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Filed electronically

September 20, 2022

Ms. Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 200006-1506

Re: Regulatory Notice 22-14 (Proposed Trade Reporting Requirements for Over-the-Counter Options Transactions)

Dear Ms. Mitchell:

T. Rowe Price is a global investment management organization with $1.34 trillion in assets under management.[1] We serve a wide a range of clients, from individual savers to large institutions and funds. We value the opportunity to comment on the above-referenced proposal (the "Proposal"), which would establish a new trade reporting requirement for transactions in over-the-counter ("OTC") options on securities with terms that are identical or substantially similar to listed options. In our role as a discretionary asset manager, we have many years of experience buying and selling OTC options as a component of various investment strategies in certain funds and client portfolios.

FINRA believes the proposed reporting requirements would improve its surveillance of the markets, including the relationship between transactions in OTC options and listed options and provide information necessary to oversee compliance with best execution.[2] Given various nuances in the trading of OTC options, we believe certain data elements proposed to be reported would not be insightful from a surveillance standpoint and could create confusion. We are also concerned that creating an entirely new reporting regime that is separate from the existing large options position reporting system ("LOPR") covering OTC and listed options would place unnecessary cost burdens on FINRA members that could ultimately be passed down to their customers and make broker-dealers less willing to trade OTC options. We also note FINRA is not proposing public dissemination at this time but states it may consider disaggregated public dissemination of all or a portion of the reported information once it has more experience with the data.[3] While we appreciate that FINRA's statements in this regard suggest a careful and staged approach to potential future transparency, we are not in favor of disaggregated public reporting.

We further detail our views below and also make various recommendations.

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[1] As of August 31, 2022 (based on preliminary data).
[2] See Proposal at page 3.
[3] See Proposal at page 3.

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The Utility of the Proposed Data for Surveillance Would be Limited & Likely Costly to Report. Because of the unique mechanics involved in trading OTC options on an "agency delta" basis as discussed below, the proposed time-stamp and option premium fields would usually offer little value in terms of surveillance monitoring. The bulk of our OTC options trading for one of our investment strategies that regularly transacts in options occurs on an "agency delta" as opposed to "live" basis. It is our understanding that many other large asset managers also routinely trade OTC options with their broker-dealers using the agency delta method.

By way of background, options trades consist of volatility risk and underlying stock risk, through the option contract's relationship to the stock, or "delta." In the case of a "live" trade, the broker-dealer prices the option's premium to account for both risks (volatility and stock) and communicates the final premium paid/received upon negotiation. Reporting the option premium and time for trades using the "live" method may be relevant for surveillance purposes. In contrast, broker-dealers are generally able to provide more competitive pricing to their customers for "agency delta" trades as the broker-dealer takes on volatility risk, while their customer assumes the risk on the stock hedge and its deviation from the struck price. For agency delta trades, initially a ratio between the stock price (i.e., the struck price) and the option's premium is negotiated and agreed upon by the broker-dealer and the asset manager. Thereafter, the broker-dealer executes its stock hedge to offset the risk of the option within the constraints of the market and liquidity parameters. A majority of the stock hedges are anticipated to be completed in the same trading day, but that is not always the case. The final premium paid/received is determined by applying the option delta to the difference between the struck price in the original ratio and the average price for the stock hedge executed by the broker-dealer."[4] As a result, the reported option premium for agency delta trades would be unlikely to aid FINRA's surveillance efforts as it would not be based on any observable market inputs, but rather a derivation of a ratio negotiated at an earlier time. We do not see an obvious solution to this dilemma due to the lack of a single definitive time-stamp on agency delta trades given the multiple steps involved in their execution.

We are also concerned that the cost of building and maintaining a new reporting system would be burdensome for broker-dealers and may disincentivize them from trading OTC options with customers and/or cause them to pass along their increased costs to customers.[5] These types of negative impacts ultimately make it harder for investors to achieve their financial objectives and for their asset managers to carry out their investment strategies. In our view, a more cost-efficient and measured approach to expanding regulatory reporting of OTC options could be achieved by, in lieu of the proposed reporting regime, overlaying volatility metrics on LOPR information, or analyzing block trading data as it relates to LOPR information, with the aim to identify trading activity that may warrant further analysis. If capturing more data would be beneficial, another approach could be reducing the current 200 contract threshold for what constitutes a large listed or OTC option position. This alternative would provide further insights on positions that are reported via LOPR and also bring more OTC options into scope for LOPR purposes, thereby enhancing FINRA's surveillance capabilities.

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[4] For these purposes, the delta of an option is a value derived from the Black-Scholes model that signifies how closely representative the option is to the underlying stock.

[5] We think the nature and timing of FINRA members' current reporting obligations through the LOPR system for OTC positions representing 200 or more contracts are different enough that there would be few synergies with the reporting responsibilities contemplated by the Proposal.

Any Public Dissemination in the Future Should be Subject to Appropriate Delays and Limited to Certain Aggregated Data to Avoid Negative Consequences for Market Participants and End Investors. When evaluating whether additional data regarding the trading of OTC options should be publicly available, it is important to recognize that the majority of these trades (including the agency delta trades) are executed by broker-dealers in a principal capacity. This dynamic, coupled with the longer-dated nature of many OTC options, means broker-dealers must have sufficient time to hedge their volatility risk and navigate liquidity challenges. As a result, FINRA should exercise caution when considering whether to expand public dissemination of OTC options trading data as it is important for asset managers to have ready and willing trading partners. We believe publication of disaggregated OTC options data in any form would likely make it more difficult for managers to pursue their funds' and clients' investment objectives. And although publication of aggregated data such as open interest could be somewhat useful for asset managers, it should be delayed by the same standards for today's equity positions in order to minimize the potential risks to the broker-dealers that we and other managers rely on to facilitate these important transactions.

Another reason we do not urge FINRA to expand public dissemination of OTC options data is we would not expect the additional information to be particularly useful to market participants. When we negotiate OTC options transactions on behalf of our funds and client portfolios, prices from the listed options market are not particularly informative, especially for longer-dated OTC options as there is limited activity in their listed counterparts. In addition, even if transaction-level trade reporting were publicly available for OTC options, we would not place much emphasis on this information when negotiating OTC option trades because the pricing of OTC options varies based on factors beyond the economic terms of the option. For example, greater importance is placed on agreeing to the key inputs for the Black-Scholes model calculation, such as the volatility assumptions for the underlying stock(s). The creditworthiness of the counterparty and collateral arrangements also play important roles in arriving at the traded price for certain OTC options. For these same reasons, in our view FINRA typically would be unable to draw useful insights from comparing the proposed premium reporting field from one OTC option transaction to the premium field reported for another OTC option, or to any documented market price.

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Thank you for the opportunity to share our views on the Proposal. If you would like to discuss our letter, please feel free to contact us.

Sincerely,

<u>/S/ Jonathan Siegel</u>
Jonathan Siegel, Managing Legal Counsel – Legislative & Regulatory Affairs

<u>/S/ Tammy Wiggs</u>
Tammy Wiggs, Head of Equity Trading for T. Rowe Price Investment Management, Inc.