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Comments submitted to SEC: S7-32-22 Regulation Best Execution

Many App developers for iPhone have vociferously complained against Apple for charging them a 30% cut as excessive and have gone to courts.

Similarly, CBOE charges as much as a 27% fee to individual investors for trading SPX options and traders who primarily do these trades for their retirement accounts. For example, an individual winning trader who earns a gross premium of $70,000/year trading SPX spread options ends up paying CBOE a 27% fee or $18,900 and takes home $51,100. This is exorbitant for CBOE, a Self-Regulatory Organization (SRO), which claims that it is making all attempts to structure SPX options for retail traders. These fees are on top of the brokerage fees of $1.30, and the FINRA Regulation fee, that is, 5% to 9% of the premium, per roundtrip trade leaving a trader with approximately $46,000 or 66% of gross after ALMOST ALL the fees before income taxes.

What's more, in addition to the 27% fee that CBOE charges retail investors for SPX options, the risk/reward ratio is set up enormously in favor of the 'House', the CBOE, very similar to a casino house in gambling. Unlike hedge funds, a retail investor typically trades almost on the periphery of the SPX options trades, meaning that a retail trader would trade a single Call/Put spread option at less than 10-delta, often closer to 5-delta (0-delta is worthless and does not trade) for $500, the lowest available options spread. This means that the trader would bet to earn $15 or $20 in gross premium at the risk of losing $500, the smallest spread width.

If a trader loses the SPX option:
The trader's loss would be $500 less net premium earned ($15 or $20 - CBOE fees – brokerage- FINRA fee). Thus the ratio of **gross CBOE keep** to gross losing trader keep is $485 + $4.05 (CBOE option fee) = $489.05 to $15 or **3,260%** for running an algorithm on servers.

When a trader loses options, he loses $500 (lowest width) while earning net $10.95 (=$15 – 4.05) so **net CBOE keep** to trader's net keep =($485 + $4.05 fee)/$10.95 = **4,466%** in just one day (DTE = 0). Isn't that too high?

If a trader wins the SPX option:
The trader keeps $15-$20 less hefty CBOE fees, brokerage fees, and FINRA fees and the CBOE loses only the net premium amount (gross premium paid to a trader – option fee collected from this trader by the CBOE). Note: The CBOE keeps the fee it charged to the trader. The **gross CBOE keep** to gross trader keep is $4.05/$15 = 27% or $5.40/$20 = 27%.

Like a casino house, CBOE never loses.

You think this is a robbery, CBOE? Wait…

Even the winning traders—the 20% group—do not win all the trades. It appears that statistically, even if they win 80% of the time and lose 20% of the time, they mostly come out even; with nothing to show for their trading success and their time. Once again, about 20% of the time, the CBOE grabs 3,260% profit from winning traders when the winning trader loses his/her winning streak. Wait a bit more…

Often, newbies are tempted to trade more than one option spread as a revenge trade to make up for their early losses and lose more than 80% of the time until they understand the game and increase their odds closer to 80% and while they are busy losing money, the CBOE is busy making money.

When you combine all the scenarios, the percentage of the total dollar volume traded in SPX options that CBOE pockets far exceeds a 30% cut Apple charges its app vendors who can afford to pass their Apple-cut to customers; retail traders do not have such an avenue. I would not be surprised if the CBOE cut is thousands of percent for the retailer trader segment, the CBOE is thus acting as a monopoly SRO without any oversight. This cut may be far smaller for hedge fund traders as they can negotiate their fees based on their huge trading volume that a retail trader cannot.

I asked my online broker to reduce his fees given that CBOE would not even listen to me but the broker told me flat out in my 30-second conversation with him that that is not happening; I must pay his $1.30 per roundtrip option trade.

This CBOE fee structure begs a question of you, the SEC regulators: since 1983 when the SPX options trading started, has SEC ever asked CBOE or has CBOE ever provided the SEC any stats as to the no. of trades, options losers, and winners, the premium collected, paid, fees collected, amount of cash collected from the retail trader segment and analyzed to see if the CBOE is fair to traders and more importantly has SEC done its job of monitoring/regulating entities it is supposed to regulate and has SEC been fair to the retail traders who are working hard to save money for their retirements?

It is time for the Financial Services Committee and the SEC to at least begin demanding CBOE periodically publish its SPX options records and collection of cash in a language that a trader can understand and place them on its website for the traders' review.

The Financial Services Committee and the SEC need to set up an oversight mechanism with enforcement powers on CBOE fees, functioning, and the SRO status.

Himanshu Vaishnav