

To the Securities and Exchange Commission,

I respectfully submit this comment in response to the Securities and Exchange Commission's announcement of a Roundtable on Options Market Structure Reform. As a market participant, I welcome the Commission's initiative to solicit public input on this important topic and wish to address two specific structural issues that, in my view, warrant serious consideration by the Commission and industry stakeholders.

## **I. Introduction of Cash-Settled Equity Options**

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Currently, all standardized U.S. equity options are settled through physical delivery — that is, the actual transfer of the underlying shares upon exercise. While this mechanism has served the market well in many respects, I respectfully propose that the Commission consider permitting the listing of cash-settled equity options as an alternative settlement modality alongside the existing physical settlement structure.

Physical settlement carries inherent operational complexities and risks that can impede efficient market functioning. For investors holding large positions or options on less liquid securities, the obligation to deliver or receive the underlying shares may create significant operational burdens, forced liquidations, or unintended market impact at the time of exercise. Cash settlement, by contrast, requires only the exchange of the intrinsic value — the difference between the strike price and the prevailing market price — thereby eliminating the need to transact in the underlying security upon exercise.

This structure is well-established and widely used in index options (e.g., SPX, NDX) and certain other derivative instruments without evidence of systemic harm. Extending cash settlement optionality to equity options would provide market participants with greater flexibility in managing their exposure, reduce operational risk at expiration, and lower barriers for institutional participants who may face constraints on physical securities delivery. It would furthermore mitigate settlement-driven price dislocations in the underlying equity, particularly in cases of concentrated open interest around at-the-money strikes at expiration.

I would encourage the Commission to explore a framework under which issuers, exchanges, or the Options Clearing Corporation could offer cash-settled equity option contracts as a complement to — rather than a replacement of — existing physically settled contracts, subject to appropriate investor disclosure and risk management standards.

## **II. Shortening the Manual Exercise Deadline on Expiration Day**

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My second proposal concerns the deadline by which long option holders may submit manual exercise instructions — or “do not exercise” contrary instructions — on expiration day. Under current OCC rules and prevailing industry practice, this deadline extends to approximately 5:30 p.m. Eastern Time, representing a window of roughly 90 minutes following the 4:00 p.m. close of regular equity trading.

I respectfully submit that this post-market window is structurally inequitable, operationally anachronistic, and increasingly incompatible with the realities of modern options market structure. I set out four distinct grounds for this position below, and propose that the deadline be reduced to 4:15 p.m. Eastern Time — a window of 15 minutes following the close of regular trading.

### **1. Asymmetric and unhedgeable risk for short option holders**

The most significant objection to the current deadline is the severe and unavoidable risk asymmetry it imposes on the short side of the market. A short option holder must make all material risk management decisions — including closing, rolling, or hedging their position — by 4:00 p.m., when regular trading in the underlying security ceases. Yet under the existing framework, that same short holder may not know until 5:30 p.m. whether the long counterparty has elected to exercise. For the intervening 90 minutes, the short holder bears a live, binary assignment risk that is, by definition, impossible to hedge: the underlying market is closed, and the outcome is entirely at the discretion of the long holder.

This window is made materially more dangerous by the fact that after-hours price movements in the underlying — whether driven by earnings releases, macroeconomic announcements, or other developments — can and do influence the long holder’s exercise decision during precisely this period. The short holder has no ability to respond to those same price signals, having been locked out of the regular market at 4:00 p.m. The result is an exposure that is not merely unhedged but structurally unhedgeable — a condition that can give rise to substantial, unanticipated losses for short holders and their clients. A 15-minute window, ending at 4:15 p.m., would preserve the long holder’s right to submit contrary instructions while reducing the short holder’s unhedgeable exposure to a minimal and proportionate interval.

### **2. Technological obsolescence of a 90-minute processing window**

The 90-minute exercise instruction window reflects the operational constraints of a prior era, when exercise notices were communicated through manual processes — by telephone, fax, or paper instruction — that genuinely required extended processing time. In today’s environment, where order submission, trade execution, and clearing workflows are substantially automated and operate in near real-time, a 90-minute window is no longer operationally necessary by any objective measure.

