February 1, 2021

VIA ELECTRONIC SUBMISSION

Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC, 20549-1090
Release No. 34-90384; File No. SR-BX-2020-032

Re: Release No. 34-90384; File No. SR-BX-2020-032
Proposed Rule Change to Amend Options 4, Section 5, to Limit Short Term Options Series Intervals Between Strikes Which are Available for Quoting and Trading on BX

Dear Ms. Countryman:

Cboe BZX Exchange, Inc. ("Cboe BZX"), Cboe C2 Exchange, Inc. ("C2"), Cboe EDGX Exchange, Inc. ("Cboe EDGX"), and Cboe Exchange, Inc. ("Cboe Options" and collectively with Cboe BZX, C2, and Cboe EDGX, "Cboe") appreciates the opportunity to provide comments on Nasdaq BX, Inc.'s ("BX") proposed rule change to amend Options 4, Section 5 of its rules to limit the intervals between strikes of multiply listed equity option classes within the short term options series ("STOS") that have an expiration date more than 21 days from the listing date, which was submitted to the Securities and Exchange Commission (the "Commission") on October 23, 2020 (the "BX Proposal").[1]

Cboe regularly reviews the strikes it lists across all classes and has been exploring possible amendments to its listing rules that would result in reduced listed strikes while satisfying customer demand. Cboe supports industry efforts that would permit market-makers to deploy capital more efficiently, which would improve overall market quality. We recognize that rule changes intended to reduce the number of listed strikes could have this effect, as market-makers would be required to quote in fewer strikes. Cboe generally supports the BX Proposal, as we believe a reduction in strike listing density for weekly options with further out expirations would overall promote more efficient use of market participants' resources. However, Cboe believes it

[1] See Securities Exchange Act Release No. 90384 (November 9, 2020), 85 FR 73113 (November 16, 2020) (SR-BX-2020-032). Cboe notes its current STOS program rules are virtually identical to the STOS program in BX Options 4, Section 5. See Cboe Rule 4.5, C2 Rule 4.5, Cboe BZX Rule 19.6, and Cboe EDGX Rule 19.6.

would be beneficial for market participants if the BX Proposal were simplified in its application and made certain clarifications.

Specifically, the Exchange believes the portion of the BX Proposal with respect to using tiered average daily volume ("ADV") and underlying share price components to limit strike intervals of farther out weekly option series is unduly burdensome from an exchange operational perspective. If Cboe were to propose to amend its rules in the same manner as the BX Proposal (as several commenters suggest), it would create significant operational overhead with respect to implementing and maintaining this proposed strike listing regime and would result in a limited strike reduction. The complexity may also cause confusion among participants regarding permissible strikes. Additionally, Cboe expects the BX Proposal is likely the first of several proposals to reduce listed strikes.[2] To the extent that further changes were made to reduce the number of listed strikes, including exchange-traded product ("ETP") options, LEAPS, and quarterly options, it would only exasperate these operational difficulties if those future changes also adopted ADV and share price components.

Cboe instead believes use of a single ADV component for classes to qualify for the STOS program would greatly reduce additional operational overhead necessary for Cboe to maintain the strike listing regime as well as reduce potential confusion in the market regarding permissible strikes while resulting in a decreased number of listed strikes.[3] For example, based on trading volumes from the fourth quarter of 2020, Cboe would have delisted approximately 71,000 strikes using the criteria in the BX Proposal.[4] If Cboe instead required a class to have an ADV requirement of 2,500 to participate in the STOS program, it would have reduced listed strikes by approximately 41,000 through elimination of 78 options classes from that program. While this would result in a smaller reduction than the resulting strike reduction under the BX Proposal, an ADV requirement for the STOS program would be simpler for Cboe to implement and maintain and may cause less confusion among participants regarding permissible strikes.[5] Cboe believes a single ADV requirement for participation in the STOS program would create more balance between the operational requirements and the resulting reduction in strikes. As an initial step, Cboe believes a simpler approach would be appropriate, which would allow options exchanges and the market to evaluate the impact from both a market and operational perspective as further changes are evaluated.

[2] BX noted the BX Proposal was an "initial attempt" at reducing strikes and anticipates filing additional proposal to continue to reduce strikes. See BX Proposal at note 23.
[3] Other strike interval listing programs currently use a single ADV component, such as those for long-term equity option series ("LEAPS") and $0.50 strikes. See, e.g., Options Listing Procedures Plan Section 2(f) (regarding permissible strike intervals for LEAPS); and Cboe Options Rule 4.5, Interpretation and Policy .01(b) (regarding the $0.50 strike program).
[4] Cboe notes that there are over one million strikes available across U.S. options exchanges. Therefore, a strike reduction of 71,000 would have a relatively small impact on the market.
[5] As noted above, with over a million strikes currently available across U.S. options exchanges, a strike reduction of 41,000 or 71,000 would have a relatively small impact on the market.

Cboe also believes certain elements of the BX Proposal require clarification. First, the BX Proposal does not specifically address whether exceptions would apply to extremely active option classes or new options on equities that were subject to recent initial public offerings ("IPOs"). Those market events often increase customer demand for more strikes, including at narrower intervals. Proposed Supplementary Material .07 states it does not amend the range of strikes that may be listed pursuant to Supplementary Material .03 regarding the STOS program. Portions of Supplementary Material .03 permit BX to open additional series for trading when it deems necessary to maintain an orderly market, to meet customer demand, or when the market price of the underlying security moves substantially. Cboe believes the BX Proposal should clarify whether those provisions continue to apply to, or alternatively incorporate a provision that would, permit the listing of narrower strike intervals when the market is experiencing increased volatility or when a new product is listed. Cboe believes it would be critical in order to maintain a fair and orderly market to have the ability to list additional, and potentially narrower, strikes in the event of market volatility or other market events, or if a new product is listed, that often result in demand for additional strikes. Second, if Cboe and other options exchanges replicated the BX Proposal, Cboe believes exchanges should use quarterly ADV data from a centralized party when identifying classes subject to the strike interval limits to ensure fair and consistent application of the rule across the industry. The Options Clearing Corporation ("OCC") currently tracks ADV, which Cboe uses when determining qualification of classes for other listing programs. Cboe believes it would be appropriate for exchanges to use that same information if they choose to adopt the same rule as propose by BX.

Cboe reiterates its overall support for industry efforts to reduce listed strikes and continues to evaluate steps that may be taken to do so. However, Cboe believes such efforts should create a balance between operational requirements and the resulting reduction in strikes. Cboe favors these efforts that may permit more efficient use of resources, particularly those of market-makers given their importance to the options markets. Cboe seeks to implement changes that will create this result in a manner that also results in an efficient use of our operational resources. Please contact me at [redacted] or [redacted] if you have any questions regarding our comments.

Regards,

/s/ Laura G. Dickman

Laura G. Dickman
Vice President, Associate General Counsel

cc: Pat Sexton, Cboe Global Markets
Richard Holley, SEC