Listed Options Symposium
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Opening Remarks
As prepared for delivery

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Good afternoon and welcome. I'm Randy Snook, executive vice president, business policies and practices at SIFMA. Thank you for joining us to address the state of listed equity options markets and key trends driving the evolution of this business.

Equity options are an important component of the broader capital markets, as they provide investors with a unique tool to hedge their portfolio or manage their risks in accordance with their outlook for the markets. Last year alone 4.1 billion option contracts traded– the second highest ever recorded – which represented $1.2 trillion in premiums and 17.2 million average daily contracts. These robust numbers underscore the benefits of options trades, yet they do not tell the full story of the state of these markets.

We meet today during a transitional time for the securities industry: Market participants are faced with a range of new regulations, such as new stringent capital requirements for bank clearing firms and the introduction of OCC principal based risk controls on equity options exchanges – most of which are designed to enhance resiliency and reduce risk to the system.

While risk reduction and increased resiliency is positive, it's important to ensure that taken together, the cumulative effect does not have the unintended consequence of reducing liquidity or curbing investor activity. In particular, it's essential for new rules to strike the right balance of enhancing stability without compromising market making and the ability of markets to function efficiently. Likewise, innovations in business practices should promote transparency, fairness and resiliency for investors.

This balance between financial stability and efficient market function is a key theme that SIFMA is actively addressing across all aspects of the financial system. In listed equity options, market makers must fulfill stringent quoting requirements which stipulate the percentage of time and number of series that they are required to quote in. This vital role that market makers fill helps ensure that markets are deep and liquid which fuels trading and investment activity.

That's why SIFMA's global affiliate, the Global Financial Markets Association, along with the Institute for International Finance to commission an independent PwC analysis on the state of market liquidity. PwC's report, released in August, suggests early warning signals that regulation and other market factors are contributing to a reduction in certain aspects of secondary market liquidity, and recommends a greater focus on the cumulative impact of regulation to ensure future rulemakings are not counterproductive.

The equity options markets are not immune to these challenges. The regulatory burden falls squarely on the shoulders of market participants who are subject to higher capital margin requirements, increased clearing costs and new rules governing exchange risk controls. This is coupled with an increasingly fragmented exchange landscape, with 12 exchanges today, and growing to 14 as exchange families add new SRO licensed trading venues to capture different segments of customer order flow.

Recently, we've been hearing feedback from our members about increasing liquidity challenges in the less liquid names and in the institutional market. As the number of equity option exchanges grows, market makers are compelled to not only invest in new markets, but also continuously improve their infrastructure to maintain the most innovative and cutting edge technology. Amongst this backdrop, market makers must carefully balance their risk and liquidity provision as new products empower certain market participants.

Outside of market structure, clients are facing new challenges as the Department of Labor has proposed an ill-advised best interest rule that would restrict the holding of options in IRA plans. It's important that taken together, these changes do not stifle the ability of options to continue to be a viable investment tool, especially in the current low interest rate environment which has ensued in recent years.

Indeed, the equity options business is evolving to meet the changing demands of clients in this marketplace. There's been a proliferation of new products and service offerings, including:

1. the advent of an auction mechanism for listed equity-options which provide investors with price improvement; which would otherwise be unattainable for their orders;
2. Weekly series which allow investors opportunities to implement more targeted buy, sell or spread strategies, or to efficiently take advantage of market events, such as Fed announcements. ;
3. And lastly, proprietary indices, which continue to gain popularity with investors who use them to manage and hedge portfolio exposure, and to harvest premium income to smooth portfolio returns.

As I mentioned SIFMA is addressing many of these same issues across the capital markets. In addition to the listed options markets, we're also focusing on the $28 trillion equity markets.

Innovation, regulation and competition have made the U.S. stock market the most liquid and efficient in the world, while at the same time creating an extremely complex and fragmented market structure that opens the door to potential disparate treatment among investors. SIFMA convened a broad-based task force of members from across the country and across the industry to develop actionable market structure reforms that would promote fairness, stability and transparency to help ensure the market structure works in the best interests of all investors. We continue to work with our members to promote these reforms and other initiatives, and we carry over these principles of transparency, fairness and resiliency into the work done on listed options.

Over the course of today's robust program, you'll hear from thought leaders who will further discuss the state of the options markets and the outlook for the future.

Before we get started I'd like to thank all of our sponsors listed on this slide. [Slide will show.] Their support is critical in making this forum possible.

I'd also like to recognize all of the speakers for sharing their time and expertise, as well as all of you for participating in this important discussion.

It is now my pleasure to introduce Chris Concannan, President and Chief Executive Officer, BATS Global Markets and Justin Schack, Managing Director and Partner, Rosenblatt Securities Inc. Chris joined BATS as President in December 2014 and was appointed CEO in March. He is a noted global market structure expert with more than 20 years of experience as an exchange executive, trading participant and regulator, and we are grateful he is here today to share his unique insight.

Justin Schack is a Managing Director and Partner at Rosenblatt Securities, an institutional agency brokerage in New York. Schack heads the firm's Market Structure Analysis group, which provides institutional traders, investors, exchange groups, regulators and other clients with in-depth intelligence on global market structure and the exchange industry.

Please join me in welcoming Chris Concannon and Justin Schack.