



Mr. Gavin Rowe
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August 11, 2015

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

RE: Release No. 34-75245; File No. SR-CBOE-2015-026

Dear Mr. Fields

Dash Financial LLC (“Dash”) is gratified for the opportunity to comment upon the recent rule filing submitted by the Chicago Board Options Exchange (“CBOE”) proposing an amendment to exchange rules regarding the solicitation of Market-Makers as the contra party to an agency order entered into the CBOE’s Automated Improvement Mechanism (“AIM”) and Solicitation Auction Mechanism (“SAM”) Auctions (collectively, the “Auctions”).¹

I. Background and Summary of Interest

By way of background, Dash is a pure agency broker-dealer that provides execution and clearing services to institutional clients. A central tenet of our business model is real-time transparency into all aspects of the firm’s routing and execution. We believe that Dash remains the only provider that shares to such a degree its logic and economics with its clients.

Dash built its business upon the principles of transparency and service. As such, we believe strongly in the value of electronic auctions as an effective mechanism for meeting our best execution responsibilities. The Auctions create an electronic forum encouraging open competition on price and size to win an order, crucially, with the posted National Best Bid or Offer (NBBO) as the starting point.

¹ Securities Exchange Act Release No. 74519 (March 17, 2015), 80 FR 15264 (March 23, 2015) (SR-CBOE-2015-026 (“Proposal”).

As it relates to the CBOE specifically, AIM and SAM provide an opportunity for our clients to benefit from price improvement on their order fills better than the posted quotes' bids and offers. Orders can only gain entry into the Auctions after they have been assured a fill by a contraparty at a price equal to or better than the NBBO. Therefore, AIM and SAM offer an additional opportunity for market participants to improve upon the guaranteed paired order price, in whole or in part.

Dash believes that CBOE's rule amendment will improve upon the auction processes already driving value to our clients. An increasingly important part of our best execution strategy involves soliciting third party liquidity in order to guarantee our clients a fill at a price at least as competitive as that reflected in the posted quotes. Permitting Market-Makers to compete within the Auctions in their Market-Maker capacity while also participating as the contraparty on the cross order, essentially the guarantor of the trade, can only increase competition and improve our clients' experience.

II. Response to Commission Comment Requests

In June 2015, the Securities and Exchange Commission (the "Commission") requested comments concerning whether the proposal is inconsistent with Sections 6(b)(5) and 6(b)(8) or any other provisions of the Act, or the rules and regulations thereunder. Additionally, the Commission invited interested persons to submit comments on: (a) how the Proposal could impact the quality of the Auction, internalization rates, liquidity, and competition, within or outside of the Auctions; and (b) the potential impact of the Proposal on the quoting behavior of Market-Makers.

Sections 6(b)(5) provides:

An exchange shall not be registered as a national securities exchange unless the Commission determines that the rules of the exchange are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and are not designed to permit unfair discrimination between clients, issuers, brokers, or dealers, or to regulate by virtue of any authority conferred by this title matters not related to the purposes of this title or the administration of the exchange.

Section 6(b)(8) provides:

An exchange shall not be registered as a national securities exchange unless the Commission determines that the rules of the exchange do not impose any burden on competition not necessary or appropriate in furtherance of the purposes of this title.

Dash views the Commission's concern for data-based support for the filing to be unwarranted. We consider the core concept driving the exchange's proposal to be so fundamental to well-functioning markets that it merits consideration on principle. Specifically, the proposal meets two important standards mentioned in the rules highlighted by the Commissions' request.

- The proposal actively seeks to improve the Auctions by removing impediments to competition built into them currently that are not present in open outcry equivalents.
- The proposal will cultivate more competition within the Auctions without imposing any burden on the competitiveness of displayed quotes.

Simply, we are confident that a growing number of Auction market participants will lead directly to greater Auction competitiveness.

