December 31, 2016

VIA E-MAIL

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: **Proposed Rule Change to Adopt Rules for an Open-Outcry Trading Floor, Rel. 34-79421 (SR-BOX-2016-48)**

Dear Mr. Fields:

CTC Trading Group, LLC, on behalf of its wholly-owned subsidiary, CTC, LLC (collectively, "CTC"),[1] appreciates the opportunity to comment in response to the recent BOX Options Exchange LLC ("BOX") filing (the "Proposal") to adopt rules for an open-outcry trading floor (the "Proposed Floor").[2]

CTC and affiliates execute significant daily volume both electronically and through our presence on futures and options trading floors (*i.e.*, CME, CBOT, CBOE, Nasdaq Phlx, NYSE Amex, and NYSE Arca). We believe trading floors can provide value to investors: certain orders are sufficiently large or complex that handling by professional Floor Brokers and Market Makers on a healthy, competitive trading floor can enhance liquidity, provide greater price stability, and reduce the risk of errors. However, the Proposal would represent the first time an options exchange floor has been launched *de novo* in decades. The potential opening of an entirely new trading floor raises significant market structure issues, including many questions not addressed—or, in many cases, addressed insufficiently—in the BOX filing. While the Proposal frequently points to legacy rules of existing exchanges (from which it in fact deviates in many important respects) as precedent, simply citing previously-approved rules—many of which include, or are derived from, language dating back to the 1970s, when the U.S. options

[1] CTC was established in January 1998. CTC's business focus is trading in the capacity of an options market maker across asset classes and geographies, and it is currently a registered broker-dealer and a member of the Chicago Board Options Exchange, the C2 Options Exchange, NYSE Arca Options, NYSE Amex Options (NYSE MKT), the International Securities Exchange, and Nasdaq Phlx.

[2] *See* Rel. 34-79421 (SR-BOX-2016-48).

marketplace operated fundamentally differently than today—clearly does not satisfy the requirements to demonstrate that a proposed rule is consistent with the Securities Exchange Act of 1934 (the "Act").[3]

Accordingly, we respectfully urge the Securities and Exchange Commission ("SEC" or "Commission") not to approve the Proposal—or any similar filing to open a new open-outcry trading floor—without applying the most rigorous standards to ensure that the opening of an additional venue for open-outcry trading would promote just and equitable principles of trade and further investor protection and the public interest. Our main observations are as follows:

1. As we expressed to the SEC in 2013, each U.S. options exchange with a physical trading floor should provide an electronic cross auction mechanism ("ECAM") that is electronically accessible to qualified exchange participants from off the trading floor, and should require that all block-sized matched crosses of Customer orders in multiply-listed option products be exposed through the ECAM to provide a *bona fide* opportunity for price improvement.

2. That aside, any proposal to launch a completely new trading floor raises substantial additional concerns, and should not be approved without ensuring robust dissemination of crossing orders to a broad Market Maker community in order to provide for appropriate price discovery and protect investors.

3. The BOX Proposal, in particular, is inconsistent with the Act and should not be approved.

We provide detail on each of these points below.

1. Electronic Auctions Should Be Used to Ensure *Bona Fide* Price Discovery For Block-Size Trading Floor Orders in Multiply-Listed Options

Options floors originated as centralized venues allowing Market Makers to compete to trade with incoming orders, thereby helping to provide the best possible price to investors. In recent years, however, the population of Market Makers on multi-list trading floors has dwindled drastically. Absent robust Market Maker participation, trading floors become order crossing venues devoid of price discovery. While SRO rules permit single-legged option orders to be crossed only within the National Best Bid and Offer ("NBBO"), providing some protection for investors, multi-legged orders (spreads) can be executed outside the implied NBBO, and, in any case, the "true" market for spreads comprising risk-offsetting options is often significantly tighter than simply netting NBBO leg prices would indicate. Exposure of crossed option orders to Market Makers for possible price improvement prior to execution is therefore critical to ensuring investor protection, and failing to do so can impose significant, hidden opportunity costs on investors.

[3] Rule 700(b)(3) of the Commission's Rules of Practice states that the "burden to demonstrate that a proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder . . . is on the self-regulatory organization that proposed the rule change," and "[a] mere assertion that the proposed rule change is consistent with those requirements, *or that another self-regulatory organization has a similar rule in place*, is not sufficient" (italics added). *See* 17 CFR 201.700(b)(3).