Market participants — including broker-dealers, clearing firms, and institutional investors — have the technological infrastructure to process and transmit exercise instructions within seconds of the market close. A deadline of 4:15 p.m. provides a reasonable and sufficient buffer for automated systems to confirm final positions and submit instructions, while eliminating the extended tail risk that the current framework imposes. The

Commission should expect all regulated participants to maintain operational standards commensurate with the technological capabilities of modern markets. A 15-minute window is not an unreasonable standard in that context; it is, if anything, a generous one.

### **3. The original rationale for an extended window no longer applies**

It is instructive to consider why a 90-minute post-close window was originally deemed necessary. At the time the current framework was established, after-hours trading in equity securities was effectively non-existent. A long option holder wishing to liquidate a near-the-money position rather than exercise it had no meaningful market in which to do so after 4:00 p.m. The extended exercise window served a legitimate purpose in that environment: it afforded the long holder sufficient time to assess the economics of exercise versus non-exercise in the absence of any alternative means of monetizing the position.

That rationale no longer holds. After-hours trading in U.S. equity securities has grown substantially and continues to expand, with meaningful liquidity now available in many names well beyond the regular session close. A long holder who wishes to close or reduce a position after 4:00 p.m. rather than exercise has ready access to after-hours markets to do so. The extended exercise window — originally a necessary accommodation for the absence of post-close liquidity — has become a structural anomaly that confers an informational and decisional advantage on the long side at the direct expense of the short side, without any remaining justification rooted in market structure. The original premise having dissolved, the accommodation it produced should be reconsidered accordingly.

### **4. Heightened relevance in light of Monday and Wednesday expirations**

The case for reform is further strengthened by a significant and relatively recent structural development in the options market: the widespread introduction of options expiring on Mondays and Wednesdays, in addition to the traditional Friday expiration cycle. These mid-week expirations — now available on many of the most actively traded equity names — have meaningfully altered the expiration-day risk landscape.

Monday and Wednesday evenings are, statistically, far more likely to coincide with material corporate announcements — including earnings releases, guidance updates, regulatory filings, and strategic communications — than Friday evenings, when investor relations and corporate communications teams are generally less active. This increases the probability that after-hours price movements following a Monday or Wednesday expiration will be both material and directional, precisely during the window in which the long holder retains the ability to exercise or refrain from exercising. The expansion of the expiration calendar has therefore substantially increased the frequency with which the structural deficiencies of the current deadline are likely to manifest. The Commission's own facilitation of expanded expiration cycles makes the case for a shortened exercise window more compelling, not less.

I can offer a concrete illustration of the market impact of this structural deficiency. The firm on whose behalf this comment is submitted is an active participant in the Friday

expiration cycle across both index and equity options. Notwithstanding this activity, and notwithstanding the liquidity and commercial opportunity that Monday and Wednesday expirations might otherwise present, we have made a deliberate decision not to participate in mid-week expiration trading. The primary reason for this decision is precisely the risk asymmetry described above: the materially elevated probability of market-moving corporate announcements on Monday and Wednesday evenings renders the 90-minute post-close exercise window an unacceptable and unmanageable source of tail risk for short option holders.

We believe we are unlikely to be alone in this assessment. If other active participants have reached the same conclusion — and we suspect that many have — the current framework is not merely inequitable; it is actively suppressing participation and liquidity in a segment of the market that the Commission has taken deliberate steps to develop. A reform of the exercise deadline would, in our view, unlock meaningful additional market participation from firms that are today deterred by a structural risk that has no sound justification in a modern, automated market environment.

### **III. Conclusion**

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The two proposals outlined above — the introduction of cash-settled equity options and the reduction of the expiration-day exercise instruction deadline to 4:15 p.m. Eastern Time — share a common objective: to enhance the efficiency, fairness, and transparency of the U.S. options market. I believe both measures are consistent with the Commission's mandate to protect investors, maintain fair and orderly markets, and facilitate capital formation.

I thank the Commission for its willingness to engage with public input on these matters and commend its commitment to a thorough and inclusive review of options market structure. I hope these comments prove useful in the Commission's deliberations.

Respectfully submitted,

*Anonymous Public Commenter*

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This comment is submitted anonymously in accordance with the SEC's public comment procedures.