



GLOBAL ELECTRONIC TRADING COMPANY

October 19, 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:

Global Electronic Trading Company (“GETCO”)¹ appreciates the opportunity to further comment on the above-captioned proposal by NYSE Arca to amend its options trading rule. We commend the Securities and Exchange Commission (“Commission” or “SEC”) for its careful and thorough analysis of all proposals as the Penny Pilot for options continues.

This letter supplements our June 19, 2009, comment letter and specifically responds to the Commission’s request for additional comment and data on NYSE Arca’s proposal to quote and trade entirely in one cent increments options on SPY (SPDR S&P 500 ETF) and IWM (iShares Russell 2000 Index Fund). GETCO reiterates its strong support of NYSE Arca’s proposal and recommends that the Commission approve the proposal.

I. Background

In May 2009, NYSE Arca filed with the SEC a proposed rule change to amend its options trading rule to (i) continue the existing \$3 breakpoint (or “inflection point”) for options classes currently included in the Penny Pilot through December 31, 2010; (ii) expand the Penny Pilot program to include the top 300 most actively traded, multiply listed options classes not already included in the program; and (iii) designate SPY and IWM as eligible to quote and trade all contracts entirely in penny increments (as the QQQQ are now traded/quoted). On September 23, 2009, the Commission approved on an accelerated basis NYSE’s Arca’s proposed rule change with respect to the continuation and expansion of the Penny Pilot as described above in items (i) and (ii), and requested further comment on the portion of the proposal relating to eliminating

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 ATSSs. 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.

breakpoints on SPY and IWM and allowing them to quote and trade entirely in pennies.

II. Acknowledged Benefits of Penny Pricing

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. In our view, the most notable benefits include a substantial decrease in quoted spreads, greater opportunity for price improvement and better executions for retail investors. In addition, the tighter spreads resulting from penny pricing have not only improved execution prices for retail options investors, it has also placed significant pressure on exchange sponsored payment-for-order-flow programs in covered options.

Our view of the beneficial effects of penny pricing is well supported. The SEC's Office of Economic Analysis has conducted several analyses of penny pricing. One analysis indicated that the reduction in the minimum quoting increment has resulted in narrowing the average quoted spreads in classes included in the Pilot.² A separate analysis of volume statistics for exchange traded options noted increased volume for option classes following the switch to pennies, which it observed is consistent with the view that penny pricing lowers transaction costs that in turn drive higher levels of market activity.³

III. Inflection Points Should Be Eliminated in Highly Liquid Benchmark ETF Options

As noted in our June 19, 2009, comment letter, GETCO believes removing inflection point barriers on highly liquid benchmark ETFs should be a priority. Because inflection points currently apply, however, quoting/trading in SPY and IWM is split such that the minimum increment is a penny for all SPY and IWM options series below \$3 and nickels for all such options series \$3 and above. NYSE Arca proposed expanding the number of ETF options that trade entirely in pennies to include options on SPY and IWM. In soliciting further comments, the Commission specifically requested data on this point.