Opening a new trading floor with limited and/or restricted Market Maker participation, as BOX proposes to do, will exacerbate the practice of "venue shopping," where institutions seeking to internalize order flow in multiply-listed options (or who solicit a chosen counterparty for a customer's order in exchange for commission payment)—and therefore prefer not to trade with third-party Market Makers who might provide price improvement—seek the venue with the lowest rate of Market Maker participation, and choose to execute trades there whenever possible. Since the number of market making firms is limited, and market making firms lack infinite resources to staff an arbitrary number of physical trading floors with dedicated personnel (whereas a single trader can often participate on all exchanges electronically from his or her desk), the approval of any proposal that would proliferate crossing venues without ensuring guaranteed exposure to multiple Market Makers therefore acts counter to investor protection and the public interest.

A simple and obvious way to both (1) preserve the value that can be provided by human order handling on a trading floor, while also (2) ensuring robust price discovery and maximizing price improvement, is to ensure broad, but brief, electronic exposure of any trading opportunity sourced from a traditional floor before it is printed. Accordingly, in 2013, CTC, Citadel Securities LLC, and Susquehanna International Group, LLP jointly submitted a petition for rulemaking under SEC Rule 192(a) (the "2013 Petition"), proposing that each U.S. options exchange with a physical trading floor provide an electronic cross auction mechanism ("ECAM") for this purpose, ensure it is made electronically accessible to qualified exchange participants from off the trading floor, and require that all block-sized matched crosses of Customer orders in multiply-listed option products be briefly exposed through the ECAM to ensure a *bona fide* opportunity for price improvement.

The 2013 Petition was not acted upon by the SEC, and no public response was provided by any options exchange. We will not re-state the case we made in the 2013 Petition here, as it remains publicly available.[4] We will simply observe that all of the arguments we put forward in the 2013 Petition are more true today than ever, and re-iterate our recommendation that the SEC initiate rulemaking to require this, or a similar, approach be adopted for floor-based trading of multiply-listed options.

2. <u>No New Options Trading Floor Should Be Approved Without Mandatory Electronic Exposure</u>

Even if the Commission chooses to defer action on the above, the approval of a *new* options trading floor clearly raises special concerns, and merely proposing consistency with current rules of existing exchanges is, pursuant to SEC Rules of Practice, insufficient grounds for approval.[5]

Since all existing options floors originated as adjuncts of pre-existing equities and/or futures trading floors, there has never before been a material risk that a new options floor would begin operating without a robust Market Maker population. In the case of any entirely new proposed floor, however, that risk is significant. Therefore, we strongly recommend that no new trading floor be approved without ensuring robust dissemination of crossing orders to a broad Market Maker community in order to provide for appropriate price discovery and protect investors. The simplest and most effective

[4] File No. 4-662, https://www.sec.gov/rules/petitions/2013/petn4-662.pdf

[5] *See* note 3, above.

method for doing so would be through mandatory electronic exposure along the lines described above. Absent this, any exchange proposing a new trading floor should be required to make representations that no symbol will be approved for floor trading until a sufficient population of Floor Market Makers has accepted appointments in that symbol, that the continued availability of any symbol for floor-based trading will be contingent on the ongoing presence of Floor Market Makers with active appointments, and in particular that no Floor Broker will be permitted to execute a cross except in the presence of appointed Market Makers.

We also respectfully request that the SEC consider the larger market structure impact of approving any new trading floor. Approving the Proposal would open the floodgates for every options SRO to open empty "trading floors" in disused office space (MIAX, MIAX Pearl, ISE, ISE Gemini, ISE Mercury, Nasdaq BX, NOM, C2, Bats BZX, and Bats EDGX could all presumably copy this filing), engendering serious fragmentation of liquidity, imposing significant new costs on market making firms by obliging them to staff every floor[6] or incur large opportunity costs,[7] and harming investors by facilitating "venue shopping" by firms looking to internalize order flow at the expense of price improvement opportunities. We respectfully ask that the SEC carefully consider whether this outcome, which would be a direct and probable result of approving the Proposal, would be in accordance with the Act.

