July 13, 2016

VIA E-mail: rule-comments@sec.gov

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-0609

RE: *Exchange Act Release No. 34-74581; File No. S7-05-15*
Exemption for Certain Exchange Members

Dear Mr. Fields:

We, CTC, L.L.C., Akuna Capital LLC, Belvedere Trading LLC, Consolidated Trading LLC, Cutler Group LP, Group One Trading, L.P., Integral Derivatives LLC, The Options Clearing Corporation, Optiver US, LLC, Peak6 Capital Management LLC, and Volant Trading (the "Firms") respectfully submit this letter in response to the U.S. Securities and Exchange Commission's ("SEC" or "Commission") proposal to amend Rule 15b9-1 under the Securities Exchange Act of 1934 ("Exchange Act") to require broker-dealers that engage in off-exchange trading and non-member exchange trading to become members of a national securities association ("Proposal").[1] This letter will highlight some additional considerations for the Commission that we believe were not conveyed in previously filed comment letters.[2]

We strongly support well-regulated markets and agree that regulators should have all the necessary information needed to properly oversee the markets. We also believe that regulation should be efficient so as to achieve the desirable benefits of healthy and well-functioning markets, while not imposing unnecessary costs on market participants, as those costs may have a detrimental impact on market quality and investors.

Unfortunately, we believe that the Commission did not fully consider the disproportionate impact that this Proposal will have on the options markets and investors in those markets. Specifically, we believe that the Commission did not take into account the role and obligations with regard to firms engaged in options market making in drafting this Proposal. This letter will highlight these gaps and suggest some alternatives to address the specific businesses of options market making firms without undermining the Commission's expressed purpose of regulating market participants that are not properly regulated under the current regulatory structure.

I. The Proposal's Impact on Options Market Making Firms Does Not Align with the Commission's Stated Intent

In the Proposal, the Commission identifies a specific type of proprietary trading firm as the focus of its proposed amendments. These proprietary trading firms benefited from the exemption in Rule 15b9-1 in a manner that was not envisioned at the time it was adopted and later amended.[3] These proprietary

[1] Exchange Act Release No. 74581 (Mar. 25, 2015), 80 FR 18035 (Apr. 2, 2015).
[2] Jay Coppoletta, PEAK6 Capital Management, LLC, Letter Dated June 1, 2015 and Frank A. Bednarz, CTC Trading Group, L.L.C., Letter Dated June 1, 2015.
[3] Proposal, p. 18038.

trading firms: (1) are members of alternative trading systems ("ATSs")[4] and (2) execute a large amount of volume in the off-exchange market and on exchanges of which they are not members relative to their exchange member trading activity.[5] Unlike these firms which the Commission describes as the driving factor for modifying Rule 15b9-1, firms that engage in options markets making: (1) provide significant liquidity in conformance with substantial SRO-imposed quoting obligations, (2) are not members of ATSs, and (3) conduct the vast majority of their trading activity on the exchanges of which they are members, with all off-exchange and non-member exchange trading conducted through a third-party broker dealer that is a FINRA member.[6]

The Commission and SRO rules recognize a specific classification for firms engaged in options market making that is separate and distinct from the general classification of proprietary traders.[7] This specific SRO classification designates options market maker quoting obligations, among other obligations, that do not apply to all proprietary traders. Given the vast difference in the trading behavior of proprietary trading firms generally versus firms engaging in options market making coupled with the regulatory distinctions currently in place, we respectfully submit that the Commission's Proposal overreaches by requiring firms engaged in options market making to become FINRA members.

Further, the Commission bases the majority of its economic analysis on 14 non-FINRA member firms that connected to ATSs directly without the intermediation of another broker-dealer during the fourth quarter of 2014.[8] These 14 non-FINRA member firms, unlike firms engaged in options market making, conduct a large amount of their trading activity directly with the off-exchange market or, more specifically, ATSs that are subject to the jurisdiction and oversight of FINRA, while the firms in question are not currently subject to direct regulatory oversight by FINRA. The Commission provided a host of data to support this Proposal with regard to these firms.[9]

We agree that the Commission should ensure appropriate regulation of such firms. For these 14 firms, and others with similar trading behavior, off-exchange activity and activity on exchanges of which they are not a member make up a significant portion of their total volume. We agree that this is a frustration of the purpose and intent of Section 15(b)(9) of the Exchange Act. Due to this unintended consequence of the current language of Rule 15b9-1, these firms are indeed able to avoid more appropriate

[4] The Proposal indicates that "these firms tend to effect transactions across the full range of exchange and off-exchange markets, including alternative trading systems ("ATSs")." Proposal, p. 18038.

