

Via email to pubcom@finra.org

Ms. Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, D.C. 20006-1506

9/19/2022

[Re: Regulatory Notice 22-14: FINRA Requests Comment on Proposed Trade Reporting Requirements for Over-The-Counter Options Transactions](#)

Dear Ms. Mitchell:

Caplight Markets LLC (“Caplight”) would like to thank you for the opportunity to comment on the proposed rule change concerning trade reporting requirements for over-the-counter options transactions pursuant to Regulatory Notice 22-14. Caplight is a broker dealer offering private placements of private, pre-IPO securities, to institutional and accredited investors.

FINRA in its Regulatory Notice 22-14 is seeking comments to its proposal to establish a new trade reporting requirement for transactions in over-the-counter options on securities with terms that are identical or substantially similar to listed options. FINRA is proposing to require firms to report this information to FINRA on a daily basis (end-of-day) for regulatory purposes only.

Firms would be required to report transactions in an OTC option that is a put or call on a listed underlying security(ies) (including an option on an individual underlying security or an option on a basket of securities that meets the definition of a “conventional index option”), including transactions executed by the firm on either a principal or agency basis. This proposal is limited to options with terms that are identical or substantially similar to listed options, including FLEX options. Specifically, firms would be required to report a trade in an OTC option where:

1. there is a listed option on the same underlying security (*e.g.*, a single stock or an index), or the OTC option is overlying one or more U.S.-listed securities;
2. the option type is a put, a call, or an option type related to a put or a call; and
3. where the exercise style is one of the following: American, European, Asian, Cliquet or Binary.

Currently, firms do not report OTC options trades to FINRA but are required to report to the Large Option Position Reporting (“LOPR”) system large end-of-day options positions that are positions of 200 contracts or greater, including OTC options positions. For OTC options, a firm must also report an account’s intraday positions. Firms submit position information to the LOPR system by the close of business on the next day.

Caplight supports FINRA’s proposal as the proposed reporting requirement would improve FINRA’s audit trail by providing additional insight at the transaction level. Important data such as the time of the transaction that resulted in each position change and the option premium would now be captured. Furthermore, as the LOPR system does not collect information on positions of less than 200 contracts, this proposal would capture additional information thereby assisting FINRA in identifying suspicious activity and enforcing against market manipulation and other problematic behavior.

However, it is important to consider the cost of compliance if this proposal is adopted as proposed. Currently, as only LOPR companies provide FINRA information on positions of no less than 200 contracts, it would be too burdensome from a technology and resource perspective for small companies to compile the data on a daily basis. Therefore, FINRA should establish a de-minimus threshold such that only 100 daily contracts or more are required to be reported. Companies transacting in contracts of this size are likely to have most of the infrastructure in place to provide the necessary information. In this manner smaller option trading companies are not unduly burdened and FINRA still receives meaningful information, not fully captured by the LOPR system currently, to enable FINRA to better surveil the options market.

Furthermore, some Data Elements in Attachment A seem overly detailed and intrusive. For example, it is not clear how the information of the Buy and Sell Account numbers and the addresses of Buyers and Sellers would help FINRA achieve its goals of identifying suspicious activity, including potential instances of insider trading, front running, pre-arranged trading, and market manipulation in the equity and options markets.

In conclusion, Caplight believes that the additional trade reporting requirements for the over-the-counter options transactions are a step in the right direction of greater options market transparency and reduced manipulation. However, the proposal should be revised to (i) establish a de-minimus reporting requirement for companies that trade options and (ii) eliminate fields unnecessary to meet the purposes of this proposal such as Buyer and Seller account numbers and addresses and currency types in the Data Elements of Attachment A.

Thank you for the opportunity to comment on this important proposal.

Respectfully submitted,

/s/Maria Rabinovich
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