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Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Date

15 March 2023

Subject

RE: Order Competition Rule No. 34-96495; File No. S7-31-22

Dear Ms. Countryman,

Optiver US LLC¹ ("Optiver") appreciates the opportunity to comment on the Securities and Exchange Commission's (the "SEC" or "Commission") proposal (File No. S7-31-22) to promote enhanced competition by requiring certain orders submitted by individual investors to be initially subject to a qualified auction operated by an open competition trading center. As markets continue to modernize and evolve, we agree with the need to update the mechanisms that promote transparency and fair competition. Optiver believes the principles defined in the proposal will contribute to a healthier equity market that benefits all market participants, including retail investors, by creating greater competition on openly accessible venues.

In principle, the proposal that the Commission has presented is focused on improving the current US equity market structure. However, the US equity options market structure has significant limitations comparable to those of the US equity market structure (particularly with respect to retail traders who are forced to pay wider spreads than they would receive in a truly competitive market). The US equity options market structure should therefore be considered as part of the Commission's review.

The market structure presented in the Order Competition Rule requires that qualified auctions prohibit giving priority to the participants that routed the order to the auction. Further, the Commission has attempted to standardize the economics for all participants by capping permissible fees and rebates at \$0.0005 per share (for responses greater than \$1 per share). These features contrast with current price improvement mechanisms offered by US equity option exchanges, which favor the participant with an affiliated market maker through guaranteed levels of

¹ Established in 1986, Optiver is a global market maker with offices in Amsterdam, London, Chicago, Austin, Sydney, Shanghai, Hong Kong, Singapore and Taipei. With close to 2,000 employees, Optiver provides liquidity to financial markets using our own capital, at our own risk, trading a wide range of products: listed derivatives, cash equities, ETFs, bonds and foreign currencies.



participation and asymmetric fee schedules. This biased incentive structure deviates from the open competition narrative the industry promotes, and Optiver would encourage extending the principles defined in the Order Competition Rule proposal to include the US equity options market.

Price Improvement Mechanisms

In recent years, US equity options exchanges have witnessed a proliferation of price improvement mechanisms, which are intended to provide a structure to improve the execution price relative to the National Best Bid and Offer (NBBO). In reality, these mechanisms have evolved to be overly complicated and provide a disproportionate benefit to wholesalers with an affiliated market maker.

Currently, eleven of the sixteen equity options exchanges offer price improvement mechanisms via auctions. These auctions allow the wholesaler to present a retail order that is paired against principal interest, typically sourced from the affiliated market maker, at a defined price. Assuming that they match the price, the affiliated market maker is entitled to a 40% - 50% allocation depending on the number of auction respondents that are matched at a given price.

Further, additional paired order types like auto-match allow the affiliated market maker to automatically match the best response, effectively guaranteeing enhanced participation rights on the orders they choose. This combined dynamic of a defined allocation benefit with the ability to auto-match enables wholesalers and their affiliated market makers to maximize the internalization of orders with minimal price improvement.

Asymmetric Fee Schedule

In addition to the structural dynamic associated with these price improvement mechanisms, exchanges have instituted asymmetric fee schedules that limit the ability of other market makers to compete. Currently, the affiliated market maker that submitted the paired order to the auction is subject to lower fees, typically \$0.05 per contract. In contrast, the competing market maker is charged \$0.50 per contract to participate in these auctions. This significant difference in fees forces the competing market maker to pay an oversized premium for providing equivalent or even greater price improvement.

By providing a market structure that guarantees participation rights for the affiliated market maker and penalizes competing market makers for price improvement, exchanges are facilitating greater levels of internalization by the wholesaler and the affiliated market maker. Optiver argues that price discovery is best served when orders are exposed to all market participants simultaneously, such that no one participant has a distinct advantage over another.

Recommendation: Increased Scope

Optiver agrees with the Commission that there is value in price improvement mechanisms and that, if they are appropriately configured, auctions can provide opportunities for retail customers to receive price improvement over the NBBO. However, the current mechanisms in equity options are not constructed to maximize price improvement due to defined allocation benefits, auto-matching

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functionality and asymmetric fee schedules. As a result, Optiver encourages the Commission to broaden the scope of its recommended implementation of the Order Competition Rules to include equity options markets.

Optiver values the opportunity to support and provide further comment on the aforementioned proposal. Please contact Liam Smith, Head of Corporate Strategy, Optiver US LLC, at liamsmith@optiver.us should you have any questions about this letter.

Respectfully,

A handwritten signature in black ink, appearing to be 'John Zhu', with a long, sweeping horizontal line above it.

John Zhu
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