[5] "However, because the Rule does not explicitly limit this exclusion from the *de minimis* allowance to dealer activities ancillary to a floor-based business, a broker-dealer, with or without a floor presence, may engage in unlimited proprietary trading in the off-exchange market without becoming a member of an Association. Consequently, many of the most active, cross-market proprietary trading firms have been able to rely on the exemption from Association membership despite effecting a significant volume of transactions off-exchange." Proposal, p. 18038. "As a result, an exemption that was developed to address limited off-exchange activity by exchange based specialists or floor brokers is today being used by many broker-dealers without a floor-based business, and that conduct a substantial percentage of the volume of off-exchange trading in the U.S. Securities markets." Proposal, p. 18038.

[6] Please note that unlike the equities and futures markets, meaningful floor-based liquidity still exists in the options markets.

[7] There are a variety of Commission net capital rules that apply to options market makers. Specifically, these rules apply to a dealer who does not effect transactions with anyone other than brokers or dealers, who does not carry customer accounts, who does not effect transactions in unlisted options, and whose market maker or specialist transactions are effected through and carried in a market maker or specialist account cleared by another broker or dealer. See, §240.15c3-1(a)(6), §240.15c3-1(b)(1), and §240.15c3-1(c)(2)(vi)(N). In addition, each SRO has rule books that address the appointment and quoting obligations of options market makers.

[8] Proposal, p. 65 and footnote 153.

[9] Orders from Non-Member Firms represented a volume weighted average of approximately 48% of orders sent directly to ATSs. Proposal, footnote 79. "The Commission estimates that orders from Non-Member Firms represented a volume-weighted average of approximately 32% of all orders sent directly to ATSs during 2012." Proposal, p. 18042. "During the fourth quarter of 2014, there were 104.5 billion orders reported in the off-exchange market. Of these 104.5 billion orders, 36.9 billion (35.31%) were received from Non-Member Firms." Proposal, p. 18052.

regulatory oversight for a significant portion of their trading activity.[10] This is in contrast with firms engaged in options market making who conduct the vast majority of their trading activity on regulated exchanges and are limited in their non-member exchange and off-exchange activity by SRO rules.[11]

II. The Commission Did Not Properly Take the Options Markets into Account when Crafting the Proposal

a. Historical Analysis

The Proposal acknowledges that the equities markets have undergone substantial transformation since the Commission previously considered Rule 15b9-1, evolving from markets with both manual and automated features.[12] However, the Proposal fails to take into account key changes in technology and trading practices that have occurred since the rule was originally adopted. For example, CBOE did not have automated features of any significance in 1983 when Rule 15b9-1 was last considered. The CBOE, which was the first and leading options exchange, made its first attempt at electronic trading with the introduction of its Retail Automated Execution System ("RAES") to facilitate electronic execution of small customer orders in 1985. Therefore, not only did the options markets not have electronic or automated trading in 1983, they were still an emerging market.[13] In fact, there were 4 options exchanges in 1983[14] in contrast with the 14 options exchanges of today.

Options market making was not contemplated when Rule 15b9-1 was adopted or later amended. The ability to act as an options market maker did not exist until 1973, well after the adoption of Rule 15b9-1 in 1965. Rule 15b9-1 did not apply to options market making firms until 1976, when they were required to register as broker-dealers, causing them to be subject to 15(b)(8).[15] Even in 1976, when Rule 15b9-1 was expanded to capture proprietary traders, options market making firms were a small emerging group of market participants.

b. 2010 Concept Release

The Proposal repeatedly presents data from the cash equities markets to justify proposed amendments that apply to both the cash equities markets and the option markets. The Proposal cites the January 21, 2010, SEC Concept Release to describe market comments on the Rule 15b9-1 amendment as proposed and its observations with regard to the evolution of the markets.[16] The Concept Release stated: "This concept release focuses on the structure of the equity markets and does not discuss the markets for other types of instruments that are related to equities, such as options and OTC derivatives."[17] We believe the Commission is basing its recommendation, which will have a major negative impact on

