

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

Robert Battalio, Brian Hatch, Robert Jennings

First published: 25 March 2004

<https://doi.org/10.1111/j.1540-6261.2004.00653.x>



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.

REFERENCES

De Fontnouvelle, Patrick, Raymond Fishe, and Jeffrey Harris, 2002, The behavior of bid-ask spreads and volume in options markets during the listings competition in 1999, Working paper, University of Delaware.

[Google Scholar](#)

Easley, David, and Maureen O'Hara, 1987, Price, trade size and information in security markets, *Journal of Financial Economics* 19, 69-90.

[Web of Science®](#) | [Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Web of Science®](#) | [Google Scholar](#)

Macey, Jonathan, and Maureen O'Hara, 1997, The law and economics of best execution, *Journal of Financial Intermediation* 6, 188–223.

[Web of Science®](#) | [Google Scholar](#)

Mayhew, Stewart, 2002, Competition, market structure, and bid-ask spreads in stock option markets, *Journal of Finance* 57, 931–958.

[Web of Science®](#) | [Google Scholar](#)

Neal, Robert, 1992, A comparison of transaction costs between competitive market maker and specialist market structures, *Journal of Business* 65, 317–334.

[Web of Science®](#) | [Google Scholar](#)

Peterson, Mark, and Erik Sirri, 2002, Evaluation of the biases in execution cost estimation using trade and quote data, *Journal of Financial Markets* 6, 259–280.

[Web of Science®](#) | [Google Scholar](#)

Restated ITS Plan, 1997.

[Google Scholar](#)

Securities and Exchange Commission, Release No. 34-16701, 1980.

[Google Scholar](#)

Securities and Exchange Commission, Release No. 34-42029, Order directing options exchanges to submit an intermarket linkage plan pursuant to Section 11A(a) (3) (B) of the Securities Exchange Act of 1934, 1999.

[Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

the International Stock Exchange, LLC, 2000b.

[Google Scholar](#) 

Securities and Exchange Commission, Release No. 34-43591, Firm quote and trade-through disclosure rules for options, 2000c.

[Google Scholar](#) 

Securities and Exchange Commission, Release No. 34-42456, Notice of filing of proposed option market linkage plans by the American Stock Exchange, Chicago Board Options Exchange, Pacific Exchange, and Philadelphia Exchange, 2000d.

[Google Scholar](#) 

Securities and Exchange Commission, Release No. 34-43085, Proposed rule: Firm quote and trade-through disclosure rules for options, 2000e.

[Google Scholar](#) 

Securities and Exchange Commission, Release No. 34-43591, Firm quote and trade-through disclosure rules for options, 2001.

[Google Scholar](#) 

Securities and Exchange Commission, Release No. 34-43621, Options price reporting authority, 2001.

[Google Scholar](#) 

Securities and Exchange Commission, Report on the Practice of Preferencing, 1997.

[Google Scholar](#) 

Stoll, Hans, 2001, Market fragmentation, *Financial Analysts' Journal* 56, 16-20.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)



Wall Street Journal, 1999b, Options report: All appears fair in love and options trading as CBOE, Amex, Philadelphia war over Dell, August 24, C26.

[Google Scholar](#) 

Wang, Elizabeth, 2000, Competition among exchanges: Does multiple listing affect trading costs on options markets?, Working paper, University of Chicago.

[Google Scholar](#) 

White, Halbert, 1980, A heteroskedasticity-consistent covariance matrix estimator and a direct test for heteroskedasticity, *Econometrica* 48, 817-838.

[CAS](#)  | [Web of Science®](#)  | [Google Scholar](#) 

Citing Literature

[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)


[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential