July 11, 2011

Ms Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 29549-1090

Re: Release No. 34-64599; File No. SR-C2-2011-008

Dear Ms. Murphy,

Exchange Capital Resources Incorporated appreciates the opportunity to submit a comment letter in response to the current proposal of C2 Options Exchange Incorporated (C2) to list a PM settled S&P 500 Index options product. Exchange Capital Resources is a consulting firm that advises trading firms on all operational and market structure issues. Our client base is strictly dedicated to trading S&P 500 products from the buy-side. Our clients have supported the current SPX Index option product on the Chicago Board Options Exchange and for the reasons highlighted in this letter, support the C2 S&P 500 PM product proposal.

We shall look at three questions submitted for comment from the Securities and Exchange Commission (SEC) in the hopes of bringing some context to the discussion.

1. What are commenters' views with respect to the operation and structure of the markets today in comparison to the operation and structure at the time of the shift to a.m. settlement of cash-settled index options and whether the current operation and structure of the markets support or do not support, allowing S&P 500 index options on C2 to be p.m.-settled?

In order to answer this question effectively, one needs to look at the history of the CBOE's SPX product. At the time of the crash in October 1987, the SPX was a PM settled product. After the crash, there was a perception that a PM settled index product could be subject to price displacement due to volatility concerns at the close of the market on expiration Friday. This concern was legitimate in late 1980's and early 1990's but not today.

Investment Universe

In 1987, the open interest in all options products was 6.5 million contracts. In 2010, the total open interest was 282 million contracts and has increased again this year. It's fair to say that the number of customers that use options as an investment tool has increased dramatically over this time span. Furthermore, there are multiple market centers that compete for the end-of-day imbalances as opposed to being the sole responsibility of the Specialist on the NYSE in 1987.

Market Access & Technology

Today, all components of the "*Triple Witching*" threat have enjoyed tremendous advances in technology allowing instant access for virtually all participants to live market data across multiple exchanges to personal computers and mobile devices. Also, the options industry has made great strides automation. The ability of instantaneous fills and the capability to push hundreds of thousands of quotes without delay has changed the business landscape. In 1987, access to live market data for equities, futures and options was only available to professionals.

Having this high level of market access across the equities, futures and options markets for the entire spectrum of market participants makes option price disruption of any settlement type, AM or PM, extremely difficult. Therefore, in our view, the concern of a PM settlement should not be an issue that prohibits approval of the C2 S&P 500 product.

2. If given the opportunity to trade both an a.m. and a p.m.-settled S&P 500 index option, how would market participants react and what might trading in each product look like?

Our client base currently trades all S&P 500 related products. These include SPX, SPY, SPX Quarterly options, CME S&P 500 options, as well as CBOE FLEX options that are PM settled. An earlier comment raised the issue of "customer confusion" by having an AM and PM listed option product. The products mentioned above have all been in place for some time. Customer confusion has apparently not been an issue as these are mainly institutional instruments. We would look forward to supporting an S&P 500 PM product on C2 because it would offer full electronic access. Customers would benefit from the choice of having the ability to trade larger, more complex orders in the trading pit with the AM settled product or full electronic access with the PM. We do not see this as a zero sum volume equation and would expect continued growth in both products. There are also hedging opportunities that can exist between the two products as there is between the CME & CBOE product line. In our view, the more S&P 500 products that can trade on an exchange, the more transparent the markets will become. This will bring greater benefit to the investment public.

3. To what extent do market participants currently trade S&P 500 index options OTC with p.m. settlement? To what extent would market participants currently trading S&P 500 index options in the OTC market consider switching to a p.m.-settled standardized option on the S&P 500 index?

In 1992, the CBOE submitted a proposal to the SEC to increase position limits in SPX in order to attract more institutional clients. In consideration of this proposal, the SEC's approval was based upon having all new SPX listings become AM settled. This mitigated the threat of any end of day option price disruption and also enabled the SPX product to grow. Average daily volume in 1992 was 52,000 contracts and this number rose to over 700,000 contracts by 2008. However, because of the change in settlement from PM to AM, OTC traders began trading S&P PM related products off-exchange. The CBOE made strides in 1993 by introducing FLEX options that offered a PM settlement to SPX. *(Currently, 92% of all SPX FLEX options are PM settled.)* This was a limited success because of the blackout expiration dates surrounding the third Friday of each month. Even though blackout dates have since been lifted, the OTC participants continue to trade SPX "look-alikes" which are essentially the same as the listed SPX product but with a PM settlement.
We believe that if the C2's proposal is approved, one more variable will be eliminated with regard to the OTC's desire to keep trading activity off of the exchanges. This would provide greater liquidity, transparency and price discovery to the marketplace.

We are pleased that C2 has brought the proposal for a fully electronic and PM settled S&P 500 product forward to the SEC. We believe that the threat of end-of-day price disruption that existed in the late 1980's and early 1990's no longer exists today. We feel that the addition of the SPX PM product will offer the investor greater flexibility and opportunity to participate in S&P 500 option product line. Finally, we are encouraged that the exchange listed S&P 500 PM product would bring more OTC business into the light of day and offer greater price discovery and transparency for all market participants. Therefore, Exchange Capital Resources Incorporated request that the SEC approval this proposal and thank you for the opportunity to comment on this matter.

Respectfully,

Thomas Foertsch
President