December 7, 2020

Via Electronic Submission

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Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
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Market Regulation
Ontario Securities Commission
Suite 1903, Box 55, 20 Queen Street West
Toronto, Ontario M5H 3S8

Re: IIROC Rules Notice 20-0202 (the "Notice") – Proposed Amendments Respecting the Trading of Derivatives on a Marketplace[1]

Dear Sirs/Mesdames:

Cboe Global Markets ("Cboe") appreciates the opportunity to provide comments to the Investment Industry Regulatory Organization of Canada ("IIROC") on its proposed amendments to certain IIROC Rules that would result in the regulation of trading of listed derivatives on a marketplace for which IIROC acts as the regulation services provider. Cboe is the creator of standardized, listed options and, since its inception, has been dedicated to maintaining fair, liquid and well-regulated derivatives markets for investors. Over the years Cboe has developed and introduced numerous products and functionalities that provide great utility to investors.[2] Exchange-traded centrally-cleared options are a preeminent risk-management tool, and Cboe supports the expanded use of options – with proper regulation. We welcome the proposal to amend the IIROC Rules to cover the trading of exchange-traded options and offer our assistance as you weigh recommendations received in response to the proposal.

We understand that IIROC is proposing to amend the IIROC Rules in two phases. The instant proposal (Phase 1) covers market integrity rules and related provisions. A subsequent proposal (Phase 2) will cover trading-related provisions, among others. Together, the two Phases of amendments seek to provide a framework for the regulation of listed derivatives trading that supports market integrity and investor protection.

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[1] IIROC Notice 20-0202, *available at*, https://www.iiroc.ca/Documents/2020/234a4f70-6c56-4ab9-936e-bbdd26ad52af_en.PDF.

[2] Cboe invented exchange-traded equity and index options, long-term options contracts (LEAPs), customizable options contracts (FLEX options), the Cboe Volatility Index (VIX), and VIX options.

Cboe supports IIROC's proposed amendments. While we believe exchanges should remain responsible for adopting and enforcing their own respective rulebooks, we also believe the Canadian derivatives market would be well-served by expanding IIROC's market integrity rules to exchange-traded options, as doing so would create a common regulatory framework upon which new entrants and existing exchanges alike could voluntarily rely. For new exchange entrants, in particular, this development would potentially lower barriers to entry by giving Canadian options exchanges the choice between developing full-scale, in-house regulatory programs or contracting with IIROC for regulatory services. Thus, we generally support the Phase 1 initiative, as it not only supports market integrity and investor protection, but also exchange competition in the Canadian marketplace.

While we may have additional and/or more specific recommendations when Phase 2 amendments are published, we believe it is important to note at this time that, in our experience, a well-functioning marketplace is underpinned by a clear regulatory framework that not only facilitates market integrity and investor protection, but also promotes product and exchange innovation. As IIROC considers next steps and develops its Phase 2 proposal, we encourage IIROC to consider ways in which its regulatory framework can support the ability of options exchanges to innovate. To that end, below are a number of characteristics of options markets that we encourage IIROC to consider as it continues to develop its regulatory framework for options and other exchange-traded derivatives.

- <u>Options vs. Securities</u>: Cboe understands that IIROC intends, where possible and appropriate, for Phase 1 and 2 amendments to result in the consistent regulation of trading in securities and trading in derivatives. While we see no apparent issues with the application of this principle to Phase 1 amendments, we encourage IIROC to consider at every turn whether existing IIROC Rules are indeed appropriate for options markets. While there are similarities, we believe options markets tend to be sufficiently unique and distinguishable from securities markets as to give rise to an apples-to-oranges comparison in many cases. Ultimately, in the context of derivatives trading, prevailing trading functionality, liquidity provision, order types, market participant obligations, and other factors may justify or even require deviation from regulations that have traditionally applied to securities markets in order to achieve desirable regulatory objectives and foster healthy derivatives markets. Consistent regulation at the expense of unique characteristics of derivatives markets could be suboptimal.

- <u>Options market-makers are vital</u>: Market-maker liquidity provision is the backbone of listed options markets. Due in part to the dispersion of trading interest across thousands of options series, most investor orders are executed against market-maker quotations. Without this liquidity supplied by professional options market-makers, the majority of individual options series would have no posted liquidity. In short, market-maker liquidity is critical to vibrant options markets and properly balancing unique benefits and obligations for this segment is vital.

- <u>Options markets are not one-size-fits-all</u>: From contracts with large notional size, which lend themselves to institutional investors transferring risk on a large-scale basis, to "mini" products, which are designed with retail traders in mind, options products vary greatly and serve many needs. Exchanges continuously develop and launch new products to serve these needs, and exchanges rely on the flexibility of their regulatory framework to customize trading functionality, execution mechanisms, listing rules, etc., to nurture new and existing products and the trading ecosystem generally.

- Retail participation is on the rise: The trend of low fees and zero-cost retail commissions has helped democratize access to options. This has enabled retail investors to access these important risk mitigation tools in ways that were previously unavailable to everyday investors. New regulations should not unduly deprive retail investors of these new opportunities. Proper education and transparency are key.

- Listed options vs. OTC look-a-like options: Exchange-traded derivatives provide valuable price discovery, price improvement, and trade reporting functions. One of the benefits of exchange transactions, as compared with their OTC counterparts, is that exchange transactions are centrally cleared, which eliminates counterparty risk and limits systemic risks associated with non-centrally cleared OTC products. The robustness and liquidity of the markets provided by exchanges yield immense benefits to investors. We understand that IIROC is focusing its proposed amendments on the trading of derivatives listed on an exchange, as it does not expect ATSs or QTRSs to facilitate trading in the same types of products as exchanges. However, we encourage IIROC to monitor the developments in this area and to consider ways in which IIROC can incentivize the on-exchange trading of derivatives. True options price discovery occurs on exchange markets.

Sincerely,

/s/ Patrick Sexton

Patrick Sexton
EVP, General Counsel & Corporate Secretary