April 8, 2026

VIA EMAIL

Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090
rule-comments@sec.gov

Re: File Number 4-887 — Roundtable on Options Market Structure Reform

Dear Ms. Countryman:

Chicago Trading Company, LLC ("CTC") appreciates the opportunity to submit comments in advance of the Roundtable on Options Market Structure Reform to be hosted by the U.S. Securities and Exchange Commission ("SEC" or "Commission") on April 16, 2026.

By way of background, CTC is an SEC-registered broker-dealer and has been a leading market maker and liquidity provider in U.S.-listed options for over two decades, participating across all U.S. options exchanges.[1] We write to offer our perspective on several structural features of the current options market that we believe warrant reform.

In sum, the current U.S. options market structure is the patchwork result of decades of regulatory and exchange-level changes that ultimately produced an inefficient system unlikely to have been designed from scratch. Many of the features we describe below have evolved as exchanges compete for order flow in an environment where routing decisions are heavily influenced by payment for order flow ("PFOF") arrangements. PFOF is deeply entrenched in the current options market structure and we do not argue for its elimination. It is unlikely to disappear, and even if it did, the adverse incentives it introduces could persist through other mechanisms — for example, complex exchange rebate and fee schedules that create their own conflicts of interest. However, a number of particularly distortive market practices have grown out of PFOF, which we believe could be addressed through straightforward rule changes. Those are our focus here.[2]

[1] CTC is a member of FINRA and various options exchanges, including Cboe, Cboe C2, Cboe BZX Options, BOX Options, NYSE Arca Options, NYSE American Options, Nasdaq ISE, and Nasdaq PHLX.

[2] For full disclosure, due to competitive realities, CTC, like almost all of our peer firms, participates in certain forms of PFOF arrangements

1. Five-Lot Preferencing Rules

Under current rules, exchange-appointed Designated Primary Market Makers ("DPMs") or similar designations are entitled to trade 100% of customer orders of five contracts or fewer when quoting at the national best bid and offer ("NBBO"). This so-called "five-lot rule" is a legacy of an era when DPMs played a material role in providing liquidity in less-liquid option classes (e.g., prior to the implementation of the so-called Modified Trading System on Cboe around 2000, only the most illiquid option classes ordinarily had DPMs at all). The five-lot rule made sense when DPMs were compensated for meaningful contributions to market quality in names few others were willing to quote.

That circumstance no longer applies. For example, DPM designation in AAPL or TSLA, names with enormous natural liquidity and dozens of competitive market makers quoting at or near the NBBO, adds approximately zero marginal market quality, but receives 100% of all five-lots. This anti-competitive awarding of all small-lot orders to a single participant in such names is hugely disproportionate to their contribution and directly encourages exchange proliferation, as each new venue can offer a fresh round of DPM allocations as a mechanism for locking up retail flow from order routers who do not otherwise have a DPM representation in a given symbol. Furthermore, DPM appointments are generally for life and, therefore, DPM turnover in large names is exceedingly rare outside of very infrequent complete exits from the business.[3]

In addition, DPM eligibility is subject to self-perpetuating volume tests used by the exchanges to allow preservation of DPM entitlements,[4] which are difficult to fail in practice. Specifically, a DPM appointment conveys the unique privilege of being able to interact with and trade with a disproportionate share of highly profitable small-lot retail customer volume, which results in the ability to afford to pay retail brokers for that order flow. Therefore, it is very likely that anyone with a major DPM appointment on an exchange will be both willing and able to direct disproportionate volume to that exchange, while also being able to satisfy any volume test required to maintain that DPM status.

Historically, DPM programs have been justified by the presence of heightened quoting obligations. However, in practice, these obligations are straightforward for sophisticated firms to satisfy and satisfying a heightened quoting obligation in an already liquid product provides no further customer

[3] For example, Morgan Stanley's DPM transfer to Citadel was erroneously reported in the popular press as an outright purchase of Morgan Stanley's market making arm (https://www.ft.com/content/abdff835-a072-4ee2-904a-1f8d1e9075ea).

[4] For example, NYSE American has in the past used volumes to determine whether the "Specialist" or "e-Specialist" received certain allocation benefits, and we understand Cboe uses volumes in its periodic review of DPMs.

benefit. Therefore, the market quality benefits allegedly provided by DPMs in highly liquid products do not justify the massively profitable permanent allocation advantage.

To address this, we respectfully recommend that DPM appointments should be the exception, not the rule. Specifically, the allocations should be limited to only the most illiquid classes where they provide demonstrable benefit to end users, and subject to rigorous annual review with the expectation that most DPM appointments expire, or are at a minimum required to change hands, — after three years.

Also, another unintended consequence of the five-lot rule is “unbundling” or “shredding” (e.g., executing a 20-lot as four five-lots to ensure an improper 100% allocation guarantee by the executing firm).

To the extent that five-lot rules persist, the Commission should ensure that unbundling rules are aggressively defined and rigorously enforced. We have been heartened to see recent exchange announcements which seem to indicate this issue is being taken more seriously. The bar for a party to unbundle and route to affiliates should be set extremely high, with no amorphous "best execution" exception that can be invoked to justify what is, in practice, an unfair routing practice that deprives customers of the benefits of market maker competition.

Summary

- DPM appointments should be:
    1. limited to the most illiquid options classes (e.g. the bottom 20% by volume),
    2. subject to rigorous annual review using metrics that meaningfully quantify marginal liquidity provision (e.g., the percent of volume in the class that was executed by the DPM at a price not being quoted by any other market maker at the time of execution),
    3. expire after three years in the majority of cases, and
    4. be term-limited to three years in all other cases.
- Unbundling prohibitions should be aggressively defined and rigorously enforced, with no amorphous “best execution” exceptions.