3. The BOX Proposal Is Inconsistent with the Act

3.a. BOX seeks unprecedented approval to allow broker crosses in empty pits, to the detriment of investor protection and the public interest

In the Proposal,[8] BOX argues that Floor Brokers should be able to execute orders on the Trading Floor "at all times," including when no Market Makers are present. In contrast, Nasdaq Phlx, whose rules BOX otherwise proposes to emulate in many respects, requires the presence of a Market Maker.[9] While some exchanges lack rules requiring the presence of a Market Maker before a Floor Broker can effect a cross, to our knowledge, these omissions exist for legacy reasons only, and explicitly permitting crosses in an empty room is unprecedented. In any case, pointing to the rules (or lack thereof) of existing exchanges misses the point. As we noted above, all other exchanges grew from existing, crowded equities or futures floors (CBOE from the CBOT, NYSE Arca from the Pacific Stock Exchange, NYSE Amex from the American Stock Exchange, and Nasdaq Phlx from the Philadelphia Stock Exchange), and so were ensured, from the day of launch, to have robust and active Market Maker populations. BOX is

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[6] The actual exchange fees charged for membership and trading floor access are a small fraction of the total cost to hire, train, and support the personnel and systems required to maintain a floor market making operation.

[7] Due to the prevalence of "venue shopping," orders tend to gravitate to trading floors where Market Makers are absent. If the strongest market making firm in a given multiply-listed options class chooses not to staff the proposed BOX floor, upstairs firms will quickly realize that they can cross much more of an order in that class on the BOX floor than elsewhere, causing that Market Maker to miss out on the opportunity to interact with far more orders than prior BOX market share would have suggested. This would be good for BOX, but bad for investors.

[8] *See* Proposal, p. 65. This section of the Proposal's Notice of Filing references "Proposed Rule 7580(a)", which, according to p. 168 of the Exhibit 5 to the Proposal posted at https://www.sec.gov/rules/sro/box/2016/34-79421.pdf, seems to include only the word "[Reserved]". CTC therefore bases its comments regarding this Proposed Rule on the discussion BOX included in the Notice.

[9] *See* Nasdaq Phlx Rule 1063(a).

unique in proposing opening an options trading floor *de novo* and must be held to a standard appropriate to the times, and, in order to serve investor protection and the public interest, must propose rules that will *ensure* robust Market Maker participation on its trading floor from day one.

BOX attempts to justify this part of the Proposal by stating that "all orders executed on the Trading Floor must, at the very least, trade at a price equal to or better than the NBBO regardless of whether a Floor Market Maker is present in the Crowd Area when the order is executed." This is incorrect, however, because BOX is proposing to follow other options floors in not providing an NBBO guarantee for complex orders.[10] Further, particularly for complex orders comprising non-penny series, the "true" market provided by a Market Maker (which can be denominated in pennies for complex orders) will often be superior to the implied NBBO. Opening an additional trading floor venue with a rule allowing Floor Brokers to execute trades in an empty "Crowd Area", far from benefitting investors, simply provides a way for internalizers to *avoid* exposure to Market Makers who, in many circumstances, would almost certainly provide price improvement. The Proposal would therefore introduce hidden costs on investors and act directly counter to investor protection and the public interest, in contravention of the Act.[11]

3.b. The proposed electronic quoting requirement is an unjustified barrier to entry

In another unprecedented aspect of the Proposal, BOX proposes that a Floor Market Maker must quote electronically in all classes he or she trades on the Proposed Floor. Far from providing any benefit, for most Market Makers, meeting a continuous quoting obligation on the BOX electronic market—which had only 2.32% market share as of November 2016[12]—would represent an expensive threshold investment that will provide very little return given BOX's low trading volume. Requiring continuous electronic quoting in order to make markets on the floor seems, therefore, to simply be a means to impose a costly and unprofitable burden on would-be Market Makers, thereby discouraging them from establishing a presence on the BOX floor and preserving the value of the Proposed Floor as a crossing venue devoid of meaningful order exposure or price improvement. Further, this requirement is in no way germane to actually providing liquidity on the trading floor: if a given Market Maker is prepared to provide liquidity and potentially price-improve investor orders on the Proposed Floor, why should that participant be precluded from doing so simply because he or she lacks the technology, infrastructure, or desire to take substantial additional risk by continuously streaming quotes in a large number of options that very rarely actually trade electronically on BOX? If BOX is serious about encouraging liquidity in open outcry, as it states several times in its filing, it will welcome all willing Market Makers onto its floor, with no superfluous electronic quoting obligation.

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[10] *See* Proposed Rule 7240.

[11] Allowing crosses at empty trading posts also subverts the SEC's prudent restrictions on the use of Qualified Contingent Cross ("QCC") orders, which allow certain large, fully-hedged option orders to be crossed with no opportunity for price improvement. The BOX Proposal would set precedent that creates an obvious end-run around this restriction: upstairs order flow desks seeking to cross an order that isn't QCC-eligible could simply call around to find which floor has nobody on it trading a given class at the time, and execute the trade there, ensuring a *de facto* QCC-like entitlement to a 100% cross—violating the clear intent of the SEC's limitations on QCCs.

