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# Options Fees Face SEC Vote as Citadel Says Exchanges Mask Costs

***By Nina Mehta***

**April 14, 2010 (Bloomberg)** — The U.S. Securities and Exchange Commission will vote today on a proposal to cap fees for trading options, a rule backed by brokerages who say getting the best bid or ask price for their customers sometimes costs too much.

Citadel Investment Group LLC petitioned in July 2008 to limit charges by exchanges to execute against orders on their books. SEC requirements that brokers buy and sell securities for clients at the best available quote in the marketplace may encourage venues to charge "excessive" fees to access their systems, masking the true cost of trading, it said.

"Brokers have to get the best quoted price, which is good," said Andrew Kolinsky, president of Citadel's market- making unit. "If an exchange is allowed to charge unlimited access fees to get at the supposedly best price, then what's disseminated as the best price is not really the best."

Eight exchanges compete for business in the U.S. options market, where volume reached a record in 2009. The SEC under Chairman Mary Schapiro has been studying ways of adding transparency to trading without hurting exchanges' ability to tailor services for professionals, their biggest source of growth in revenue and market share.

Equity exchanges and some options platforms instituted fees and rebates in the last decade to attract brokerages whose traditional way of making money, capturing the spread between bid and ask prices, was squeezed as price increments narrowed. The model, known as maker-taker pricing, rewards brokers and investors who put requests to buy and sell shares in an exchange's book and charges those who execute against them.

### 100 Shares

Citadel proposed a fee cap of 20 cents per option contract. In 2007, the SEC imposed a 30-cent ceiling on stock exchanges for 100-share equity trades. Most options contracts represent the right to buy or sell the equivalent of 100 shares of the company or exchange-traded fund on which they're based. The highest fee for an options network accessing another venue's orders is 45 cents.

"We've been begging the commission for a fee cap in the options market for a few years," ideally below 10 cents, said Christopher Nagy, managing director for order routing, sales and strategy at TD Ameritrade Holding Corp. in Omaha, Nebraska. "The costs of the individual investor are directly correlated to the cost structure of the public marketplace."

### Fee Structures

International Securities Exchange Holdings Inc. spokeswoman Molly McGregor, Gail Osten of Chicago Board Options Exchange and NYSE Euronext's Eric Ryan declined to comment before the SEC meeting, which begins at 10 a.m. in Washington. Nasdaq OMX Group Inc.'s Robert Madden didn't respond directly to a request for comment about a cap on access fees. The ISE, NYSE and Nasdaq are based in New York.

NYSE Euronext asked the SEC in September 2008 to reject Chicago-based Citadel's petition because it "fails to take into consideration the fee structures of all options exchanges," including inducements called payment for order flow used on venues such as CBOE and ISE. Exchanges that offer these programs typically don't charge customers for executions.

Market maker Getco LLC in Chicago told the SEC the same year that "the imposition of fee caps on maker-taker exchanges would be an enormous step backwards and would serve to decrease competition among liquidity providers." The market and not the SEC should set exchange pricing, Getco said.

### Fewer Choices

Proponents of an SEC-imposed cap say options brokers have fewer choices than in equities for where to trade because they're not allowed to execute away from exchanges. Market makers and alternative trading venues can transact stock orders off exchanges at the best available price and at lower costs.

Orders from individual investors "bear the brunt of execution costs" in options because they take more liquidity than they provide, said Citadel's Kolinsky. "Our argument is that the fee cap should be less than it is in equities because of the lack of choice about where they execute."

Limiting fees in options may also bring the SEC closer to action on its proposed ban on flash orders across securities markets. The commission in September proposed barring market centers from displaying information to some of their own customers as a way to keep trades on their exchange and avoid sending orders to a competitor quoting a better price.

The absence of a fee cap in options was the "policy argument against banning flash orders," said Jamie Selway, founder and managing director of White Cap Trading LLC in New York. Limiting fees negates part of the case against flash orders — that brokerages face higher charges by sending requests to buy and sell shares to exchanges with maker-taker pricing, he said. For equities, the maximum charge ensures that the fee "can't get out-of-whack crazy," Selway said.

Any SEC proposal would require another vote after a public comment period to become effective.