



August 29, 2016

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Mr. Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F Street, N.E. Washington, DC 20549-1090

**Re: File No. SR-NYSE MKT-2016-45 - Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change to Modify the NYSE Amex Options Fee Schedule with Respect to Fees, Rebates, and Credits for Transactions in the Customer Best Execution Auction.**

Dear Mr. Fields,

The Security Traders Association ("STA")<sup>1</sup> appreciates the opportunity to offer comments on the Securities and Exchange Commission (the "Commission") Order Instituting Proceedings to determine whether to approve or disapprove NYSE MKT proposed rule change to modify its options fee schedule for its auction mechanism, "CUBE Auction" ("NYSE Amex fee filing").<sup>2</sup>

STA is an organization comprised of individuals, representing a diversity of business models, who are involved in the trading of financial securities across asset classes. STA believes the NYSE Amex fee filing raises market structure issues that go beyond the fee schedule of one exchange. While STA agrees that the NYSE Amex fee filing merits public comment and applauds the Commission for recognizing how it would affect the listed options markets, we recommend that the Commission's response address the broader issue of how auction mechanisms in listed options markets currently operate and their effectiveness in serving the interests of investors and their contributory impact to market quality. The STA remains concerned that there has been degradation in market quality for listed options as measured by changes in quoted spreads and liquidity. While STA does not believe auction mechanisms are the sole factor for this degradation, we believe the current changes in rates and behavioral use have played a contributory factor. We therefore strongly encourage the Commission to continue to gather industry input and conduct an analysis.

STA acknowledges that such an analysis and review by the Commission could be a prolonged process, which could impact NYSE MKT. We, therefore recommend the Commission first resolve the NYSE Amex fee filing request on rates by permitting fees that are more aligned with other exchanges before issuing any determinations on the broader market structure issues which the NYSE Amex fee filing has emphasized.

<sup>1</sup> The STA is a trade organization founded in 1934 for individual professionals in the securities industry and is committed to promoting goodwill and fostering high standards of integrity in accord with the Association's founding principle, Dictum Meum Pactum – "My Word is My Bond"

<sup>2</sup> Securities Exchange Act Release No. 34-78029 (June 9, 2016), 81 FR 39089 (June 15, 2016).

### **General Remarks:**

- STA acknowledges that auction mechanisms operated by listed options exchanges provide the means for order entry firms to obtain price improvement on orders which otherwise would be executed at prices at the National Best Bid or Offer, “NBBO”. Additionally, these same auction mechanisms facilitate the means for broker dealers who service order-entry firms to interact with listed options order flow.
- STA believes that some of the current schedules of fees, rebates and credits relating to auctions commonly referred to as “break-up” credits or fees, “...impose unreasonable burden on competition and hinder price improvement”.<sup>3</sup> These burdens acutely impact options which are allowed to be quoted in 0.01c increments.
- STA believes that the rules and protocols of auction mechanisms play a contributing factor on their effectiveness and ability to achieve their intended goals of providing a means for investors to obtain price improvement. Therefore, we recommend that any review performed by the Commission go beyond schedules of fees, rebates and credits.
- STA remains concerned with the rapid decline in the number of listed options market makers, (“OMMs”)<sup>4</sup> and recommends that the Commission review the rules, protocols and fee structures of auction mechanisms as we believe they are having a contributory effect.

### **Internalization and Auctions**

STA supports a robust competitive OMM landscape coupled with the ability for other liquidity providers to internalize orders sent to them by order-entry firms. We believe these combined conditions provide benefits which can accrue to investors such as; price improvement, certainty of execution and, the provision of enhanced liquidity. However, STA would have concerns if the means or mechanisms under which internalization occur leads to or has a contributory effect towards a broad and meaningful degradation in market quality. STA generally supports auction mechanisms as well, because there are benefits to investors such as the opportunity for price improvement provided through a competitive bidding/offering process of multiple market participants on orders that would normally be filled at the NBBO. However, in order for the auction process to fulfill this function effectively rules, protocols and fee structures for market participants need to be equitable and non-discriminatory to allow for effective price competition.

The STA believes that the rules, protocols and fee structures of auction mechanisms for listed options are having a contributory effect on the degradation in market quality for listed options as measured by quoted spreads and liquidity.<sup>5</sup> Current factors under which auction mechanisms operate remove incentives for market makers and other liquidity providers who determine the vast majority of quotes at the NBBO to quote aggressively in both the presence and absence of

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<sup>3</sup> Letter to Brent Fields, SEC Aug. 3, 2016 [Sebastian Keeling, Chief Executive Officer, Optiver US LLC](#);

<sup>4</sup> [STA April 2015 Newsletter; Not All Market Makers Are The Same](#)

<sup>5</sup> The average weighted bid/offer spread for all US listed options increased to 37.9 cents in July 2016, an increase of 95.7% from 19.4 cents in January 2013 according to the TABB Group Options Liquidity Matrix™.

an ongoing auction. This inevitably contributes to wider quoted spreads and a general degradation in market quality which impacts all participants:

- Auction protocols currently allow market makers and other liquidity providers to respond with quotes in an auction even if they are not quoting the symbol at the NBBO at the time of the auction. This encourages responders to wait for attractive opportunities to respond without having a corresponding quote obligation in the displayed market.
- Auctions with prohibitive breakup fees encourage order flow providers to route flow to these venues, regardless of how many market participants are active in the auction. This limits exposure of the order to a broad community of market makers and reduces the potential price improvement available to the order.

**Recommendations:**

STA believes that listed option auction mechanisms can and in some situations do provide benefits to investors, however we recommend that the Commission continue to gather industry input on the use of auction mechanisms with the understanding that fundamental reform in the current trading rules, protocols and fee structures is needed to improve overall market quality. STA realizes that such a review and course of action will be a prolonged process and therefore the Commission should look to resolve the NYSE Amex fee filing to levels which are more aligned with other exchanges in order to accommodate NYSE MKT.

STA appreciates the opportunity to offer comment and we look forward to working with the Commission on this issue.



John Russell  
Chairman of the Board



James Toes  
President & CEO

Cc:

Steve Luparello, Director of Division of Trading and Markets, U.S. Securities & Exchange Commission

David Shillman, Associate Director Division of Trading and Markets, U.S. Securities & Exchange Commission