[12] *See* http://theocc.com/webapps/exchange-volume

In attempting to defend this requirement, BOX argues: ". . . the Exchange believes that the electronic quoting requirements for Floor Maker Makers will benefit investors, the national market system, Participants, and the Exchange by ensuring the liquidity directed toward BOX's electronic marketplace does not decrease with the launch of BOX's Trading Floor." We confess that we don't follow this argument. BOX Market Makers have been quoting electronically on BOX for years despite the lack of a trading floor. Why would the introduction of a floor lacking restrictive electronic quoting requirements in any way reduce the exchange's *existing* electronic quoting activity? It seems very unlikely that the current electronic Market Maker population on BOX has been quoting this entire time solely due to the expectation that BOX would eventually launch a trading floor with a mandatory electronic quoting requirement, and that they would therefore reduce their quoting activity absent such a mandate. BOX should either provide data substantiating this alleged risk, or drop the proposed electronic quoting requirement for floor participation.

3.c. The Proposal's introduction of "Crowd Areas" would impose an undue burden on competition

BOX proposes to divide the Trading Floor into "at least one 'Crowd Area' or 'Pit'", and that a Floor Market Maker may only participate in a crowd if he or she is physically located in a specific Crowd Area "at the time the order is represented in the crowd." BOX further proposes to restrict Floor Market Makers to "a single crowd area" at a time. CTC is unable to ascertain any purpose to these rules, other than to discourage Floor Market Makers from providing liquidity. If a Floor Market Maker is standing three feet from the Crowd Area where SPY options are traded, hears a Floor Broker announce an order, and desires to participate on the trade, potentially providing price improvement for the Floor Broker's customer, why should he or she be prohibited from stepping into the Crowd Area and doing so?[13] More fundamentally, in the present day, why should rules artificially dividing a Trading Floor into multiple "Crowd Areas" for the purpose of restricting trading activity be permissible at all?

Trading pits evolved to group large numbers of Floor Market Makers into convenient areas for the purpose of maintaining a fair and orderly market in an environment where large numbers of people were often shouting bids and offers simultaneously. As BOX is surely aware, that is not the environment that exists on multi-listed options trading floors today. There is no reason BOX cannot simply open a trading floor comprising a single Crowd Area with rules permitting all Market Makers to trade all issues. In the very unlikely event that, in the future, BOX finds itself with an unmanageably large number of Floor Market Makers unable to hear each other due to the din of continuous trading and therefore must subdivide the floor into multiple Crowd Areas to facilitate an orderly market, it would of course be free to submit an additional rule filing proposing to do so at that time, providing full justification as to why that action would be consistent with the Act. As part of the current Proposal, however, imposing

[13] Other exchanges have legacy rules describing "trading zones" or "posts." We understand that some exchanges require Market Makers to be standing in the appropriate trading zone *when they respond* to an order, but do not preclude them from stepping into the trading zone and responding simply because they did not happen to be in the zone *when the order was announced*, as proposed by BOX. On NYSE Amex, on the other hand, "the Exchange has designated the trading floor as a single trading zone and as such [Floor Market Makers] are permitted to participate in public outcry trading in all option issues traded on the Exchange." *See* https://www.nyse.com/publicdocs/nyse/markets/amexoptions/How_NYSE_Amex_Options_NYSE_Arca_Options_Work.pdf

needless "Crowd Areas" simply erects a barrier to entry and imposes an undue burden on competition, in contravention of the Act.

3.d. BOX's proposed "book sweep size" mechanism would restrict price improvement and harm investors

The Proposal includes a "book sweep size" feature, which would allow brokers to enter a maximum number of priority contracts in the BOX Book—including Public Customer bids and offers, and better-priced orders which would otherwise provide price improvement to a Qualified Open Outcry ("QOO") Order—with which a QOO Order would interact. Any QOO Order that would exceed this maximum level of book interaction would be rejected. Compared to the obvious alternative of simply sweeping the book up to the full size of the QOO Order, this proposed feature can only result in *more* order rejects, *less* price improvement to QOO Orders from better-priced bids and offers in the book, and *less* book volume executing. Paradoxically, however, BOX states that this feature would "aid Floor Brokers in having *more* of their executions accepted by the system and will benefit the market as a whole by providing a tool to assist Floor Brokers in executing orders when there is priority interest on the BOX Book. Additionally, the book sweep size will provide *increased* opportunity for orders on the BOX Book to be executed," later adding that the mechanism "will *increase* the opportunity for orders on the Trading Floor to interact with interest on the BOX Book" (emphasis added). In fact, precisely the opposite of all this is true—the book sweep size is a feature that explicitly prevents executions of orders on the BOX Book.