[10] "In practice, this allows many cross-market proprietary trading firms to avoid Association membership, despite their effecting a significant volume of transactions in the off-exchange market." Proposal, p. 18042.
[11] For example see CBOE Rule 8.7 Obligations of Market-Makers. See also, footnote 7.
[12] Proposal, p. 18038.
[13] CBOE's annual volume of contracts in 1984 was 100 million contracts versus their 2014 annual published volume of over 1 billion contracts.
[14] CBOE, Philadelphia, AmEx, and Pacific.
[15] 15 U.S.C. 78*o*(b)(8).
[16] "In 2010, the Commission issued a Concept Release that, among other things, solicited comment on whether all proprietary trading firms should be required to register as broker-dealers and become members of FINRA to help assure that their operations were subject to full regulatory oversight." Proposal, p. 18045.
[17] Concept Release, p. 3602.

options market making activity, to a meaningful degree on the analysis and comments of a Concept Release that was limited to the equities markets.[18]

c. Floor-Based Activity/Single Exchange Membership

Rule 15b9-1, which was last substantively updated in 1983, was "intended to address the limited activities of exchange-based specialists and floor brokers that were conducted off the exchange of which they were a member and that were ancillary to their floor-based business."[19] The broker-dealers exempt from Association membership pursuant to Rule 15b9-1 when it was first adopted were broker-dealers with a business concentrated on the floor of an exchange of which they were a member.[20] The specialists in existence in 1965, 1976, and 1983—when this exemption was first adopted and later amended—were only concentrated on the floor, as this was the only venue where exchange trading occurred. Further, this exemption and later amendments pre-dated multi-list[21] and inter-market linkage requirements which have created a necessity for firms engaging in options market making activity to route orders across multiple exchanges in order to remain competitive. The reference to the floor and single exchange membership at the time Rule 15b9-1 was adopted and later amended was not to *single out* the single exchange membership and floor-based trading of that era for special protections, but rather simply to *describe* the exchange landscape at that time.

The Firms agree with the Commission that an exemption to the requirement in the Proposal for Association membership for bona-fide hedging activity resulting from fulfilling SRO options quoting obligations is reasonable and appropriate. We respectfully submit that a dealer that transacts on multiple exchange floors should be able to avail itself of the hedging exemption, and not be presented with the perverse incentive to split its business into separate entities each trading on single exchange floors to avoid FINRA registration. We further submit that a dealer that provides liquidity electronically should be exempt for purposes of hedging its options market making activity (or trading options on other exchanges as a non-member through a FINRA registered broker-dealer as part of a market making strategy) as they otherwise employ an identical business model to that of a dealer engaging in options market making on the floor of a single exchange. Without these modifications, the Proposal imposes a strong regulatory incentive for a dealer to limit its trading to a floor-based exchange rather than expand its practice to provide liquidity electronically across multiple exchanges – expansion we believe the Commission seeks to encourage, as it directly reduces costs for investors by increasing the quality and depth of options quotes in the marketplace. In short, restricting the hedging exemption only to dealers that trade on the floor of a single exchange has no historical basis, and appears to be arbitrary and capricious while imposing an unnecessary burden on competition.

d. Proprietary Trading Exception

In 1976 when the exclusion for proprietary trading was first created, the circumstances "under which an exchange specialist or floor broker would trade proprietarily off-exchange remained quite limited, such as when a regional exchange specialist would hedge risk on the primary listing market."[22] Although we do not believe the Commission was focused on options market making in 1976 when the proprietary

[18] "The Commission has considered these comments, and, for the reasons set forth throughout this release, is proposing to amend Rule 15b9-1 as described herein." Proposal, p. 18045.
[19] "The Rule is limited to receipt of a portion of the commissions paid on occasional over-the-counter transactions and certain other activities incidental to their activities as specialists[.]" See Proposal, footnote 10, and p. 18038.
[20] Proposal, p. 18038, and footnote 22.
[21] Multiple listing began in the options markets in 1999.
[22] Proposal, p. 18037, and p. 18040.

trading exception was adopted, the same pattern applies today. Today, the activities that are incidental to options market making' are still "quite limited" – including hedging, reducing risk, rebalancing, or liquidating open positions.[23] Like the specialists in 1976, these activities are done not with the intent to derive income from the hedging activity itself but rather to manage risk resulting from options market making and concomitant SRO obligations.

