

FIA PTG

PRINCIPAL TRADERS GROUP

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May 3, 2021

Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

Re: Cboe Exchange, Inc.; Notice of Filing of a Proposed Rule Change Relating to Adopt Rule 6.10
To Introduce a Voluntary Compression Service for Market Makers
(Release No. 34-91482; File No. SR-CBOE-2021-020)

Dear Ms. Countryman:

The FIA Principal Traders Group (“FIA PTG”)¹ appreciates the opportunity to submit this letter to the Securities and Exchange Commission (the “Commission”) in support of the Cboe Exchange, Inc. (“Cboe” or the “Exchange”) Proposal to Introduce a Voluntary Compression Service for Market Makers (the “Proposal”).²

FIA PTG members are active liquidity providers in centrally cleared products. As such, it is not uncommon for our members, especially those acting as Market Makers in options markets, to generate large portfolios of positions with relatively little unhedged market exposure. As is noted in the Proposal, one of the capital charges implemented by Dodd-Frank and applied to regulated bank clearing firms is based on the “aggregate notional value of short positions regardless of offsets”³. The impact of this methodology is compounded in the index option market due to the large notional value of many of these contracts and the significant number of open strikes and positions. Any constraints applied to clearing firms are generally passed on to their customers. In

¹ FIA PTG is an association of firms, many of whom are broker-dealers, who trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and data-driven policy and has previously made recommendations about a variety of equity market structure issues, including Regulation NMS.

² <https://www.govinfo.gov/content/pkg/FR-2021-04-12/pdf/2021-07385.pdf>.

³ The Proposal at 19068.

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the case of Market Makers these constraints directly impact the amount of liquidity they can provide and the prices at which they can provide it.

As cited in the Proposal, “The Exchange believes these regulatory capital requirements have impeded efficient use of capital and undermine the critical liquidity role that Market-Makers play in the options market by limiting the amount of capital CTPHs can allocate to clearing member transactions.”⁴ FIA PTG strongly believes that compression is an important tool to enable Market Makers to manage the size of their portfolios and the amount of capital that their clearing firms must maintain in order to support them. Our members have found the Exchange’s existing compression orders to be a valuable tool in managing their SPX option portfolios and welcome the further expansion of the compression suite.

To provide deep and continuous liquidity, it is essential that Market Makers can efficiently manage the capital and margin requirements of their portfolios. The Proposal further enhances the set of compression tools the Exchange offers to Market Makers by allowing for the compression of index options. FIA PTG encourages the Commission to approve the Proposal and allow for its immediate adoption.

If you have any questions about these comments, or if we can provide further information, please contact Joanna Mallers (jmallers@fia.org).

Respectfully,

FIA Principal Traders Group



Joanna Mallers
Secretary

cc: Gary Gensler, Chair
Hester M. Peirce, Commissioner
Elad L. Roisman, Commissioner
Allison H. Lee, Commissioner
Caroline A. Crenshaw, Commissioner

⁴ Ibid.