

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-101640; File No. 4-443)

November 15, 2024

Joint Industry Plan; Notice of Filing of Proposed Amendment to Add Paragraph (c) to Section 6 of the Plan for the Purpose of Developing and Implementing Procedures Designed to Facilitate the Listing and Trading of Standardized Options Authorizing the OLPP Sponsors to Act Jointly to Discuss Quote Mitigation Issues and Potential Solutions

Pursuant to Section 11A of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 608 thereunder,<sup>2</sup> notice is hereby given that on October 31, 2024, Cboe BZX Exchange, Inc., Cboe C2 Exchange, Inc., Cboe EDGX Exchange, Inc., and Cboe Exchange, Inc., on behalf of the Sponsors<sup>3</sup> of the Plan for the Purpose of Developing and Implementing Procedures Designed to Facilitate the Listing and Trading of Standardized Options Submitted Pursuant to Section 11A(a)(3)(B) of the Securities Exchange Act of 1934 (“Options Listing Procedures Plan,” “Plan,” or “OLPP”),<sup>4</sup> filed with the Securities and Exchange Commission (“Commission”) a proposed amendment to the OLPP. The amendment proposes to add a provision to the OLPP authorizing the OLPP Sponsors to act jointly to discuss both quote mitigation issues and potential solutions to address any issues identified, including, but not limited to, discussing potential new options strike listing methodologies and rules, in order to determine whether the

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<sup>1</sup> 15 U.S.C. 78k-1.

<sup>2</sup> 17 CFR 242.608.

<sup>3</sup> The Sponsors of the OLPP are: BOX Exchange LLC; Cboe BZX Exchange, Inc.; Cboe C2 Exchange, Inc.; Cboe EDGX Exchange, Inc.; Cboe Exchange, Inc.; MEMX LLC; Miami International Securities Exchange LLC; MIAX Emerald, LLC; MIAX Pearl, LLC; MIAX Sapphire LLC; Nasdaq BX, Inc.; Nasdaq GEMX, LLC; Nasdaq ISE, LLC; Nasdaq MRX, LLC; Nasdaq PHLX LLC; The Nasdaq Stock Market LLC; NYSE American LLC; NYSE Arca, Inc.; and The Options Clearing Corporations.

<sup>4</sup> OLPP is a national market system plan approved by the Commission pursuant to Section 11A of the Act and Rule 608 thereunder. See Securities Exchange Act Release No. 44521 (July 6, 2001), 66 FR 36809 (July 13, 2001). The full text of the OLPP is available at [https://www.theocc.com/getmedia/198bfc93-5d51-443c-9e5b-fd575a0a7d0f/options\\_listing\\_procedures\\_plan.pdf](https://www.theocc.com/getmedia/198bfc93-5d51-443c-9e5b-fd575a0a7d0f/options_listing_procedures_plan.pdf).

Sponsors might propose one or more amendments to the Plan for Commission approval or whether the individual Sponsors might seek to amend their own rules.

The Commission is publishing this notice to solicit comments from interested persons on the proposed amendment. Set forth below in Section I, which is being published substantially as filed by the Sponsors, is the statement of the purpose and summary of the amendment, along with information pursuant to Rule 608(a) under the Act.

**I. Requirements Pursuant to Rule 608(a)**

1. Text of Amendment

This [a]mendment proposes to add paragraph (c) to Section 6 of the OLPP. The text of the proposed amendment is in Exhibit I, which is set forth in Section II, below.

2. Purpose of Amendment

For many years, as the options industry has expanded and become more complex, industry participants have raised so-called “quote mitigation” concerns, including concerns about proliferation of listed options strike prices and the resulting potential negative effects on investors and on the market makers that are obligated to quote in all of the listed series. Such concerns have been raised at various times in discussions involving one or more of the OLPP Sponsors, market maker members of the national securities exchanges who are obligated to provide quotes in all of the listed option series, the staff of the Securities and Exchange Commission, and the members of various industry working groups (such as the Listed Options Market Structure Working Group).

For example, industry participants have voiced concerns about how to balance the need to provide investors with a sufficient number of strikes to meet their investment purposes, while also ensuring that the number of listed strikes does not become so large that the market makers,

who are required to quote continuously in a significant number of existing strikes, are not unduly burdened by having to expend significant amounts of their finite capital to continuously quote strikes in thinly traded and illiquid series. Indeed, although investors need to have a choice of appropriately granular strikes to satisfy their investment needs, some industry participants also have questioned whether the increase in the number of strikes might harm investors, particularly in less liquid series, because investors could become confused about the properties of the various strikes and might be unable to close out positions in illiquid series in an effective manner. Finally, industry participants also have questioned whether the proliferation of strikes might harm overall market quality and widen spreads because market makers are forced to deploy their limited capital in a less efficient manner as a result of their obligation to continuously quote strikes in thinly traded series.

