April 5, 2019

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; Series of options available for quoting and trading

Dear Mr. Redfearn:

The Security Traders Association[1] ("STA"), feels it imperative to relay its view that the proliferation of series of options for quoting and trading ("strikes", or "strike prices") has overly complicated the options markets and necessitated excessive (and thus inefficient) consummations of technology. If left unabated, this condition may degrade market quality as measured by spreads; liquidity - both displayed and total available per strike. STA writes to both inform you of its concern and to request that the Securities and Exchange Commission, ("SEC", or "Commission") direct the exchanges to create a working group to propose unified strike listing rules that would provide efficiencies that would foster market growth; better ensure investor protections; and ultimately improve the liquidity of the market. The listed options markets serve an important role for a broad base of investor types and the STA's concern, although focused on strikes, is not exclusive to the listed options markets. As the Commission is well aware, the listed options and equity markets are highly interconnected and factors impacting one of these markets necessarily impacts the other.

Background

Today there are over 900,000 series of options available for quoting and trading, on 4,300 products (or, "issue"). This proliferation of strikes is primarily attributed to the absence of a coordinated process for determining the appropriate number of strikes

[1] STA is a trade organization founded in 1934 for individual professionals in the securities industry. STA is comprised of 24 affiliate organizations in North America with individual members who are engaged in the buying, selling and trading of securities. STA 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." For more information, visit https://securitytraders.org/.

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per underlying issue and exacerbated by the growing popularity of short-term options commonly referred to as "Weeklies"[2]. The Options Listing Procedures Plan[3] ("OLPP", or "Plan"), a national market system plan defines procedures for introducing new options series into the marketplace. However, there are certain areas where the Plan is either silent or requires additional guidance. For example, the Plan fails to define a process or set of standards for unilaterally delisting strikes with no or *de mini mas* amounts of trading volume. Strikes with no or *de mini mas* amounts of trading activity still require technology for quoting updates based on changes in the underlying product because listed options market makers and liquidity providers rely on technology to manage risks associated with quoting strike prices. The inherent cost for this technology is indirectly reflected in the spreads at which they quote, i.e., more strikes necessitates the use of more technology which costs more money and this cost is reflected in spreads.

Path Forward

STA believes that an industry-based solution is achievable if the interested parties are able to discuss details on policy and process. Changes in policies and processes that seek to remedy similar concerns caused by the proliferation of strikes exist in the futures markets, and provide useful examples for comparison. In August 2018, the CME Group announced its plans to reduce the number of listed strikes for Standard and E-mini S&P 500 options, pending regulatory review, as follows:

> Over the last few years, the market for short-dated S&P 500 options on futures has grown, as have the number of strike prices associated with Monday- Wednesday- and Friday weekly options contracts. Based on how client risk management needs have changed, CME Group will reduce the number of strikes offered by 40% while maintaining the ability to list new strikes daily should the market move. This new approach is designed to increase liquidity in the most-used strike prices…."[4]

However, the options markets do not have the ability to unilaterally announce such a reduction in strikes. In contrast to the futures markets, equity options are multiply listed on sixteen (16)

[2] Interest in Weeklies -- which, as the name suggests, are options that trade for about one week -- is driven by their potential to help traders employ short-term strategies including targeting volatility associated with an earnings announcement, economic report, or other key event that might occur on a specified date in the short term. Today, Weeklies are regularly offered on a range of indices, ETFs and over 400 equity issues.
[3] The OLPP is available here:
https://www.theocc.com/components/docs/clearing/services/options_listing_procedures_plan.pdf.
[4] Aug 21, 2018 CME Group to Streamline Short-Dated Standard and E-mini S&P 500 Options Strike Prices.
https://www.cmegroup.com/media-room/press-releases/2018/8/21/cme_group_to_streamlineshort-datedstandardande-minisp500optionss.html

different exchanges. These exchanges currently are the administrators of strike listing programs. STA believes that the experience and expertise of the exchanges are critical in cultivating a strike plan that can significantly reduce the number of series of options while keeping the granularity where needed.

STA believes that the industry can resolve the excessive proliferation of strikes, however, doing so requires an initial dialogue among and between interested parties, including the Options Clearing Corporation ("OCC"),[5] and the options exchanges. As you know, exchanges must ensure that any collective activity on their part conforms to applicable laws, in particular—because the exchanges are competitors—with the antitrust laws. For that reason, it will be difficult for the exchanges to participate in any conversation regarding, or propose any resolutions to, this issue without sufficient direction, authorization, or participation by the SEC. Accordingly, through this letter, we are requesting that you expressly authorize and direct the exchanges to participate in a working group to discuss and determine if the strike listing process should be improved and if so, what recommendations be considered.

Conclusion

STA believes that an improved strike listing plan is both achievable and beneficial for the market. To achieve success, significant input is needed from the current administrators of strike listing programs (i.e., the 16 options exchanges). Accordingly, STA requests that the SEC direct the exchanges to create a working group to propose a unified set of rules which can be filed with the Commission.

Sincerely,

Doug Clark, Chairman of Board

James Toes, President & CEO

[5] OCC is the world's largest equity derivatives clearing organization and the foundation for secure markets. Founded in 1973, OCC operates under the jurisdiction of both the U.S. Securities and Exchange Commission (SEC) as a registered clearing agency and the U.S. Commodity Futures Trading Commission (CFTC) as a Derivatives Clearing Organization. Named 2018 Best Clearing House by Markets Media, OCC now provides central counterparty (CCP) clearing and settlement services to 19 exchanges and trading platforms for options, financial futures, security futures, and securities lending transactions. More information about OCC is available at www.theocc.com.

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The Honorable Jay Clayton, Chairman, U.S. Securities and Exchange Commission
The Honorable Robert J. Jackson Jr., Commissioner, U.S. Securities and Exchange Commission
The Honorable Hester M. Peirce, Commissioner, U.S. Securities and Exchange Commission
The Honorable Elad L. Reisman, Commissioner, U.S. Securities and Exchange Commission