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Toward a National Market System for U.S. Exchange-listed Equity Options

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ABSTRACT

In its response to the 1975 Congressional mandate to implement a national market system for financial securities, the Securities and Exchange Commission (SEC) initially exempted the option market. Recent dramatic changes in the structure of the option market prompted the SEC to revisit this issue. We examine a sample of actively traded, multiply listed equity options to ask whether this market's characteristics appear consistent with the goals of producing economically efficient transactions and facilitating "best execution." We find marked changes between June 2000, when quotes are often ignored, and January 2002, when the market more closely resembles a national market.

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