GROUP ONE
TRADING LP

July 13, 2011

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

Re: Release Number 34-64132 File Number SR-BATS-2011-009

Dear Ms. Murphy:

Group One Trading, L.P. ("Group One"), would like to thank the Commission for allowing us the opportunity to comment on the BATS Directed Order Program.

Group One is a proprietary options market maker that makes markets on four Exchanges and is a Market Maker, Specialist, Designated Primary Market Maker, or Lead Market Maker in 2,200 options symbols.

The Market Maker Price Improving Order ("MMPIO") type is an order from a BATS Options Market Maker to buy or sell an option that has a displayed price and size and a non-displayed price at which the BATS Options Market Maker is willing to trade with a Directed Order.

The order would be ranked on the BATS Options Book at its *displayed price*. The non-displayed price of the Market Maker Price Improving Order would not be entered into the BATS Options Book, but would be, along with its displayed size, converted to a buy or sell order at its non-displayed price in response to a Directed Order directed to the BATS Options Market Maker.

Group One fervently believes the Commission should end the pilot program. Reducing transparency, dampening the price discovery process and metastasizing conflicts of interest all degrade the quality of the market. Group One urges the Commission to consider the following in making its decision:

Transparency

By introducing this MMPIO, BATS has removed transparency from the marketplace and is intentionally hiding liquidity. These mechanisms reduce competition and ultimately hide order flow and price information from the community. This further develops dark liquidity mechanisms which encourage orders to be hidden to all customers and are only accessible to a select few. This proposal seems inconsistent with the Commission's desire to foster more transparency in the marketplace and serves to enhance dark and non-displayed liquidity. Lacking certainty about market prices leaves customers at an information deficit.

Furthermore, it creates less of an incentive for market makers to stream quotes and display the on screen liquidity that customers benefit from in making trading decisions. As the CBOE indicates, the proposal limits market access to a specific subset of the market, denying access to others and violating free and open market principles.

Price Discovery

The argument that competing or away market makers can improve the bid/offer ignores the fact that true liquidity is removed from the screen. Price discovery is a function of liquid markets where customers can fully grasp the levels at which options are quoted and trading. Splitting quotes into both a posted and a dark leg obfuscates markets and dampens their ability to convey pricing information.

Liquidity providers who are not directed may be providing better prices for the customer, but can be traded through despite offering an improved fill. The current schematic distinctly prevents the customer from getting the best price. Consider a market that is 1.40-1.50, with dark liquidity bid 1.41 and 1.43. If the 1.41 bid is directed, the customer misses .02 cents of available price improvement, and a trade through has happened on the same exchange as the order is executed upon. As the NYSE points out, there is actually an incentive for the directed market maker (MM) to give the minimum amount of price improvement possible, knowing they are guaranteed the order. In order to ensure best execution market participants must compete by exposing capital at risk. Circumventing liquidity is detrimental to all.

The Commission notes the importance of providing effective opportunities for customer order flow to receive executions better than the NBBO, which Group One whole heartedly agrees with. We do however believe that this would be far better achieved through open auction mechanisms. Price discovery is not achieved in a vacuum between two parties, but rather through unrestricted access and transparent competition.

Guaranteed Internalization

By specifically directing flow to other market makers, firms are able to completely internalize orders between their Broker Dealer and MM arms, without allowing for any price competition. Crossing rules allow a broker to trade as principal against up to 40% of its own customer's order when the firm improves the best bid or offer made by the members of the trading crowd when the floor broker representing the order first asks them for their market. The firm may receive a guaranteed percentage of its customer's order even when it merely matches the crowd's best price, but that percentage generally will be lower. While BATS says Order Flow Providers ("OFPs") have the option to choose the liquidity provider they feel is able to give them the best price, the potential for protecting individual interests over those of the customers is rife with conflict.

Conflicts of Interest

While the Commission considers that the rule change is consistent with Section 6(b)(5) of the Act [Rule 19b4] to prevent fraud and manipulation, the current incentive structure seems to be the direct opposite. Many order flow providers also have market making arms which they naturally prefer, and allowing a structure to exist where they can not only double bill but prevent their customers from getting competitive pricing will lead to fragmented liquidity at the benefit of monopolists.

When considering the existing PFOF cash and non-cash inducements that the Commission cites, the key element which differs here is that every other program requires liquidity to be posted. No order flow is traded by MM firms which are not posting liquidity available to all. While the specific customer order may be routed to that firm, the MM is improving the quality of the market for all participants by exposing capital at risk.

Price discovery and transparency are crucial components of our capital market structure that encourage market integrity. Where an order is internalized without market exposure, there is simply no incentive to give the customer the best price. It is imperative that customers be afforded an opportunity for true price improvement.

For the reasons set forth above, we believe the Commission should conclude any pilot program with BATS.

Group One appreciates the opportunity to present our views and we would be happy to discuss this further with the Commission and its staff.

Very truly yours,

Ben Londergan
CEO