Over the years, there have been a number of amendments to both the OLPP and to the rules of the OLPP Sponsors that were designed to address some of the issues summarized above. For example, in 2009, the OLPP Sponsors proposed a “quote mitigation strategy” amendment to the OLPP, with a goal of reducing the amount of quote traffic that had resulted from the Penny Pilot Program. See Joint Industry Plan; Notice of Filing of Amendment No. 3 to the Plan for the Purpose of Developing and Implementing Procedures Designed To Facilitate the Listing and Trading of Standardized Options, Release No. 34-60362, 74 Fed. Reg. 37266 (July 22, 2009). When proposing that amendment, the Plan Sponsors represented that the Penny Pilot Program resulted “in an explosion of quote traffic” and that the proposed “uniform listing standards to the range of options series exercise (or strike) prices available for trading” was a quote mitigation strategy designed to “reduce the number of options series available for trading, which will in turn lessen the rate of increase in quote traffic.” Id., 74 Fed. Reg. at 37266 and n.4.

When it approved the 2009 amendment to the OLPP, the Commission concluded that the amendment “should reduce the number of options series available for trading, and thus should reduce increases in the options quote message traffic because market participants will not be submitting quotes in those series.” See Joint Industry Plan, Order Approving Amendment No. 3 to the Plan for the Purpose of Developing and Implementing Procedures Designed To Facilitate the Listing and Trading of Standardized Options, Release No. 34-60531, entered on August 19, 2009, 74 Fed. Reg. 43173, 43174 (Aug. 26, 2009).

As another example, in 2020, Nasdaq BX, Inc. (“BX”) proposed a rule that sought to limit “Short Term Options Series” intervals between strikes which are available for quoting and trading on that exchange. See Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing of Proposed Rule Change To Amend Options 4, Section 5, To Limit Short Term Options Series Intervals Between Strikes Which are Available for Quoting and Trading on BX, Release No. 34-90384, 85 Fed. Reg. 73113 (Nov. 9, 2020). In its filing, BX noted that its proposal “to reduce the number of strikes in the furthest weeklies, where there exist wider markets and therefore lower market quality” was an “initial attempt at reducing strikes and [that BX] anticipates filing additional proposals to continue reducing strikes.” Id., 85 Fed. Reg. at 73117 and n.23. BX also noted that reducing the number of listed weekly options would encourage market makers to deploy their capital more efficiently and improve displayed market quality. Id. at 73119. Finally, BX represented that (1) its proposal was a reaction to comments that it received from industry members “with respect to the increasing number of strikes that are required to be quoted by market makers in the options industry” and (2) reducing the number of strikes would “allow Lead Market Makers and Market Makers to expend their capital in the options market in a more efficient manner” because, as the number of strikes listed across options exchanges increases,

market makers “must expend [more] capital to ensure that they have the appropriate infrastructure to meet their quoting obligations on all options markets in which they are assigned in options series.” Id.

When approving BX’s 2020 rule filing, the Commission noted that it had received several comments expressing support for the proposed rule change. See Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1, To Amend Options4, Section 5, To Limit Short Term Options Series Intervals Between Strikes That Are Available for Quoting and Trading on BX, Release No. 34-91125, entered February 12, 2021, 86 Fed. Reg. 10375, 10376 (Feb. 19, 2021). The Commission also found that:

More efficient and better calibrated strike increment rules can have a positive impact on options markets, as it can provide certainty, minimize confusion, and promote more efficient use of resources among market makers that are obligated to continuously quote such series, all while still offering customers the choice to meet their investment needs.

Id., 86 Fed. Reg. at 10377. Finally, the Commission also noted that the approved rule “may serve as a starting point to a broader initiative to revisit, harmonize, and update the panoply of strike listing rules more broadly.” Id.

Following the Commission’s approval of BX’s 2020 rule filing, other exchanges, including Cboe Exchange, Inc. (“Cboe”), promulgated similar amendments to their rules. See, e.g., Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Rule 4.5 (Series of Option Contracts Open for Trading) in Connection With Limiting the Number of Strikes Listed for Short Term Option

Series Which Are Available for Quoting and Trading on the Exchange, Release No. 34-91456, 86 Fed. Reg. 18090 (April 1, 2021). In its filing, Cboe noted that limiting the number of weekly strikes in which market makers are required to quote would allow those market makers to expend their capital in the options market in a more efficient manner, which could improve overall market quality, while still providing market participants with access to sufficient strike intervals to meet their investment objectives. Id., 86 Fed. Reg. at 18093-94. Cboe also noted that the removal of strikes found in clusters whose characteristics closely resemble one another would protect the investors and the general public by removing unnecessary choices of an options series, which could result in improved market quality. Id. at 18094.