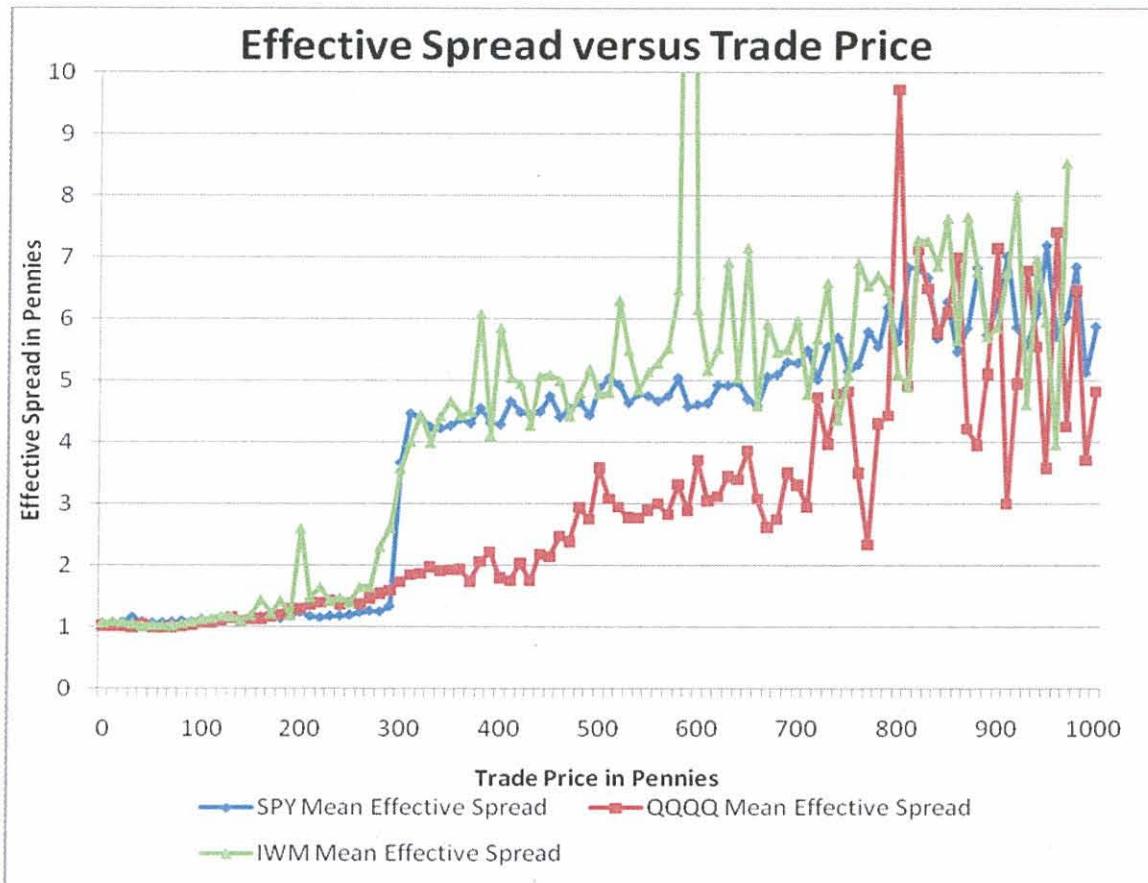
GETCO believes options on SPY and IWM are well suited to trading entirely in penny increments, as options on the QQQQ currently trade. In support of this view, we utilized data from the Options Price Reporting Authority ("OPRA") to analyze and compare effective spreads in SPY, IWM and QQQQ for all trading days in August 2009.⁴ A widely accepted measure of

² See Memorandum from J. Daniel Aromi, Office of Economic Analysis ("OEA"), "Volume and Spreads for Pilot and Non-Pilot Options Classes," to Heather Seidel, Assistant Director, Division of Trading and Markets, dated July 24, 2009 ("OEA Memo 1").

³ See Memorandum from J. Daniel Aromi, OEA, "Volume Statistics for Exchange Traded Options," to Heather Seidel, Assistant Director, Division of Trading and Markets, dated August 14, 2009 ("OEA Memo 2").

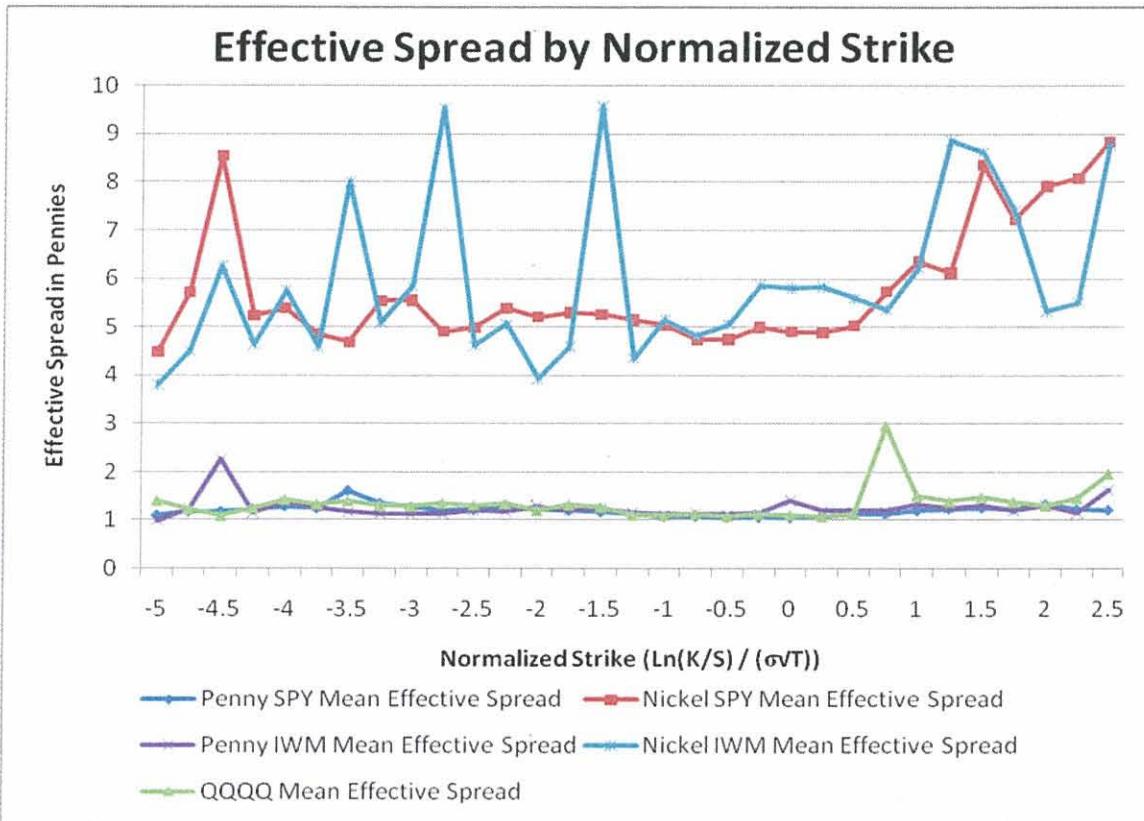
⁴ All intraday data taken from data collected directly from OPRA, CQS, and UQDF. All trades between 9:35ET and 15:55ET are used for all the trading days in August. Realized volatility used in the normalized strike calculation is the preceding 20 day realized volatility as calculated from the adjusted close historical prices on "Yahoo! Finance".

