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# Lakeshore Securities L.P.

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April 13, 2017

Via Electronic Mail - [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Mr. Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

RE: File Number SR-CBOE-2016-082

Dear Mr. Fields:

Lakeshore Securities, LP (the “Firm”) hereby submits this letter as a response to the request from the Securities and Exchange Commission (the “Commission”) for comments on the proposed amendments to Chicago Board Options Exchange Incorporated (“CBOE”) Rule 6.45A and 6.45B (collectively, the “Proposed Amendments”). The Firm appreciates this opportunity to provide its comments.

## Firm Background

The Firm is a registered Broker-Dealer and acts as a Floor Broker on the CBOE. The Firm is also a clearing member of the Options Clearing Corporation (“OCC”) and it clears certain transactions it executes for customers, prior to transferring such cleared transactions to applicable custodians, as discussed below. The Firm does not engage in proprietary trading, other than that related to liquidation of error transactions. The Firm’s business is to provide execution and clearing services to its customers, who are exclusively institutional and professional traders. The vast majority of the Firm’s trade transactions are executed in open outcry on the trading floor of the CBOE.

## The Proposed Amendments

On December 1, 2016, the CBOE filed with the Commission the Proposed Amendments, which would change CBOE rules regarding responsibility for ensuring compliance with open outcry priority and allocation requirements and trade-through prohibitions.<sup>1</sup>

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<sup>1</sup> See Securities Exchange Release No. 79540 (December 13, 2016), 81 FR 91967 (“Notice”).

The Proposed Amendments received two comments, after which the Commission instituted proceedings to determine whether to approve or disapprove the proposed rule change.<sup>2</sup> The Commission has explicitly expressed concern that the Proposed Amendments raise the following questions:

“...[W]hether the proposed rule change could adversely impact the ability of the Exchange, consistent with Section 6(b)(1) of the Exchange Act, to comply, and to enforce compliance by its members on the CBOE trading floor, with applicable rules and regulations, including the Book Priority and Trade-Through provisions. In particular, the Commission wishes to consider further whether CBOE has sufficiently demonstrated how absolving from liability for Book Priority and Trade-Through rule violations one party to a trade (i.e., the responder, for trades involving a Floor Broker on one side and a Market Maker on the other) while placing sole liability on the other party (i.e., the initiator, for trades involving a Floor Broker on one side and a Market Maker on the other) will foster compliance with those rules by its members and not diminish the Exchange’s ability to ensure compliance with these critically important rules.”<sup>3</sup>

### The Firm Believes All Participants to a Trade Should Share Responsibility for Compliance

The Firm believes that creating a regulatory asymmetry in which Floor Brokers have sole responsibility for compliance with Trade-Through requirements when trading with Market-Makers will cause Market-Makers to be indifferent to Trade-Through requirements when trading with Floor Brokers.

### The Firm Believes that the CBOE’s Rationale for the Proposed Amendments Are Logically Inconsistent

The CBOE asserted in its initial filing that it “does not seek to absolve [Trading Permit Holders] of the responsibility to ensure transactions are executed in accordance with the priority and allocation provisions or the Trade-Through prohibition provisions. Rather, the Exchange seeks to specify that the party or parties responsible for the ensuring transactions are executed in accordance with the priority and allocation provisions and Trade-Through prohibitions is the initiator of the transaction when a Floor Broker is trading with a Market-Maker...”<sup>4</sup>

The CBOE then states: “Generally speaking, Floor Brokers are the parties that initiate transactions...” before flatly stating that “The Floor Broker, as initiator, ... should be responsible for ensuring priority and allocation consistent with the applicable rules...”<sup>5</sup>

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<sup>2</sup> See Securities Exchange Act Release 34-80270, Order Instituting Proceedings to Determine Whether to Approve or Disapprove Proposed Rule Change Related to Rules Regarding the Responsibility for Ensuring Compliance with Priority and Allocation Requirements and Trade-Through Prohibitions in Open Outcry Trading (March 17, 2017), 82 FR 14926.

<sup>3</sup> See *id.* at 14928.

<sup>4</sup> See Notice, *supra* note 1, at 91968 (emphasis added)

<sup>5</sup> See *id.* (emphasis added)

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The CBOE seems to feel that status as the “initiator” of a trade should drive responsibility for compliance with the applicable rules and Trade-Through requirements. However, if both parties to a trade are Floor Brokers, then status as initiator is of no importance and both parties remain responsible. The CBOE has also not provided a clear definition of what constitutes an “initiator”, leaving any enforcement of the Rules ambiguous and open to interpretation.

Furthermore, the Firm believes that the CBOE’s statement that the Public Automatic Routing System (“PAR”) “provides all of the market data to avoid Trade-Throughs and book priority violations” overstates the capabilities and functionality of PAR. While PAR does provide certain pop-up alerts that warn of potential Trade-Throughs, there are also instances when PAR fails to provide such warnings, such as when reserve orders are present.<sup>6</sup> The Firm believes that, until such time as PAR either provides affirmative pop-up alerts for all potential Trade-Through and book priority violations or prevents Trade-Throughs and book priority violations entirely, all parties to a trade should share responsibility for compliance with the applicable rules and requirements.

### Conclusion

We believe that all participants to a trade should share responsibility for compliance with the applicable rules and Trade-Through requirements. We believe that absolving Market-Makers of any potential responsibilities when transacting with a Floor Broker may cause such Market Makers to become complacent regarding the obligations of the applicable rules and Trade-Through Requirements. Accordingly, we request that the Commission not approve the Proposed Amendments.

Sincerely,

LAKESHORE SECURITIES, L.P.

/s/ Mark E. Gannon

Chief Compliance Officer

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<sup>6</sup> “Reserve orders” are orders in which only a portion of the order quantity is displayed in the electronic book. If, after an execution against a reserve order, a quantity remains on the reserve order, the quote would be refreshed to disseminate the display amount while any remaining balance would be retained in reserve.