

# GROUP ONE

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## T R A D I N G

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September 24, 2019

Vanessa Countryman  
Secretary  
Securities & Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549

Re: File No. SR-CBOE-2019-035, Release No. 34-86400

Dear Ms. Countryman:

Group One Trading, L.P. (“Group One”) appreciates the opportunity to comment on the above referenced proposed rule filing (the “position transfer proposal”) by the Cboe Exchange, Inc. (“CBOE” or the “Exchange”). Group One supports CBOE’s efforts in proposing a structure to support position transfers; however, similar to the concerns expressed in the comment letter dated August 19, 2019 submitted by Susquehanna International Group, LLP (the “Susquehanna letter”),<sup>1</sup> Group One believes that the position transfer proposal is unnecessarily restrictive, particularly concerning transfers involving no change in beneficial ownership (“no change transfers”).

Subparagraph (a)(2) of the position transfer proposal permits an off-floor transfer “if it is a transfer of positions from one account to another account where there is no change in ownership involved, provided the accounts are not in separate aggregation units or otherwise subject to information barrier or account segregation requirements.” Group One generally supports the adoption of this provision and believes that it will be of benefit to market participants by giving them flexibility in managing their business. However, paragraph (g) restricts transfers pursuant to this provision. It does not permit the use of the off-floor transfer procedure repeatedly or routinely in circumvention of the normal auction market process. It is that restrictive language that concerns Group One.

To begin, a no change transfer is inherently different than a trade that occurs in the normal auction market process. Consequently, Group One does not believe that a no change transfer could ever be conducted in circumvention of the normal auction market process. Group One is unaware of any normal auction market process that would allow for a single market participant to transact with itself in order to move a position across two accounts maintained by that same market participant. The auction market

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<sup>1</sup> See Letter from Gerald D. O’Connell, SIG – Compliance Coordinator, dated August 19, 2019, available at <https://www.sec.gov/comments/sr-cboe-2019-035/srcboe2019035.htm>

process is designed to encourage competition and match buyers with sellers. In a no change transfer, there is no buyer and there is no seller. These positions are already owned by the market participant after being acquired through the normal auction market process.

Additionally, Group One is concerned with the language “non-routine, non-recurring.” This language does not provide market participants with clear guidelines as to how this provision applies. If a market participant conducts a no change transfer more than once in a trading day, is it recurring? If a market participant conducts a no change transfer two or more times for the same reason, is it routine? Due to the broad range of interpretations, this language leaves market participants in a position where they are left either underutilizing a mechanism that should be available to them or running the risk of using the mechanism too frequently and exposing themselves to regulatory discipline. Group One believes that no change transfers should be available to market participants as frequently as necessary for those participants to operate their businesses as they see fit (assuming the transfers still comply with all other existing regulatory guidelines). More clarity needs to be provided to the breadth of the current language prohibiting the “non-routine, non-recurring” use of no change transfers.

In a separate but related rule proposal (the “RWA proposal”),<sup>2</sup> CBOE has proposed to adopt procedures that allow no change position transfers intended to facilitate the reduction of risk-weighted assets (“RWA”) and, notably, the RWA proposal does not include any of the restrictions present in the position transfer proposal. Like Susquehanna, Group One believes that the proposed broad availability of no change transfers in the RWA proposal should be extended to all no change transfers and that all of the explanations provided in support of the RWA proposal are equally as applicable to all no change transfers (again assuming that the transfers still comply with all other existing regulatory guidelines).

The position transfer proposal is a welcome step in the right direction for providing market participants with additional flexibility to run their businesses; however, Group One believes that, in its current form, the position transfer proposal is insufficient, or too vague, due to the possible overly restrictive provisions related to no change transfers. In the Susquehanna letter, it is suggested that “If the Exchange believes that approving *no change* MM transfers between such separate accounts will create regulatory concerns, perhaps a better solution would be to identify the concerns and to the extent any such concern qualifies as an actionable concern, require an appropriate compliance procedure.” Group One fully supports this suggestion. Allowing no change transfers gives market making firms additional flexibility in how those firms can manage their accounting, risk and personnel, all of which allow firms to provide uninterrupted liquidity to the market place to the benefit of all investors.

Sincerely,



John Kinahan,  
Chief Executive Officer

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<sup>2</sup> See Securities Exchange Act Release No. 86603 (August 8, 2019), 84 FR 40460 (August 14, 2019) (SR-CBOE-2019-044).