To illustrate the functioning of the book sweep size, BOX provides an example illustrating a QOO Order that is rejected because the chosen book sweep size is smaller than an order from a Public Customer ("PC1") in the BOX Book.[14] BOX states that in this case, the "QOO Order [would be] rejected, as the contra-side is not willing to relinquish adequate quantity of the initiating side. . . . Upon rejection, the Floor Broker may: (i) increase the book sweep size and resubmit the order, or (ii) not trade the order on BOX."

This is a remarkable example. BOX is proposing that in a situation where a two-sided QOO Order held by a BOX Floor Broker, which would otherwise be immediately executable on BOX in a manner that would also satisfy a Public Customer order on the BOX Book, the exchange should instead be permitted to reject the order, at which point the Floor Broker may choose to trade the order elsewhere, or perhaps not at all, in either case depriving PC1 of an execution. Further, it is our understanding (though BOX provides no relevant example) that the QOO Order would also reject if PC1's bid were *better* than the limit price of the initiating side of the QOO Order, thereby depriving the QOO Order not only of an execution but also of price improvement.

Despite this, BOX includes language stating "it shall be considered conduct inconsistent with just and equitable principles of trade for any Floor Broker to use the book sweep size for the purpose of violating the Floor Broker's duties and obligations"—when it is unclear how this feature does anything *other* than hamper Floor Brokers' ability to comply with their obligations. QOO Orders should simply sweep all

[14] *See* Proposal, p. 26, Example 5.

available priority and better-priced interest, then the balance should execute in full. Capping the book sweep size prevents orders from executing in circumstances where there is a known ability for a Floor Broker's order to be filled, and possibly at a better price. By providing this mechanism, BOX would put its participants' compliance with their best-execution obligations at risk, and unfairly discriminate against investors with executable orders resting in the BOX Book.[15]

3.e. BOX's statements that opening an additional trading floor would be consistent with the Act are unsubstantiated, and must be supported with pertinent data from existing trading floors

In the Proposal, BOX states that "the proposed rule changes will benefit the market as a whole by providing an additional venue for market participants to seek liquidity for large-sized and complex orders." Actually, BOX is proposing to prohibit liquidity-seeking orders from being executed on the BOX floor: per proposed rule 7600(a), only QOO Orders—which must be two-sided—will be permitted. As a result, the Proposed Floor will not be a venue for seeking liquidity for unmatched orders.

However, even if BOX were to allow liquidity-seeking orders, it seems unlikely that the Proposed Floor would increase liquidity for investors, and BOX does not substantiate its claim that it would do so. CTC, for example, already has personnel on all open outcry trying floors. CTC would not provide *more total liquidity* by staffing another floor—instead, the average amount of liquidity available per trading floor would necessarily be reduced, as BOX's decision to open a trading floor in no way increases CTC's total capital or risk tolerance. The same is certainly true of other market making firms: simply opening a trading floor does not create liquidity out of thin air.

Therefore, in order for *any* SRO to demonstrate that a new trading floor would provide additional liquidity and serve investors and the public interest to a degree that offsets the concerns enumerated above, we suggest that it must undertake to collect and produce data regarding the trading of multiply-listed options on existing floor-based exchanges, evaluating questions such as the following:

- The effective vs. quoted spreads at which trades in various categories of "like" options (for example, grouped in buckets by volatility, liquidity, volume, delta, etc.) typically occur in open outcry, and how those effective spreads differ from trades in the same category of options executed via electronic price-improvement auctions, through electronic complex-order ("COA") auctions, etc.

- The average amount of "edge" given up by the initiator for trades in each of the above categories when executed on trading floors,[16] and how that compares with the "edge" given up when a trade of similar size is executed via an electronic price-improvement auction

- The fraction of open-outcry volume presented on trading floors as pre-arranged crosses, as opposed to one-sided orders that are seeking liquidity

[15] BOX again points to the rules of another exchange as justification for this part of the Proposal, neglecting its obligation to justify why this practice should be deemed consistent with the Act on its own merits.

[16] This "edge" is computed as the difference between (1) the traded price and (2) a theoretical value for the option derived from a pricing model fitted to the implied volatility surface.

