
    - There must be consistency across market infrastructure regarding how trade dates and settlement dates are assigned during overnight sessions.

## II. EQUITY DERIVATIVES

1. The OCC and NSCC should introduce cross-margining between listed equity options and equities.
2. The OCC should work with the Commission and FINRA to (i) increase the importance of risk-based margin requirements compared to per contract minimums and (ii) unify the STANS and TIMS models into a single margin methodology that appropriately balances risk-sensitivity and complexity.
3. The OCC should improve the process for declaring adjustments for special dividends (and other corporate actions) by:
    - Communicating to the market that an adjustment for a dividend (or other corporate action) is under review no later than the next business day after the relevant announcement.
    - Issuing a final determination regarding whether an adjustment for a dividend (or other corporate action) is warranted no later than two business days after the relevant announcement.
    - Accompany any adjustment decision with supporting rationale that explains the decision, including how it is consistent with established market precedent.

4. Expand the Rule 605 execution quality disclosures to include listed equity options, increasing transparency for investors.
5. Introduce post-trade transparency in the OTC options market (including price, size, and execution time) similar to the reporting frameworks implemented in other asset classes, including TRACE reporting for corporate bonds and SDR reporting for OTC derivatives.
6. Update the net capital rule to allow certain highly-capitalized broker-dealers to use model-based capital charges for specific products – e.g. listed options and OTC options. To qualify, a broker-dealer would be required to have at least $1 billion in tentative net capital and at least $500 million in net capital, which are the capital requirements under the ANC rules.
7. Revise the post-trade transparency framework for equity swaps to improve data quality, including by:
    - Standardizing the definition of a reportable security-based swap transaction (reporting parties currently may incorrectly disaggregate a single transaction into multiple reports and/or incorrectly aggregate multiple transactions into a single report).
    - Requiring the reported price to relate to the specific transaction that is being reported (rather than an average across multiple transactions).
    - Requiring the reported notional to be precise (rather than rounded).
8. Address the proliferation of equity options exchanges by modifying how OPRA revenue is shared with exchanges by introducing a minimum volume threshold for participation (e.g. 2% market share) and ensuring that exchange assessments of regulatory-related fees are not serving as a profit-center. In addition, until a new options exchange eclipses the minimum volume threshold, it should not be permitted to charge more than $2,500/month for quote feeds, $5,000/month for cross connect fees, and $100/month per session fee.
9. Ensure fair and non-discriminatory access to listed option quotations and prohibit intentional delays on options exchanges.
10. The Commission and the SROs should take additional steps to appropriately capture highly sophisticated professional traders as "professional customers," including by:
    - Lowering the current "professional customer" threshold of 390 orders per day.
    - Enforcing the lower threshold by ensuring that orders are aggregated across entities under common control and across all broker-dealers used for order entry.
11. The OCC should work with the exchanges to reduce operational risk by publishing the final closing price files earlier on half-days when there is an early market close so that the operational process for exercise notices more closely replicates full days.
12. Improve the resiliency of key options market infrastructure, including the OCC and OPRA.

## III. U.S. TREASURIES

1. Ensure the successful expansion of central clearing, including by:
    - Prohibiting clearing members from compelling clients to bundle execution and clearing services.
    - Expanding the scope of the inter-affiliate exemption beyond banks and broker-dealers.
    - Expeditiously reviewing applications from new clearing agencies to ensure choice and competition in the market.
2. Bring the post-trade transparency framework in line with what exists for corporate bonds by (i) significantly reducing the current end-of-day reporting timeframe for transactions in on-the-run securities and (ii) expanding dissemination requirements to off-the-run Treasury securities.
3. Finalize the Commission's proposal to eliminate the registration exemption for multilateral trading venues in the U.S. Treasury market.

## IV. CREDIT

1. Ensure that secondary market trading decisions are made separately from the new issue allocation process, and that underwriters cannot condition new issuance allocations on receipt of a customer's secondary market order flow.
2. With respect to TRACE corporate bond data, the Commission and FINRA should reduce the current 6-month timeline for publishing full notional sizes and raise the TRACE block trade thresholds to better reflect current market dynamics.
3. Conduct a comprehensive review of the current reporting regime for single-name CDS and, in particular, (i) increase harmonization with existing CFTC requirements and (ii) establish block trade thresholds, thus formally eliminating the "interim" approach of permitting all security-based swap transactions to be delayed for up to 24 hours.
4. Further increase central clearing rates of single-name CDS, including by implementing (i) straight-through-processing requirements for all cleared OTC derivatives and (ii) a clearing mandate for the most liquid instruments.

## V. DIGITAL ASSETS

Provide additional clarity regarding the regulatory obligations associated with trading digital assets. Particular attention should be given to:

- Clearly delineating the scope of digital assets that are to be considered "securities."
- Ensuring U.S. broker-dealers and exchanges have the necessary regulatory clarity to trade, settle, and custody digital assets in a uniform manner irrespective of whether they qualify as "securities."
- Applying similar capital treatment to digital assets as other liquid instruments held by broker-dealers, as opposed to the current extremely punitive approach.