

## Copycat OTC Derivatives Need To Be Examined

---

Copycat over-the-counter (OTC) derivatives present unnecessary risks while avoiding the price discovery, price improvement and trade reporting functions of national securities exchanges to the detriment of customers and the public interest.

### Copycat OTC Options

Certain market participants are steering institutional customers into opaque option contracts, so-called “copycat” OTC options. Copycat OTC options are off-exchange privately-negotiated bilateral agreements with contract terms that are identical to, or substantially similar to, the contract terms of standardized options contracts traded on registered exchanges, including Cboe Options. Although bilateral OTC transactions can provide value when contract terms are not available in a listed option product, Cboe is concerned that the use of copycat OTC options neither benefits nor fully protects users of such products and removes liquidity from the listed markets.

### Benefits of Exchange-Traded Options

Exchange-traded options offer investors robust price discovery, price improvement and secondary market liquidity. Market participants also benefit generally from exchange transactions over OTC transactions due to trade reporting and exchange surveillance of trading. Furthermore, exchange-traded options are centrally cleared, which eliminates counterparty risk and limits systemic risks associated with non-centrally cleared OTC derivatives.

### A Review of the OTC Options Marketplace is Warranted

Cboe encourages regulators to review broker-dealer activities in the OTC options marketplace to ensure broker-dealers are meeting their best execution requirements and otherwise acting in the best interest of their customers when effecting OTC options transactions. Cboe specifically encourages regulatory examination of the use of OTC options by broker-dealers in customer transactions where substantially identical standardized options are available.

*Cboe Global Markets, Inc. (Cboe) is one of the world's largest exchange holding companies and is a leader in providing global investors cutting-edge trading and investment solutions. Cboe has a strong history in product innovation, indexing expertise, options, and volatility. Cboe operates four U.S. options exchanges (Cboe Options, C2 Options, BZX Options, and EDGX Options), four U.S. equities exchanges (BYX Equities, BZX Equities, EDGX Equities, and EDGA Equities), the largest pan-European stock exchange (Cboe Europe Equities), a futures exchange (CFE), a foreign exchange-trading platform (Cboe FX), and the leader in options education (Cboe Options Institute).*