



GLOBAL ELECTRONIC TRADING COMPANY

June 10, 2009

Elizabeth Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Comments Regarding the Options Penny Pilot Program (Release No. 34-59944; File No. SR-NYSEArca-2009-44)

Dear Ms. Murphy:

I. Introduction

Global Electronic Trading Company ("GETCO")¹ appreciates the opportunity to comment on the above captioned proposal expanding NYSE Arca's Pilot Program to quote and trade certain options in pennies (the "Penny Pilot") to December 31, 2010 ("Phase III"). GETCO strongly supports NYSE Arca's rule proposal and recommends that the Commission approve it.

GETCO believes that the implementation of penny quoting and pricing in certain options in the US equity options markets during both Phase I and Phase II has been an overwhelming success that has resulted in numerous benefits for both retail and institutional customers trading in those markets. These benefits have included substantial decreases in quoted spreads, greater opportunity for price improvement and better executions for retail investors. In addition, the implementation of penny quoting and pricing in the options markets during the Penny Pilot, and the tighter spreads that have resulted from penny pricing, have placed significant pressure on Payment-for-Order-Flow ("PFOF") practices in the covered options, which also has improved execution prices for retail options investors.

II. The Penny Pilot should be Expanded to Increase the Number of Options Trading in Pennies

Under Phase II, the Penny Pilot applies to 63 options classes and has a \$3.00 inflection point for penny pricing. Under this structure, it has been estimated that approximately one-third

¹ GETCO, with offices in Chicago, New York, London and Singapore is a privately-held, electronic trading firm that provides liquidity to exchanges and Alternative Trading Systems ("ATSS") in the US, Europe and Asia. GETCO, an early entrant in electronic trading, is an electronic market maker on various exchanges and ATSS. GETCO is a registered market maker on various options exchanges including the Chicago Board Options Exchange ("CBOE") Nasdaq Options Market ("NOM") and NYSE Arca Options.

of the total options market is being quoted and traded in pennies. As GETCO advocates below, if the Commission expands the Penny Pilot from the current 63 covered options to 300 options and eliminates all inflection points for penny quoting and trading in options, we estimate that this figure rises to approximately 87 percent of the options market trading in pennies. Such an expansion of penny quoting and trading would have substantial benefits for the options markets and investors because it would further narrow quoted spreads, pressure firms to route customer orders based upon execution quality rather than PFOF, and allow retail investors to enjoy the benefits of better priced executions for their orders in a much greater number of options.

Accordingly, given the many benefits that have resulted from the move to penny pricing in options classes subject to the Penny Pilot, GETCO urges the Commission to expand penny quoting and trading even further in Phase III of the Penny Pilot. In particular, GETCO recommends four proposals:

- Eliminating quote price breakpoints (or “inflection points”) in the most liquid benchmark Exchange Traded Funds (ETF)--SPY and IWM--regardless if any other changes are made to the Penny Pilot
- Eliminating inflection points in all options series that trade in pennies, or in the alternative, raising the inflection point to \$5.00 from the current \$3.00.
- Expanding the number of options classes that trade in pennies to 300.
- Introducing the concept of Intermarket Sweep Orders into the options markets.

Each of these proposals is discussed in more detail below.

A. Eliminate Inflection Points in Highly Liquid Benchmark ETF Options

Inflection points serve to limit the number of options series quoted in pennies. Given the many demonstrable benefits of quoting and trading in pennies, there is no longer a credible reason to continue to retain inflection points in Phase III of the Penny Pilot. While GETCO supports eliminating inflection points for all options classes that trade in pennies, we believe that the most efficient way to have more options trade in pennies is to eliminate inflection points on highly liquid benchmark ETFs. In the next phase of the Penny Pilot, we recommend that the Commission eliminate inflection points in the three most active benchmark ETF's--SPY and IWM--just as options on QQQQ's currently are traded under the Penny Pilot. By doing so, GETCO estimates that the overall volume that would quote and trade in pennies would significantly increase from the current approximately 33 percent.²

A principal argument that has been made by several market participants against penny pricing for options is that institutional investors will have difficulty in getting larger sized orders filled. While GETCO questions the merits of this argument generally, with respect to the aforementioned benchmark ETF's, the argument is far less compelling because of the significant

² Chapman, Peter, “Options Exchanges Divided Over Breakpoint Levels,” *Traders Magazine*, February 17, 2009.

and deep level of institutional trading interest in the index options classes (i.e., SPX and RUT). These index options classes provide significant liquidity to institutional investors such that it is not necessary to continue to restrict penny pricing and trading in the benchmark ETF options. Allowing the benchmark ETFs to trade in pennies without inflection points during Phase III of the Penny Pilot would provide the Commission with a meaningful amount of data to analyze the impact of trading in pennies without inflection points so that it can better determine if further expanding the Penny Pilot is in the best interests of investors.

B. Eliminate or Raise the Inflection Points for all Options Classes that Trade in Pennies

While GETCO believes that eliminating inflection points in the benchmark ETFs should be the Commission's priority, we also support removing such inflection point barriers to all options classes that trade in pennies. By doing so, GETCO estimates that it would further increase the percentage of trading volume quoted and traded in pennies to over 50 percent.