An entire branch of economics is devoted to auction theory. The literature is vast. Modern auction theory blossomed following William Vickrey's article in the *Journal of Finance* in 1961², and citations for behavior in auction environments are widespread. Dash is taking an increasingly active interest in how auction principles can drive better outcomes for our clients, and we plan to be progressively active in this part of the listed option business. Yet, regardless of the depth of study of auction behavior and design, it is worthwhile to remember one of microeconomics' foundation principles in examining price formation; a larger number of participants naturally drives more competitive outcomes.

On the question of the rule change proposal's prospective impact on displayed liquidity, Dash envisions very little effect. We share CBOE's views expressed in their comment letter³ on this subject. We agree that the incentives remain for Market-Makers to participate in the much larger share of CBOE order flow directed to the displayed quotes.

Furthermore, Dash sees no intrinsic reason for a change away from quoting. The Auction process creates a relatively safe harbor from the naturally chaotic quoting environment. As such, Market-Makers have an opportunity for a discrete check on risk appetite which allows them to respond aggressively when interested; this would logically allow them to participate

² Vickrey, William. "Counterspeculation, Auctions, and Competitive Sealed Tenders," *The Journal of Finance*, Volume 16, Issue 1. March, 1961. pp. 8-37.

³ See page 3 of Letter to Mr. Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, et. al., from Kyle Edwards, Attorney, Legal Division, the Chicago Board Options Exchange, Incorporated, dated July 21, 2015, available at <http://www.sec.gov/comments/sr-cboe-2015-026/cboe2015026.shtml>.

strategically in complement to their quoting. In essence, quoting provides Market-Makers with a wider bid/ask spread in order to accommodate a willingness to accept trades passively. The Auctions offer a complementary process involving more aggressive price competition arising from a proactive choice to participate.

Given an expectation of effective CBOE market surveillance for manipulative behavior generated by Auction participation, Dash expects the following outcomes:

- Auction results will improve, benefitting order sending clients of all varieties;
- Internalization dynamics will not be affected given the separate process for Facilitation-based cross orders, involving capital commitment by a Broker/Dealer that delivers the paired order to the exchange via a different path; and
- Liquidity on posted quotes will be unaffected.

III. Views on CBOE Rule Change Proposal and Conclusion

Dash has two general responses to CBOE's proposed rule change. First, we believe that the revised rule will simplify and rationalize the process for executing solicited paired orders. As the exchange describes in its comment letter, the proposed rule change would make the electronic auction process more closely resemble the solicitation process available in open outcry.

With 12 current exchanges in operation, competition has fostered innovation. However, the U.S. options exchange landscape consequently suffers from a lack of clarity to the end user given 12 sets of rules and fee structures. Dash believes that efforts to simplify complex systems generally lead to better outcomes. We believe that simplicity and harmony in rules should be a primary goal for the marketplace and find much to appreciate in the growing academic literature on simple rules systems' value in solving complex problems:

But like most complicated models, that approach would have had many disadvantages relative to simple rules. Adding more variables leads decision makers to give too much weight to peripheral considerations. In addition, the opacity of black box models prevents users from testing them against their experience, judgment, or common sense. And of course, complex models demand huge volumes of data, are susceptible to computational errors, and hinge on assumptions about unknowable variables such as disruptive technologies that, if wrong, can throw off the results.⁴

⁴ Sull, Donald and Eisenhardt, Kathleen. "Simple Rules for a Complex World," *Harvard Business Review*. September, 2012.

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We expect the Exchange's rule proposal to lead to greater clarity for market participants because the electronic Auctions will resemble more closely the open outcry process, and we anticipate better results for our order sending clients as a result.

Finally, Dash believes firmly in the "best interest" standard in regard to our fiduciary responsibilities to our clients. Best execution is a core element. Since electronic auctions stimulate competition inside the NBBO, we are in favor of encouraging rules designed to foster greater competition within the Auctions. Dash believes that CBOE's proposed rule modification will result in a systemic change improving our ability to secure the best possible order executions for our client base.

If you have any questions or would like further information, please do not hesitate to contact me at 847-550-1749.

Sincerely,

A handwritten signature in black ink, appearing to read 'G. Rowe', with a stylized flourish at the end.

Gavin Rowe
Senior Director
Dash Financial LLC