trade quality, effective spread calculates trade quality as twice the difference of trade price from the midpoint of the NBBO.



As illustrated in Graph 1 above, the size of effective spreads for SPY and IWM experience a marked jump at the \$3 (300 pennies) inflection point, whereas effective spreads for QQQQ maintain a much smoother climb. Retail investors seeking to trade options on SPY and IWM above the current \$3 inflection point, where spreads are wider, generally have to pay more to cross the spread than investors trading options on the QQQQ, where spreads are tighter.

In Graph 2 below we compare effective spreads for SPY, IWM, and QQQQ when quoted/traded in pennies with effective spreads for SPY and IWM when quoted/traded in nickels. In order to compare these trades, we show them versus normalized strike, which accounts for volatility, time to expiration, and the ratio of strike price to underlying spot price. Controlling for these factors, size of quoting/trading increment appears to be a significant determinant of the width of the effective spreads; in short, bigger trading increments lead to wider spreads.



In addition to the data pointing towards elimination of breakpoints with respect to SPY and IWM, there are also several reasons why breakpoints for highly liquid ETFs no longer make sense. As we noted in our June 19 letter, the Penny Pilot's \$3 inflection point, which caps the number of options series subject to penny pricing, was initially designed to provide quote mitigation and prevent the possibility that penny pricing might overwhelm the capacity of the sale price and quote reporting facility of OPRA. As noted by the SEC, the increase in quotation message traffic has been manageable by the exchanges and OPRA, and the Commission did not receive any reports of disruptions in connection with the Penny Pilot.⁵ Given the ability of market participants' systems to handle message traffic and the lack of disruptions during the Penny Pilot, from a capacity standpoint there is no need to maintain the \$3 inflection point for SPY and IWM.

Eliminating inflection points and allowing SPY and IWM to trade entirely in pennies during the next phase of the Penny Pilot would provide the Commission, the options exchanges, and market participants with a more meaningful data set from which to analyze the impact of trading entirely in pennies than the currently available data set, which consists solely of the QQQQ. Study of this expanded data will provide valuable information in determining if further expanding the Penny Pilot is in the best interests of market participants, including retail investors.

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See Securities Exchange Release No. 34-60711 (Sept 23, 2009), 74 FR 49419 (Sept 28, 2009).

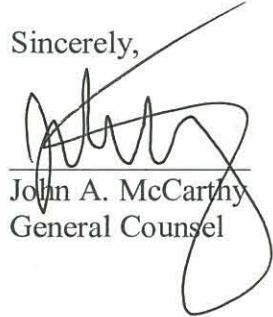
IV. Conclusion

The Penny Pilot has created clear and substantial benefits to options market participants, particularly retail options investors. Allowing SPY and IWM to be quoted and traded in penny increments without inflection points is the next step in a natural progression towards continuing to narrow spreads and improve pricing and executions in the options market. We therefore urge the Commission to approve NYSE Arca's proposal.

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GETCO appreciates the opportunity to submit supplemental comments and data. Please do not hesitate to contact me at 312-242-4600 if you have any questions.

Sincerely,


John A. McCarthy
General Counsel

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, Co-Acting Director, Division of Trading and Markets
Elizabeth King, Associate Director, Division of Trading and Markets
Heather Seidel, Assistant Director, Division of Trading and Markets