- The frequency with which two-sided orders, presented or subject to a market probe on one floor, are later instead crossed on a different floor with less expected Market Maker participation (or are executed electronically via (1) QCC, which precludes Market Maker participation and price improvement, or (2) an "All Or None" style electronic crossing mechanism, which curtails it)

- Data on which Market Makers are present on each multiply-listed options trading floor, and whether they generally represent the same trading firms on each floor (which would suggest that opening up another floor would not result in any additional liquidity, but simply dilute the liquidity currently provided by a fixed group of firms across a larger number of venues)[17]

- The fraction of open-outcry volume executed by Floor Market Makers (excluding market makers who were solicited on the trade prior to its exposure on the floor, and who therefore do not represent liquidity added by the trading floor)

- Data demonstrating that any proposed division of a trading floor into "Crowd Areas" or other restrictive rules governing Market Maker participation is consistent with investor protection and the public interest

- Data demonstrating that any proposed, unrelated burden on competition to be imposed on Floor Market Makers—such as an extraneous electronic quoting requirement—is necessary and not inconsistent with the Act

This data should be accompanied by a rigorous published analysis demonstrating that any proposed new trading floor would enhance liquidity and price discovery for investors as determined by the above metrics. In the case of the BOX Proposal, if it is not possible for BOX to produce a similar analysis supporting its contention that an additional trading floor would provide meaningful liquidity and thereby serve investors and the public interest, then we respectfully submit that BOX will not have demonstrated that the Proposal is consistent with the Act.

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For all of the reasons cited above, we encourage the Commission to disapprove the Proposal, and any similar proposal that would open a new multiply-listed options trading floor, absent appropriate supporting data and robust processes such as a mandatory Electronic Cross Auction Mechanism to encourage liquidity provision and price improvement, protect investors and the public interest, and remove—rather than introduce—impediments to the operation of the national market system.

[17] The number of active Market Makers to which an order is exposed is perhaps more important than the amount of price improvement they provide: if a healthy number of Market Makers collectively *choose* not to participate or provide further price improvement to a crossed order, it's very likely that the order was already fairly priced (which should be reflected in the "edge" statistics described above). As a result, simply exposing an order to a sufficient number of Market Makers provides an assurance of fair pricing and investor protection. Of course, there is no such assurance if the Market Makers were *precluded* from participating.

As a larger market structure issue, we note that SROs have in the past advocated for the approval of rules such as the Qualified Contingent Cross (which precludes any price improvement or other participation from third-party Market Makers),[18] electronic "price improvement" auctions with an "All Or None" requirement (which prohibits third-party price improvement for the initiating order unless the order's *entire size* can be price improved),[19] and related mechanisms in part by suggesting that crosses in multiply-listed options with little or no third-party participation can often be executed on thinly-staffed trading floors. We respectfully submit that rather than being seen as grounds to justify more loopholes and further fragmentation such as the BOX Proposal, the opposite approach should be adopted: any rules, including those in currently-operative legacy rulesets, should be subject to heightened review if they seek to capitalize on any conflict between off-floor firms' desire to execute both sides of a cross (for instance, because they desire to trade contra to their own order, or because they wish to charge commissions for both sides of a trade) and encouraging opportunities for price improvement from third-party Market Makers. Any SRO rule subject to a potential conflict of this nature should be assessed with the closest scrutiny to ensure it offers *bona fide* order exposure and fair competition to provide the best price for investors. Rules of this kind may include those codifying "break up" fees discouraging Market Maker participation and price improvement in electronic auctions, the QCC and "All Or None"-style electronic auction rules noted above, and any rule that deliberately erects barriers to competition for Market Makers seeking to interact with orders, either electronically or in open outcry.

Should you have any questions with respect to this letter, or any of the topics referenced above, we would welcome the opportunity to discuss it further. We very much appreciate the opportunity to respond.

Sincerely,

Steve Crutchfield
Head of Market Structure

[18] *See*, *e.g.*, Rel. 34-62523 (SR-ISE-2010-73) at footnote 21, stating the lack of a QCC mechanism at that time "has made it virtually impossible for our all-electronic exchange to compete with the floor-based trading models for these large-size stock-option orders."

[19] *See*, *e.g.*, Rel. 34-79557 (SR-BOX-2016-57), "Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Detail How Complex Orders Will Execute Through the Solicitation Auction Mechanism"

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
Ms. Heather Seidel, Acting Director-Designate, 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
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