Recently, one of the OLPP Sponsors, Cboe, compiled statistics comparing the increase in the average number of multiple listed options series listed per day in the months of June 2020 and June 2024. Cboe also examined the reduction in the average percentage of series traded per day during those two months and the reduction in average percentage of series with open interest per day. That analysis suggests that there are still significant quote mitigation issues in the options markets.

Specifically, Cboe's analysis revealed that the average series listed per day increased by 27% in June 2024, when compared to June 2020, with an average of 1,406,632 series listed per day in 2024 and 1,107,980 series listed per day in June 2020. Cboe's analysis also revealed, however, that the average percentage of series that traded per day decreased from 18% in June 2020 to 10% in June 2024 and that the average percentage of series with open interest per day decreased from 53% to 47% during those same comparison months. In other words, as the average number of series listed per day continues to increase, more series appear to be thinly traded and therefore less liquid – a dynamic that the OLPP Sponsors believe may worsen quote

quality because market makers are required to expend their capital to quote in the expanding number of series that are listed.

As a result of the concerns outlined above, the OLPP Sponsors believe that the options industry would benefit from the OLPP being amended to explicitly authorize the Sponsors to act jointly to discuss quote mitigation issues, including reaching out to other industry participants to solicit their views, with a goal of identifying specific issues and potential solutions to those issues. Such an amendment would be consistent with Rule 608(a)(3)(A) of Regulation National Market System, which authorizes self-regulatory organizations (like the OLPP Sponsors) to act jointly in preparing and filing any amendment to a national market system plan. 17 C.F.R. § 242.608(a)(3)(A). In addition, if the Sponsors determine that it is appropriate to address a quote mitigation issue by proposing a further amendment to the OLPP, such an amendment would be submitted to the Commission for approval pursuant to Rule 608(b) of Regulation NMS. 17 C.F.R. § 608(b). Similarly, if the Sponsors determine to address any identified issues with new options strike listing methodologies and rules, they may seek to do so through submission of rule filings pursuant to Section 19(b) of the Exchange Act. 15 U.S.C. §78s(b).

3. Manner of Implementation of Amendment

The proposed amendment will be added to the OLPP following Commission approval of the amendment pursuant to Rule 608(b)(1) and (b)(2) of Regulation NMS.

4. Phases of Development and Implementation

Not applicable.

5. Impact on Competition

The Sponsors believes that the proposed amendment will impose no burdens on competition that are not justified in light of the purposes of the Act.

6. Written Understandings or Agreements Among Plan Members

Not applicable.

7. Approval of Proposed Amendment

Each Sponsor approved the submission of the [a]mendment and has executed a signed copy of the [a]mendment.

8. Exhibits

I. Proposed amendments to Section 6 of the OLPP.

9. Description of Operation of Facility Contemplated by the Proposed Amendment

Not applicable.

10. Terms and Conditions of Access

Not applicable.

11. Method of Determination and Imposition, and Amount of, Fees and Charges

Not applicable.

12. Method and Frequency of Processor Evaluation

Not applicable.

13. Dispute Resolution

The Plan does not include provisions regarding the method by which disputes arising in connection with the operation of the plan will be resolved.

**II. Text of the Proposed Amendment to the OLPP (Exhibit I)**

Language proposed to be added to Section 6 of the OLPP as new Section 6(c):

- (c) The Plan Sponsors are authorized to act jointly to discuss both quote mitigation issues and potential solutions to address any issues identified, including, but not limited to, discussing potential new options strike listing methodologies and rules, in order to



determine whether the Sponsors might propose one or more amendments to the Plan for Commission approval or whether the individual Sponsors might seek to amend their own rules.

### **III. Solicitation of Comments**

The Commission seeks comment on the amendment. Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed amendment is necessary or appropriate in the public interest, for the protection of investors and the maintenance of fair and orderly markets, to remove impediments to, and perfect the mechanisms of, a national market system, or otherwise in furtherance of the purposes of the Act. Comments may be submitted by any of the following methods:

#### Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number 4-443 on the subject line.

#### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submission should refer to file number 4-443. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<https://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that

are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal offices of the Sponsors. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number 4-443 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>5</sup>

**Stephanie J. Fouse,**

*Assistant Secretary.*

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<sup>5</sup> 17 CFR 200.30-3(a)(85).