GROUP ONE

TRADING LP

September 14, 2009

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

Re: Supplemental comments on S7-08-09

Dear Ms. Murphy:

Thank you for allowing Group One Trading, L.P. ("Group One") the opportunity to comment on your continued efforts to develop appropriate restrictions on the short selling of stocks. Group One is a proprietary options market maker that acts as a market maker, Specialist, Designated Primary Market Maker, or Lead Market Maker on five Exchanges and in about 3,000 options classes. We would like to respectfully make the following points expressing our concerns over the proposed rule and the need for an option market maker exemption, to maintain the integrity of the option markets.

1. The alternative uptick rule would have unintended and adverse consequences on capital markets.

The SEC eliminated the uptick rule contained in Rule 10a-1 in 2007 after extensive research by both the Commission and academics[1] concluded that those rules were antiquated, not effectively working and instead imposed additional costs on the markets (and indirectly the investors). The re-imposition of an uptick rule would resurrect these inefficiencies, which will be further complicated by a now, highly automated marketplace.

Computer algorithms used by the most sophisticated traders for example, will quickly identify the presence of short sellers based upon the telltale pattern of short sellers, who will have sell orders exactly one increment above the bid. These automated systems will quickly drop their bids in anticipation of the stock dropping, leading to a drop in the price of the stock. As sellers continue to adjust their price downwards and sales from stop limit orders are triggered, the price of the security will decline even further. Finally when the short sellers stop lowering their price, the automated systems will quickly detect that and enter buy orders driving the price of the stock back up. These activities and the explosion in algorithmic, high speed trading will only result in further manipulation of the pricing mechanisms and

[1] Securities and Exchange Commission Roundtable on the Regulation of SHO Pilot, September 15, 2006

increased stock price volatility. This will harm investors across the spectrum.

Rules created in 1931 have a much different impact on the markets of 2009. Over the years, decimalization and changes in trading strategies have undermined the effectiveness of the price test. The Commission itself conducted a study of the impact of short sale restrictions undertaken during the pilot program conducted from 2005 through 2007 and concluded that the price tests did not prevent short sales in extreme down markets. We encourage the Commission to focus on the improvements made through the initiation of 204T, which appear to have eliminated the need for the price test.

2. **Current Rule 204T already addresses the problem of naked short selling and the additional regulations are costly with minimal to no benefit.**

The SEC has already properly addressed in Rule 204T, the most important abuse that existed: naked short selling. Within one year of enactment:

- 99.9% of trades now settle on time (within T+3)
- Fails across all securities have declined by 56.6%
- The average daily number of threshold securities, (which was already well below 1% of all equity securities), has declined by 77.5%
- The number of stocks on the threshold security list has been reduced by 89%

As pointed out in our earlier comment letter, the continued, enhanced enforcement of this requirement should be the primary concern of the Commission. The imposition of additional rules is not necessary in the current market and would only degrade the current quality of depth and pricing available to investors.

3. **If an alternative uptick rule is imposed, the SEC must enact an options market maker hedge exemption.**

If the SEC is compelled to adopt the alternative uptick rule (or any further restrictions on short selling), the Commission must provide for a hedge exemption to exchange registered option market makers. Option market makers are required to short stock in order to hedge option positions obtained from trades made as part of our required market making activity. This exemption is vital to maintaining the depth and quality of pricing that currently exists in the options marketplace. Over 3.58 billion listed option contracts were traded in 2008, a 239% increase from May 2005, when all short sale price tests for a select group of over 1,000 equity securities were suspended as part of the pilot program. The reintroduction of a tick test without an options market maker exemption would result in inferior posted markets and higher costs for all investors, as market makers would need to offset their increased costs from hedging their trading activity.

Impairing an options market maker's ability to provide liquidity would inhibit an investor's ability to protect their equity positions using options. Previous comment letters have illustrated the impact of the market maker exemption using statistics from the Options Clearing Corp. Group One encourages the Commission to review the comments made by Wolverine Trading LLC and carefully consider the data provided by Wolverine in its letter dated June 19, 2009.

It is important to note that option market makers are not shorting stock to drive down the company's price or to establish a short position, but rather to hedge trades or existing positions. These trades and positions are directly derived from our obligations to maintain fair and orderly markets to investors in equity options. Option market makers have no incentive to drive down the price of stock, especially when selling stock as a hedge. The NASD provided a very explicit, limited exemption for years under NASD Rule 3350. This exemption was available only to an option market maker registered with an exchange as a qualified market maker in a specific stock or index, who was effecting the sale as an exempt hedge transaction. This exemption along with the appropriate exchange enforcement worked effectively for the years it was in place and enabled the options market place to grow rapidly during those years. We believe a similar, directed and limited exemption would help maintain fair and orderly option markets.

4. Conclusion.

For the reasons set forth above, we believe the Commission should not adopt further restrictions on the short selling of stocks. Short selling enhances market liquidity and contributes to stock pricing efficiency, an integral part of maintaining the integrity of our capital markets. Group One would like to see the newly adopted Rule 204 continue to address the issue of abusive naked short selling. Lastly, if enacting an uptick rule, we feel that it's necessary to include a market maker exemption or otherwise risk a substantial "disruption" in the options markets in the form of less liquidity and wider spreads. We agree with a continuing, increased effort in eliminating abusive short selling. Finally, Group One thanks the SEC for the opportunity to present our views and we would be happy to discuss this further with the Commission and its staff.

Very truly yours,

John Gilmartin
Co-CEO

Ben Londergan
Co-CEO