



April 30, 2020

Chairman Jay Clayton  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

Re: Regulatory Priorities in Light of Operational Successes

Dear Chairman Clayton:

In a joint letter on March 19, 2020,<sup>1</sup> Cboe Global Markets Inc. (“Cboe”), along with numerous industry organizations, stressed the importance of keeping our nation’s financial markets open during the global COVID-19 pandemic. We are pleased that you, U.S. Treasury Secretary Mnuchin, Commodity Futures Trading Commission Chairman Tarbert, and Federal Reserve Chairman Powell acknowledged that the financial markets are critical infrastructure for the American economy, and recognize the essential role that our national securities exchanges are playing in helping our country manage the crisis. Our cooperation has been vital to managing the impact of COVID-19 on the markets and the broader economy, and we thank the Securities and Exchange Commission (“Commission”) for working with us to ensure that we can serve the needs of the millions of investors that rely on the markets that we operate.

The efficient functioning of our capital markets is more important than ever in this period of unprecedented uncertainty. The national securities exchanges, including Cboe’s equities and options exchanges, have demonstrated remarkable resiliency, providing a forum for investors, both small and large, to express their views and manage their risk. And we are doing all we can to help those investors access

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<sup>1</sup> See Letter from Bryan N. Corbett, President and CEO, Managed Funds Association et al. to Steven T. Mnuchin, Secretary, U.S. Department of the Treasury et al. dated March 19, 2020, available at <https://www.managedfunds.org/wp-content/uploads/2020/03/FINAL-JOINT-TRADES-MARKET-LETTER-03-19-20-530.pdf>.

and use those resources in this very challenging environment. As we all deal with the impact of COVID-19, we write to respectfully suggest that the Commission reconsider proceeding with proposals that fundamentally overhaul U.S. market structure, and instead focus its efforts on meaningful enhancements for which there is broad consensus amongst market participants.

The COVID-19 pandemic has ushered in dramatic market volatility, and introduced significant operational challenges due to record volumes and other changes in the market. Market-wide circuit breakers were triggered four times in March, the first such circuit breakers since 1997, and the only time this mechanism has been invoked since the modern circuit breaker rules were revised following the 2010 flash crash. Our busy options trading floor in Chicago, the largest in the U.S., and trading floors operated by other national securities exchanges, were quickly closed as the markets transitioned to all-electronic trading as a precautionary measure to help manage the health risks posed by the pandemic. Volumes and message traffic hit significant peaks, causing spikes in capacity used by the exchanges, securities information processors, clearing agencies, broker-dealers, and other market participants.

The Staff of the Division of Trading and Markets (the “Staff”) has worked with us in managing our response to these changes in the market, including facilitating the expedited move to all-electronic trading,<sup>2</sup> and we appreciate our working relationship with the Staff as we address these and other issues in a time of heightened volatility and uncertainty. Our collective efforts have allowed us to quickly adapt to the changing landscape as the nation continues to work through the current pandemic.

As we focus on keeping the markets open and functioning well for all investors in these disruptive times, we understand that the Commission has also been engaging with market participants to ensure that their needs are being adequately served. At the same time, we realize that the Commission has a number of priorities, including rulemaking initiatives that are unrelated to current market conditions. As an advocate for market structure reform, we agree that there are areas for enhancement that warrant the Commission’s time and energy, even as resources are consumed by monitoring and reacting to the current situation. Indeed, at the beginning of the year, we published our own recommendations for U.S. equities market structure.<sup>3</sup> We continue to believe that those modest but impactful recommendations are worthy of the Commission’s consideration as we all work through the issues posed by current market conditions.

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<sup>2</sup> See <https://www.sec.gov/news/press-release/2020-64>.

<sup>3</sup> See Cboe’s Vision, Equity Market Structure Reform (January 2020) *available at* <https://www.cboe.com/aboutcboe/government-relations/pdf/cboes-vision-equity-market-structure-reform-2020.pdf>.

Nevertheless, during this unprecedented time, the health of our nation and the economy should remain the foremost concern for market participants and regulators alike. We therefore caution against major surgery to the markets, particularly when there is a risk that certain proposals could serve as a catalyst for further deterioration of market quality, or could endanger the resilience of critical market infrastructure relied on by investors. Cboe has consistently advocated for a “do no harm” approach to market structure, and the benefits of this approach are highlighted when confronted with the challenges experienced today.

The exchanges and securities information processors have continued to perform well despite the massive spike in volumes and heightened volatility that has created a more challenging environment for investors to trade. Data suggests that equity spreads have widened (see Chart A in the Appendix), and liquidity has decreased significantly (see Chart B in the Appendix). Nevertheless, our markets have remained open, allowing investors to hedge, seek liquidity, and transfer risk as they manage their response to the emerging crisis, and we caution against experimental rebate bans that could further harm liquidity, or other regulatory action that could reduce the resiliency enjoyed by the market today.<sup>4</sup>

U.S. equities and options markets have been incredibly resilient and adaptable, as highlighted in our collective response to COVID-19. This resiliency is not by happenstance. It is the product of years of collaborative work by the exchanges and the Commission. Work that is largely, and thankfully, invisible to market participants in normal times, but that must be maintained with diligence as we prepare for inevitable times of stress. As COVID-19 increases the strain on the broader economy, we urge the Commission to consider the potential impact of any of its proposed regulatory initiatives on a market structure that has served investors well, and has proven resilient through even the current national emergency.

