130 E. Randolph Street
Suite 1300
Chicago, IL 60601
Main: +1 312.821.9500
Fax: +1 312.821.9911
www.optiver.com

July 9, 2014

Submitted Electronically

Elizabeth Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: SR-ISE-2014-10 International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change Related to Limiting Certain Types of Complex Orders from Legging Into the Regular Market

Dear Ms. Murphy:

Optiver US LLC ("Optiver" or the "Firm"), appreciates the opportunity to comment on the International Securities Exchange, LLC; (the "Exchange" or "ISE"), Proposed Rule Change (the "Proposal") Related to Limiting Certain Types of Complex Orders from Legging Into the Regular Market published for comment in the Federal Register on March 14, 2014, extended for approval or disapproval on April 23, 2014, and extended once more on June 10, 2014 so that interested parties could submit comments. Optiver has elected to address specific points noted in the proposal and, for completeness, the proposed questions are included along with the Firm's response.

Optiver is a proprietary trading firm and registered market-maker on the major US derivatives exchanges covering stocks, futures, and options. In addition to proprietary and market making activities, Optiver maintains a floor presence on the Chicago Board Options Exchange and the Chicago Mercantile Exchange and regularly uses third party brokers to execute trades on its behalf. Utilizing the various platforms, it is the Firm's intent to provide competitive markets, while facilitating the overall needs of the securities market.

Optiver is providing comments to this proposal because it recognizes the need for having robust and effective exchange risk controls that limit a market maker's exposure to excessive and/or, simultaneous executions in the single leg market. While ISE offers such risk controls, directional complex orders that leg into the regular market allow participants to circumvent those controls. This problem occurs because, for the purposes of calculating risk parameters, all legs of a directional complex order are executed as a single transaction rather than as a series of individual transactions. This fact means that Optiver, like other market makers, cannot effectively set and calculate risk parameters related to such directional complex orders. This legging feature has caused Optiver to exceed its own preset parameters optiver

on several occasions, triggering Optiver's internal risk parameters, forcing it to withdraw from the markets, and reducing overall market liquidity.

1. **What are commenters' views on ISE's proposal to limit directional complex orders from legging into the regular market? Please explain.**

    a. **What are commenters' views on ISE's proposal to prevent legging orders from being generated on behalf of directional complex orders? Please explain.**
    b. **What are commenters' views on ISE proposal to cancel an auction at the end of the auction's exposure period if an improved net price can be achieved from bids and offers for the individual legs of a directional complex during an auction? Please explain.**

    Optiver Response

    1. It is Optiver's view that complex directional orders that circumvent market maker risk parameters are disruptive to Optiver's normal market making activities. This behavior often leads to decreased liquidity in the form of wider spreads and decreased displayed sizes. Moreover, directional orders circumvent ISE's market maker risk protections. Because certain directional complex orders bypass exchange provided market maker risk protections, Optiver believes that those market maker risk controls should take precedence over them. Optiver therefore supports ISE's proposal as a means of reprioritization of market maker risk controls.

        a. Optiver supports ISE's proposal to prevent legging orders from being generated on behalf of directional complex orders, as described above.
        b. Optiver supports ISE's proposal to cancel an auction at the end of the auction's exposure period for directional complex orders as this is currently the only means available to guarantee that market maker risk protections are prioritized, honored, and enforced in the single leg market.

    2. For more detail concerning the reasons for Optiver's support of this proposal, see its responses to question nos. 3 and 6.

2. **Do commenters agree with ISE's assertion that complex orders with two options legs where both legs are buying or both legs are selling and both legs are call or both legs are puts and complex orders with three options legs where all legs are buying or all are selling, regardless of whether the options are calls or puts, are not traditional complex order strategies used by retail or professional investors? Why or why not? Do commenters agree with ISE's assertion that such complex orders are primarily geared towards an aggressive directional capture of volatility? Why or why not?**

    Optiver Response

    Optiver agrees with ISE's assertion that these specific types of complex orders are not traditional order strategies used by retail or professional investors. Optiver believes that directional complex orders are constructed for the sole purpose of circumventing market maker risk protections in the single leg market, used only by sophisticated traders and do not fall into the category of "normal" order types. Indeed, it is Optiver's experience that these order types are overwhelmingly used by market makers.

3. **According to the Exchange, to account for the additional risk presented by the execution of directional complex orders, market makers in the regular market may change their trading behavior by widening quotes. Do commenters agree with ISE's assertion that market makers in the regular market would alter their trading behavior by widening their quotes to account for the risk presented by the execution of directional complex orders? Why or why not? Are market makers currently altering their trading behavior in such a manner? Please explain, and, to the extent possible, provide supporting data.**

   Optiver Response
   Yes, Optiver generally agrees with ISE's assertion. Optiver has realized trading losses attributable to directional complex orders. Because Optiver is not able to mitigate these unintended losses by using exchange provided market maker risk controls, the only remaining controls at its disposal include widening quoted spreads and/or reducing sizes in the single leg market. In an effort to avoid losses associated with these order types, Optiver may also elect to stop quoting on venues where complex directional orders are permitted to circumvent market maker risk controls. Optiver would consider this consequence, if replicated by other market makers, to be detrimental to market participants and/or exchanges.