By significantly narrowing the exemption under the proposed changes to Rule 15b9-1, the Commission effectively eliminates the proprietary trader exemption under this Rule in effect since 1976. The main justification for this expansion in regulatory oversight by FINRA is the off-exchange trading of a small subset of firms.[24] We believe that options market making firms were not contemplated in the proprietary trading exception when first adopted, later amended, or as proposed today. The Commission has offered inadequate analysis and data with regard to options market making in the revision of Rule 15b9-1 as proposed.

e. Alternatives

Due to the explosive growth of the options markets as well as the limited market analysis tailored to the options markets, we request that, at a minimum, the Commission complete a more detailed analysis including an economic rationale with regard to options trading before adopting the Proposal. This seems especially necessary in light of the fact that the hedging exemption as proposed will apply almost exclusively to the options markets. In the Exemptive Relief issued by the Commission this year with regard to the CAT Plan, the Commission recognized that there are some key differences between the options markets and the cash equities markets.[25] In light of this analysis, the Commission crafted modified compliance obligations for options market makers. We ask that the Commission apply a consistent approach with regard to this Proposal as was applied to the CAT Plan Proposal. If there is a recommendation that firms engaging in options market making are required to join an Association, we expect that the Commission's analysis will include: (1) the impact to liquidity in the options markets, and (2) the impact on firm engaging in options market making with material SRO-imposed quoting obligations.

III. Costs of FINRA Membership for Firms Engaging in Options Market Making are Disproportionate to Any Benefit Obtained

Section 3(f) of the Exchange Act requires the Commission, whenever it engages in rulemaking pursuant to the Exchange Act, to consider whether an action is necessary or appropriate in the public interest and whether the action would promote efficiency, competition, and capital formation.[26] Further, Section 23(a)(2) of the Exchange Act requires the Commission, when making rules under the Exchange Act, to consider the effect such rules would have on competition."[27] We believe that the Proposal not only would harm competition but also will result in less efficient, riskier markets. Further, given the various costs associated with FINRA membership explained below (setting aside any costs required to comply

[23] CBOE Rule 8.7.
[24] "A broker-dealer that conducts off-exchange transactions outside the limited scope of Rule 15b9-1, as proposed to be amended, would be required to become a member of an Association." Proposal, p. 18038.
[25] "The SROs note that the volume of options market maker quotes is larger than any other category of data to be reported to the CAT, generating approximately 18 billion daily records, and believe that requiring duplicative reporting of this already large amount of data would lead to a substantial increase in costs." Letter from Robert Colby, FINRA, on behalf of SROs, to Brent J. Fields, Secretary, Commission, dated January 30, 2015. ("Exemption Request Letter, SEC Release No. 34-77265, p. 7")
[26] Proposal, p. 18051
[27] Proposal, p. 18051

with CAT and possibly OATS), we believe the costs of becoming FINRA members far outweigh any regulatory benefit, and that therefore the Proposal, in imposing an unnecessary burden on competition, is inconsistent with the Act.

a. Implementation Costs

The Proposal suggests that, excluding the fees incurred to implement OATS, median or average firm implementation costs of FINRA membership would be approximately $90,000. We believe this number to be significantly underestimated. In assessing implementation fees, we considered the FINRA application process, the registration process, and one time technology costs including all internal and external resources to complete this effort. We believe that a conservative estimate of the costs associated with this effort for firms engaging in options market making would be approximately $500,000, or more than five times the amount estimated by the Commission. We believe this disparity will result in market consequences not anticipated by the Commission, including creating significant barriers to entry, deterring competition, and impeding optimal capital formation.

b. Ongoing Costs

The Proposal further indicates that, excluding the ongoing financial obligation to comply with OATS reporting, the median or average ongoing annual fees associated with FINRA membership would be approximately $400,000. In assessing ongoing annual fees, we considered the Gross Income Assessment, TAF fee, Personnel Assessment, Section 3 fee, as well as increased headcount and consulting. We believe a conservative estimate of the costs associated with this effort would approximate $800,000 to $1 million annually, or between 2 and 2.5 times the estimate provided by the Commission. These costs are significant, particularly in light of the fact that the firms engaging in options market making are already regulated by the options exchanges of which they are a member. Ultimately, these additional regulatory costs for those options market making firms that are not already FINRA members will force more market participants out of the marketplace, thereby reducing competition, increasing concentration, and further reducing liquidity.