GETCO believes that those who advocate for lower inflection points are more interested in maintaining the status quo rather than objectively evaluating whether or not eliminating inflection points will provide benefits to options investors. The \$3.00 inflection point in the Penny Pilot was implemented to cap the number of options series that would be subject to penny pricing in order to evaluate whether or not penny quoting would overwhelm the capacity of the sale price and quote reporting facility of the Options Price Reporting Authority ("OPRA"). Given that the risks associated with OPRA's capacity being overwhelmed during the Penny Pilot appear to be mitigated, there no longer appears to be any need for the \$3.00 inflection point. As such, we believe the \$3.00 inflection point should be eliminated to open up the broader options market to the benefits of penny pricing.

If the Commission deems prudent at this time to include inflection point(s) in Phase III of the Penny Pilot, we would strongly recommend moving the minimum inflection point below which penny pricing is required from \$3.00 per contract to at least \$5.00 per contract. Doing so in the top 300 options classes would raise the level of options that trade and quote in pennies to over 78 percent. This would make the benefits of penny quoting and trading available to many more options series than under the current phase of the Penny Pilot.

C. Increase the Number of Options Classes Subject to the Penny Pilot

To permit more retail investors to enjoy the benefits of narrower spreads and better pricing that have resulted from penny pricing during the Penny Pilot, GETCO believes that penny quoting and pricing should be expanded to the broader US equity options market by opening up the Penny Pilot to as many options classes (and their underlying series) as possible at this time. It is GETCO's view that rolling back the application of penny quoting and pricing to apply to fewer classes and series, as some commenters have proposed, would dramatically reduce or eliminate many of the benefits that both the options markets generally and customers trading in those markets have enjoyed during the Penny Pilot. Therefore, GETCO would recommend that the Penny Pilot be expanded to include at least 300 options classes.

D. Allow for Intermarket Sweep Orders

Regulation NMS, implemented in the equities markets, introduced the concept of intermarket sweep orders (“ISOs”), which balanced the needs of institutional investors to be able to efficiently execute larger size orders while protecting the quotes of market participants that publicly display better prices. ISOs allow a market participant to take out all publicly displayed orders at a better price and then trade at a potentially less competitive price in order to have a block order executed. We understand that, as part of the establishment of a new intermarket linkage plan for the US options markets, the Commission is likely to incorporate similar rules permitting the use of ISOs in the options markets, which should have the same positive effect with respect to the execution of block orders in the options markets as it has for the equities markets. GETCO strongly supports the implementation of such a rule permitting the use of ISOs in the options markets in order to address concerns that penny pricing would impede institutional investors attempting to obtain executions of block and other large orders.

III. Conclusion

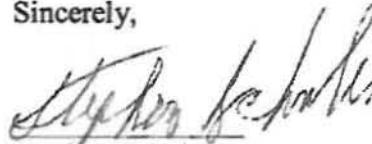
As has been consistently demonstrated over the last two years, the Penny Pilot from its inception has created clear and substantial benefits to options market participants, particularly retail options investors.³ If expanded further as we have proposed, penny pricing in options will continue to substantially narrow spreads and improve pricing and executions for all investors, including retail investors. As such, GETCO advocates expanding the Penny Pilot at the conclusion of Phase II to at least 300 options classes and eliminating all inflection points for quoting and trading those classes in pennies. If the Commission sees fit to retain some inflection point in Phase III of the Penny Pilot, we strongly urge the Commission to allow SPY and IWM to be traded in pennies all the time with no inflection point and to raise the inflection point for penny quoting and trading to at least \$5.00 per contract.

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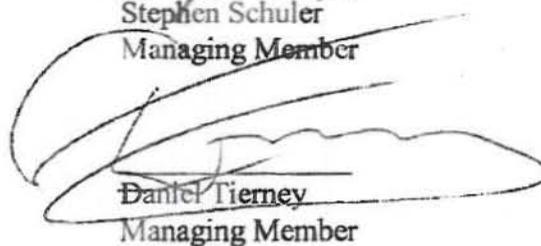
³ Daniel Safarik, “The Options Penny Pilot Has Been Successful So Far”, *Advanced Trading*, March 22, 2007

GETCO appreciates the opportunity to submit these comments. Please do not hesitate to contact us at (312) 242-4600 if you have any questions regarding any of the comments provided in this letter.

Sincerely,



Stephen Schuler
Managing Member



Daniel Tierney
Managing Member

Cc: The Hon. Mary L. Schapiro, Chairman
The Hon. Kathleen L. Casey, Commissioner
The Hon. Elisse B. Walter, Commissioner
The Hon. Luis A. Aguilar, Commissioner
The Hon. Troy A. Paredes, Commissioner
James Brigagliano, Deputy Director, Division of Trading and Markets
Daniel M. Gallagher, Deputy Director, Division of Trading and Markets
Elizabeth King Associate Director, Division of Trading and Markets