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April 21, 2010

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. S7-02-10
Concept Release on Equity Market Structure

DRW Trading Group ("DRW") appreciates the opportunity to respond to the request by the Securities and Exchange Commission (the "Commission") for comments on its Concept Release on Equity Market Structure (the "Concept Release").[1] DRW is a proprietary trading organization that trades across a wide range of asset classes, including equity securities, options, fixed income securities, and futures. DRW undertakes such activities in multiple capacities, in certain instances acting as a market maker, both on exchange floors and through upstairs trading desks. As such, DRW has significant experience in the equity markets and is well positioned to respond to the Commission's request for comments.

I. Introduction

In light of the significant changes in the equity markets over the past several years, we understand the Commission's desire to re-examine market structure issues at this time. Technology has dramatically altered the face of the equity markets, resulting in markets that are characterized by speed, efficiency and unprecedented access to market

1 Concept Release on Equity Market Structure, SEC Release No. 34-61358, 75 Fed. Reg. 3594 (January 21, 2010).

information. Today, the bulk of trading is effected through electronic trading systems and away from traditional exchange floors.

While much of this change has resulted in benefits for all market participants, we acknowledge that some could take the view that these changes have created a multi-tiered market that is potentially unfair to some market participants. We do not believe that this is the case. Rather, all market participants have benefited to some degree from the technological advances. As is always the case with innovation, the first to market will reap greater benefits than the last to market. Over time, however, any innovation will become commoditized and benefits tend to even out for all participants. If market participants that are behind such innovation are ultimately subjected to increased regulation and trading restrictions the end result will be to dampen competition.

With regard to certain of the specific questions raised by the Commission, our comments are set forth below.

II. Impact of Professional Traders

The Commission has expressed concern that the growth of short-term professional trading has had a negative impact on long-term investors. While we appreciate the Commission's concern with protecting the interests of long-term investors, we do not believe that trading by short-term professional traders has negatively impacted such investors. Rather, professional traders provide an efficient and effective source of liquidity. This was never more evident than in the market downturns over the past several years. Short-term professional traders were able to provide liquidity under even the most stressful market conditions.[2] In fact, the particular aspects of professional trading that seem to be of concern to the Commission (e.g., high frequency trading, co-location, etc.) are exactly what enable professional traders to provide liquidity to long-term investors during periods of market disruption.

In addition, short-term professional traders have provided significant benefits to long-term investors in the way of narrower spreads, better pricing and less overall volatility in the

[2] As the Commission noted in the Concept Release, "from an operational standpoint, the equity markets performed well during the world-wide financial crisis in the Autumn of 2008 when volume and volatility spiked to record highs. Unlike some financial crises in the past, the equity markets continued to operate smoothly and participants generally were able to trade at currently displayed prices (though most investors likely suffered significant losses from the general decline of market prices)." 75 Fed. Reg. at 3611.

market. We believe that concerns about long-term investors being disadvantaged by the trading activities of short-term professional traders are misplaced. Many short-term professional traders utilize technology and trading strategies to take advantage of small price discrepancies. By capturing these price discrepancies, overall pricing becomes more efficient resulting in better prices for long-term investors. This acceleration of the price discovery process provides a significant benefit to long-term investors.

Some have also argued that short-term professional traders have created an unlevel playing field; we contend that the professional trader has in fact leveled the playing field. Today's market structure is considerably more democratic than the specialist systems historically employed by the exchanges. A specialist system is by its very nature fraught with conflicts of interest that do not exist for professional traders. Unlike the specialist, the professional trader has no access to order information and accordingly, has no competitive advantage over other market participants.

III. Imposition of Trading Obligations on Proprietary Trading Firms

The Commission asks for comment regarding whether proprietary trading firms should be subject to affirmative or negative trading obligations, similar to those that have historically been imposed on specialists. We do not believe that it is necessary or appropriate to impose such obligations on proprietary trading firms.

Historically, because exchange specialists had certain informational advantages that resulted from having a "first look" at orders, they were subject to affirmative and negative obligations. Such an arrangement was intended to limit the ability of a specialist to abuse that informational advantage. In the context of proprietary traders, no similar informational advantage exists. Such traders have no order handling obligations and have no access to order information that is not available to the public. Instead, the only advantage that certain proprietary traders have is that of speed. And that advantage is available to any market participant that wishes to participate in co-location services.

IV. Broker-Dealer Registration for Proprietary Firms

We support the Commission's proposal that proprietary firms be required to register as broker-dealers. Such a requirement imposes limited restrictions on proprietary firms, while providing an additional means for overseeing their trading activity. We believe it is important, though, to limit the reach of this requirement to only certain types of proprietary firms. Because the term "proprietary firm" generally encompasses anyone that trades for its own account (which, we note, would include long-term investors), we propose that only firms that trade for their own account and utilize co-location services be required to register as broker-dealers. The co-location condition will ensure that firms engaging in high-volume and high-speed trading are subject to the registration requirement, without placing this regulatory burden on other market participants.

We do not, however, support the proposal that proprietary firms become members of the Financial Industry Regulatory Authority ("FINRA"). FINRA's focus is on investor protection,[3] not proprietary trading. As a result, its examination and regulatory programs are designed to address customer issues, such as the handling of customer funds and securities, customer accounts, broker registration and training, and similar matters. The markets would be better served if the examination and regulation of firms that are solely engaged in proprietary trading were undertaken by those self-regulatory organizations that currently oversee the activities of proprietary trading firms. We do not believe that there would be any benefit to requiring proprietary trading firms that do not undertake customer business to become members of FINRA.

V. Concerns Regarding Systemic Risk

The Commission questions whether high frequency trading poses significant risks to the integrity of the equity markets. If the Commission believes that it is necessary to mandate risk controls, we believe that such controls should be imposed at the exchange level to ensure that all market participants are subject to the same controls. These controls could include a variety of pre-trade order checks, such as "fat finger" checks and trade parameter checks. Because pre-trade order checks will not eliminate trading risks, we also support the use of uniform error trade policies by the exchanges. These policies should be geared toward trade adjustments rather than trade cancellation to provide greater certainty to market participants.

[3] According to FINRA's website, "FINRA is dedicated to investor protection and market integrity." http://www.finra.org/AboutFINRA/index.htm

VI. Conclusion

DRW thanks the Commission for the opportunity to comment on these critically important issues. We respectfully submit that, notwithstanding concerns regarding the rapid changes in the markets, the Commission should be wary of making any fundamental changes in the current market structure. This structure has withstood some of the most difficult times in recent history and any attempt to change that should not be undertaken lightly.

Please feel free to contact the undersigned with any questions you may have on our comments.

Sincerely,

Donald R. Wilson, Jr.

cc: Mary L. Schapiro, Chairman
Luis A. Aguilar, Commissioner
Kathleen L. Casey, Commissioner
Troy A. Paredes, Commissioner
Elisse B. Walter, Commissioner