c. Impact on Smaller Firms

Mandatory FINRA membership will result in a reduction in the number of market participants – particularly smaller firms. Most broker-dealers are small, with 67% of broker-dealers employing 10 or fewer registered individuals and only 4% employing over 151 registered individuals.[28] As of December 31, 2014, the majority of broker-dealers each had total capital of less than $500,000.[29] If our cost estimates are correct, one time implementation costs for those options market making firms that are not already FINRA members could exceed the total capital of these smaller firms, possibly driving them out of the market. This will harm competition and diminish liquidity.

d. More Market Dislocations and Volatility in Extreme Market Conditions

The impact of the Proposal will present new and unprecedented risks in the options market, reducing liquidity and market quality, and increasing volatility. Indeed, the Commission acknowledged in the Proposal that "[r]educed liquidity upon exchanges can result in higher spreads and increased volatility. Increased spreads on exchanges can lead to increased costs for off-exchange investors as well as

[28] Proposal, p. 18051.
[29] Proposal, p. 18051-52.

investors transacting on exchanges, because most off-exchange transactions (including many retail executions) are derivatively priced with reference to prevailing exchange prices."[30]

Numerous sectors of the options markets have experienced a reduction in liquidity, exacerbated in times of high market volatility.[31] When high market volatility is present, many market participants exit the market leaving those with affirmative obligations, such as the options market makers, to provide liquidity. This provision of liquidity serves the public interest by helping the market absorb shocks and easing the negative impact on individual investors, ultimately serving the public interest.[32] Unlike the proprietary trading firms that the Proposal was designed to address, firms engaged in options market making have material SRO-imposed affirmative obligations to meet various quoting obligations independent of market conditions. This substantially reduces the risks to the options markets during periods of price dislocation when many market participants exit. This is particularly important in the options markets, where many individual series are illiquid and the displayed quotes investors rely upon are almost entirely disseminated by options market makers.

Unfortunately, due to a variety of market forces, the number of broker-dealers is diminishing, as are the number of appointed options market makers.[33] Further, a variety of new and emerging market conditions are hampering liquidity in the marketplace including but not limited to: (i) increased costs of capital driven in part by margin and capital requirements limiting the number of clearing firms and who they will assume as customers; (ii) increased technology costs required to participate in the market competitively; (iii) increased regulatory costs; and (iv) other competitive pressures. This Proposal coupled with these market realities will force smaller firms engaged in options market making out of the market resulting in even further reduced levels of liquidity in times of market stress.

In the last several years, we have witnessed many examples of extreme volatility and market dislocations including but not limited to: the financial crisis of 2008-2009, the flash crash of 2010, bond market volatility in October of 2014, the market response to the economic slowdown in China in the second half of 2015, and the June 2016 Brexit vote. During each of these crises, the options market makers' ability to continue to provide liquidity was instrumental in allowing the options markets to function relatively smoothly.[34] While it is not possible to identify a single root cause to the increased frequency and size of market dislocations experienced over the last several years, we believe the diminishing number and diversity of liquidity providers is a material contributing factor. The fact that the Proposal does not acknowledge or address diminishing liquidity in the markets and the impact of diminished liquidity during times of extreme volatility is a serious cost of the Proposal that must be contemplated.

e. FINRA Rule Book

The Commission states in the Proposal that "[t]he principle underlying the self-regulatory structure in the Exchange Act is the concept that the SRO best positioned to conduct regulatory oversight should