2. Auction Mechanics

The Commission should closely examine the proliferation of auction mechanisms whose design strongly favors the party that initiated the order flow. These auction mechanisms typically include preferential allocation (often 40-50% of the initiating order) for the order routing firm’s affiliated market maker, preferential rounding for the initiator, and the ability to “automatch” competitor responses after the fact without showing the best price.

The last item deserves particular scrutiny. Automatch provisions permit the auction initiator — and only the initiator — to match the best price discovered during the auction without having submitted that price at the outset, receiving a material allocation (40-50% of the order) at the final auction price.

This means the initiator can enter an auction at a wide displayed price, observe the competitive response, automatically match the best price offered *by others*, and still receive nearly half the trade. The incentive structure this creates is obvious: it rewards the capture of order flow rather than the provision of competitive liquidity.

This is a peculiar construct: we do not generally allow participants in other market contexts to see what price others are willing to trade at and then simply match it after the fact. The asymmetry is difficult to justify on market-quality grounds, particularly when the competitive response being matched already provides sufficient size to satisfy the entire initiating order at the best price.

The Commission should review whether these incentives are proportionate to any unique value provided by the order initiator, or are instead simply another market structure gift to those with locked-up order flow.

Summary

- Auction rules that provide material allocation advantages to the auction initiator's market maker affiliate should be carefully reassessed to ensure the allocation advantage is proportionate to marginal value provided.
- "Automatch" rules in particular seem to provide a disproportionate advantage to initiators and should likely be disallowed.

3. Trading Floors

When evaluating any trading venue, the analysis should always return to two fundamentals: pricing quality and depth of liquidity. There remains a credible argument that floor trading can add value in contexts where it genuinely facilitates price discovery — most notably for singly-listed, index-based products like SPX options, where a trading floor serves as a single, competitive bulk liquidity source and contributes meaningfully to pricing.

However, floors as they exist across the multi-listed equity options landscape present a different picture. The sparsely populated floors operating in equity option classes are not meaningfully contributing to price discovery. The vast majority of orders executed on these floors are now pre-priced, with the expectation (or hope) that they will be crossed "clean"—that is, with minimal risk of competitive market maker participation—due to the material costs and operational challenges for market makers to staff all posts on all trading floors. The floors, in this context, are not venues for price discovery but mechanisms for executing pre-matched trades with exchange-sanctioned regulatory cover.

The Commission's approval of the BOX Options Exchange trading floor in 2018 signaled to the industry that opening new floors was a viable strategy for exchanges seeking to offer yet another venue for clean crosses with low risk of competitive participation. More recently, we've seen Miax open a trading floor in Miami, with more likely as additional exchange operators look to enter the U.S. options market.

We respectfully suggest that the Commission signal clearly that the era of approving new trading floors for multi-listed equity options is over. While SROs currently operating trading floors would initially be grandfathered, after a reasonable transition period—we suggest three years—they should be required to demonstrate annually that their trading floors satisfy a materiality threshold for on-floor price improvement. On each exchange, classes that fail to meet such a threshold (with exceptions for new listings or extreme low-volume issues) should be permanently transitioned to screen-only trading on that exchange, with the concomitant wider dissemination of price improvement opportunities to a broader population of market makers electronically. This approach would preserve floor trading in cases where it provides genuine market value, and create regulatory pressure for exchanges to structure their floor rules in a manner to foster genuine price improvement.

Summary

- The SEC should signal a moratorium on approving additional trading floors.
- After a reasonable transition period, SROs with trading floors should be required to annually demonstrate meaningful price improvement is occurring through open-outcry.
- Exchanges that fail to do so in a class would permanently transition that class to fully electronic trading.

4. Professional Customer Rules

Twenty years ago, the options exchanges prudently created the "Professional Customer" category to prevent professional parties from taking advantage of priority and allocation rules intended to benefit retail customers by trading outside of the market maker range.

However, the current framework for classifying orders as "professional customer" orders — and thus subjecting them to different allocation and priority treatment — contains a timing lag that invites gaming. Because professional customer qualification applies only after a retrospective threshold is met and with an implementation delay, sophisticated participants can structure their activity to remain below the threshold or exploit the lag between qualification and reclassification.

The Commission should direct the exchanges to modernize these rules with tighter measurement windows and prospective application to close this gap. We understand that various industry groups and exchanges are preparing recommendations on this issue and encourage these efforts.

Summary

- Professional customer rules should be tightened to prevent gaming, which works to the detriment of bona fide retail investors.

A Note on the Advocacy Landscape

We anticipate that defenders of the current structure will offer two familiar refrains in response to some of these suggestions: that retail investors have "never had it better" and that the U.S. options markets are "the envy of the world."

Both of these points are true! But neither is a reason to stop looking for improvement, and each is too often deployed as an end-of-debate tactic rather than as a starting point for further analysis. The second point is largely a reflection of the fact that the U.S. has the world's largest economy with by far the largest investor class. It would be surprising if U.S. options volumes were *not* the world's highest. Neither observation is a persuasive argument for preserving every feature of the current market structure.

We would also encourage the Commission to consider carefully who is defending the status quo and who is suggesting changes. The beneficiaries of a complex, fragmented market structure with extensive preferencing and locked-up flow have every reason to argue that the current system works well and should not be meaningfully changed—and they have consistently so argued. As the Commission reviews the comment file, we believe the pattern of support and opposition will itself be informative.

CTC appreciates the Commission's willingness to examine these issues and looks forward to robust industry discussion in partnership with the SEC following the April 16 roundtable. As always, we are available to discuss any of these topics in greater detail at the Commission's convenience.

Respectfully submitted,

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