We all expect nothing less than excellence for the investors we serve. Our critical market infrastructure has performed well during this sustained period of market stress. We should collectively focus on quantifiable improvements for which there is consensus – both during the COVID-19 crisis and beyond. We applaud and thank the Commission for its work in managing the response to the crisis, and in working in lockstep with Cboe and our fellow exchanges to ensure we are able to continue to perform the essential function of operating our nation’s capital markets in a fair and orderly manner during this unprecedented time. We look forward to continuing this critical work with the Staff, now and in the future.

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<sup>4</sup> During the month of March, when volatility was at its peak, we observed that maker-taker markets that pay a rebate for orders that provide liquidity, experienced an uptick in volume relative to markets that do not offer similar incentives for liquidity provision.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward Tilly". The signature is fluid and cursive, with the first name "Edward" written in a larger, more prominent script than the last name "Tilly".

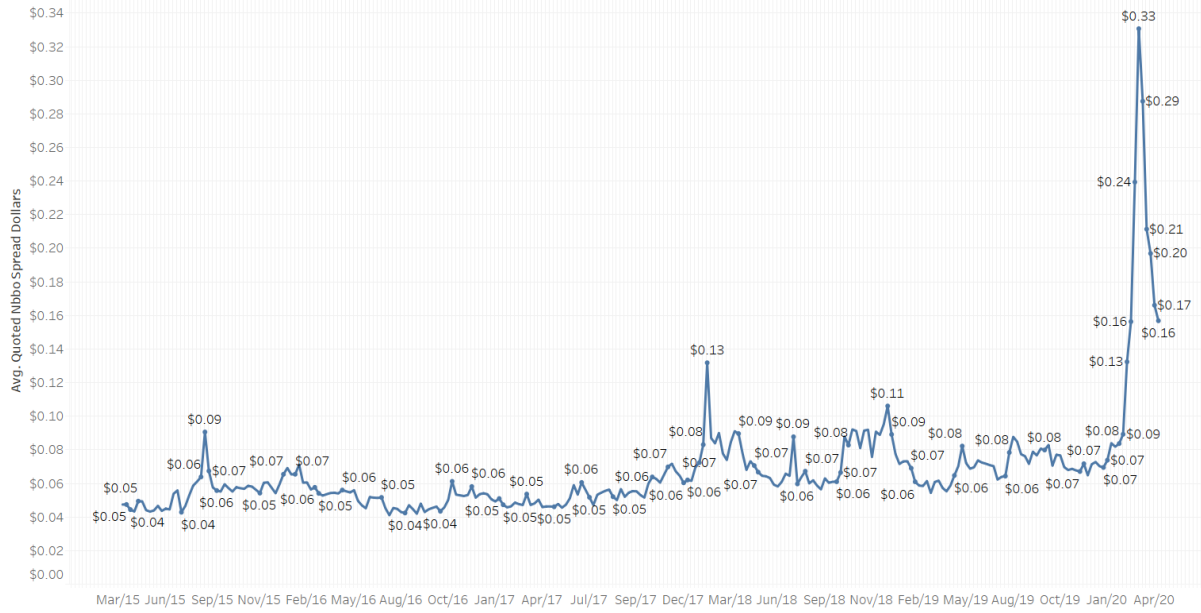
Edward Tilly  
Chairman of the Board, President  
& Chief Executive Officer

cc: Commissioner Hester M. Peirce  
Commissioner Elad L. Roisman  
Commissioner Allison Herren Lee

## Appendix

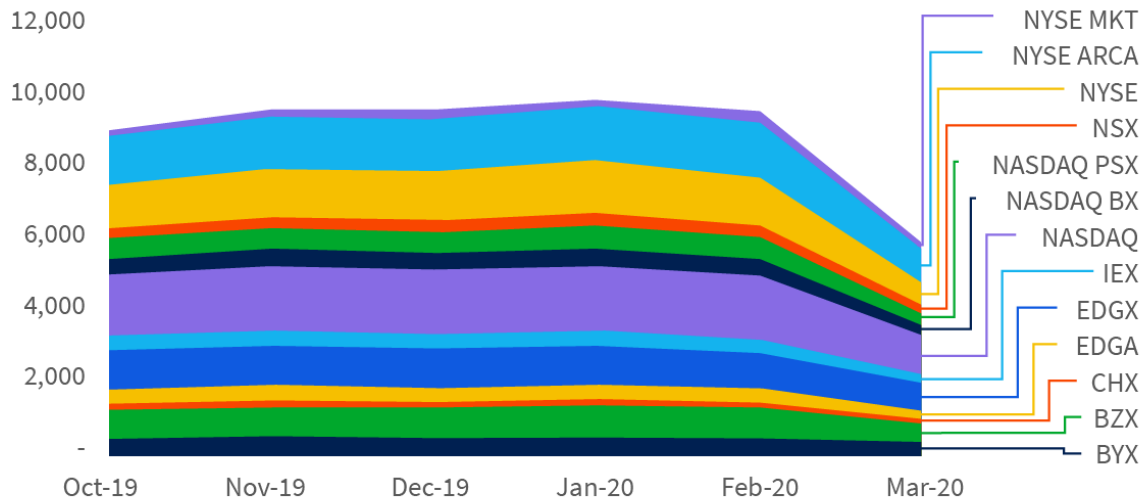
**Chart A:**

Quoted NBBO Spread Trend Weekly (SP 500 Symbols)



**Chart B:**

**Average Inside Size**



\*Source: Cboe Global Markets