[30] Proposal, p. 18056.
[31] Bank for International Settlements BIS Working Papers, No. 563 "Who supplies liquidity, how and when?" May 2016, p. 3.
[32] "Liquidity evaporated in many sectors of financial markets during the financial crisis 2007 – 2009." National Bureau of Economic Research Working Paper 17653 "Evaporating Liquidity" December 2011, p. 1.
[33] Public records indicate a steady decline in the number of registered broker-dealers over the last five years: 5/1/2016 – 4132; 12/2015 – 4196; 12/2014 – 4306; 12/2013 – 4432; 12/2012 – 4632; 12/2011 – 4814. Further, public records indicate a steady decline in CBOE appointed market makers for the SPY over the last four years: 4/2016 – 22; 4/2015 – 27; 4/2014 – 29; 4/2013 – 37. This is just one example of one of the decline in market makers in one of the most liquid equity option classes globally.
[34] Bank for International Settlements BIS Working Papers, No. 563 "Who supplies liquidity, how and when?" May 2016

assume responsibility for that oversight."[35] We agree with this conclusion, and feel that the SRO best positioned to conduct regulatory oversight with respect to activity on a given options exchange are the individual options exchanges, and not FINRA. Options exchanges employ officials who possess significant options industry knowledge. This is a highly specialized industry with rule books that are tailored to the products and trading strategies unique to this industry. Further, since FINRA already has a view and oversight into options market making firms through RSA and 17d-2 agreements with the options exchanges, adding another layer of FINRA rules that are tailored to a customer-based broker-dealer business with a focus on cash equities for compliance by proprietary options market making firms adds no regulatory benefit.[36]

The Proposal touts the superior nature of the FINRA rule book as applied to the market participants captured by the Proposal. The Commission fails to acknowledge that a significant portion of the FINRA rule book is dedicated to the handling and oversight of broker-dealers who conduct a non-member customer business which is not applicable to firms engaged in options market making who do not have customer business. The Commission has an important responsibility to govern and approve SROs and their rule books, and complete authority to address any inadequacy in an SRO rule book. Rather than further exploring increased coordination between the SROs and FINRA, the Commission positions the FINRA rule book in its entirety as necessary for the regulation of this expanded group of market participants including options market making firms and disregards the fact that much of this rule book is not applicable to them.

As an alternative to applying the complete FINRA rule book to options market making firms, we ask that the Commission explore increased coordination through use of cooperative agreements between the SROs and FINRA to better leverage some of FINRA's robust regulations such as business conduct, financial condition, and supervision.[37] We believe that there are currently means in place to exploit some of the superior rules that FINRA has adopted that would not require FINRA membership. We believe that FINRA membership for options market making firms is neither necessary nor appropriate in light of FINRA's customer-focused rule book and the current regulatory structure that permits collaboration of SROs to implement joint plans to allocate responsibility for common regulatory standards and objectives.[38] In light of the potential harm to competition and the public interest that the Proposal presents to options market making firms, we believe that use of cooperative agreements through the Commission rules currently in place is a better means to promote efficiency among SROs without harming the ultimate investor and the public interest.

f. Benefits Limited to Enhanced Cross-Market Surveillance for Underlying Hedges

With the adoption of the amendments to FINRA Rules 7410 and 7440, FINRA will now be able to identify the origin of all OATS orders without need for expanded OATS reporting pursuant to the Proposal.[39]

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[35] Proposal, p. 18041.
[36] For example, the FINRA rule book does not contemplate the function of market making.
[37] Proposal, p. 18043.
[38] The Proposal discusses use of 17d-2 agreements to address regulatory duplication in areas other than financial responsibility, including sales practices and trading practices. Proposal, p. 18041. One example of successful implementation of SRO coordination is the Options Regulatory Services Authority ("ORSA") run by CBOE to surveil and investigate insider trading on behalf of all options exchanges.
[39] Order Approving a Proposed Rule Change To Amend FINRA Rules 7410 (Definitions) and 7440 (Recording of Order Information) Commission Release No. 34-77523.

Therefore, FINRA will be able to conduct cross-market surveillance of the underlying hedges without a need for FINRA membership, eliminating any possibility of benefit from the Proposal.[40]

Further, we believe that once implemented, CAT data will allow the SROs to perform the cross-market surveillance envisioned in the Proposal.[41] In fact, the Commission envisions such surveillance by the SROs in the CAT Plan proposal when it states: "The Plan would improve regulators' efficiency in conducting cross-market and cross-product surveillance. The Plan would particularly enhance regulator's ability to perform cross-market surveillance, across equity and options markets, by enabling any regulator to surveil trading activity of market participants in both equity and options markets and across multiple trading venues without data requests."[42] The Commission's identification of cross-market surveillance as a key benefit of this Proposal, therefore, does not apply to the options markets.[43]

IV. Alternative Approach

Options market making firms have little in common with the 14 firms that the Commission has highlighted as the driving justification for modifying Rule 15b9-1. Options market making firms not only engage in a distinct manner of trading but are also subject to a narrow set of legal and regulatory obligations issued by the Commission and the SROs. We believe that the Commission not only did not adequately consider the options markets in drafting this Proposal but also did not adequately consider the role and obligations of firms engaging in options market making in the current multi-list inter-market linkage options exchange environment. While we respectfully submit that the Commission should not adopt the amendments in the Proposal, should it decide to do so, we urge it to consider modifying the exemption from Association membership to include options market making firms for the reasons stated herein.