4. **Do commenters agree with ISE's assertion that market makers in the regular market would reduce the size of their quotations across multiple options series in the regular market because they are at risk of executing the cumulative size of their quotations without an opportunity to adjust their quotes? Please explain, and, to the extent possible, provide supporting data.**

   Optiver Response
   Please see response to question no. 3.

5. **Do commenters agree with ISE's assertion that the execution of directional complex orders could result in artificially large transactions that distort the market for other related instruments, including the underlying security or related options series? Why or why not? Please explain, and, to the extent possible, provide supporting data.**

   Optiver Response
   Optiver agrees with the assertion that the execution of directional complex orders could result in artificially large transactions. According to 2014 OCC data, the average number of contracts per average transaction for Equity and ETF options on the ISE is 15.6 contracts and the equivalent overall Industry average is 12.9 contracts. (1) Optiver's internal data shows that the average trade size of a legged order (excluding directional, legged orders) interacting with an Optiver quote equaled 14.8 contracts per trade, which is consistent with the ISE average. However, the average number of contracts per transaction when Optiver was a counterparty to a directional trade was 157.3 contracts. Because a directional complex order is composed of three legs that are always on the same side of the market, the average size of these orders when executed would be equivalent to 471.9 contracts on the same side of the market.

   ISE market maker protections are designed to protect market makers from excessive executions on the same side of the market. Optiver designs risk controls based on statistical measures of average trade size. Because 471.9 contracts is not a consistent or reasonable size relative to the ISE or overall industry average that Optiver observes, Optiver would not design its risk controls to accommodate such a size. Lastly, when these statistically large directional complex orders are accommodated by allowing them to circumvent market maker risk protections, Optiver is forced to adjust by potentially widening quotes, decreasing sizes, or even cancelling all quotes on other exchanges where we provide liquidity in related instruments. See also responses to question nos. 1 and 3.

6. **According to the Exchange, the proposed rule change is designed to limit a market maker's risk against executions of directional complex orders. Please provide data if available, showing how the execution of such complex orders against market maker's quotes in the regular market affects a market maker's risk exposure.**

Optiver Response

Optiver's ability to effectively set market maker risk limits is fundamental in defining its risk appetite. When directional complex orders are allowed to circumvent exchange market maker risk protections, however, Optiver's ability to set and manage its risk parameters is compromised. For example, Optiver has internal protections which indicate whether an exchange level protection should have been breached and whether excessive executions have occurred. In this scenario, the most prudent and effective response is to cancel all remaining quotes and orders at the particular exchange until the problem can be investigated and resolved with the exchange. Until such a problem is resolved, Optiver is unnecessarily exposed to financial risk as a result of the interaction between directional complex orders in an otherwise well-functioning market maker risk protection program. For more detailed data and information supporting Optiver's position, see Optiver's responses to questions nos. 1 and 5.

7. **Do commenters agree with ISE's assertion that the number of directional complex orders is small relative to the total number of complex orders executed on ISE on a given day? Why or why not? Please explain, and, to the extent possible, provide supporting data.**

Optiver Response

Optiver agrees that the number of directional complex orders is small relative to the total number of complex orders executed. Indeed, ISE data has indicated that 85% of all complex orders have only two legs [(2)] suggesting that roughly 15% of complex orders have more than two legs. Optiver believes that the number of directional 3-legged orders legging into the market is less that 1% of total orders, while at the same time having an average trade size nearly 10 times the average trade size.

8. **Do commenters agree with ISE assertion that the potential risk to market makers in the regular market of allowing directional complex orders to leg into the regular market outweighs the potential benefits of continuing to allow directional complex order to interact with the regular market? Why or why not? Please explain, and, to the extent possible, provide supporting data.**

Optiver Response

Yes, it is Optiver's position that market maker risk protections in the regular market must have priority over directional complex orders that leg into that same regular market. For more detailed data and information supporting Optiver's position, see Optiver's responses to questions nos. 3, 4 and 5.

9. **Do commenters agree with ISE's assertion that the proposed rule change would encourage market makers to provide tighter and more liquid markets on the Exchange? Why or why not? Please explain, and, to the extent possible, provide supporting data.**

Optiver Response
Yes. For more detailed data and information supporting Optiver's position, see Optiver's responses to questions nos. 3, 4, 5 and 6.

10. **Do commenters believe that any potential benefits to investors resulting from ISE's proposal would exceed any benefits of continuing to allow directional complex orders to interact with the regular market? Why or why not? Please explain, and, to the extent possible, provide supporting data.**

Optiver Response
ISE's proposal assists in reprioritizing market maker risk limits in the regular legged market. By limiting specific directional complex orders as ISE proposes, we allow for other non-directional complex orders of more than three legs that do not violate market maker risk protections in the regular market. This would further allow tighter markets and increased liquidity for both complex orders and the regular legged market. Optiver sees this increased liquidity as a benefit.

As stated above, Optiver supports ISE's proposed changes and encourages all exchanges to adopt metrics that will further protect the integrity of the securities market while continuing to promote fair competition among all market participants.

Optiver would like to thank the Commission for the opportunity to comment on the ISE's Proposal and we welcome further dialogue with regards to the proposed changes.

Sincerely,

Wouter Stinis
Head of Trading, Optiver US LLC

Attachments and Sources:
(1)
Source: http://www.optionsclearing.com/webapps/monthly-volume-reports excludes FLEX options. Data from January-June 2014.

(2)
SR-ISE-2013-38