



June 4, 2018

Via Electronic Mail

Mr. Brett Redfearn
Director, Division of Trading & Markets
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Discussions on Options Market Structure

Dear Mr. Redfearn:

This letter is being submitted by (1) Cboe Global Markets, Inc. ("Cboe"), on behalf of Cboe Options, C2 Options, BZX Options, and EDGX Options (the "Exchanges"), (2) the Listed Options Trading Committee of the Securities Industry and Financial Markets Association ("SIFMA"), and (3) the Listed Options Committee of the Security Traders Association ("STA").

In 1975, Congress amended the Securities Exchange Act of 1934 (the "Act") to facilitate the establishment of a national market system to link together the multiple individual markets that traded securities. Congress designed our national market system to achieve the objectives of efficient, competitive, fair, and orderly markets that are in the public interest and protect investors. Congress intended for the Commission to take advantage of opportunities created by advancements in technology to preserve and strengthen the securities markets. In response to this congressional mandate, the Commission has adopted various rules since 1975 to further the objectives of the national market system, including the order handling rules in 1997, Regulation ATS in 1998, decimalization in 2000, and Regulation NMS in 2005. Though each of these initiatives focused primarily on the markets for trading of equity securities, the Commission's mandate is equally applicable to the markets for listed equity options.

Over time, U.S. options exchanges, including the Exchanges, have proposed and adopted various rules and mechanisms that impact the U.S. options industry, including the following:

- quoting requirements applicable to market makers in options;
- other regulations applicable to market makers and other options market participants;
- various auction and related mechanisms intended to assist participants in sourcing liquidity, executing orders efficiently on an exchange, and providing price improvement to investors;

- an expanded number of series of options available for quoting and trading; and
- definitions related to customers, including retail customers and professional customers.

While the Exchanges believe that these developments have fostered many of the benefits for which they were developed, the Exchanges also believe that there have been some unintended consequences that require additional analysis and consideration in order to improve the current U.S. options market structure. In particular over the past several years, there has been wide discussion in the options industry regarding market metrics and it has been shown that quoted liquidity has decreased and spreads have widened. Further, many market makers have consolidated their businesses, reduced their participation, or stopped making options markets entirely – there are approximately half as many registered market makers actively participating in the U.S. options markets than there were five years ago. This trend obviously has impacted market quality in the U.S. options markets.

Based on concerns regarding the current state of U.S. options market structure generally, the Exchanges, SIFMA and STA believe that the formation of a group that will analyze and propose solutions to address these concerns is necessary. In particular, the Exchanges believe that harmonized rules may help to improve market quality and that without harmonization, at least in certain areas, that any such initiative would be futile.

As you know, the Exchanges must ensure that any collective activity on their part conforms with all applicable laws, in particular with the antitrust laws. For that reason, it will be difficult for the Exchanges to harmonize any such rules or propose solutions in conjunction with other options exchanges without sufficient direction, authorization, or participation by the SEC. Accordingly, through this letter, we are requesting that you expressly authorize and direct the U.S. options exchanges to form and participate in a working group to discuss and address the U.S. options market structure topics highlighted above.¹ The U.S. options exchanges would ultimately implement any proposed solutions by way of separate rule filings with the SEC, which, of course, would be subject to notice, public comment, and Commission review, and approval/effectiveness. Once formed, the working group would also welcome the attendance and participation of Commission staff in the working group's meetings.

The Exchanges, SIFMA and STA would propose the following representation in connection with the discussions regarding options market structure issues: (1) one representative from each U.S. exchange group that operates at least one U.S. options exchange; (2) five representatives from the SIFMA Listed Options Trading Committee; (3) five representatives from the STA Listed Options Committee; (4) the current President & CEO of the STA; and (5) the current Chairman of the SIFMA Options Committee, who would also serve as the Chairman of the proposed working group discussions and would serve for the entire period of the working group's existence. In addition, counsel for representatives highlighted above would be permitted to attend and participate in all working group meetings.

The Exchanges, SIFMA and STA would also propose to establish a timeline that would require the discussions to take place within one year, with the possibility to renew for a second year if

¹ The Exchanges note that such an express authorization has been previously conveyed by the Commission in connection with various industry initiatives, including the options penny pilot program as well as more recent initiatives to achieve harmonized rules with respect to market volatility, trade breaks and related issues.

necessary. Consistent with the description above, the main purpose of the U.S. options market structure working group would be to enhance displayed liquidity in all options classes, including greater size and smaller spreads.

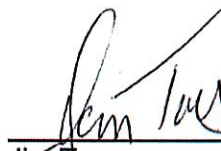
Sincerely,



Edward Tilly
Chairman & CEO
Cboe Global Markets, Inc.



Ellen Greene
Managing Director
SIFMA – Listed Options Trading Committee



Jim Toes
President & CEO
Security Traders Association