



Statement at SEC-CFTC Opening Meeting
by
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I am happy to be here to present the perspective of the CBOE on the market events of May 6 and the best way to move forward to address these events.

I am the President of CBOE, the largest securities options exchange in the U.S. Besides hundreds of equity options, we trade options on stock indexes such as the S&P 500 Index (SPX) and the VIX, CBOE's volatility index, as well as options on exchange traded funds (ETFs).

On May 6, CBOE traded twice as many contracts as our average daily contract volume (YTD). We traded a total of 10.5 million contracts (a record at the time), including 2.1 million SPX contracts and 3.4 million ETF option contracts. Our year-to-date daily average through May was 5.1 million contracts per day, with cash index options averaging 1.2 million contracts daily and ETF options averaging 1.3 million contracts daily.

Not surprisingly, during the extreme market volatility periods of that day, options spreads widened in reaction to the activity in the underlying markets. No doubt it was difficult to make markets in options when the underlying stocks and ETFs were experiencing incredibly dramatic price movements. This highlights the connectedness of the derivatives and equities markets. Because our option products are derivatively priced, we are extremely sensitive to developments in the equities market. As Chairman Schapiro has said, "[o]ur markets are increasingly interrelated and interdependent so we need to appreciate how events in one arena can potentially impact investors and markets elsewhere." The recognition of this "one market" concept for stocks, options and futures is essential to understanding and formulating industry standards for addressing extreme volatility scenarios such as May 6.

In that regard, I applaud the creation of this advisory panel and the joint efforts by the exchanges, FINRA, SEC staff, the futures markets, and the CFTC. I am encouraged by the SEC's approach of moving forward with interim changes in the securities markets on a pilot basis (and also allowing for public comment before implementation). While I support the concept of enhancing the system to address another May 6-type scenario, I also believe it is essential that any new controls that may be introduced not exacerbate market volatility or unnecessarily burden legitimate market movements. Therefore, I feel it is important that we collectively monitor the impacts - good, bad and unintended - of the recently adopted individual stock trading pause pilot and the proposed clearly erroneous pilot, and work

together in a measured and deliberate manner to enhance or reevaluate those programs as time goes on. The pilot approach is a responsible means to further that effort.

I would, however, like to remind the Advisory Committee of one certainty: despite the years and years of cumulative industry experience gathered in this room today, we simply cannot predict the nature of the next market-wide "crisis" that comes our way. Thus, I believe that it is vitally important that any rule-based solutions contain sufficient flexibility to ensure that markets are able to react appropriately and do what is right for investors when they are faced with inequitable outcomes as a result of unanticipated market disruptions or complications. Our nuanced and intricate market structure has evolved over many years in reaction to numerous events and concerns, and we need time to fully analyze how events transpired and how we can improve the chances of mitigating potential disruptions while understanding that we cannot forecast every future problem.

The SEC-CFTC preliminary report has identified several areas worthy of further exploration, such as examining the existing market-wide circuit breakers, the individual stock trading pauses, clearly erroneous policies, stop loss and market orders, stub quotes, and LRP and self-help protocols. These and other areas should be carefully explored, especially taking into account cross-market impacts, efficiency and effectiveness. CBOE stands ready and willing to participate in that exploration and to offer our options expertise in helping understand what happened on May 6.

Once again, I want to thank the SEC and CFTC for soliciting the views of CBOE and other options exchanges on the events being studied as our markets are an integral part of the overall market structure in the U.S.