Specifically, in order to ensure that the regulation of options market making activity is conducted by the SRO best positioned to do so, we propose amending subsection (1) of Rule 15b9-1 to refer to "dealer[s] conducting market making activity satisfying quoting obligations in one or more classes of options." Further, we propose deleting any and all references to the "floor" to permit trading on any options exchange currently governed by the Commission reflecting current market structure and not disadvantaging the varied options exchanges in existence today, with and without floor-based trading. We propose that the reference to off-exchange hedging be changed from referring to hedging floor-based activity to hedging any options market-making activity, and that the exemption also apply to transactions on other national securities exchanges in the same classes of options in which the firm conducts market making activity, when conducted as part of a coordinated market making strategy. As a condition to this allowance, we would recommend that firms engaged in options market making taking advantage of this exemption be required to conduct their non-member and off-exchange trading solely

[40] Regulation of the underlying stock hedges also occurs in the current environment. Stock trading is done by options market makers as a customer. If FINRA identifies a potential regulatory violation or concern, they can and do notify the FINRA member intermediary who submits the trade.

[41] We believe the options exchange SROs possess superior cross-market regulatory expertise in the options markets than FINRA. FINRA's best resource to perform these tasks are likely the staff it has acquired from the options exchanges through its RSAs who are currently regulating their member exchanges in accordance with the options exchange SRO rule books.

[42] CAT Plan Proposal, p. 356.

[43] "Exchanges traditionally have not assumed the role of regulating the totality of the trading of their member broker-dealers, and exchanges are currently not well-positioned to assume that role, in light of the statutory scheme and, among other things, their limited access to data." Proposal, p. 18042. FINRA will not have access to more data via the Proposal. Until CAT is adopted, options data will not be fully accessible.

through a FINRA registered broker-dealer.[44] We believe that these minor modifications will allow firms engaged in options market making to continue to provide their valuable service to the markets consistent with the historical validation of the important function and role of options market making to the market as a whole.

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We appreciate the opportunity to comment on the Proposal. Please do not hesitate to contact us if you have questions regarding any of the comments provided in this letter.

Sincerely,

/s/
Eric Chern
Chief Executive Officer, CTC Trading Group, L.L.C., sole Manager of CTC, L.L.C.

/s/
John Kinahan
Chief Executive Officer, Group One Trading, L.P.

/s/
Andrew Killion
Chief Executive Officer, Akuna Capital LLC

/s/
Marc Liu
Chief Executive Officer, Integral Derivatives LLC

/s/
Thomas Hutchinson
President, Belvedere Trading LLC

/s/
Craig S. Donohue
Executive Chairman, The Options Clearing Corporation

/s/
Steven J. Gaston
Chief Compliance Officer, Consolidated Trading LLC

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Chief Executive Officer, Optiver US, LLC

/s/
Trent Cutler
Chief Executive Officer, Cutler Group LP

/s/
Andrew Tourney
Chief Compliance Officer, PEAK6 Investments, L.P., manager of PEAK6 Capital Management LLC

/s/
Brian Donnelly
Chief Executive Officer, Volant Trading

cc: The Honorable Mary Jo White, Chair
The Honorable Michael S. Piwowar, Commissioner
The Honorable Kara M. Stein, Commissioner
Mr. Stephen Luparello, Director, Division of Trading and Markets
Mr. Gary Goldsholle, Deputy Director, Division of Trading and Markets
Mr. David S. Shillman, Associate Director, Division of Trading and Markets

[44] Please note that some options market makers may continue to also engage in proprietary member exchange trading activity pursuant to §240.15c3-1(a)(6) and consistent with 15.U.S.C. 78*o*(b)(8).