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Invested in America

October 4, 2012

Mr. Steven Crutchfield
Senior Vice President, Head of U.S. Options
NYSE Euronext
20 Broad Street, 12th floor
New York, NY 10005

Dear Mr. Crutchfield:

On behalf of the Securities Industry and Financial Markets Association's ("SIFMA") Listed Options Trading Committee (the "Committee"), I am writing to solicit your support for an industry sponsored plan for the options exchanges to address the Limit Up Limit Down Plan ("LULD") that the Securities and Exchange Commission ("SEC") adopted earlier this year for the equities markets. We are contacting all of the options exchanges in an effort to solidify support for a uniform, industry-wide plan.

We believe that when LULD is implemented on February 4, 2013, all of the options exchanges should have uniform rules to address how their systems will operate when an underlying security is in a "limit" or "straddle" state. When the underlying security is in a limit straddle state, there will not be a reliable price for the security to serve as a benchmark for the price of the option. In addition to the lack of underlying reference price, we are concerned about the width of the markets and quality of execution for retail customers. Accordingly, the Committee urges the options exchanges to adopt rules that will address the treatment of listed options whose underlying security is in a limit or straddle state. In this regard, the Committee believes strongly that uniform treatment of listed options during limit and straddle states is critical for the efficient functioning of the options markets.

The Committee has agreed upon the following principles, which we believe the options exchanges should establish on a uniform basis through proposed rule changes filed with the SEC. Specifically, we believe that the rules of each options exchange should provide for the following when an underlying security is in a limit or straddle state under LULD:

1. Market orders in options on the underlying security should be rejected by the exchange and returned to the sending firm, with a reason code listed for the reject. (The Committee is in agreement that a reject is preferable to an unsolicited cancel because firms' systems can process rejections more easily than an unsolicited cancel.)
2. Market maker quoting obligations should be waived for options on the underlying security.
3. Market orders initiating an exchange's price improvement mechanism should be stopped out by the contra side that is introducing the trade.
4. Market orders entered into an exchange's liquidity seeking mechanism (such as CBOE's HAL) should cancel back to the sending firm if the underlying security enters a limit or straddle state after the order has been acknowledged by the options

exchange, but prior to execution. (In this scenario, an unsolicited cancel will be sent back to the firm.)

5. Stop orders for options on the underlying security (on options exchanges that support them) should be suspended from triggering.
6. All options exchanges should use the SIP feeds (UQDF for NASDAQ-listed securities and CQS for NYSE, AMEX and ARCA-listed companies) to determine when the primary market has entered a limit state for the underlying security.

The Committee believes that options exchanges should continue to accept and execute limit orders and stop limit orders on options whose underlying security is in a limit or straddle state. Accordingly, exchange obvious error rules that reference theoretical prices should be reviewed to ensure that options exchange officials do not have the discretion to cancel these trades.

The Committee strongly recommends that the options exchanges and the Commission work together to assemble a uniform set of rules to reflect the principles set forth above. Our preliminary discussions with all of the options exchange operators has shown that they would be willing to create uniform rules in order to enhance investor confidence and reduce confusion in the options markets when a limit or straddle state occurs in underlying securities. We anticipate and appreciate your support with the initiative. The Committee stands ready to assist with the rulemaking process as well as the implementation of the effort.

If you have any questions or concerns please feel free to contact me at 212-313-1260 or Ellen Greene (212-313-1287) at SIFMA. We look forward to discussing this important industry initiative with you in the future.

Regards,

Thomas Price
Managing Director

cc: Rick Ketchum, Chief Executive Officer, FINRA
Mary Shapiro, Chairman, Securities and Exchange Commission
Robert Cook, Director, Trading and Markets, Securities and Exchange Commission
Heather Seidel, Associate Director, Trading and Markets, Securities and Exchange Commission